

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION:
DATE:
December 15, 2011

RECOMMENDATION

REPORT: The 2010-2011 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, 2011.

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, 2011. The annual financial audit of the Foundation and its subsidiary was performed by Plante & Moran, PLLC, and they have provided an unqualified financial opinion.

Total endowment assets reported at year-end were \$48,205,918. This represents an 18.4 percent increase from the June 30, 2010 market value, which was \$40,726,822. Contributions during 2010-2011 were \$5,099,213, of which \$4,460,558 represented cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$1,268,975.

During this fiscal year, the endowment portfolio experienced a gross investment return of 24.4 percent vs. the portfolio benchmark of 24.9 percent, which compares quite favorably to endowment portfolio returns at other institutions. The average annual return since inception on September 30, 1992, of 8.2 percent continues to surpass the benchmark of 7.5 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$3,872,068 for the year ended June 30, 2011. Of that total, \$3,179,090 was transferred to EMU by the EMU Foundation; \$607,655 represents gifts of property and equipment that were received by EMU directly; and \$85,323 represents cash gifts that were received by EMU directly. In addition, funding received from endowed scholarships and endowments totaled \$1,383,425.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

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

University Executive Officer

12-15-2011

Date

Eastern Michigan University Foundation

Consolidated Financial Report
June 30, 2011

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, 2011 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. The prior year summarized information has been derived from the Foundation's 2010 consolidated financial statements and, in our report dated September 15, 2010, we expressed an unqualified opinion on those consolidated financial statements.

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 2011 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2011 and the consolidated changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 29, 2011

Eastern Michigan University Foundation

Consolidated Balance Sheet June 30, 2011 (with comparative totals for June 30, 2010)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets		
Cash and cash equivalents	\$ 2,147,902	\$ 4,203,817
Investments (Note 4)	45,242,754	36,633,172
Dividend and interest receivable	46,020	58,643
Contributions receivable (Note 2)	3,506,263	1,004,220
Other assets:		
Cash surrender value of life insurance	276,780	269,996
Accounts receivable	15,489	100,451
Property and equipment - Net (Note 3)	2,020,223	1,977,217
Investments held under split-interest agreements (Note 4)	1,105,190	1,051,253
Total assets	<u>\$ 54,360,621</u>	<u>\$ 45,298,769</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 799,886	\$ 854,511
Split-interest obligations	794,927	783,682
Other liabilities	8,926	8,635
Total liabilities	1,603,739	1,646,828
Net Assets (Note 5)		
Unrestricted	999,309	836,921
Temporarily restricted	16,318,848	10,422,838
Permanently restricted	35,438,725	32,392,182
Total net assets	52,756,882	43,651,941
Total liabilities and net assets	<u>\$ 54,360,621</u>	<u>\$ 45,298,769</u>

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2011 (with comparative totals for June 30, 2010)

	Year Ended				
	June 30, 2011				June 30, 2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Contributions	\$ 242,409	\$ 3,587,165	\$ 3,046,543	\$ 6,876,117	\$ 5,361,138
Administrative and management fee (Note 6)	1,175,000	-	-	1,175,000	2,155,000
Investment income (Note 4)	750,687	-	-	750,687	831,914
Net realized and unrealized gains on investments (Note 4)	66,124	8,467,272	-	8,533,396	4,571,161
Miscellaneous income	55,354	31,040	-	86,394	74,169
Net assets released from restrictions	6,051,017	(6,051,017)	-	-	-
Total revenue, gains, and other support	8,340,591	6,034,460	3,046,543	17,421,594	12,993,382
Expenses					
Contributions to EMU:					
Expendable contributions	3,179,090	-	-	3,179,090	4,677,940
Contributions from endowment income	1,383,425	-	-	1,383,425	1,175,038
General and administrative - Foundation management	559,552	-	-	559,552	541,074
Fundraising (Note 9)	3,056,136	-	-	3,056,136	2,795,232
Total expenses	8,178,203	-	-	8,178,203	9,189,284
Increase in Net Assets - Before other changes in net assets	162,388	6,034,460	3,046,543	9,243,391	3,804,098
Funds Transferred from EMU	-	2,659	-	2,659	21,491
Change in Value of Split-interest Agreements	-	(141,109)	-	(141,109)	(129,635)
Increase in Net Assets	162,388	5,896,010	3,046,543	9,104,941	3,695,954
Net Assets - Beginning of year	836,921	10,422,838	32,392,182	43,651,941	39,955,987
Net Assets - End of year	\$ 999,309	\$ 16,318,848	\$ 35,438,725	\$ 52,756,882	\$ 43,651,941

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows Year Ended June 30, 2011 (with comparative totals for June 30, 2010)

	Year Ended	
	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities		
Increase in net assets	\$ 9,104,941	\$ 3,695,954
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	110,811	90,401
Net realized and unrealized gain on investments	(8,533,396)	(4,571,161)
Change in cash surrender value of life insurance	(6,784)	(18,029)
Change in value of split-interest agreements	141,109	129,635
Contributions restricted for long-term purposes	(3,046,543)	(962,843)
Contribution received - Land held for investment	(31,000)	-
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(2,502,043)	(569,353)
Dividend and interest receivable	12,623	58,915
Accounts receivable	84,962	6,401
Accounts payable	(54,625)	450,641
Other liabilities	291	541
Net cash used in operating activities	(4,719,654)	(1,688,898)
Cash Flows from Investing Activities		
Purchases of property and equipment	(153,817)	(82,497)
Purchases of investments	(16,894,638)	(24,455,876)
Proceeds from sales and maturities of investments	16,795,515	28,863,116
Net cash (used in) provided by investing activities	(252,940)	4,324,743
Cash Flows from Financing Activities		
Net payments on mortgage payable	-	(2,031,499)
Payments on split-interest agreements	(162,025)	(156,022)
Proceeds from new split-interest agreements	32,161	65,611
Proceeds from contributions restricted for long-term purposes	3,046,543	962,843
Net cash provided by (used in) financing activities	2,916,679	(1,159,067)
Net (Decrease) Increase in Cash and Cash Equivalents	(2,055,915)	1,476,778
Cash and Cash Equivalents - Beginning of year	4,203,817	2,727,039
Cash and Cash Equivalents - End of year	<u>\$ 2,147,902</u>	<u>\$ 4,203,817</u>
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	<u>\$ 115,382</u>	<u>\$ 113,655</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

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. 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, 2011, PREC received \$31,000 of contributed land, which it held at year end. No intercompany transactions requiring elimination during consolidation occurred during the year ended June 30, 2011.

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 investments in the real estate holding and land are recorded at the lower of cost or fair value. The cost of real estate holding was determined by appraisal when real estate was originally contributed to the Foundation in a prior year. Land was distributed to the Foundation in February 2009 from a wholly owned subsidiary prior to the transfer of that subsidiary to another organization. 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 \$326,959 for the year ended June 30, 2011.

The investment of land held by PREC is recorded at a value determined by an appraisal obtained in the current year. There were no other investment transactions or related expenses associated with this investment for the year ended June 30, 2011.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

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, 2011 amounted to \$110,811.

Split-interest Agreements - The Foundation is a remainder beneficiary of several charitable annuities 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 2.4 percent to 10.0 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 temporarily restricted until expended unless the donor or applicable law specifies them as permanently restricted.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

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.

Fundraising - Fundraising 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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2008.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

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

Summarized Comparative Information for the Year Ended June 30, 2010 - The financial information presented for comparative purposes for the year ended June 30, 2010 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's 2010 consolidated financial statements, from which the summarized information was derived.

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.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including September 29, 2011, 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, 2011:

Gross contributions promised	\$ 4,513,735
Less allowance for uncollectibles	<u>(980,767)</u>
Subtotal	3,532,968
Less unamortized discount	<u>(26,705)</u>
Net unconditional promises to give	<u>\$ 3,506,263</u>
Amounts due in:	
Less than one year	\$ 4,227,469
One to five years	219,766
More than five years	<u>66,500</u>
Total	<u>\$ 4,513,735</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2011 is summarized as follows:

Buildings	\$ 2,204,155
Equipment and software	<u>1,113,061</u>
Total cost	3,317,216
Less accumulated depreciation	<u>(1,296,993)</u>
Net carrying amount	<u>\$ 2,020,223</u>

Note 4 - Investments

Investments consisted of the following at June 30, 2011, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 5,477,535
Mutual funds - Fixed income	1,187,656
Corporate stock securities - Domestic	24,131,950
Corporate stock securities - International	6,601,924
Corporate bonds	3,765,624
U.S. government securities	4,475,814
Venture capital partnership	9,107
Real estate holding	<u>55,000</u>
Subtotal	45,704,610
Land	612,334
PREC land	<u>31,000</u>
Total	<u>\$ 46,347,944</u>

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, 2011 is as follows:

Dividend and interest income	\$ 750,687
Realized gains - Net	<u>2,273,579</u>
Net realized income	3,024,266
Net unrealized gain	<u>6,259,817</u>
Total investment gain	<u>\$ 9,284,083</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:

Scholarships	\$ 8,737,136
Specific program use	7,271,449
Time-restricted - Annuity trust agreements	<u>310,263</u>
Total	<u>\$ 16,318,848</u>

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	<u>250,261</u>
Total designated	813,802

Undesignated:

Foundation operations	848,890
Permanently restricted endowment losses in excess of corpus	<u>(663,383)</u>
Total undesignated	<u>185,507</u>

Total unrestricted net assets	<u>\$ 999,309</u>
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Note 6 - 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 fundraising programs for the benefit of EMU, including management of gift records and receipts.

In order to support fundraising activities on behalf of the EMU, EMU pays to the Foundation an amount to be determined annually. For the year ended June 30, 2011, the amount paid to the Foundation was \$1,175,000.

As of June 30, 2011, the Foundation has contributions payable to EMU of approximately \$717,000 and management, general, and fundraising payables to EMU of approximately \$37,000 recorded in accounts payable. During the year ended June 30, 2011, the Foundation paid EMU approximately \$498,000 in management, general, and fundraising expenses.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements

June 30, 2011

Note 7 - 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 2011, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2011 amounted to approximately \$63,000.

Note 8 - Fundraising Collections

Fundraising 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 consolidated financial statements but are collectible over a period of years. The Foundation's fundraising efforts also result in current gifts made directly to EMU that are not reported as contributions by the Foundation. Total fundraising collections for the year ended June 30, 2011 were as follows:

Accrual basis contribution revenue	\$ 6,876,117
Gifts in-kind made directly to EMU	607,655
Collections on deferred gifts in excess of current gift deferrals and amortization	(2,502,043)
Current year adjustment to split-interest agreements	32,161
Gifts deposited directly at EMU	85,323
Total fundraising collections	<u>\$ 5,099,213</u>

Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 654,375
Other fundraising	2,401,761
Total	<u>\$ 3,056,136</u>

Note 10 - Fair Value

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2011 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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

Note 10 - Fair Value (Continued)

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.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2011 and 2010, there were no transfers between levels of the fair value hierarchy.

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

Fair Value Measurements at June 30, 2011

	Balance at June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments - Including investments held under split- interest agreements:				
Mutual funds - Equity	\$ 5,477,535	\$ 5,477,535	\$ -	\$ -
Mutual funds - Fixed income	1,187,656	1,187,656	-	-
Corporate stock securities - Domestic	24,131,950	24,131,950	-	-
Corporate stock securities - International	6,601,924	6,601,924	-	-
Corporate bonds - Domestic	3,765,624	-	3,765,624	-
U.S. government securities	4,475,814	-	4,475,814	-
Venture capital partnership	9,107	-	-	9,107
Total	\$ 45,649,610	\$ 37,399,065	\$ 8,241,438	\$ 9,107

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

Note 10 - Fair Value (Continued)

Changes in Level 3 Asset Measured at Fair Value on a Recurring Basis

	Venture Capital Partnership
Balance - June 30, 2010	\$ 8,630
Total unrealized gains included in change in net assets	<u>477</u>
Balance - June 30, 2011	<u>\$ 9,107</u>

The Foundation estimates the fair value of the venture capital partnership investment based on statements and as disclosed by the general partner.

Of the Level 3 investments held by the Foundation at June 30, 2011, the unrealized gain for the year ended June 30, 2011 was \$477, which is recognized in increase in net assets in the consolidated statement of activities and changes in net assets.

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 for these assets presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Land held for investment of \$643,334, including \$31,000 held in PREC, is included in the consolidated balance sheet at a lower of cost or market (as determined by appraisal). Real estate held for investment of \$55,000 is also included at lower of cost or market (as estimated by management). These investments are, therefore, not included in the fair value measurements above.

Note 11 - 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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements

June 30, 2011

Note 11 - Donor- and Board-restricted Endowments (Continued)

Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 UPMIFA. In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation
- (7) The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (663,383)	\$ 14,103,378	\$ 35,438,725	\$ 48,878,720
Board-designated endowment funds	563,541	-	-	563,541
Total funds	<u>\$ (99,842)</u>	<u>\$ 14,103,378</u>	<u>\$ 35,438,725</u>	<u>\$ 49,442,261</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2011

Note 11 - Donor- and Board-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ (891,250)	\$ 8,174,637	\$ 32,392,182	\$ 39,675,569
Investment return - Net of depreciation (realized and unrealized)	791,408	8,290,906	-	9,082,314
Contributions and board transfers to endowment funds	-	509,761	3,046,543	3,556,304
Appropriation of endowment assets for expenditure	-	(2,871,926)	-	(2,871,926)
Endowment net assets - End of year	<u>\$ (99,842)</u>	<u>\$ 14,103,378</u>	<u>\$ 35,438,725</u>	<u>\$ 49,442,261</u>

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 UPMIFA 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 \$663,383 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of 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 DJ Global Moderate Portfolio, 15 percent Barclays Aggregate Bond, and 5 percent U.S. Treasury Bill - three month. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 percent annually. Actual returns in any given year may vary.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements

June 30, 2011

Note 11 - 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 2010-2011 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2009. 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 up to 3.5 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 8.5 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.

Mortgage Payable to Endowment Fund

In October 2009, the Foundation utilized temporarily restricted earnings on endowment assets to settle a mortgage due to an unrelated party. The total mortgage paid with endowment funds was \$2,031,499. A 25-year note payable was established to reimburse the endowment fund with monthly principal and interest payments of \$12,842. The amount due to the endowment fund from unrestricted or the release of temporarily restricted funds is \$1,968,184 at June 30, 2011.

Note 12 - Subsequent Events

Subsequent to June 30, 2011, the Foundation received a contribution of \$1,500,000 to be used to fund an endowed chair in the College of Education. Also, the Foundation received a contribution of approximately \$3,400,000 to be used to fund various endowed and expendable accounts primarily in the College of Education. Of this \$3,400,000, approximately \$2,900,000 was included in the pledge receivable balance that was outstanding as of June 30, 2011.