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**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: 22
DATE:
November 15, 2005

**RECOMMENDATION**

**REPORT: The 2004-2005 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, 2005.

**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, 2005. 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 \$39,762,915. This represents an 11.1 percent increase above the June 30, 2004 market value, which was \$35,796,418. Contributions during 2004-2005 were \$5,122,112, of which \$4,823,436 represented cash gifts, an increase of 10.6 percent above fiscal 2003-2004 cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$2,042,582.

During this fiscal year, the endowment portfolio experienced an investment return of 11.4 percent. The total return since inception on September 30, 1992, of 9.9 percent surpasses the benchmark of 9.0 percent.

Current expendable gifts distributed to Eastern Michigan University for programs and scholarships totaled \$2,806,906 for the year ended June 30, 2005. Of that total, \$298,676 represented gifts of property, equipment and other support. In addition, funding from endowed scholarships and endowments totaled \$1,226,889, a 28.2 percent increase from the previous year.

**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**

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**Consolidated Financial Report**  
**June 30, 2005**

**Eastern Michigan University Foundation**

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**Contents**

<b>Report Letter</b>	<b>I</b>
<b>Consolidated Financial Statements</b>	
Balance Sheet	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5-12



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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 as of June 30, 2005 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 2004 financial statements and, in our report dated August 6, 2004, we expressed an unqualified opinion on those 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 2005 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2005 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.

August 12, 2005



A worldwide association of independent accounting firms

# Eastern Michigan University Foundation

## Consolidated Balance Sheet June 30, 2005 (with comparative totals for June 30, 2004)

	June 30, 2005	June 30, 2004
<b>Assets</b>		
Cash and cash equivalents	\$ 2,742,439	\$ 2,468,852
Accounts receivable	364,213	328,598
Inventory	26,514	29,179
Accrued interest and dividends	91,935	89,510
Contributions receivable (Note 2)	759,022	1,650,060
Other assets:		
Life insurance cash surrender value	232,968	223,238
Other assets	41,134	50,642
Property and equipment (Note 3)	2,235,144	2,379,711
Investments (Note 4)	37,519,576	33,800,729
Investments held under split-interest agreements (Note 4)	1,524,071	1,381,603
Total assets	<u>\$ 45,537,016</u>	<u>\$ 42,402,122</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 828,211	\$ 567,519
Accrued liabilities	117,916	100,037
Note payable (Note 5)	-	26,616
Mortgages payable (Note 5)	2,255,473	2,281,126
Liabilities under split-interest agreements	868,911	854,907
Total liabilities	4,070,511	3,830,205
<b>Net Assets</b>		
Unrestricted (Note 6)	1,930,851	1,375,083
Temporarily restricted (Note 6)	13,292,961	12,468,599
Permanently restricted	26,242,693	24,728,235
Total net assets	<u>41,466,505</u>	<u>38,571,917</u>
Total liabilities and net assets	<u>\$ 45,537,016</u>	<u>\$ 42,402,122</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2005 (with comparative totals for year ended June 30, 2004)

	Year Ended				
	June 30, 2005				June 30, 2004
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenue, Gains, and Other Support</b>					
Contributions	\$ 71,437	\$ 2,125,172	\$ 1,480,237	\$ 3,676,846	\$ 5,127,627
ECMC revenue	1,744,242	-	-	1,744,242	1,863,347
Administrative and management fee (Note 7)	1,719,482	-	-	1,719,482	1,850,000
Investment income (Note 4)	719,461	-	-	719,461	722,710
Net realized and unrealized gains and losses on investments (Note 4)	219,120	2,842,815	-	3,061,935	4,115,921
Other revenue	67,885	17,310	-	85,195	79,824
Net assets released from restrictions	3,812,605	(3,812,605)	-	-	-
Total revenue, gains, and other support	8,354,232	1,172,692	1,480,237	11,007,161	13,759,429
<b>Expenses</b>					
Contributions to EMU:					
Expendable contributions	2,446,767	-	-	2,446,767	2,343,076
Contributions from endowment income	1,226,889	-	-	1,226,889	956,354
Other	11,690	-	-	11,690	23,190
General and administrative - Foundation management	418,329	-	-	418,329	459,752
Fund-raising	2,299,243	-	-	2,299,243	2,340,505
ECMC expenses	1,726,773	-	-	1,726,773	1,848,017
Total expenses	8,129,691	-	-	8,129,691	7,970,894
<b>Increase in Net Assets - Before other changes in net assets</b>	224,541	1,172,692	1,480,237	2,877,470	5,788,535
<b>Other Changes in Net Assets</b>					
Funds transferred from EMU	-	7,646	34,221	41,867	26,015
Change in value of split-interest agreements	331,227	(355,976)	-	(24,749)	(90,355)
<b>Increase in Net Assets</b>	555,768	824,362	1,514,458	2,894,588	5,724,195
<b>Net Assets - Beginning of year</b>	1,375,083	12,468,599	24,728,235	38,571,917	32,847,722
<b>Net Assets - End of year</b>	<u>\$ 1,930,851</u>	<u>\$ 13,292,961</u>	<u>\$ 26,242,693</u>	<u>\$ 41,466,505</u>	<u>\$ 38,571,917</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Cash Flows Year Ended June 30, 2005 (with comparative totals for year ended June 30, 2004)

	Year Ended	
	June 30, 2005	June 30, 2004
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 2,894,588	\$ 5,724,195
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	168,932	201,708
Net realized and unrealized gains on investments	(3,061,935)	(4,115,921)
Loss on sale of assets	541	-
Change in value of split-interest agreements	24,749	90,355
Contributions restricted for long-term purposes	(1,480,237)	(2,405,220)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(35,615)	29,738
Inventory	2,665	(3,455)
Contributions receivable	891,038	(676,078)
Accrued interest and dividends	(2,425)	6,322
Other assets	9,508	(26,847)
Accounts payable	260,692	62,793
Accrued and other liabilities	17,879	(15,437)
Net cash used in operating activities	(309,620)	(1,127,847)
<b>Cash Flows from Investing Activities</b>		
Cash surrender value of life insurance	(9,730)	(33,536)
Purchases of equipment	(24,906)	(63,761)
Purchases of investments	(17,066,169)	(16,874,708)
Proceeds from sales and maturities of investments	16,266,789	16,560,361
Net cash used in investing activities	(834,016)	(411,644)
<b>Cash Flows from Financing Activities</b>		
Payments on mortgage and notes payable	(52,269)	(102,763)
Payments on split-interest agreements	(164,057)	(146,555)
Proceeds from new split-interest agreements	269,642	535,000
Proceeds from contributions restricted for long-term purposes	1,363,907	1,713,576
Net cash provided by financing activities	1,417,223	1,999,258
<b>Net Increase in Cash and Cash Equivalents</b>	273,587	459,767
<b>Cash and Cash Equivalents - Beginning of year</b>	2,468,852	2,009,085
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,742,439</u>	<u>\$ 2,468,852</u>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for</b>		
Interest	\$ 133,012	\$ 161,623
Income taxes	(8,639)	40,372

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### 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, 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 subsidiaries, ECMC and PREC. All significant intercompany transactions have been eliminated in consolidation.

**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.

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. Contributions payable to EMU as of June 30, 2005 were approximately \$735,000.

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



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

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

**Inventory** - Inventory is carried at the lower of cost or market, by use of the first-in, first-out (FIFO) method of valuation.

**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 \$342,275 for the year ended June 30, 2005.

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.

**Accounts Receivable** - Accounts receivable consists primarily of amounts due to ECMC for providing food and beverage and other management services and is presented net of an allowance for uncollectible accounts of \$14,562. The allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that the determination is made.

**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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

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

**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 or accelerated basis over the estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2005 amounted to \$168,932.

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from 6.2 percent to 12 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 4 percent to 11.9 percent.

**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. ECMC is subject to federal income taxes and accounts for them in accordance with SFAS No. 109, *Accounting for Income Taxes*. Total federal income tax expense on ECMC income for the year ended June 30, 2005 was \$12,560. Deferred taxes are immaterial.

**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.

**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.

**Summarized Comparative Information for the Year Ended June 30, 2004** - The financial information presented for comparative purposes for the year ended June 30, 2004 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 2004 financial statements, from which the summarized information was derived.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2005:

Gross contributions promised	\$ 1,240,511
Less allowance for uncollectibles	<u>(302,410)</u>
Subtotal	938,101
Less unamortized discount	<u>(179,079)</u>
Net unconditional promised to give	<u>\$ 759,022</u>
Amounts due in:	
Less than one year	\$ 770,597
One to five years	457,064
More than five years	<u>12,850</u>
Total	<u>\$ 1,240,511</u>

### Note 3 - Property and Equipment

The following is a summary of property and equipment at June 30, 2005:

Buildings	\$ 2,110,211
Equipment and software	1,711,210
Land improvements	<u>50,383</u>
Total cost	3,871,804
Less accumulated depreciation	<u>(1,636,660)</u>
Net carrying amount	<u>\$ 2,235,144</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### Note 4 - Investments

Investments consisted of the following at June 30, 2005, including investments held under split-interest agreements:

	Cost	Market Value
Corporate bonds	\$ 3,496,555	\$ 3,535,424
U.S. government securities	3,275,411	3,603,797
Corporate stock securities	25,064,946	30,614,105
Mutual funds	638,095	616,445
Venture capital partnership	81,365	23,876
Real estate holding	38,000	55,000
Total EMUF	32,594,372	38,448,647
ECMC - Land	595,000	595,000
Consolidated total	<u>\$ 33,189,372</u>	<u>\$ 39,043,647</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, 2005 is as follows:

Dividend and interest income	\$ 719,461
Realized gains - Net	<u>1,439,451</u>
Net realized income and losses	2,158,912
Net unrealized gain	<u>1,622,484</u>
Total investment income	<u>\$ 3,781,396</u>

### Note 5 - Mortgages and Notes Payable

Mortgages and note payable as of June 30, 2005 are as follows:

Mortgage note payable to unrelated third party, collateralized by real estate. Requires monthly interest-only payments, bearing interest at 5.25 percent, with the principal due in June 2009	\$ 2,031,499
Mortgage note payable from ECMC to unrelated third party, collateralized by real estate, payable in monthly installments of \$2,803 including interest at 6.25 percent, final balloon payment due in June 2009	<u>223,974</u>
Total mortgages payable	<u>\$ 2,255,473</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### Note 5 - Mortgages and Notes Payable (Continued)

The scheduled future principal payments of the mortgages and note payable are as follows:

Years Ending June 30	Amount
2006	\$ 20,214
2007	21,514
2008	22,898
2009	<u>2,190,847</u>
Total	<u>\$ 2,255,473</u>

Total mortgage and note interest expense for the year ended June 30, 2005 was approximately \$133,000.

### Note 6 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 7,175,966
Specific program use	5,461,835
Time-restricted - Annuity trust agreements	<u>655,160</u>
Total	<u>\$ 13,292,961</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	\$ 201,203
Funds not yet allocated	<u>134,038</u>
Total designated	335,241
Undesignated:	
Net equity of ECMC	974,314
Foundation operations	<u>621,296</u>
Total undesignated	<u>1,595,610</u>
Total unrestricted net assets	<u>\$ 1,930,851</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### Note 7 - Operating Agreements

Effective July 1, 2001, new operating agreements between EMU and the Foundation and between EMU and ECMC were entered into. These two separate operating agreements supercede the joint operating agreement between the Foundation, ECMC, and EMU dated November 1995.

Under the agreement between EMU and the Foundation, the Foundation continues to have 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 will pay to the Foundation an amount to be determined annually. For the year ended June 30, 2005, the amount paid to the Foundation was \$1,719,482.

Under the agreement between ECMC and EMU, ECMC continues to have the responsibility for the management of the Eagle Crest Golf Club (ECGC) and Eagle Crest Conference Center (ECCC). ECMC receives management fees from EMU for the services it provides under the agreement. The fees are composed of a fixed fee of \$28,900 (subject to future increases for changes in the Consumer Price Index) plus 30 percent of net income as defined in the agreement. Total management fee revenue recognized by ECMC during the year ended June 30, 2005 was \$69,878.

### 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 2005, the Foundation contributed 6 percent of the employees' base salaries.

ECMC sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. ECMC makes contributions to the 401(k) plan at 5 percent of the employees' base salaries.

Total contributions to the plans for the year ended June 30, 2005 amounted to \$96,112.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2005

### 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, 2005 were as follows:

Accrual basis contribution revenue	\$ 3,676,846
Gifts in-kind made directly to EMU	298,676
Collections on deferred gifts in excess of current gift deferrals and amortization	891,038
Gifts deposited directly at EMU	61,463
Loss on sale of stock gifts	778
Gifts written off from prior fiscal years	40,000
Current collections on split-interest agreements in excess of recorded revenue	<u>153,311</u>
Total fund-raising collections	<u>\$ 5,122,112</u>

### Note 10 - Fund-raising Expenses

Fund-raising expenses are comprised of the following:

Gifts and records	\$ 577,653
Other fund-raising	<u>1,721,590</u>
Total	<u>\$ 2,299,243</u>