

Eastern Michigan University Foundation

Consolidated Financial Report
June 30, 2008

Eastern Michigan University Foundation

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Independent Auditor's Report

To the Board of Trustees
Eastern Michigan University Foundation

We have audited the accompanying consolidated balance sheet of Eastern Michigan University Foundation (the "Foundation") as of June 30, 2008 and the related consolidated 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 2007 financial statements and, in our report dated August 29, 2007, 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 2008 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2008 and the consolidated changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

September 16, 2008

Eastern Michigan University Foundation

Consolidated Balance Sheet June 30, 2008 (with comparative totals for June 30, 2007)

	June 30, 2008	June 30, 2007
Assets		
Cash and cash equivalents	\$ 5,741,253	\$ 4,171,364
Investments (Note 4)	44,035,003	47,087,591
Receivables - Net	515,010	335,480
Inventory	22,797	26,809
Loans and advances to affiliates (Note 7)	230,000	170,000
Dividend and interest receivable	146,993	140,749
Contributions receivable (Note 2)	928,047	713,523
Other assets:		
Cash surrender value of life insurance	250,649	252,120
Other assets	60,929	142,581
Property and equipment - Net (Note 3)	2,045,742	2,129,110
Investments held under split-interest agreements (Note 4)	1,372,829	1,623,592
Total assets	\$ 55,349,252	\$ 56,792,919
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 638,071	\$ 733,602
Mortgages payable (Note 5)	2,190,902	2,213,728
Split-interest obligations	791,990	827,284
Other liabilities	166,322	220,560
Total liabilities	3,787,285	3,995,174
Net Assets (Note 6)		
Unrestricted	2,039,754	2,203,150
Temporarily restricted	18,701,939	21,642,258
Permanently restricted	30,820,274	28,952,337
Total net assets	51,561,967	52,797,745
Total liabilities and net assets	\$ 55,349,252	\$ 56,792,919

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2008

(with comparative totals for year ended June 30, 2007)

	Year Ended				
	June 30, 2008				June 30, 2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Contributions	\$ 289,722	\$ 4,965,692	\$ 1,867,937	\$ 7,123,351	\$ 4,108,379
ECMC revenue	1,700,611	-	-	1,700,611	1,599,869
Administrative and management fee (Note 7)	1,832,138	-	-	1,832,138	1,837,425
Investment income (Note 4)	1,046,353	116,465	-	1,162,818	1,082,237
Net realized and unrealized gains and losses on investments (Note 4)	-	(4,680,481)	-	(4,680,481)	5,389,667
Miscellaneous income	60,890	40,319	-	101,209	69,729
Net assets released from restrictions	3,404,033	(3,404,033)	-	-	-
Total revenue, gains, and other support	8,333,747	(2,962,038)	1,867,937	7,239,646	14,087,306
Expenses					
Contributions to EMU:					
Expendable contributions	2,387,194	-	-	2,387,194	2,529,048
Contributions from endowment income	1,053,923	-	-	1,053,923	913,775
Other	8,498	-	-	8,498	3,960
General and administrative - Foundation management	472,208	-	-	472,208	452,533
Fund-raising	2,874,782	-	-	2,874,782	2,890,976
ECMC expenses	1,700,538	-	-	1,700,538	1,535,468
Total expenses	8,497,143	-	-	8,497,143	8,325,760
Increase (Decrease) in Net Assets - Before other changes in net assets	(163,396)	(2,962,038)	1,867,937	(1,257,497)	5,761,546
Funds Transferred from EMU	-	117,817	-	117,817	58,595
Change in Value of Split-interest Agreements	-	(96,098)	-	(96,098)	(134,574)
Increase (Decrease) in Net Assets	(163,396)	(2,940,319)	1,867,937	(1,235,778)	5,685,567
Net Assets - Beginning of year	2,203,150	21,642,258	28,952,337	52,797,745	47,112,178
Net Assets - End of year	\$ 2,039,754	\$ 18,701,939	\$ 30,820,274	\$ 51,561,967	\$ 52,797,745

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows Year Ended June 30, 2008 (with comparative totals for year ended June 30, 2007)

	Year Ended	
	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (1,235,778)	\$ 5,685,567
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	117,813	119,923
Loss on sale of property and equipment	4,022	-
Net realized and unrealized loss (gain) on investments	4,680,481	(5,389,667)
Change in cash surrender value of life insurance	1,471	(25,772)
Change in value of split-interest agreements	96,098	134,574
Contributions restricted for long-term purposes	(1,867,937)	(1,718,611)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(179,530)	271,074
Inventory	4,012	534
Contributions receivable	(214,524)	(452,086)
Accrued interest and dividends	(6,244)	(17,238)
Other assets	81,652	(64,037)
Accounts payable	(95,531)	433,012
Accrued liabilities and other	(54,238)	11,026
Net cash provided by (used in) operating activities	1,331,767	(1,011,701)
Cash Flows from Investing Activities		
Proceeds from life insurance policy	-	28,243
Purchases of property and equipment	(45,467)	(78,468)
Proceeds from disposition of property and equipment	7,000	-
Purchases of investments	(23,446,255)	(13,523,075)
Proceeds from sales and maturities of investments	22,069,124	13,877,256
Advances to related parties	(60,000)	(170,000)
Net cash (used in) provided by investing activities	(1,475,598)	133,956
Cash Flows from Financing Activities		
Payments on mortgage and notes payable	(22,826)	(21,525)
Payments on split-interest agreements	(153,495)	(155,394)
Proceeds from new split-interest agreements	42,500	70,000
Proceeds from contributions restricted for long-term purposes	1,847,541	1,689,355
Net cash provided by financing activities	1,713,720	1,582,436
Net Increase in Cash and Cash Equivalents	1,569,889	704,691
Cash and Cash Equivalents - Beginning of year	4,171,364	3,466,673
Cash and Cash Equivalents - End of year	\$ 5,741,253	\$ 4,171,364
Supplemental Disclosure of Cash Flow Information - Cash paid (received) for		
Interest	\$ 117,760	\$ 118,769
Income taxes	(7,464)	77,000

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

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. 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.

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

Investments - Investments in government and corporate debt and equity securities are stated at current quoted market value. Investments in partnerships, for which a quoted market value is not available, are stated at fair value as determined by the general partner. The real estate holding is recorded at its appraised value. Investments in land are reported at cost, which approximates market. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using the average cost method. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets, net of related expenses. These expenses amounted to \$468,477 for the year ended June 30, 2008.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

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

Accounts Receivable - Accounts receivable consist primarily of amounts due to ECMC for providing food, beverage, and other management services and is presented net of an allowance for uncollectible accounts of \$1,489. 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.

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

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

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

Property and Equipment - Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. Depreciation expense for the year ended June 30, 2008 amounted to \$117,813.

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

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

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 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.

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

Tax Status - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. PREC is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code. 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 recovery on ECMC income for the year ended June 30, 2008 was \$7,464. Deferred taxes are immaterial.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

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

Summarized Comparative Information for the Year Ended June 30, 2007 - The financial information presented for comparative purposes for the year ended June 30, 2007 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 2007 financial statements, from which the summarized information was derived.

New Accounting Pronouncement - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the fiscal year beginning after November 15, 2007. The Foundation is currently evaluating the impact, if any, of the provisions of SFAS 157 on the financial statements.

Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2008:

Gross contributions promised	\$ 2,060,508
Less allowance for uncollectibles	<u>(995,502)</u>
Subtotal	1,065,006
Less unamortized discount	<u>(136,959)</u>
Net unconditional promises to give	<u>\$ 928,047</u>
Amounts due in:	
Less than one year	\$ 964,295
One to five years	1,080,713
More than five years	<u>15,500</u>
Total	<u>\$ 2,060,508</u>

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Notes to Consolidated Financial Statements June 30, 2008

Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2008 is summarized as follows:

Buildings	\$ 2,129,601
Equipment and software	1,877,912
Land improvements	<u>50,383</u>
Total cost	4,057,896
Less accumulated depreciation	<u>(2,012,154)</u>
Net carrying amount	<u>\$ 2,045,742</u>

Note 4 - Investments

Investments at market value consisted of the following at June 30, 2008, including investments held under split-interest agreements:

Mutual funds	\$ 1,951,652
Corporate stock securities	33,082,538
Corporate bonds	4,817,229
U.S. government securities	4,892,285
Venture capital partnership	14,128
Real estate holding	<u>55,000</u>
Total EMUF	44,812,832
ECMC land	<u>595,000</u>
Consolidated total	<u>\$ 45,407,832</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, 2008 is as follows:

Dividend and interest income	\$ 1,162,818
Realized gains - Net	<u>2,002,246</u>
Net realized income and losses	3,165,064
Net unrealized loss	<u>(6,682,727)</u>
Total investment loss	<u>\$ (3,517,663)</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

Note 5 - Mortgages Payable

Mortgages payable as of June 30, 2008 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 July 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 159,403

Total mortgages payable \$ 2,190,902

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

<u>Years Ending June 30</u>	<u>Amount</u>
2009	\$ 159,403
2010	<u>2,031,499</u>
Total	<u>\$ 2,190,902</u>

Total mortgage and note interest expense for the year ended June 30, 2008 was approximately \$118,000.

Note 6 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:

Scholarships	\$ 9,051,647
Specific program use	9,069,453
Time-restricted - Annuity trust agreements	<u>580,839</u>
Total	<u>\$ 18,701,939</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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

Note 6 - Net Assets (Continued)

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	\$ 298,128
Funds not yet allocated	194,070
Total designated	492,198

Undesignated:

Net of equity of ECMC	1,179,025
Foundation operations	368,531

Total undesignated	1,547,556
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Total unrestricted net assets	\$ 2,039,754
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Note 7 - Related Party Transactions

Effective July 1, 2006, new operating agreements were entered into between EMU and the Foundation, and EMU and ECMC. These two separate operating agreements supercede similar agreements entered into in July 2001 and 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 pays to the Foundation an amount to be determined annually. For the year ended June 30, 2008, the amount paid to the Foundation was \$1,832,138.

As of June 30, 2008, the Foundation has contributions payable to EMU of approximately \$432,000 and management, general, and fund-raising payables to EMU of approximately \$19,500 recorded in accounts payable. During the year ended June 30, 2008, the Foundation paid EMU approximately \$519,000 in management, general, and fund-raising expenses.

Under the agreement between ECMC and EMU, ECMC continues to have the responsibility for the management of 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, 2008 was \$67,997.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

Note 7 - Related Party Transactions (Continued)

During the year ended June 30, 2008, ECMC advanced funds to ECGC totaling \$60,000. As of June 30, 2008, the total outstanding advances are \$230,000. These advances are noninterest-bearing.

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 2008, 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, 2008 amounted to approximately \$93,000.

Note 9 - Fund-raising Collections

Fund-raising efforts of the Foundation result in both currently collectible gifts and pledged gifts for the benefit of EMU that are recorded as revenue in the Foundation's financial statements but are collectible over a period of years. The Foundation's fund-raising efforts also result in current gifts made directly to EMU that are not reported as contributions by the Foundation. Total fund-raising collections for the year ended June 30, 2008 were as follows:

Accrual basis contribution revenue	\$ 7,123,351
Gifts in-kind made directly to EMU	769,825
Collections on deferred gifts in excess of current gift deferrals and amortization	(214,524)
Gifts deposited directly at EMU	203,061
Current collections on split-interest agreements in excess of recorded revenue	<u>22,104</u>
Total fund-raising collections	<u>\$ 7,903,817</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2008

Note 10 - Fund-raising Expenses

Fund-raising expenses are comprised of the following:

Gifts and records	\$ 722,531
Other fund-raising	<u>2,152,251</u>
Total	<u>\$ 2,874,782</u>