

# BOARD OF REGENTS

## EASTERN MICHIGAN UNIVERSITY

SECTION: 13

DATE:

November 27, 2007

### RECOMMENDATION

#### REPORT: The 2006-2007 Eastern Michigan University Foundation Annual Report

#### ACTION REQUESTED

It is requested that the Eastern Michigan University Board of Regents receive and place on file the Eastern Michigan University Foundation Annual Report for the year ended June 30, 2007.

#### STAFF SUMMARY

In accordance with Section C.4. of the Agreement Between Eastern Michigan University and the Eastern Michigan University Foundation, it is our responsibility and privilege to present for your review the annual report of the Eastern Michigan University Foundation for the year ended June 30, 2007. The annual financial audit of the Foundation and its subsidiaries was performed by Plante & Moran, PLLC, and they have reviewed and approved the content of the report presented, and provided an unqualified financial opinion.

Total endowment assets reported at year-end were \$50,611,186. This represents a 12.9 percent increase above the June 30, 2006 market value, which was \$44,824,451. Contributions during 2006-2007 were \$4,202,447, of which \$3,844,603 represented cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$1,266,413.

During this fiscal year, the endowment portfolio experienced an investment return of 15.5 percent. The total return since inception on September 30, 1992, of 10.4 percent surpasses the benchmark of 9.8 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$2,923,220 for the year ended June 30, 2007. Of that total, \$2,529,048 was transferred to EMU by the EMU Foundation; \$357,844 represents gifts of property and equipment that were received by EMU directly; and \$36,328 represents cash gifts that were received by EMU directly. In addition, funding received from endowed scholarships and endowments totaled \$913,775.

#### FISCAL IMPLICATIONS

None

#### ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date

**Eagle Crest Management Corporation**  
(a wholly owned subsidiary of  
Eastern Michigan Universtiy Foundation)

---

**Financial Report**  
**with Additional Information**  
**June 30, 2007**

plante  
  
moran

# **Eagle Crest Management Corporation**

**(a wholly owned subsidiary of  
Eastern Michigan University Foundation)**

---

**Financial Report  
with Additional Information  
June 30, 2007**

# **Eagle Crest Management Corporation**

---

## **Contents**

<b>Report Letter</b>	<b>1</b>
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Stockholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
<b>Additional Information</b>	<b>11</b>
<b>Report Letter</b>	<b>12</b>
Schedule of General and Administrative Expenses	13

## Independent Auditor's Report

To the Board of Directors  
Eagle Crest Management Corporation

We have audited the accompanying balance sheet of Eagle Crest Management Corporation (a wholly owned subsidiary of Eastern Michigan University Foundation) as of June 30, 2007 and 2006 and the related statements of operations, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle Crest Management Corporation at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

August 15, 2007

# Eagle Crest Management Corporation

## Balance Sheet

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 335,069	\$ 163,384
Accounts receivable:		
Trade - Net	160,680	155,030
Related party (Note 7)	174,802	451,524
Inventory	26,809	27,343
Prepaid expenses and other current assets:		
Other assets	37,135	38,391
Refundable taxes	83,000	14,000
Total current assets	817,495	849,672
<b>Property, Plant, and Equipment - Net (Note 2)</b>	72,129	87,194
<b>Other Assets</b>		
Related party advances (Note 7)	170,000	-
Investments - Land	682,000	682,000
Total assets	<u>\$ 1,741,624</u>	<u>\$ 1,618,866</u>
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 61,436	\$ 25,788
Payables to related parties (Note 7)	107,407	48,013
Current portion of long-term debt (Note 3)	22,898	21,514
Accrued and other current liabilities:		
Taxes payable	15,000	-
Accrued compensation	83,323	92,720
Dividend payable	-	20,000
Other	19,238	24,014
Total current liabilities	309,302	232,049
<b>Long-term Debt - Net of current portion (Note 3)</b>	159,331	182,240
<b>Deferred Taxes (Note 6)</b>	96,000	87,400
<b>Stockholder's Equity</b>	<u>1,176,991</u>	<u>1,117,177</u>
Total liabilities and stockholder's equity	<u>\$ 1,741,624</u>	<u>\$ 1,618,866</u>

# Eagle Crest Management Corporation

## Statement of Operations

	Year Ended	
	June 30, 2007	June 30, 2006
<b>Revenue</b>		
Food and beverage	\$ 1,106,346	\$ 1,161,715
Media and business center	328,418	367,924
Housekeeping and maintenance	83,844	109,995
Management fees	77,580	75,088
Total revenue	1,596,188	1,714,722
<b>Cost of Sales</b>	251,719	243,063
<b>Gross Profit</b>	1,344,469	1,471,659
<b>General and Administrative Expenses</b>	1,266,617	1,212,988
<b>Operating Income</b>	77,852	258,671
<b>Other Income (Expenses)</b>		
Interest income	10,677	4,106
Interest expense	(12,115)	(13,419)
Total other expenses	(1,438)	(9,313)
<b>Income - Before income taxes</b>	76,414	249,358
<b>Income Tax Expense</b>	16,600	87,495
<b>Net Income</b>	<b>\$ 59,814</b>	<b>\$ 161,863</b>

# Eagle Crest Management Corporation

## Statement of Stockholder's Equity

	Common Stock	Retained Earnings	Total
<b>Balance - July 1, 2005</b>	\$ 1,000	\$ 974,314	\$ 975,314
Net income	-	161,863	161,863
Dividend declared	-	(20,000)	(20,000)
<b>Balance - June 30, 2006</b>	1,000	1,116,177	1,117,177
Net income	-	59,814	59,814
<b>Balance - June 30, 2007</b>	<u>\$ 1,000</u>	<u>\$ 1,175,991</u>	<u>\$ 1,176,991</u>



# Eagle Crest Management Corporation

## Statement of Cash Flows

	Year Ended	
	June 30, 2007	June 30, 2006
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 59,814	\$ 161,863
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	33,812	49,307
Bad debt recovery	-	(12,062)
Deferred income taxes	8,600	87,400
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	271,072	(230,279)
Inventory	534	(829)
Prepaid expenses and other assets	(67,744)	(23,679)
Accounts payable	95,042	19,640
Accrued and other liabilities	827	6,070
Net cash provided by operating activities	401,957	57,431
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant, and equipment	(18,747)	(27,845)
Advances to related parties	(170,000)	-
Net cash used in investing activities	(188,747)	(27,845)
<b>Cash Flows from Financing Activities</b>		
Payments on long-term debt	(21,525)	(20,220)
Dividends paid	(20,000)	-
Net cash used in financing activities	(41,525)	(20,220)
<b>Net Increase in Cash</b>	171,685	9,366
<b>Cash - Beginning of year</b>	163,384	154,018
<b>Cash - End of year</b>	<u>\$ 335,069</u>	<u>\$ 163,384</u>
<b>Supplemental Cash Flow Information - Cash paid for</b>		
Interest	\$ 12,115	\$ 13,419
Income taxes	77,000	20,095

# Eagle Crest Management Corporation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 1 - Nature of Business and Significant Accounting Policies

Eagle Crest Management Corporation (ECMC), a wholly owned for-profit subsidiary of Eastern Michigan University Foundation (EMUF), is primarily engaged in providing food and beverage, media, and management services to Eagle Crest Conference Center (ECCC) and Eagle Crest Golf Course (ECGC), which are owned by Eastern Michigan University (EMU), through a management agreement with EMU.

**Trade Accounts Receivable** - Trade accounts receivable are stated at net invoice amounts, net of an allowance for doubtful accounts of \$2,500 as of June 30, 2007 and 2006. The allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that such determination is made.

**Inventory** - Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method.

**Investments** - ECMC owns undeveloped land adjacent to ECGC, which is reported as a noncurrent investment. The land is recorded at cost.

**Property, Plant, and Equipment** - Property, plant, and equipment are recorded at cost. Depreciation is computed principally using an accelerated method over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

**401(k) Plan** - ECMC sponsors a defined contribution 401(k) plan covering substantially all of its full-time employees. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. ECMC makes contributions to the 401(k) plan at 5 percent of the employees' base salaries. Total annual contributions to the plan amounted to approximately \$11,000 and \$24,000 for the years ended June 30, 2007 and 2006, respectively.

**Income Taxes** - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# Eagle Crest Management Corporation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 2 - Property, Plant, and Equipment

Major classes of property, plant, and equipment are as follows:

	2007	2006	Depreciable Life - Years
Land improvements	\$ 50,383	\$ 50,383	15
Vehicles	23,408	23,408	5
Equipment	490,220	483,154	5-7
Furniture and fixtures	75,464	75,464	7
Computer equipment and software	400,559	388,878	3-5
Total cost	1,040,034	1,021,287	
Accumulated depreciation	967,905	934,093	
Net property and equipment	\$ 72,129	\$ 87,194	

Depreciation expense was \$33,812 and \$49,307 for the years ended June 30, 2007 and 2006, respectively.

### Note 3 - Long-term Debt

Long-term debt for ECMC consists of a mortgage loan, collateralized by land, bearing interest at 6.75 percent, due in monthly installments of \$2,803, including interest, maturing in June 2009. Total principal outstanding on the loan was \$182,229 and \$203,754 at June 30, 2007 and 2006, respectively, of which the current portion due was \$22,898 and \$21,514 at June 30, 2007 and 2006, respectively.

The balance of the above debt matures as follows:

2008	\$ 22,898
2009	159,331
Total	\$ 182,229

Total interest expense was \$12,115 and \$13,419 for the years ended June 30, 2007 and 2006, respectively.

### Note 4 - Common Stock

At June 30, 2007 and 2006, ECMC had 60,000 shares of \$1 par value common stock authorized, with 1,000 shares issued and outstanding.

# Eagle Crest Management Corporation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 5 - Operating Leases

ECMC leases facilities from EMU and EMUF (see Note 7) and equipment from unrelated parties primarily on a month-to-month basis. Total rental expense under operating leases was \$127,052 and \$128,074 for the years ended June 30, 2007 and 2006, respectively.

### Note 6 - Income Taxes

The components of the income tax provision included in the statement of operations are all attributable to continuing operations and are detailed as follows:

	<u>2007</u>	<u>2006</u>
Current income tax expense	\$ 8,000	\$ 95
Deferred income tax expense	127,600	87,400
Recovery from net operating loss carryforward	<u>(119,000)</u>	<u>-</u>
Total income tax expense	<u>\$ 16,600</u>	<u>\$ 87,495</u>

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	<u>2007</u>	<u>2006</u>
Income tax expense, computed at 34 percent of pretax income	\$ 26,000	\$ 84,800
Effect of graduated rates	(9,400)	(4,300)
Adjustment of prior year estimates and other	<u>-</u>	<u>6,995</u>
Total income tax expense	<u>\$ 16,600</u>	<u>\$ 87,495</u>

# Eagle Crest Management Corporation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 6 - Income Taxes (Continued)

The details of the deferred tax liability are as follows:

	2007	2006
Total deferred tax liabilities	\$ (96,000)	\$ (223,600)
Total deferred tax assets	-	136,200
Net deferred tax liability	\$ (96,000)	\$ (87,400)

Deferred tax liabilities result principally from accelerated methods of depreciation and from timing differences associated with ECMC making the election to become a cash basis taxpayer in the year ended June 30, 2006. Deferred tax assets at June 30, 2006 resulted from the creation of a net operating loss carryforward that was fully utilized during the year ended June 30, 2007.

### Note 7 - Related Party Transactions

Under an agreement between ECMC and EMU, ECMC has the responsibility for the management of ECGC and ECCC. ECMC receives management fees from EMU for the services it provides to ECGC and ECCC under the management agreement. Additionally, ECMC is reimbursed for any payments made on the behalf of ECGC and ECCC. The Company earned approximately \$77,600 and \$75,100 in management fee income during the years ended June 30, 2007 and 2006, respectively.

ECMC also rents office and storage space from EMU and EMUF. The lease with EMU is a month-to-month lease, calling for monthly payments of \$6,229, plus 2 percent of its gross receipts per year from food and beverage services, audiovisual services, and business center operations. The lease with EMUF is a month-to-month lease, calling for rental payments of \$1,583. Total rental expense under these agreements during the years ended June 30, 2007 and 2006 was approximately \$120,000 and \$121,500, respectively.

During the year ended June 30, 2007, ECMC advanced funds to ECGC totaling \$170,000. These advances are noninterest-bearing and have been classified as long term.

# Eagle Crest Management Corporation

## Notes to Financial Statements June 30, 2007 and 2006

### Note 7 - Related Party Transactions (Continued)

ECMC has various receivable and payable balances to related parties as of June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Related party receivables:		
ECGC	\$ 165,982	\$ 430,543
EMU	<u>8,820</u>	<u>20,981</u>
Total	<u>\$ 174,802</u>	<u>\$ 451,524</u>
Related party payables:		
EMUF	\$ 12,205	\$ 1,217
ECCC	<u>95,202</u>	<u>46,796</u>
Total	<u>\$ 107,407</u>	<u>\$ 48,013</u>

## **Additional Information**

---

To the Board of Directors  
Eagle Crest Management Corporation

We have audited the basic financial statements of Eagle Crest Management Corporation as of June 30, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of general and administrative expenses is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 15, 2007



# Eagle Crest Management Corporation

## Schedule of General and Administrative Expenses

	Year Ended June 30					
	2007	2006	2007	2006	2007	2006
	Allocated		Direct		Total	
Advertising	\$ 4,759	\$ 5,941	\$ 902	\$ 35	\$ 5,661	\$ 5,976
Bad debt recovery	-	-	-	(12,062)	-	(12,062)
Computer maintenance expense	13,484	15,329	3,331	2,172	16,815	17,501
Credit card fees	11,565	11,548	-	-	11,565	11,548
Depreciation	-	-	33,812	49,307	33,812	49,307
Employee benefits	41,509	23,149	59,410	78,910	100,919	102,059
Entertainment and meals	103	129	-	-	103	129
Equipment lease	-	-	7,060	7,065	7,060	7,065
Housekeeping and maintenance	-	-	23,022	16,040	23,022	16,040
Insurance	27,017	31,608	-	-	27,017	31,608
Licenses and fees	18,816	15,739	2,921	2,976	21,737	18,715
Linen	-	-	16,652	19,453	16,652	19,453
Miscellaneous	8,185	7,931	2,222	5,714	10,407	13,645
Office expense	3,524	6,501	2,912	1,314	6,436	7,815
Payroll and related expenses	294,636	189,562	373,931	423,259	668,567	612,821
Payroll taxes	23,853	15,381	37,201	37,179	61,054	52,560
Profit sharing	(233)	6,952	11,577	17,187	11,344	24,139
Property taxes	-	-	31,447	28,077	31,447	28,077
Rent	16,559	15,802	103,433	105,207	119,992	121,009
Repairs and maintenance	-	-	20,536	21,360	20,536	21,360
Single business tax	-	-	19,000	12,985	19,000	12,985
Subcontract services	-	-	670	220	670	220
Supplies	-	-	32,261	29,524	32,261	29,524
Telephone expense	10,544	12,311	4,746	4,472	15,290	16,783
Uniforms	-	-	5,250	4,711	5,250	4,711
Total general and administrative expenses	<u>\$ 474,321</u>	<u>\$ 357,883</u>	<u>\$ 792,296</u>	<u>\$ 855,105</u>	<u>\$ 1,266,617</u>	<u>\$ 1,212,988</u>