

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 14
DATE: December 8, 2015

RECOMMENDATION

REPORT: The 2014-2015 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, 2015.

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, 2015. 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 \$67,641,503, which represents \$66,831,244 of endowment assets and \$810,259 of planned gift assets. This represents a 0.5 percent increase from the June 30, 2014 market value, which was \$67,308,025. Fundraising during 2014-2015 totaled \$4,911,868 of which \$4,280,302 represents cash gifts and \$631,566 represents gifts-in-kind.

During this fiscal year, the endowment portfolio experienced an investment return of 1.5 percent vs. the portfolio benchmark of 1.2 percent, which is comparable 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 8.3 percent continues to surpass the benchmark of 7.8 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$4,045,938 for the year ended June 30, 2015. Of that total, \$3,318,311 was transferred to EMU by the EMU Foundation; \$631,566 represents gifts of property and equipment that were received by EMU directly; and \$96,061 represents cash gifts that were received by EMU directly. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$1,570,703.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

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

University Executive Officer

Date

EMU Board of Regents Update

Advancement Division

December 8, 2015

FY15 Annual Update

- Present FY15 Consolidated Financial Report
- Report on FY15 Fundraising Results
- Report on FY15 Endowment Activity
- Report on FY15 Endowment Spending

FY15 Consolidated Financial Report

- Audit went very well; unqualified opinion on audited financial statements
- Total Assets = **\$70.3M**
- Total Liabilities = **\$0.9M**
- Total Net Assets = **\$69.4M**; decrease of **\$0.4M** from 6/30/14 balance

FY15 Financial Highlights

Total Fundraising

Reconciliation of Accrual Basis Fundraising to Total Reported Fundraising:

Accrual Basis Contribution Revenue (per EMUF Fin Stmt)	\$5,808,505
Reverse Change in Contributions Receivable Adjustment (Inc in Cont Rev)	(1,054,031)
Reverse New Split Interest Agreement Adjustment (Inc in Cont Rev)	61,333
Add Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	96,061
Add Pledges/Revocable Bequests Documented (not in EMUF Fin Stmt)	<u>3,516,176</u>
Total Fundraising	\$8,428,044
Cash Received	\$4,280,302
GIKs Received	631,566
Pledges/Revocable Bequests Documented	<u>3,516,176</u>
Total Fundraising	\$8,428,044
Total FY15 Fundraising Goal	\$13,500,000

FY15 Financial Highlights

Immediate Use Gifts & Endowment Funding

Expendable Contributions to EMU (per EMUF Fun Stmt)	\$3,318,311
Gifts-in-Kind Made Directly to EMU (per EMUF Fin Stmt)	631,566
Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	<u>96,061</u>
Total Immediate Use Gifts to EMU for Scholarships & Programs	\$4,045,938

Funding Provided to EMU from Endowed Scholarships & Endowments (per EMUF Fin Stmt)	<u>\$1,570,703</u>
---	---------------------------

Total Impact of Immediate Use and Endowment Spending (compared to \$5.5M in FY14)	\$5,616,641
--	--------------------

FY15 Summary of Endowment Activity

Market Value @ 6/30/14	\$ 66.3M
Gifts and Transfers	1.4M
Spending and Transfers (EMU)	(1.6M)
Spending and Transfers (EMUF)	(1.1M)
Investment Return	1.0M
Investment Fees	<u>(0.3M)</u>
Market Value @ 6/30/15	65.7M
Split Interest Agreements @ 6/30/15	<u>0.8M</u>
End and SI Agreement Value @ 6/30/15	\$ 66.5M

FY15 Summary of Endowment Activity

- EMUF FY15 investment return = **1.5%** vs benchmark return of **1.2%**. Consistent with returns for endowments in the \$51M - \$100M range
- Cumulative average return since inception in September 1992 = **8.3%** vs benchmark return of **7.8%**
- FY15 endowment spending (amount transferred to EMU + amount used by EMUF for operations) = **4.7%** of 6/30/14 3-year average endowment market value (\$57,000,000) vs goal in 5-year plan of **5.0%**, which is favorable

Advancement Division

Highlights and Initiatives

December 8, 2015

FY15 Organizational Highlights

- We successfully relocated to McKenny Hall in July 2015.
- On September 1st, we welcomed our new Director of Advancement Services, Victor Stanescu.
- On November 30th, we welcomed our new Advancement Communications Specialist, Kyah Dubai.
- Effective December 1st, Vince Cavataio was promoted to the COT Director of Development position.
- We look forward to filling vacant positions:
 - CAS Director of Development
 - Director of Annual Giving

FY15 Alumni Relations

- FY15 Highlights
 - More than 4,500 alumni and guests were engaged through regional, awards, athletic, and chapter affinity group events.
 - The number of seniors who chose to activate their alumni membership increased by 417% from FY14 (248) to FY15 (1,283).
 - Office of Alumni Relations joined the Advancement Division at the beginning of FY16.
- FY16 Initiatives
 - Increase volunteer opportunities for alumni to:
 - Interact with current students.
 - Contribute to the Ypsilanti community.
 - Identify, build, and strengthen campus partnerships.

FY15 Major Giving

- FY15 resulted in 137 gifts of \$5,000 or more.
 - 13% increase over FY14.
- FY15 resulted in more than \$6.2 million from gifts and pledges of \$5,000 or more.
 - 24% increase over FY14.
- Gift and pledge activity highlights:
 - COB anonymous gift to create a trading room and data analytics laboratory.
 - Continued support from the Berman Foundation provides tuition support for EMU seniors from Detroit Public Schools to complete their degrees.
 - COT gift of software from Engineering Technology Associates to be used in our applied engineering program.

FY15 Planned Giving

- FY15 resulted in total planned giving and pledges of more than \$2.5 million.
 - 48% increase over FY14.
- Gift and pledge activity highlights:
 - Completion of a \$100,000 charitable gift annuity.
 - More than \$500,000 in revenue from bequests, trust distributions, and IRA transfers.
 - More than \$1.9 million in documented bequests and pledges, bringing our bequest expectancies to more than \$14 million.

FY15 Annual Giving

- In FY15, \$2.2 million in gifts less than \$5,000.
- \$151,810.91 raised by **EMU students** in the Phonathon.
 - 26% increase over FY14.
- In FY15 we saw a 16% increase in gifts made through our website. In July 2014, we integrated with the university website and enhanced several features for an improved online user experience.
- In FY15, 22% of faculty and staff gave back to EMU.
- More than 220 donors gave back on Giving Tuesday.

Current Year Highlights for FY16

- We received our largest individual gift in EMU history, \$3.26M, from Bill and Dee Brehm to support their spectrum of initiatives at the University.
- We received a \$250,000 bequest from beloved former faculty member, Father Bernie O'Connor to support his endowed scholarship in political science.
- We received a \$361,000 grant from the Kresge Foundation to support the Hamilton Crossing project.
- We established Swoop's Student Food Pantry to address food security on campus.

Current Year Highlights for FY16

Strategies for FY16

- Comprehensive Campaign (all-inclusive) Feasibility Study RFP will be initiated in early January 2016.
- Continual focus on the development of our prospect and proposal “pipeline” in collaboration with our major campus partners.
- “Toolbox” strategy for engagement and communication.
 - Preparing our trustees and campus partners to assist in identifying and engaging potential donors (targeting \$5K - \$25K gifts).
 - Distributing materials to assist with this outreach strategy (prospect contact information, brochures, note cards, etc.).
- Streamline Office of Advancement events and activities.
 - Starting in January 2016, begin planning for FY17 collaborative fundraising and engagement activities.

Current Year Highlights for FY16

FACULTY STAFF CAMPAIGN CLOSES DECEMBER 2
THIS PAGE WILL BE UPDATED FOR THE 12/8 PRESENTATION

- _____ donors gave to EMU on Giving Tuesday.
 - ___% increase over FY15.
- _____ of faculty and staff gave in the FY16 Faculty & Staff Giving campaign.
 - ___% increase over FY15.
- **To date, we've raised more than \$5.3 million.**

Thank you for your continued support!

Questions?

Eastern Michigan University Foundation

Consolidated Financial Report
June 30, 2015

Eastern Michigan University Foundation

Contents

Report Letter	1-2
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	6-20

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, 2015 and 2014 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, 2015 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 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Plante & Moran, PLLC

September 21, 2015

Eastern Michigan University Foundation

Consolidated Balance Sheet June 30, 2015 (with comparative totals for June 30, 2014)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assets		
Cash and cash equivalents	\$ 223,323	\$ 2,499,275
Investments (Note 4)	65,552,180	64,717,494
Dividend and interest receivable	-	44,708
Contributions receivable (Note 2)	1,572,556	518,525
Other assets:		
Cash surrender value of life insurance	317,851	309,321
Accounts receivable	9,838	10,226
Property and equipment (Note 3)	1,837,662	1,929,459
Investments held under split-interest agreements (Note 4)	810,259	889,230
Total assets	<u>\$ 70,323,669</u>	<u>\$ 70,918,238</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 347,111	\$ 529,611
Split-interest obligations	523,591	578,310
Other liabilities	4,474	8,081
Total liabilities	<u>875,176</u>	<u>1,116,002</u>
Net Assets (Note 5)		
Unrestricted	1,807,542	1,694,090
Temporarily restricted	23,516,374	25,977,944
Permanently restricted	44,124,577	42,130,202
Total net assets	<u>69,448,493</u>	<u>69,802,236</u>
Total liabilities and net assets	<u>\$ 70,323,669</u>	<u>\$ 70,918,238</u>

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2015 (with comparative totals for year ended June 30, 2014)

	Year Ended June 30				
	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Contributions (Note 8)	\$ 293,012	\$ 3,521,118	\$ 1,994,375	\$ 5,808,505	\$ 5,360,736
Administrative and management fee (Note 6)	1,593,000	-	-	1,593,000	1,793,000
Investment income (Note 4)	109,674	497,050	-	606,724	1,034,204
Net realized and unrealized (loss) gains on investments (Note 4)	-	(33,366)	-	(33,366)	9,346,624
Miscellaneous income	43,306	27,892	-	71,198	83,018
Net assets released from restrictions	6,647,761	(6,647,761)	-	-	-
Total revenue, gains, and other support	8,686,753	(2,635,067)	1,994,375	8,046,061	17,617,582
Expenses					
Contributions to EMU:					
Expendable contributions	3,949,877	-	-	3,949,877	3,153,635
Contributions from endowment income	1,570,703	-	-	1,570,703	1,410,696
General and administrative - Foundation management	438,762	-	-	438,762	572,622
Fundraising (Note 9)	2,613,959	-	-	2,613,959	2,895,202
Total expenses	8,573,301	-	-	8,573,301	8,032,155
Increase (Decrease) in Net Assets - Before other changes in net assets	113,452	(2,635,067)	1,994,375	(527,240)	9,585,427
Funds Transferred from EMU	-	135,618	-	135,618	321,826
Change in Value of Split-interest Agreements	-	37,879	-	37,879	(51,944)
Increase (Decrease) in Net Assets	113,452	(2,461,570)	1,994,375	(353,743)	9,855,309
Net Assets - Beginning of year	1,694,090	25,977,944	42,130,202	69,802,236	59,946,927
Net Assets - End of year	\$ 1,807,542	\$ 23,516,374	\$ 44,124,577	\$ 69,448,493	\$ 69,802,236

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows Year Ended June 30, 2015 (with comparative totals for year ended June 30, 2014)

	Year Ended	
	June 30, 2015	June 30, 2014
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (353,743)	\$ 9,855,309
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	93,495	95,471
Net realized and unrealized loss (gain) on investments	33,366	(9,346,624)
Change in cash surrender value of life insurance	(8,530)	(14,421)
Change in value of split-interest agreements	(37,879)	51,944
Contributions restricted for long-term purposes	(1,994,375)	(1,154,876)
Changes in operating assets and liabilities which (used) provided cash:		
Contributions receivable	(1,054,031)	(9,045)
Dividend and interest receivable	44,708	1,942
Accounts receivable	388	541
Accounts payable	(182,500)	180,526
Other liabilities	(3,607)	3,607
Net cash used in operating activities	(3,462,708)	(335,626)
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,698)	(64,134)
Purchases of investments	(66,566,617)	(21,062,273)
Proceeds from sales and maturities of investments	65,777,536	21,799,691
Net cash (used in) provided by investing activities	(790,779)	673,284
Cash Flows from Financing Activities		
Payments on split-interest agreements	(78,173)	(70,276)
Proceeds from new split-interest agreements	61,333	59,082
Proceeds from contributions restricted for long-term purposes	1,994,375	1,154,876
Net cash provided by financing activities	1,977,535	1,143,682
Net (Decrease) Increase in Cash and Cash Equivalents	(2,275,952)	1,481,340
Cash and Cash Equivalents - Beginning of year	2,499,275	1,017,935
Cash and Cash Equivalents - End of year	\$ 223,323	\$ 2,499,275

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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, 2015.

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 mutual funds, corporate stocks, government securities, and CDs are carried at quoted fair market value whenever available. Fair value is determined based on the fair value measurement principles described in Note 10. The commingled funds and hedge funds, which are not readily marketable, are carried at estimated fair values. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The investments in the real estate holding and land are recorded at the lower of cost or fair value and are 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 \$358,693 for the year ended June 30, 2015.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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. The rates range from 0.11 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.

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, 2015 amounted to \$93,495.

Split-interest Agreements - The Foundation is a remainder beneficiary of several charitable annuities and unitrusts. Required distributions to other beneficiaries range from 4.9 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 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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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

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.

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, 2015, 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, 2012.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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

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.

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, 2014 - The consolidated financial information presented for comparative purposes for the year ended June 30, 2014 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 2014 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 21, 2015, which is the date the consolidated financial statements were available to be issued.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2015:

Gross contributions promised	\$ 2,052,556
Less allowance for uncollectibles	<u>(474,347)</u>
Subtotal	1,578,209
Less unamortized discount	<u>(5,653)</u>
Net unconditional promises to give	<u>\$ 1,572,556</u>
Amounts due in:	
Less than one year	\$ 1,386,596
One to five years	665,460
More than five years	<u>500</u>
Total	<u>\$ 2,052,556</u>

Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2015 is summarized as follows:

Buildings	\$ 2,307,423
Equipment and software	<u>1,111,148</u>
Total cost	3,418,571
Less accumulated depreciation	<u>(1,580,909)</u>
Net carrying amount	<u>\$ 1,837,662</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 4 - Investments

Investments consisted of the following at June 30, 2015, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 5,271,913
Mutual funds - Fixed income	3,289,418
Mutual funds - Real asset	5,901,150
Corporate stock securities	285,941
U.S. government securities	424,242
Certificates of deposit (long term)	600,896
Commingled funds - Equity	16,684,968
Commingled funds - Fixed income	10,095,587
Commingled funds - Balanced	13,691,201
Hedge funds	9,449,789
Subtotal	65,695,105
Real estate holding	55,000
Land	612,334
Total	<u>\$ 66,362,439</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, 2015 is as follows:

Dividend and interest income	\$ 606,724
Realized losses - Net	<u>(486,203)</u>
Net realized income	120,521
Net unrealized gain	<u>452,837</u>
Total investment gain	<u>\$ 573,358</u>

Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 13,397,357
Specific program use	9,832,349
Time-restricted - Annuity trust agreements	<u>286,668</u>
Total	<u>\$ 23,516,374</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 5 - Net Assets (Continued)

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	407,220
Total designated	<u>981,661</u>
Undesignated:	
Foundation operations	863,730
Permanently restricted endowment losses in excess of corpus	<u>(37,849)</u>
Total undesignated	<u>825,881</u>
Total unrestricted net assets	<u>\$ 1,807,542</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, 2015, the amount paid to the Foundation was \$1,593,000.

As of June 30, 2015, the Foundation has contributions payable to EMU of \$302,741 and management, general, and fundraising payables to EMU of \$39,787 recorded in accounts payable. During the year ended June 30, 2015, the Foundation incurred approximately \$514,480 in management, general, and fundraising expenses payable to EMU.

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 2015, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2015 amounted to approximately \$54,000.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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, 2015 were as follows:

Accrual basis contribution revenue	\$ 5,808,505
Current gift deferrals in excess of collections on deferred gifts and amortization	(1,054,031)
Current year adjustment to split-interest agreements	61,333
Gifts deposited directly at EMU	96,061
Total fundraising collections	<u>\$ 4,911,868</u>

Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 814,062
Other fundraising	1,799,897
Total	<u>\$ 2,613,959</u>

Note 10 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the 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.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2015 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 or liabilities that the Foundation has the ability to access.

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 10 - Fair Value Measurements (Continued)

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, 2015, there were no transfers between levels of the fair value hierarchy.

As of June 30, 2015, the Foundation early implemented Accounting Standards Update (ASU) 2015-07 issued by the Financial Accounting Standards Board (FASB) on *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 changes the required disclosures for investments valued at net asset value per share (NAV) as the practical expedient; as a result, investments measured at fair value using NAV as a practical expedient are not classified in the fair value hierarchy below.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

	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, 2015
Investments - Including investments held under split- interest agreements:				
Mutual funds - Equity	\$ 5,271,913	\$ -	\$ -	\$ 5,271,913
Mutual funds - Fixed income	3,289,418	-	-	3,289,418
Mutual funds - Real asset	5,901,150	-	-	5,901,150
Corporate stock securities	285,941	-	-	285,941
U.S. government securities	-	424,242	-	424,242
Certificates of deposit (long term)	600,896	-	-	600,896
Commingled funds - Equity measured at net asset value	-	-	-	16,684,968
Commingled funds - Fixed income measured at net asset value	-	-	-	10,095,587
Commingled funds - Balanced measured at net asset value	-	-	-	13,691,201
Hedge funds measured at net asset value	-	-	-	9,449,789
Total	<u>\$ 15,349,318</u>	<u>\$ 424,242</u>	<u>\$ -</u>	<u>\$ 65,695,105</u>

The fair value of U.S. government securities at June 30, 2015 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of U.S. government securities using contractual cash flows, benchmark yield and credit spreads, prepayment speeds, and collateral performance.

The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform fair value measurements. These processes include quarterly meetings with the Foundation's investment committee for calibration and review of investment monthly or quarterly fund manager statements and annual audited financial statements. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market. The Foundation utilizes a third-party investment manager to monitor, participate in fund manager calls, and obtain underlying financial information on the investments.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 10 - Fair Value Measurements (Continued)

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.

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

Investments Held at June 30, 2015

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds (a)	\$ 16,684,968	\$ -	Daily, Monthly	0-30 days
Fixed-income funds (b)	10,095,587	-	Daily	N/A
Balanced funds (c)	13,691,201	-	Weekly, Monthly	5-10 days
Hedge fund of funds (d)	9,449,789	-	Monthly, Quarterly	30-65 days
Opportunistic/Private equity (e)	-	4,000,000	N/A	N/A
Total	<u>\$ 49,921,545</u>	<u>\$ 4,000,000</u>		

- (a) Equity funds invest in publicly traded securities listed in domestic, international, and/or emerging markets. This segment of the portfolio is intended to provide global growth exposure. Investments are diversified across market capitalization and geographic region.
- (b) Fixed-income funds invest in debt instruments of sovereign and/or corporate issuers. This segment of the portfolio is primarily focused on income generation. Investments are diversified across credit quality, market sector, and geographic region.
- (c) Balanced funds have the ability to invest in equity, fixed income, and real assets. The balanced segment is primarily focused on diversification and volatility mitigation via liquid tactical strategies providing exposure which may otherwise be difficult for the portfolio to obtain. The strategies are focused on providing an attractive absolute return at a reasonable level of risk.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

Note 10 - Fair Value Measurements (Continued)

- (d) Hedge fund of funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies are typically diversified by manager and investment style and may include allocations to styles such as relative value, event-driven, hedged equity, and global macro, among others. Fund of hedge funds typically target an absolute return that is independent of market returns. Investments in this asset class are meant to provide a diversified alpha source. Holdings in hedge funds are recognized to be less liquid than public market securities and may include a lockup for initial investments. Risk in this asset class is specific to the strategy being utilized. The volatility of hedge funds of funds typically is similar to that of fixed income.
- (e) Opportunistic/Private equity - Private equity is an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is primarily focused on providing global growth exposure. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multi-year investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.

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.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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

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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (37,849)	\$ 22,170,077	\$ 44,124,575	\$ 66,256,803
Board-designated endowment funds	574,441	-	-	574,441
Total funds	<u>\$ 536,592</u>	<u>\$ 22,170,077</u>	<u>\$ 44,124,575</u>	<u>\$ 66,831,244</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ 456,780	\$ 23,831,813	\$ 42,130,202	\$ 66,418,795
Investment return - Net of depreciation (realized and unrealized)	79,812	565,731	-	645,543
Contributions and board transfers to endowment funds	-	477,470	1,994,373	2,471,843
Appropriation of endowment assets for expenditure	-	(2,704,937)	-	(2,704,937)
Endowment net assets - End of year	<u>\$ 536,592</u>	<u>\$ 22,170,077</u>	<u>\$ 44,124,575</u>	<u>\$ 66,831,244</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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

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 \$37,849 as of June 30, 2015. 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 satisfy the spending policy and allow for additional growth in the portfolio at least equal to the rate of inflation net of investment management fees, in order to maintain the portfolio's purchasing power. The asset allocation approach is to diversify portfolio exposures to balance risks across markets and strategies. The target policy of the Foundation is 10 percent domestic all cap equities, 4 percent international equities, 4 percent emerging international equities, 12 percent global equity, 10 percent core fixed income, 5 percent absolute return fixed income, 5 percent emerging market debt, 15 percent global asset allocation/risk parity, 15 percent hedge funds, 10 percent real assets, and 10 percent opportunistic/private equity. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6.2 percent annually. Actual returns in any given year may vary.

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 endowment funds are well diversified and include investments in cash and cash equivalents, equity, fixed income, multi-asset, and alternative asset classes. The asset allocation policy adopted by the Foundation's board of trustees defines the investment goals and objectives as well as asset class targets and ranges. The diversification of investment assets is designed to control risk and dampen the variability of endowment returns from year to year.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2015

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 3 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 2014-2015 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2013. 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 2.0 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 6.2 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 funds or the release of temporarily restricted funds is \$1,788,829 at June 30, 2015.

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.

The future minimum lease payments are as follows:

Years Ending June 30	Amount
2016	\$ 2,616
2017	1,962
Total	<u>\$ 4,578</u>

Rent expense for 2015 was \$9,670.