BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 15
DATE:
December 17, 2009

RECOMMENDATION

2008-2009 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, 2009.

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, 2009. 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 $36,335,495. This represents a 22.1 percent decrease from the June 30, 2008 market value, which was $46,619,891. Contributions during 2008-2009 were $6,832,827, of which $4,238,898 represented cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled $1,706,926.

During this fiscal year, the endowment portfolio experienced an investment return of negative 18.2 percent vs. the portfolio benchmark of negative 22.1 percent. The total return since inception on September 30, 1992, of 7.7 percent surpasses the benchmark of 6.7 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled $5,103,258 for the year ended June 30, 2009. Of that total, $2,470,357 was transferred to EMU by the EMU Foundation; $2,593,929 represents gifts of property and equipment that were received by EMU directly; and $38,972 represents cash gifts that were received by EMU directly. In addition, funding received from endowed scholarships and endowments totaled $1,375,346, the highest amount ever transferred from the Foundation to EMU.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

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

University Executive Officer **Date**

Eastern Michigan University Foundation

Consolidated Financial Report
June 30, 2009

Eastern Michigan University Foundation

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Independent Auditor's Report

To the Board of Trustees
Eastern Michigan University Foundation

We have audited the accompanying consolidated balance sheet of Eastern Michigan University Foundation (the "Foundation") as of June 30, 2009 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2009 and the consolidated changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 15, 2009

Eastern Michigan University Foundation

Consolidated Balance Sheet
June 30, 2009

Assets		
Cash and cash equivalents	$	2,727,039
Investments (Note 4)		36,559,087
Dividend and interest receivable		117,558
Contributions receivable (Note 2)		434,867
Other assets:		
Cash surrender value of life insurance		251,967
Other assets		106,852
Property and equipment - Net (Note 3)		1,985,121
Investments held under split-interest agreements (Note 4)		961,419
Total assets	**$**	**43,143,910**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$	403,870
Mortgage payable (Note 5)		2,031,499
Split-interest obligations		744,458
Other liabilities		8,096
Total liabilities		3,187,923
Net Assets (Note 6)		
Unrestricted		126,941
Temporarily restricted		8,399,707
Permanently restricted		31,429,339
Total net assets		39,955,987
Total liabilities and net assets	**$**	**43,143,910**

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support				
Contributions	$ 287,368	$ 2,810,313	$ 609,065	$ 3,706,746
ECMC revenue	206,666	-	-	206,666
Administrative and management fee (Note 7)	1,500,000	-	-	1,500,000
Investment income (Note 4)	894,051	-	-	894,051
Net realized and unrealized losses on investments (Note 4)	(562,685)	(9,045,641)	-	(9,608,326)
Miscellaneous income	59,697	13,457	-	73,154
Net assets released from restrictions	3,981,487	(3,981,487)	-	-
Total revenue, gains, and other support	6,366,584	(10,203,358)	609,065	(3,227,709)
Expenses				
Contributions to EMU:				
Expendable contributions	2,470,357	-	-	2,470,357
Contributions from endowment income	1,375,346	-	-	1,375,346
Contribution of ECMC subsidiary (Note 7)	420,924	-	-	420,924
Other	4,474	-	-	4,474
General and administrative - Foundation management	522,551	-	-	522,551
Fund-raising (Note 10)	3,076,938	-	-	3,076,938
ECMC expenses	408,807	-	-	408,807
Total expenses	8,279,397	-	-	8,279,397
Increase (Decrease) in Net Assets - Before other changes in net assets	(1,912,813)	(10,203,358)	609,065	(11,507,106)
Funds Transferred from EMU	-	6,200	-	6,200
Change in Value of Split-interest Agreements	-	(105,074)	-	(105,074)
(Decrease) Increase in Net Assets	(1,912,813)	(10,302,232)	609,065	(11,605,980)
Net Assets - Beginning of year	2,039,754	18,701,939	30,820,274	51,561,967
Net Assets - End of year	$ 126,941	$ 8,399,707	$ 31,429,339	$ 39,955,987

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows
Year Ended June 30, 2008

Cash Flows from Operating Activities	
Decrease in net assets	$ (11,605,980)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Depreciation	82,272
Net realized and unrealized loss on investments	9,608,326
Change in cash surrender value of life insurance	(1,318)
Change in value of split-interest agreements	105,074
Contributions restricted for long-term purposes	(609,065)
Contribution of subsidiary interest (Note 7)	420,924
Subsidiary loss	202,141
Changes in operating assets and liabilities which provided (used) cash:	
Contributions receivable	493,180
Accrued interest and dividends	29,435
Other assets	(68,074)
Accounts payable	(79,587)
Accrued liabilities and other	(2,663)
Net cash used in operating activities	(1,425,335)
Cash Flows from Investing Activities	
Purchases of property and equipment	(71,371)
Purchases of investments	(20,815,097)
Proceeds from sales and maturities of investments	19,112,430
Proceeds from contribution of subsidiary interest (Note 7)	1
Net cash used in investing activities	(1,774,037)
Cash Flows from Financing Activities	
Payments on mortgage and notes payable	(143,374)
Payments on split-interest agreements	(152,606)
Proceeds from contributions restricted for long-term purposes	609,065
Net cash provided by financing activities	313,085
Net Decrease in Cash and Cash Equivalents	(2,886,287)
Cash and Cash Equivalents - Beginning of year	5,613,326
Cash and Cash Equivalents - End of year	**$ 2,727,039**
Supplemental Disclosure of Cash Flow Information - Cash paid for Interest	$ 106,654
Noncash supplemental disclosure - See Note 7	-

Note 1 - Nature of Business and Significant Accounting Policies

Eastern Michigan University Foundation (the "Foundation"), located in Ypsilanti, Michigan, receives, holds, invests, and administers funds for the purpose of contributing to and making expenditures on behalf of Eastern Michigan University (EMU). Under governmental accounting principles, the Foundation is considered a component unit of EMU. Eagle Crest Management Corp. (ECMC), a wholly owned for-profit subsidiary of the Foundation from July 1, 2008 to February 23, 2009, was incorporated for the purpose of providing food and beverage and other management services. Planned Real Estate Corp. (PREC), a wholly owned nonprofit subsidiary of the Foundation, was incorporated as a title holding company for the purpose of owning and managing real estate donated to the Foundation.

Significant accounting policies are as follows:

Principles of Consolidation - The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, PREC. For the year ended June 30, 2009, PREC did not hold any assets or liabilities and had no revenue and expense transactions. On February 23, 2009, the Foundation transferred its ownership in ECMC to Eagle Administrative Services, a nonprofit corporation affiliated with EMU. Revenue and expense transactions of ECMC from July 1, 2008 to February 23, 2009 are included in the Foundation's consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments - Investments in government and corporate debt and equity securities are stated at current quoted market value. Investments in partnerships, for which a quoted market value is not available, are stated at fair value as determined by the general partner. The real estate holding is recorded at its appraised value. Investments in land are reported at cost, which approximates market. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using the average cost method. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets, net of related expenses. These expenses amounted to $367,786 for the year ended June 30, 2009.

Endowed funds use an investment pool approach, under which each restricted purpose endowment has a specific unit interest based on its capital contributions to the pool. Income earned in the pool is allocated quarterly to unrestricted funds for general operations and to the individual endowments in proportion to the unit interests as of the end of the quarter. Gains and losses from the sale of pooled investments and unrealized gains and losses on investments held are allocated in the same manner.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions Receivable - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Life Insurance Cash Surrender Value - The Foundation is the owner of certain life insurance policies on various donors who have named the Foundation as beneficiary.

Property and Equipment - Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. Depreciation expense for the year ended June 30, 2009 amounted to $82,272.

Split-interest Agreements - The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from 5 percent to 11.9 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 3.2 percent to 10 percent.

Classification of Net Assets - Net assets of the Foundation are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Foundation's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Contributions - Contributions to the Foundation of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Contributions received with donor-imposed time or purpose restrictions are reported as restricted revenue. All other contributions are reported as unrestricted revenue.

Contributions to EMU are recorded as expense when approved by the Foundation.

Fund-raising - Fund-raising costs are charged to expense as incurred. The majority of all development activities for the benefit of EMU and the Foundation are conducted by the Foundation.

Tax Status - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. PREC is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk Arising from Deposit Accounts - The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

In September 2008, the United States Treasury implemented a temporary guarantee program for eligible money market mutual funds held by organizations as of the close of business on September 19, 2008. This program was set to expire on April 30, 2009, but was extended through September 19, 2009. As of September 19, 2008, the Foundation's balance for participating funds was $56,070. The Foundation's balance within these funds as of June 30, 2009 was $7,015; therefore, the entire balance is guaranteed by the United States Treasury as of June 30, 2009.

Risks and Uncertainties - The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 15, 2009, which is the date the consolidated financial statements were available to be issued.

Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2009:

Gross contributions promised	$ 1,544,834
Less allowance for uncollectibles	(1,027,044)
Subtotal	517,790
Less unamortized discount	(82,923)
Net unconditional promises to give	$ 434,867

Amounts due in:	
Less than one year	$ 1,025,474
One to five years	512,860
More than five years	6,500
Total	$ 1,544,834

Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2009 is summarized as follows:

Buildings	$ 2,148,146
Equipment and software	932,755
Total cost	3,080,901
Less accumulated depreciation	(1,095,780)
Net carrying amount	$ 1,985,121

Note 4 - Investments

Investments consisted of the following at June 30, 2009, including investments held under split-interest agreements:

Mutual funds	$ 1,575,136
Corporate stock securities	26,280,837
Corporate bonds	5,365,020
U.S. government securities	3,624,745
Venture capital partnership	7,434
Real estate holding	55,000
Subtotal	36,908,172
Land	612,334
Total	$ 37,520,506

Net realized and unrealized gains in the accompanying consolidated financial statements have been offset with related losses. Investment income for the year ended June 30, 2009 is as follows:

Dividend and interest income	$ 894,051
Realized losses - Net	(5,820,157)
Net realized income and losses	(4,926,106)
Net unrealized loss	(3,788,169)
Total investment loss	$ (8,714,275)

Note 5 - Mortgage Note Payable

The Foundation has a mortgage payable to an unrelated party, collateralized by real estate. The note requires monthly interest-only payments, bearing interest at 5.25 percent, with the principal due in October 2009.

Total mortgage interest expense for the year ended June 30, 2009 was approximately $106,654.

Note 6 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:		
Scholarships	$	3,319,065
Specific program use		4,863,681
Time-restricted - Annuity trust agreements		216,961
Total	$	8,399,707

Permanently restricted net assets are endowments invested in perpetuity, the income from which is expendable for distributions to EMU for scholarships and other programs.

Unrestricted net assets consist of the following:

Designated to support underfunded EMU priorities - Endowments that support scholarships and academic programs and departments:		
Funds functioning as endowments for specific purposes	$	563,541
Funds not yet allocated		168,887
Total designated		732,428
Undesignated:		
Foundation operations		844,931
Permanently restricted endowment losses in excess of corpus		(1,450,418)
Total undesignated		(605,487)
Total unrestricted net assets	$	126,941

Note 7 - Related Party Transactions

Under operating agreements with EMU, the Foundation has the responsibility to manage and invest endowment and other contributed assets held for the benefit of EMU and manage development and fund-raising programs for the benefit of EMU, including management of gift records and receipts.

In order to support fund-raising activities on behalf of the University, EMU pays to the Foundation an amount to be determined annually. For the year ended June 30, 2009, the amount paid to the Foundation was $1,500,000.

As of June 30, 2009, the Foundation has contributions payable to EMU of approximately $330,600 and management, general, and fund-raising payables to EMU of approximately $16,800 recorded in accounts payable. During the year ended June 30, 2009, the Foundation paid EMU approximately $491,000 in management, general, and fund-raising expenses.

Note 7 - Related Party Transactions (Continued)

On February 23, 2009, the Foundation transferred its 100 percent interest in ECMC to Eagle Administrative Services, a non-profit entity that was formed to support and carry out the purposes of EMU. The stock transfer included the sale of ECMC stock held by the Foundation to EAS for one dollar. Due to the affiliations of the entities, the ECMC investment net book value in the amount of $420,924 at time of transfer was considered a contribution to EMU.

In 2009, prior to the transfer, ECMC distributed two vacant parcels of land to the Foundation with a net book value of $612,334. At the time of the transfer, the Foundation assumed, and subsequently paid, the related mortgage of $143,374. The Foundation holds the land as an investment.

Note 8 - Defined Contribution Plans

The Foundation sponsors a defined contribution 403(b) plan for all eligible full-time employees, as defined. Employees may make elective contributions to the 403(b) plan in accordance with IRS regulations. The Foundation may make contributions to the 403(b) plan up to 6 percent of the employees' base salaries. During fiscal year 2009, the Foundation contributed 6 percent of the employees' base salaries.

Total contributions to the plans for the year ended June 30, 2009 amounted to approximately $89,000.

Note 9 - Fund-raising Collections

Fund-raising efforts of the Foundation result in both currently collectible gifts and pledged gifts for the benefit of EMU that are recorded as revenue in the Foundation's financial statements but are collectible over a period of years. The Foundation's fund-raising efforts also result in current gifts made directly to EMU that are not reported as contributions by the Foundation. Total fund-raising collections for the year ended June 30, 2009 were as follows:

Accrual basis contribution revenue	$ 3,706,746
Gifts in-kind made directly to EMU	2,593,929
Collections on deferred gifts in excess of current gift deferrals and amortization	493,180
Gifts deposited directly at EMU	38,972
Total fund-raising collections	$ 6,832,827

Note 10 - Fund-raising Expenses

Fund-raising expenses are comprised of the following:

Gifts and records	$	726,890
Other fund-raising		2,350,048
Total	$	3,076,938

Note 11 - Fair Value

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at June 30, 2009, and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 11 - Fair Value (Continued)

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows:

Fair Value Measurements at June 30, 2009

	Balance at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments, including investments held under split-interest agreements:				
Mutual funds	$ 1,575,136	$ 1,575,136	$ -	$ -
Corporate stock securities	26,280,837	26,280,837	-	-
Corporate bonds	5,365,020	-	5,365,020	-
U.S. government securities	3,624,745	-	3,624,745	-
Venture capital partnership	7,434	-	-	7,434
Real estate holding	55,000	-	-	55,000
Liabilities - Split-interest agreements	$ 744,458	$ -	$ -	$ 744,458

Changes in level 3 assets and liabilities measured at fair value on a recurring basis:

	Venture Capital Partnership	Real Estate Holding	Split-interest Agreement Liabilities
Balance - June 30, 2008	$ 14,128	$ 55,000	$ 791,990
Total unrealized losses included in change in net assets	(4,024)	-	-
Net additions, purchases, sales, and maturities	(2,670)	-	-
Payments to annuitants	-	-	(152,606)
Net change in split-interest agreement liability factors	-	-	105,074
Balance - June 30, 2009	$ 7,434	$ 55,000	$ 744,458

Land held for investment of $612,334 is included in the consolidated balance sheet at a lower of cost or market (as determined by appraisal) and is not included in the fair value measurements above.

Note 11 - Fair Value (Continued)

Investments categorized as Level 3 assets primarily consist of real estate and venture capital partnerships. The Foundation estimates the fair value of real estate investments based on appraisals prepared using management's best estimate of key assumptions, and a discount rate commensurate with the current market and other risks involved. The Foundation estimates the fair value of venture capital partnership investments based on statements and as disclosed by the general partner.

Of the Level 3 investments held by the Foundation at June 30, 2009, the unrealized loss for the year ended June 30, 2009 was $4,024, which is recognized in decrease in net assets in the consolidated statement of activities and changes in net assets.

Split-interest agreement liabilities characterized as Level 3 liabilities consist primarily of charitable gift annuity agreements. The Foundation estimates the fair value of these contributions based upon the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of annuitants, payment periods, and a discount rate commensurate with the current market and other risks involved.

Of the Level 3 liabilities that were held as split-interest agreement liabilities by the Foundation at June 30, 2009, the net addition in the table included change in charitable gift annuities which totaled $105,074 during the year.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Note 12 - Donor and Board Restricted Endowments

The Foundation's endowment includes donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 - Donor and Board Restricted Endowments (Continued)

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,450,418)	$ 5,266,481	$ 31,429,339	$ 35,245,402
Board-designated endowment funds	563,541	-	-	563,541
Total funds	$ (886,877)	$ 5,266,481	$ 31,429,339	$ 35,808,943

Note 12 - Donor and Board Restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 563,541	$ 14,540,282	$ 30,820,274	$ 45,924,097
Investment return - Net depreciation (realized and unrealized)	(1,450,418)	(7,037,358)	-	(8,487,776)
Contributions	-	851,437	609,065	1,460,502
Appropriation of endowment assets for expenditure	-	(3,087,880)	-	(3,087,880)
Endowment net assets - End of year	$ (886,877)	$ 5,266,481	$ 31,429,339	$ 35,808,943

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $1,450,418 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period(s) as well as board designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Foundation's target policy indices while assuming a moderate level of investment risk. The target policy of the Foundation is: 40 percent S&P 500, 15 percent MSCI EAFE, 15 percent Russell 2000, 10 percent NAREIT EQUITY, 15 percent Barclays Aggregate Bond, and 5 percent US Treasury Bill - three month. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7.3 percent annually. Actual returns in any given year may vary.

Note 12 - Donor and Board Restricted Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4 percent of an eligible endowment fund's average market value over the prior 12 quarters through the second fiscal year end preceding the fiscal year in which the distribution is planned, i.e., fiscal year 2008-2009 appropriation was based on the 12 quarter average market value of the fund as of June 30, 2007. In establishing this policy, the Foundation considered the long-term expected return on its endowment. In addition to this specific appropriation, the Foundation also distributes 2 percent of an endowment fund's 12 quarter average market value to the Foundation's operating budget as a source of revenue for the Foundation's operating expenses. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 7.3 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Subsequent Event

On September 15, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the state of Michigan. The board of trustees is currently reviewing UPMIFA to determine its interpretation of the law and the impact on its policies. The impact is not yet known.

Note 13 - Stock Transfer

On July 1, 2008, ECMC was a 100 percent wholly owned for-profit subsidiary of the Foundation. On February 23, 2009, the Foundation transferred its interest in ECMC to a nonprofit entity that was formed to support and carry out the purposes of EMU. The stock transfer included the sale of ECMC stock held by the Foundation to EAS for one dollar.

Up until the date of the transfer, ECMC's financial statements had been consolidated with the Foundation. Therefore, the Foundation's investment in ECMC had been accounted for as an equity investment. At the time of the transfer, there was $420,924 of remaining equity in ECMC above the sale price, which has been recorded as a contribution to EMU.

Note 13 - Stock Transfer (Continued)

Prior to the transfer, ECMC distributed two vacant parcels of land to the Foundation with a net book value of $612,334. At the time of the transfer, the Foundation assumed and paid the related mortgage of $143,374. The Foundation recorded $468,960 of dividend income related to the transfer which was eliminated against dividend distribution from ECMC. The Foundation will hold the land as an investment.