

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: 13
DATE: December 5, 2014

**RECOMMENDATION**

**REPORT: The 2013-2014 Eastern Michigan University Foundation Consolidated Financial Report**

**ACTION REQUESTED**

It is requested that the Eastern Michigan University Board of Regents receive and place on file the Eastern Michigan University Foundation Consolidated Financial Report for the year ended June 30, 2014.

**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 consolidated financial report of the Eastern Michigan University Foundation for the year ended June 30, 2014. 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 and planned gift assets reported at year-end were \$67,190,127. This represents a 15.8 percent increase from the June 30, 2013 market value, which was \$58,044,421. Fundraising during 2013-2014 totaled \$7,251,290 of which \$5,296,633 represents cash gifts, \$1,083,909 represents gifts-in-kind and \$870,748 represents pledges and revocable bequests. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$1,149,660.

During this fiscal year, the endowment portfolio experienced a gross investment return of 18.8 percent vs. the portfolio benchmark of 19.1 percent, which compares favorably to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average annual return since inception on September 30, 1992, of 8.6 percent continues to surpass the benchmark of 8.1 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$4,123,404 for the year ended June 30, 2014. Of that total, \$3,153,635 was transferred to EMU by the EMU Foundation; \$899,689 represents gifts of property and equipment that were received by EMU directly; and \$70,080 represents cash gifts that were received by EMU directly. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$1,410,696.

**FISCAL IMPLICATIONS**

None

**ADMINISTRATIVE RECOMMENDATION**

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

  
University Executive Officer

*DECEMBER 5, 2014*  
Date

# **EMU Board of Regents Update**

**December 5, 2014**

# Agreement Between EMU and EMUF

- Present FY14 Consolidated Financial Report
- Report on FY14 Fundraising Results
- Report on FY14 Endowment Activity
- Report on FY14 Endowment Spending

# FY14 Consolidated Financial Report

- Audit went very well; unqualified opinion on audited financial statements
- Total Assets = **\$70.9M**
- Total Liabilities = **\$1.1M**
- Total Net Assets = **\$69.8M**; increase of **\$9.9M** over 6/30/13 balance

# FY14 Financial Highlights

## Total Fundraising

### Reconciliation of Accrual Basis Fundraising to Total Reported Fundraising:

Accrual Basis Contribution Revenue (per EMUF Fin Stmt)	\$5,360,736
Reverse Change in Contributions Receivable Adjustment (Inc in Cont Rev)	(9,045)
Reverse New Split Interest Agreement Adjustment (Inc in Cont Rev)	59,082
Add Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	70,080
Add Gifts-in-Kind Made Directly to EMU (not in EMUF Fin Stmt)	899,689
Add Pledges/Revocable Bequests Documented (not in EMUF Fin Stmt)	<u>870,748</u>
<b>Total Fundraising</b>	<b>\$7,251,290</b>
Cash Received	\$5,296,633
GIKs Received (\$899,689 to EMU and \$184,220 to EMUF)	1,083,909
Pledges/Revocable Bequests Documented	<u>870,748</u>
<b>Total Fundraising</b>	<b>\$7,251,290</b>
<b>Total FY14 Fundraising Goal</b>	<b>\$12,000,000</b>

# FY14 Financial Highlights

## Immediate Use Gifts & Endowment Funding

• <b>Immediate Use Gifts to EMU for Scholarships &amp; Programs:</b>	
Expendable Contributions to EMU (per EMUF Fin Stmt)	\$3,153,635
Gifts-in-Kind Made Directly to EMU (not in EMUF Fin Stmt)	899,689
Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	<u>70,080</u>
<b>Total Immediate Use Gifts to EMU for Scholarships &amp; Programs</b>	<b>\$4,123,404</b>
• <b>Funding Provided to EMU from Endowed Scholarships &amp; Endowments (per EMUF Fin Stmt)</b>	<b><u>\$1,410,696</u></b>
• <b>Total Impact of Immediate Use and Endowment Spending (compared to \$4.5M in FY13)</b>	<b>\$5,534,100</b>

## FY14 Summary of Endowment Activity

Market Value @ 6/30/13	\$ 57.2M
Gifts and Transfers	1.6M
Spending and Transfers	(1.4M)
Investment Return (net of fees)	8.9M
Market Value @ 6/30/14	66.3M
Split Interest Agreements @ 6/30/14	0.9M
End and SI Agreement Value @ 6/30/14	<b>\$ 67.2M</b>

# FY14 Summary of Endowment Activity

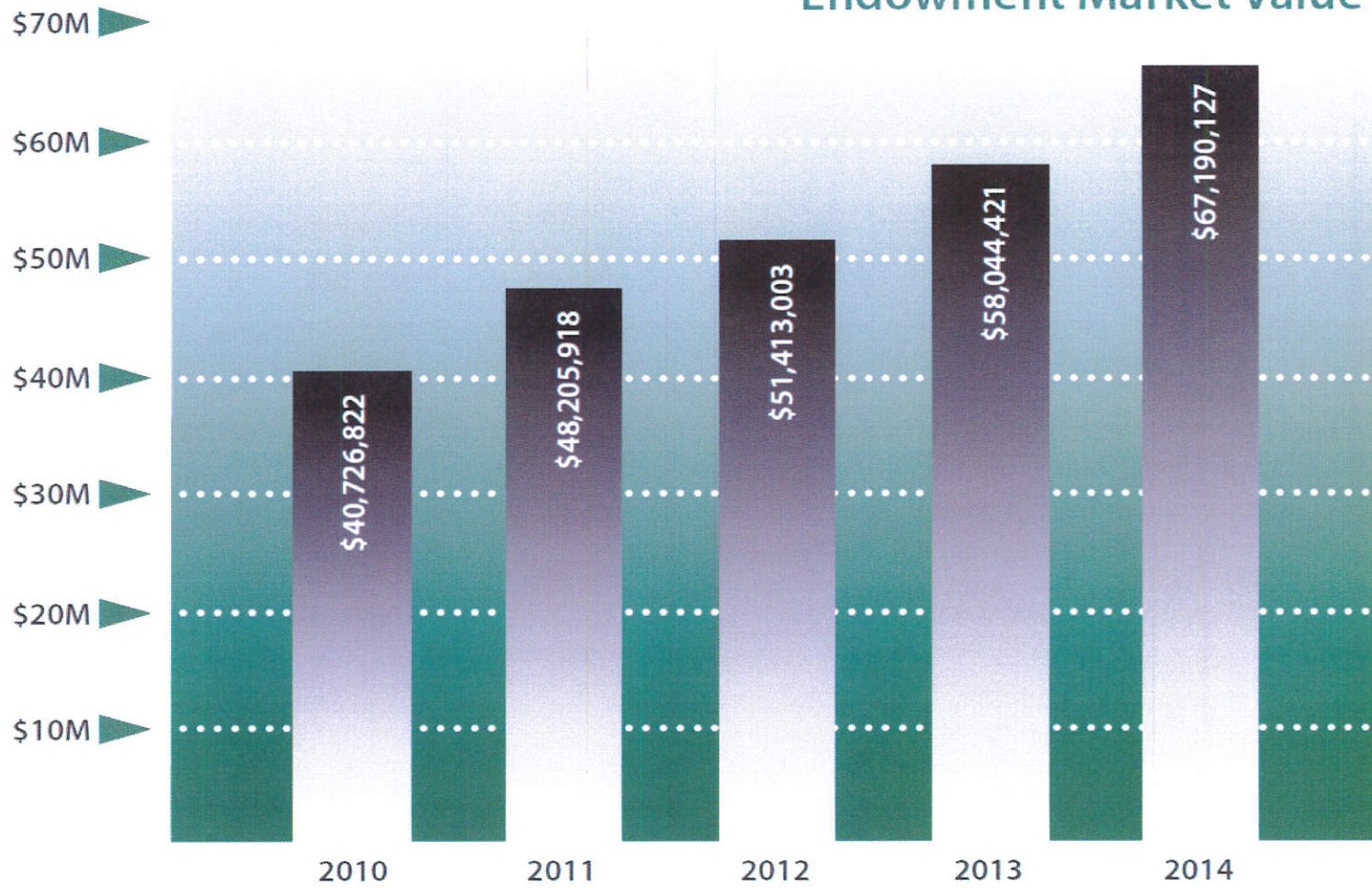
- EMUF FY14 gross investment return = **18.8%** vs benchmark return of **19.1%**. Compares very favorably to endowments in the \$ 51M - \$ 100M range
- Cumulative average return since inception in September 1992 = **8.6%** vs benchmark return of **8.1%**
- 3-year average endowment market value as of 6/30/14 = **\$ 57M** vs goal in 5-year plan of **\$ 59M**
- FY14 endowment spending (amount transferred to EMU + amount used by EMUF for operations) = **5.27%** of 6/30/13 3-year average endowment market value vs goal in 5-year plan of **5.50%**, which is favorable



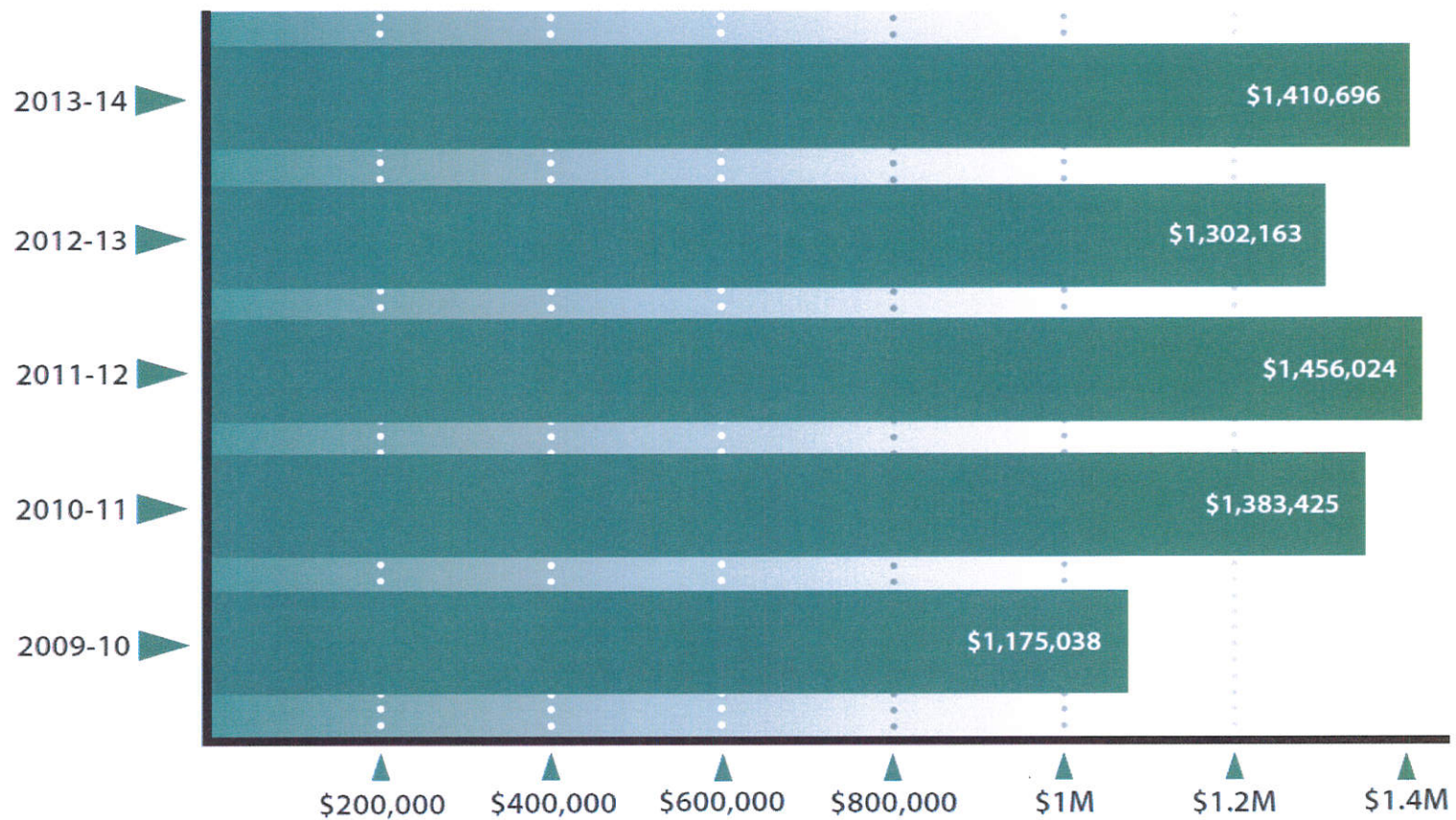


## ADDITIONAL INFORMATION

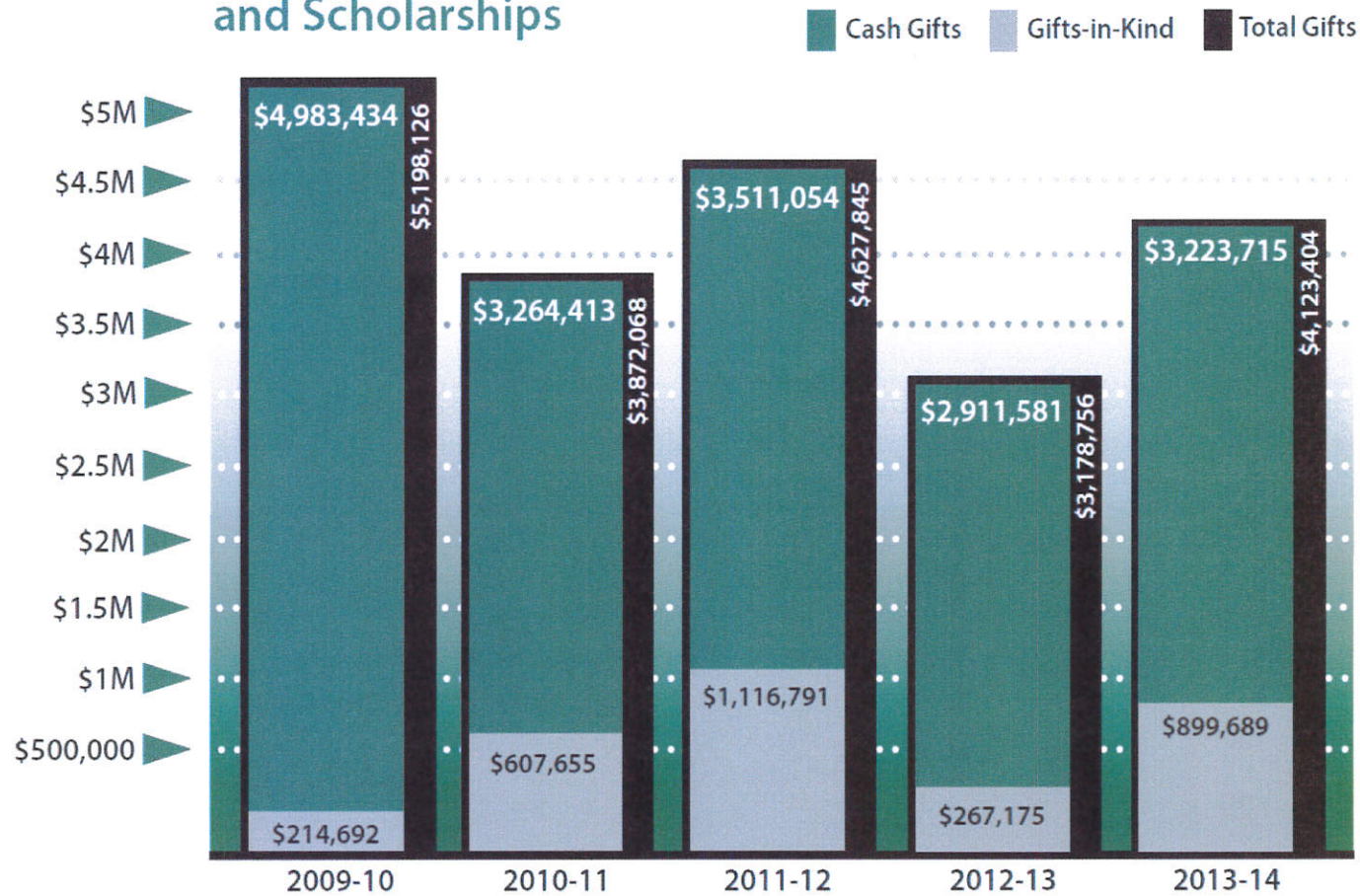
### Endowment Market Value



## Funding Provided From Endowed Scholarships and Endowments



## Immediate Use Gifts to EMU for Programs and Scholarships



# Fiscal Year 15

Achieving the Objective of  
\$13.5M



# FY15 Plans

<u>UNIT</u>	<u>GOAL</u>
CAS	\$1.4M
COB	\$1.5M
CHHS	\$0.5M
COT	\$0.5M
COE	\$0.6M
ATH	\$1.0M
<b>Total Cash+Gik</b>	<b>\$5.5M</b>
<b>Planned Giving</b>	<b>\$3.5M</b>
<b>Corporation and Foundation</b>	<b>\$2.5M</b>
<b>Chief Development Officer</b>	<b>\$1.0M</b>
<b>VP Advancement</b>	<b>\$0.5M</b>
<b>WEMU</b>	<b>\$0.7M</b>
<b>TOTAL</b>	<b>\$13.7M</b>

# FY15 Goal \$13.5M

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER *	TOTAL
CASH	\$192,887	\$308,503	\$259,155	\$646,715			\$1,407,259
GIK	\$7,854	\$33,265	\$59,850	\$11,346			\$112,315
PLANNED GIFTS/PLEDGES	\$971,344	\$116,074	\$113,153	\$22,298			\$1,219,467
<b>TOTAL</b>	<b><u>\$1,172,084</u></b>	<b><u>\$457,842</u></b>	<b><u>\$432,158</u></b>	<b><u>\$680,358</u></b>	-	-	<b><u>\$2,739,041</u></b>
COMPARISON TO FY'14	\$251,464	\$247,284	\$355,504	\$612,862			\$1,459,244
CHANGE +/-	+ \$920,620	+ \$210,558	+ \$76,654	+ \$67,496			+ \$1,279,797

\* (Based on 4 days of results, we may add December to date)



# Gift Officer Metrics

- Significantly increased for FY15 to include:
  - Use of Development Tool called Blackbaud wealth data to generate top 150 prospects for each officer
    - 20% must be new prospects
  - Top 20 list of prospects
    - Must have a distinct plan for each (i.e., contact dates, proposal delivery date)
    - 10% must be new prospects
    - Plan and progress to be reviewed monthly with VP of Advancement
  - Move from 10 substantial contacts a month to 20
  - Move from 1-2 proposals a month to 3-4 proposals a month
- Progress to date: On Track

# FY15 Monthly Development Officer Performance Tracking

Development Officer	Area	Proposals 3-4	Substantial Contacts 20	Managing 150 Prospects List W/20% New	Managing Top 20 Prospect List w/10% New
	CAS				
	Corp & Foundation				
	COT				
	CHHS				
	COB				
	Planned/Major Gifts				
	COE				
	Planned Gifts				
	Athletics				
	Chief Development Officer				
	VP				

# A Few Fundraising Highlights

- **Namings**

- Regent Jim & Cathy Webb named a classroom in the COB, and were honored at plaque unveiling on September 10.
- Dee & Bill Brehm donated their dining room furniture to a room in McKenny Hall that will be named “The Delores Brehm Soderquist Dining Room”. The room will be used to entertain special university guest for lunch or dinner.
- Ken Fine and Rebecca Canary have made a gift to complete the renovations of the house on St. John’s Street and will be named “emu house”.
- The McKenny Student Lounge will be named the “Darrell H. Cooper Student Lounge” in honor of Darrell’s distinguished service and contributions to the welfare of EMU on December 17.

# A Few Fundraising Highlights

- **“1849 Circle Society” - \$1M Lifetime Giving**
  - Phil Jenkins was added to the Welch donor wall in October.
  - The estate of Dr. Donald Brown reached \$1M and his picture will be added to the Welch donor wall next month.
- **Major Gifts**
  - College of Business received an anonymous Cash gift of 250K in October.
- **Giving Tuesday**
  - Results to come

## Gifts by Colleges by Account Types

July 01, 2014 - October 31, 2014

	ATH	CAS	CHHS	COB	COE	COT	WEMU	OTH	TOTALS
Endowed Scholarship	\$1,001	\$50,850	\$16,200	\$5,293	\$15,826	\$10,727	\$0	\$20,706	\$120,603
Endowment (Non Sch.)	\$20,053	\$3,591	\$517	\$609	\$0	\$59	\$0	\$2,345	\$27,173
Event/Expensed	\$9,275	\$20,145	\$0	\$0	\$0	\$17,170	\$0	\$2,128	\$48,718
Expendable (Non Sch.)	\$101,051	\$38,027	\$24,032	\$26,739	\$55,680	\$22,488	\$114,205	\$500,530	\$882,752
Expendable Scholarship	\$374	\$46,817	\$800	\$3,021	\$66,294	\$2,035	\$0	\$208,674	\$328,014
CASH	\$131,754	\$159,429	\$41,549	\$35,661	\$137,800	\$52,479	\$114,205	\$734,382	\$1,407,259
GIK	\$5,651	\$13,245	\$1,162	\$30,655	\$0	\$49,751	\$0	\$11,851	\$112,315
NEW PLEDGES/REVOC. BEQUESTS (less cash paid)	\$30,689	\$760,027	\$0	\$58,794	\$173,048	\$0	\$82,323	\$114,586	\$1,219,467
<b>TOTALS</b>	<b>\$168,094</b>	<b>\$932,701</b>	<b>\$42,711</b>	<b>\$125,110</b>	<b>\$310,848</b>	<b>\$102,230</b>	<b>\$196,528</b>	<b>\$860,819</b>	<b>\$2,739,041</b>

Number of Donors 2,768

July 01, 2013 - October 31, 2013

	ATH	CAS	CHHS	COB	COE	COT	WEMU	OTH	TOTALS
Endowed Scholarship	\$0	\$70,369	\$56,779	\$6,179	\$12,012	\$5,858	\$0	\$45,963	\$197,159
Endowment (Non Sch.)	\$1,200	\$1,805	\$325	\$161	\$0	\$5,385	\$0	\$144	\$9,020
Event/Expensed	\$10,945	\$26,545	\$0	\$0	\$0	\$17,256	\$0	\$7,079	\$61,824
Expendable (Non Sch.)	\$244,902	\$57,461	\$20,925	\$20,301	\$19,699	\$14,819	\$214,926	\$109,468	\$702,501
Expendable Scholarship	\$951	\$25,490	\$2,446	\$4,855	\$59,157	\$2,748	\$0	\$76,499	\$172,146
CASH	\$257,997	\$181,669	\$80,475	\$31,496	\$90,868	\$46,066	\$214,926	\$239,152	\$1,142,650
GIK	\$4,460	\$38,175	\$1,160	\$0	\$0	\$2,275	\$0	\$4,963	\$51,033
NEW PLEDGES/REVOC. BEQUESTS (less cash paid)	\$98,868	\$16,642	\$3,250	\$5,192	\$7,025	\$228	\$870	\$133,486	\$265,561
<b>TOTALS</b>	<b>\$361,325</b>	<b>\$236,486</b>	<b>\$84,885</b>	<b>\$36,688</b>	<b>\$97,893</b>	<b>\$48,569</b>	<b>\$215,796</b>	<b>\$377,601</b>	<b>\$1,459,244</b>

Number of Donors 3,399

# **Eastern Michigan University Foundation**

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**Consolidated Financial Report**

**June 30, 2014**

# Eastern Michigan University Foundation

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## Contents

Report Letter	1-2
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### Consolidated Financial Statements

Balance Sheet	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-18



## Independent Auditor's Report

To the Board of Trustees  
Eastern Michigan University Foundation

We have audited the accompanying consolidated financial statements of Eastern Michigan University Foundation (the "Foundation"), which comprise the consolidated balance sheet as of June 30, 2014 and 2013 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



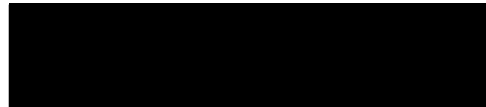
To the Board of Trustees  
Eastern Michigan University Foundation

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eastern Michigan University Foundation as of June 30, 2014 and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Eastern Michigan University Foundation's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 4, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



September 23, 2014

# Eastern Michigan University Foundation

## Consolidated Balance Sheet June 30, 2014 (with comparative totals for June 30, 2013)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,499,275	\$ 1,017,935
Investments (Note 4)	64,717,494	56,167,196
Dividend and interest receivable	44,708	46,650
Contributions receivable (Note 2)	518,525	509,480
Other assets:		
Cash surrender value life insurance	309,321	294,900
Accounts receivable	10,226	10,767
Property and equipment (Note 3)	1,929,459	1,960,796
Investments held under split-interest agreements (Note 4)	889,230	830,322
Total assets	<u>\$ 70,918,238</u>	<u>\$ 60,838,046</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 529,611	\$ 349,085
Split-interest obligations	578,310	537,560
Other liabilities	8,081	4,474
Total liabilities	1,116,002	891,119
<b>Net Assets (Note 5)</b>		
Unrestricted	1,694,090	1,140,618
Temporarily restricted	25,977,944	17,830,983
Permanently restricted	42,130,202	40,975,326
Total net assets	69,802,236	59,946,927
Total liabilities and net assets	<u>\$ 70,918,238</u>	<u>\$ 60,838,046</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

	Year Ended June 30				2013 Total
	2014			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue, Gains, and Other Support</b>					
Contributions (Note 8)	\$ 536,245	\$ 3,669,615	\$ 1,154,876	\$ 5,360,736	\$ 4,144,402
Administrative and management fee (Note 6)	1,793,000	-	-	1,793,000	1,828,000
Investment income (Note 4)	457,133	577,071	-	1,034,204	1,043,740
Net realized and unrealized gains on investments (Note 4)	-	9,346,624	-	9,346,624	6,397,317
Miscellaneous income	43,293	39,725	-	83,018	67,594
Net assets released from restrictions	5,755,956	(5,755,956)	-	-	-
<b>Total revenue, gains, and other support</b>	<b>8,585,627</b>	<b>7,877,079</b>	<b>1,154,876</b>	<b>17,617,582</b>	<b>13,481,053</b>
<b>Expenses</b>					
Contributions to EMU:					
Expendable contributions	3,153,635	-	-	3,153,635	2,726,733
Contributions from endowment income	1,410,696	-	-	1,410,696	1,302,163
General and administrative - Foundation management	572,622	-	-	572,622	537,211
Fundraising (Note 9)	2,895,202	-	-	2,895,202	2,991,879
<b>Total expenses</b>	<b>8,032,155</b>	<b>-</b>	<b>-</b>	<b>8,032,155</b>	<b>7,557,986</b>
<b>Increase in Net Assets - Before other changes in net assets</b>	<b>553,472</b>	<b>7,877,079</b>	<b>1,154,876</b>	<b>9,585,427</b>	<b>5,923,067</b>
<b>Funds Transferred from EMU</b>	<b>-</b>	<b>321,826</b>	<b>-</b>	<b>321,826</b>	<b>102,999</b>
<b>Change in Value of Split-interest Agreements</b>	<b>-</b>	<b>(51,944)</b>	<b>-</b>	<b>(51,944)</b>	<b>(38,307)</b>
<b>Increase in Net Assets</b>	<b>553,472</b>	<b>8,146,961</b>	<b>1,154,876</b>	<b>9,855,309</b>	<b>5,987,759</b>
<b>Net Assets - Beginning of year</b>	<b>1,140,618</b>	<b>17,830,983</b>	<b>40,975,326</b>	<b>59,946,927</b>	<b>53,959,168</b>
<b>Net Assets - End of year</b>	<b>\$ 1,694,090</b>	<b>\$ 25,977,944</b>	<b>\$ 42,130,202</b>	<b>\$ 69,802,236</b>	<b>\$ 59,946,927</b>

# Eastern Michigan University Foundation

## Consolidated Statement of Cash Flows Year Ended June 30, 2014 (with comparative totals for year ended June 30, 2013)

	Year Ended	
	June 30, 2014	June 30, 2013
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 9,855,309	\$ 5,987,759
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	95,471	110,136
Net realized and unrealized gain on investments	(9,346,624)	(6,397,317)
Change in cash surrender value of life insurance	(14,421)	(11,830)
Change in value of split-interest agreements	51,944	38,307
Contributions restricted for long-term purposes	(1,154,876)	(1,668,756)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(9,045)	397,601
Dividend and interest receivable	1,942	3,282
Accounts receivable	541	(1,754)
Accounts payable	180,526	(239,003)
Other liabilities	3,607	(4,632)
Net cash used in operating activities	(335,626)	(1,786,207)
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(64,134)	(119,931)
Purchases of investments	(21,062,273)	(24,529,963)
Proceeds from sales and maturities of investments	21,799,691	23,655,279
Net cash provided by (used in) investing activities	673,284	(994,615)
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(70,276)	(72,321)
Proceeds from new split-interest agreements	59,082	13,749
Proceeds from contributions restricted for long-term purposes	1,154,876	1,668,756
Net cash provided by financing activities	1,143,682	1,610,184
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,481,340	(1,170,638)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,017,935	2,188,573
<b>Cash and Cash Equivalents - End of year</b>	\$ 2,499,275	\$ 1,017,935

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note I - 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. PREC had no activity during the year ended June 30, 2014.

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

**Investments** - The Foundation records all investments in mutual funds, corporate stocks, corporate bonds, government securities, and CD's at fair value. See additional detail in Note 10. The investments in the real estate holding and land are recorded at the lower of cost or fair value and is adjusted to fair value as needed. The cost of real estate holding was determined by appraisal when real estate was originally contributed to the Foundation in a prior year. 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 \$455,247 for the year ended June 30, 2014.

The methods described above and in Note 10 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**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. The rates range from 0.11 percent to 5.50 percent. 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

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

**Functional Allocation of Expenses** - The costs providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would product a different amount.

**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. These policies are valued at their cash surrender value. The cash surrender value is based on the amount paid less any surrender charges and outstanding loans or interest. Changes in the cash surrender value are recorded on the consolidated statement of activities and changes in net assets within interest income.

**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, 2014 amounted to \$95,471.

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuities and unitrusts. Required distributions to other beneficiaries range from 5.0 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 1.2 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

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

**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.

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 Foundation and recognize a tax liability if the Foundation 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, 2014, 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, 2011.

**Use of Estimates** - The preparation of consolidated 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 consolidated 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

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

**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.

**Summarized Comparative Information for the Year Ended June 30, 2013** - The consolidated financial information presented for comparative purposes for the year ended June 30, 2013 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 2013 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 23, 2014, 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, 2014:

Gross contributions promised	\$ 1,019,093
Less allowance for uncollectibles	<u>(497,575)</u>
Subtotal	521,518
Less unamortized discount	<u>(2,993)</u>
Net unconditional promises to give	<u>\$ 518,525</u>
Amounts due in:	
Less than one year	\$ 701,563
One to five years	310,530
More than five years	<u>7,000</u>
Total	<u>\$ 1,019,093</u>



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2014 is summarized as follows:

Buildings	\$ 2,307,423
Equipment and software	<u>1,185,775</u>
Total cost	3,493,198
Less accumulated depreciation	<u>(1,563,739)</u>
Net carrying amount	<u>\$ 1,929,459</u>

### Note 4 - Investments

Investments consisted of the following at June 30, 2014, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 6,768,416
Mutual funds - Fixed income	1,052,485
Corporate stock securities - Domestic	37,650,351
Corporate stock securities - International	9,898,060
Corporate bonds	4,633,251
U.S. government securities	4,339,294
Certificates of deposit (long term)	<u>597,533</u>
Subtotal	64,939,390
Real estate holding	55,000
Land	<u>612,334</u>
Total	<u>\$ 65,606,724</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, 2014 is as follows:

Dividend and interest income	\$ 1,034,204
Realized gains - Net	<u>4,506,787</u>
Net realized income	5,540,991
Net unrealized gain	<u>4,839,837</u>
Total investment gain	<u>\$ 10,380,828</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 14,878,827
Specific program use	10,788,197
Time-restricted - Annuity trust agreements	<u>310,920</u>
Total	<u>\$ 25,977,944</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 and endowments that support scholarships and academic programs and departments:	
Funds functioning as endowments for specific purposes	\$ 574,441
Funds not yet allocated	<u>376,540</u>
Total designated	950,981
Undesignated:	
Foundation operations	860,770
Permanently restricted endowment losses in excess of corpus	<u>(117,661)</u>
Total undesignated	<u>743,109</u>
Total unrestricted net assets	<u>\$ 1,694,090</u>

### 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 EMU, EMU pays to the Foundation an amount to be determined annually. For the year ended June 30, 2014, the amount paid to the Foundation was \$1,793,000.

As of June 30, 2014, the Foundation has contributions payable to EMU of approximately \$370,400 and management, general, and fundraising payables to EMU of approximately \$77,400 recorded in accounts payable. During the year ended June 30, 2014, the Foundation incurred approximately \$608,000 in management, general, and fundraising expenses payable to EMU.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### 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 2014, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2014 amounted to approximately \$62,600.

### 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, 2014 were as follows:

Accrual basis contribution revenue	\$ 5,360,736
Gifts in-kind made directly to EMU	899,689
Collections on deferred gifts in excess of current gift deferrals and amortization	(9,045)
Current year adjustment to split-interest agreements	59,082
Gifts deposited directly at EMU	<u>70,080</u>
Total fundraising collections	<u>\$ 6,380,542</u>

### Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 817,030
Other fundraising	<u>2,078,172</u>
Total	<u>\$ 2,895,202</u>

### Note 10 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note 10 - Fair Value Measurements (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2014 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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 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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby 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.

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 year ended June 30, 2014, there were no transfers between levels of the fair value hierarchy.

The following methodologies have been used to value the Foundations's investments:

Investments in government and corporate debt and equity securities are stated at current quoted market value.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note 10 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2014
Investments - Including investments held under split- interest agreements:				
Mutual funds - Equity	\$ 6,768,416	\$ -	\$ -	\$ 6,768,416
Mutual funds - Fixed-income	1,052,485	-	-	1,052,485
Corporate stock securities - Domestic	37,650,351	-	-	37,650,351
Corporate stock securities - International	9,898,060	-	-	9,898,060
Corporate bonds - Domestic	-	4,633,251	-	4,633,251
U.S. government securities	-	4,339,294	-	4,339,294
Certificates of deposit (long term)	597,533	-	-	597,533
Total	<u>\$ 55,966,845</u>	<u>\$ 8,972,545</u>	<u>\$ -</u>	<u>\$ 64,939,390</u>

The fair value of domestic corporate bonds and U.S. government securities at June 30, 2014 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments using contractual cash flows, benchmark yield and credit spreads, prepayment speeds, and collateral performance.

Land held for investment of \$612,334 is included in the consolidated balance sheet at a lower of cost or market (as determined by the 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-restricted and Board-designated 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, 2014

### Note II - Donor-restricted and Board-designated 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 purpose 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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (117,661)	\$ 23,831,813	\$ 42,130,202	\$ 65,844,354
Board-designated endowment funds	574,441	-	-	574,441
Total funds	<u>\$ 456,780</u>	<u>\$ 23,831,813</u>	<u>\$ 42,130,202</u>	<u>\$ 66,418,795</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

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

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - Beginning of year	\$ 4,377	\$ 16,360,876	\$ 40,975,326	\$ 57,340,579
Investment return - Net of depreciation (realized and unrealized)	442,403	9,777,406	-	10,219,809
Contributions and board transfers to endowment funds	10,000	413,585	1,154,876	1,578,461
Appropriation of endowment assets for expenditure	-	(2,720,054)	-	(2,720,054)
Endowment net assets - End of year	<u>\$ 456,780</u>	<u>\$ 23,831,813</u>	<u>\$ 42,130,202</u>	<u>\$ 66,418,795</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 \$117,661 as of June 30, 2014. 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, 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, 2014

### **Note 11 - Donor-restricted and Board-designated 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; the fiscal year 2013-2014 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2012. 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 2.5 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 the 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 \$1,837,631 at June 30, 2014.

### **Note 12 - Lease Commitments**

The Foundation is obligated under certain operating leases for office equipment. During fiscal year 2012, the Foundation entered into a 60-month equipment lease for a postage machine requiring quarterly payments of \$654 and entered into a 39-month equipment lease for a copy machine requiring monthly payments of \$759.



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2014

### Note 12 - Lease Commitments (Continued)

The future minimum lease payments are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2015	\$ 6,411
2016	2,616
2017	<u>1,962</u>
Total	<u>\$ 10,989</u>

Rent expense for 2014 was \$11,724.