

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: 24

DATE:

February 19, 2013

**RECOMMENDATION**

**REPORT: The 2011-2012 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, 2012.

**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, 2012. The annual financial audit of the Foundation and its subsidiary was performed by Plante & Moran, PLLC, and they have provided an unqualified financial opinion.

Total endowment assets reported at year-end were \$51,413,003. This represents a 6.7 percent increase from the June 30, 2011 market value, which was \$48,205,918. Contributions during 2011-2012 were \$11,486,273, of which \$10,369,482 represented cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$6,094,024.

During this fiscal year, the endowment portfolio experienced a gross investment return of negative 0.4 percent vs. the portfolio benchmark of 1.2 percent, which in spite of being a negative return, compares favorably to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average annual return since inception on September 30, 1992, of 7.8 percent continues to surpass the benchmark of 7.2 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$4,627,845 for the year ended June 30, 2012. Of that total, \$3,025,963 was transferred to EMU by the EMU Foundation; \$1,116,791 represents gifts of property and equipment that were received by EMU directly; and \$485,091 represents cash gifts that were received by EMU directly. In addition, funding received from endowed scholarships and endowments totaled \$1,456,024.

**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, 2012**

# 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, 2012 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 2011 consolidated financial statements and, in our report dated September 29, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2012 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.

September 17, 2012

# Eastern Michigan University Foundation

## Consolidated Balance Sheet June 30, 2012 (with comparative totals for June 30, 2011)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,188,573	\$ 2,147,902
Investments (Note 4)	48,874,561	45,242,754
Dividend and interest receivable	49,932	46,020
Contributions receivable (Note 2)	907,081	3,506,263
Other assets:		
Cash surrender value of life insurance	283,070	276,780
Accounts receivable	9,013	15,489
Property and equipment - Net (Note 3)	1,951,001	2,020,223
Investments held under split-interest agreements (Note 4)	850,956	1,105,190
	<u>\$ 55,114,187</u>	<u>\$ 54,360,621</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 588,088	\$ 799,886
Split-interest obligations	557,825	794,927
Other liabilities	9,106	8,926
	<u>1,155,019</u>	<u>1,603,739</u>
Total liabilities		
<b>Net Assets (Note 5)</b>		
Unrestricted	299,010	999,309
Temporarily restricted	14,353,588	16,318,848
Permanently restricted	39,306,570	35,438,725
	<u>53,959,168</u>	<u>52,756,882</u>
Total net assets		
Total liabilities and net assets	<u>\$ 55,114,187</u>	<u>\$ 54,360,621</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

	Year Ended June 30				2011 Total
	2012			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue, Gains, and Other Support</b>					
Contributions	\$ 281,603	\$ 3,065,986	\$ 3,867,845	\$ 7,215,434	\$ 6,876,117
Administrative and management fee (Note 6)	1,903,000	-	-	1,903,000	1,175,000
Investment income (Note 4)	779,139	-	-	779,139	750,687
Net realized and unrealized (losses) gains on investments (Note 4)	(1,478,701)	444,563	-	(1,034,138)	8,533,396
Miscellaneous income	49,372	29,365	-	78,737	86,394
Net assets released from restrictions	5,846,506	(5,846,506)	-	-	-
<b>Total revenue, gains, and other support</b>	<b>7,380,919</b>	<b>(2,306,592)</b>	<b>3,867,845</b>	<b>8,942,172</b>	<b>17,421,594</b>
<b>Expenses</b>					
Contributions to EMU:					
Expendable contributions	3,025,963	-	-	3,025,963	3,179,090
Contributions from endowment income	1,456,024	-	-	1,456,024	1,383,425
General and administrative - Foundation management	564,592	-	-	564,592	559,552
Fundraising (Note 9)	3,034,639	-	-	3,034,639	3,056,136
<b>Total expenses</b>	<b>8,081,218</b>	<b>-</b>	<b>-</b>	<b>8,081,218</b>	<b>8,178,203</b>
<b>(Decrease) Increase in Net Assets - Before other changes in net assets</b>	<b>(700,299)</b>	<b>(2,306,592)</b>	<b>3,867,845</b>	<b>860,954</b>	<b>9,243,391</b>
<b>Funds Transferred from EMU</b>	<b>-</b>	<b>126,150</b>	<b>-</b>	<b>126,150</b>	<b>2,659</b>
<b>Change in Value of Split-interest Agreements</b>	<b>-</b>	<b>215,182</b>	<b>-</b>	<b>215,182</b>	<b>(141,109)</b>
<b>(Decrease) Increase in Net Assets</b>	<b>(700,299)</b>	<b>(1,965,260)</b>	<b>3,867,845</b>	<b>1,202,286</b>	<b>9,104,941</b>
<b>Net Assets - Beginning of year</b>	<b>999,309</b>	<b>16,318,848</b>	<b>35,438,725</b>	<b>52,756,882</b>	<b>43,651,941</b>
<b>Net Assets - End of year</b>	<b>\$ 299,010</b>	<b>\$ 14,353,588</b>	<b>\$ 39,306,570</b>	<b>\$ 53,959,168</b>	<b>\$ 52,756,882</b>

# Eastern Michigan University Foundation

## Consolidated Statement of Cash Flows Year Ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

	Year Ended	
	June 30, 2012	June 30, 2011
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,202,286	\$ 9,104,941
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	110,276	110,811
Net realized and unrealized loss (gain) on investments	1,034,138	(8,533,396)
Change in cash surrender value of life insurance	(6,290)	(6,784)
Change in value of split-interest agreements	(215,182)	141,109
Contributions restricted for long-term purposes	(3,867,845)	(3,046,543)
Contribution received - Land held for investment	-	(31,000)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	2,599,182	(2,502,043)
Dividend and interest receivable	(3,912)	12,623
Accounts receivable	6,476	84,962
Accounts payable	(211,798)	(54,625)
Other liabilities	180	291
	647,511	(4,719,654)
Net cash provided by (used in) operating activities		
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(41,054)	(153,817)
Purchases of investments	(24,066,592)	(16,894,638)
Proceeds from sales and maturities of investments	19,654,881	16,795,515
	(4,452,765)	(252,940)
Net cash used in investing activities		
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(91,695)	(162,025)
Proceeds from new split-interest agreements	69,775	32,161
Proceeds from contributions restricted for long-term purposes	3,867,845	3,046,543
	3,845,925	2,916,679
Net cash provided by financing activities		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	40,671	(2,055,915)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,147,902	4,203,817
<b>Cash and Cash Equivalents - End of year</b>	\$ 2,188,573	\$ 2,147,902
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	\$ 113,075	\$ 115,382

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

### 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. For the year ended June 30, 2012, PREC sold contributed land received during the year ended June 30, 2011. No intercompany transactions requiring elimination during consolidation occurred during the year ended June 30, 2012.

**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. The investments in the real estate holding and land are recorded at the lower of cost or fair value. The cost of real estate holding was determined by appraisal when real estate was originally contributed to the Foundation in a prior year. 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 \$405,760 for the year ended June 30, 2012.

The investment of land held by PREC was recorded at a value determined by an appraisal obtained during the year ended June 30, 2011. During the year ended June 30, 2012, the land was sold, with PREC recognizing an approximate \$16,000 loss.

**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 0.19 percent to 5.50 percent. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

**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, 2012

### 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 basis over the estimated useful lives of the assets ranging from 3 to 39 years. Depreciation expense for the year ended June 30, 2012 amounted to \$110,276.

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuities and unitrusts. Required distributions to other beneficiaries range from 5.2 percent to 11.9 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 1.6 percent to 8.2 percent.

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

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as temporarily restricted until expended unless the donor or applicable law specifies them as permanently restricted.

**Contributions** - Contributions to the Foundation of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of June 30, 2012, 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, 2009.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk Arising from Deposit Accounts** - The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

**Summarized Comparative Information for the Year Ended June 30, 2011** - The consolidated financial information presented for comparative purposes for the year ended June 30, 2011 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 2011 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

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

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including September 17, 2012, which is the date the consolidated financial statements were available to be issued.

### Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2012:

Gross contributions promised	\$ 1,655,121
Less allowance for uncollectibles	<u>(740,365)</u>
Subtotal	914,756
Less unamortized discount	<u>(7,675)</u>
Net unconditional promises to give	<u>\$ 907,081</u>
Amounts due in:	
Less than one year	\$ 1,266,978
One to five years	333,143
More than five years	<u>55,000</u>
Total	<u>\$ 1,655,121</u>

### Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2012 is summarized as follows:

Buildings	\$ 2,209,093
Equipment and software	<u>1,146,335</u>
Total cost	3,355,428
Less accumulated depreciation	<u>(1,404,427)</u>
Net carrying amount	<u>\$ 1,951,001</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

### Note 4 - Investments

Investments consisted of the following at June 30, 2012, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 5,197,452
Mutual funds - Fixed income	1,071,187
Corporate stock securities - Domestic	26,733,293
Corporate stock securities - International	6,828,622
Corporate bonds	3,920,207
U.S. government securities	4,704,404
Certificates of deposit (long term)	<u>603,018</u>
Subtotal	49,058,183
Real estate holding	55,000
Land	<u>612,334</u>
Total	<u>\$ 49,725,517</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, 2012 is as follows:

Dividend and interest income	\$ 779,139
Realized gains - Net	<u>1,004,127</u>
Net realized income	1,783,266
Net unrealized loss	<u>(2,038,265)</u>
Total investment loss	<u>\$ (254,999)</u>

### Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 7,881,932
Specific program use	6,178,525
Time-restricted - Annuity trust agreements	<u>293,131</u>
Total	<u>\$ 14,353,588</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, 2012

### Note 5 - 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	\$ 563,541
Funds not yet allocated	263,090
Total designated	<u>826,631</u>

Undesignated:

Foundation operations	852,850
Permanently restricted endowment losses in excess of corpus	<u>(1,380,471)</u>
Total undesignated	<u>(527,621)</u>

Total unrestricted net assets	<u>\$ 299,010</u>
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### Note 6 - Related Party Transactions

Under operating agreements with EMU, the Foundation has the responsibility to manage and invest endowment and other contributed assets held for the benefit of EMU and manage development and fundraising programs for the benefit of EMU, including management of gift records and receipts.

In order to support fundraising activities on behalf of EMU, EMU pays to the Foundation an amount to be determined annually. For the year ended June 30, 2012, the amount paid to the Foundation was \$1,903,000.

As of June 30, 2012, the Foundation has contributions payable to EMU of approximately \$523,500 and management, general, and fundraising payables to EMU of approximately \$36,000 recorded in accounts payable. During the year ended June 30, 2012, the Foundation paid EMU approximately \$546,500 in management, general, and fundraising expenses.

### 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 2012, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2012 amounted to approximately \$64,000.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

### 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, 2012 were as follows:

Accrual basis contribution revenue	\$ 7,215,434
Gifts in-kind made directly to EMU	1,116,791
Collections on deferred gifts in excess of current gift deferrals and amortization	2,599,182
Current year adjustment to split-interest agreements	69,775
Gifts deposited directly at EMU	485,091
	<u>                    </u>
Total fundraising collections	<u>\$ 11,486,273</u>

### Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 726,594
Other fundraising	2,308,045
	<u>                    </u>
Total	<u>\$ 3,034,639</u>

### Note 10 - Fair Value

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2012 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

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

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

### Note 10 - Fair Value (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2012 and 2011, there were no transfers between levels of the fair value hierarchy.

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

#### Fair Value Measurements at June 30, 2012

	Balance at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments - Including investments held under split- interest agreements:				
Mutual funds - Equity	\$ 5,197,452	\$ 5,197,452	\$ -	\$ -
Mutual funds - Fixed income	1,071,187	1,071,187	-	-
Corporate stock securities - Domestic	26,733,293	26,733,293	-	-
Corporate stock securities - International	6,828,622	6,828,622	-	-
Corporate bonds - Domestic	3,920,207	-	3,920,207	-
U.S. government securities	4,704,404	-	4,704,404	-
Certificates of deposit (long term)	603,018	603,018	-	-
Total	<u>\$ 49,058,183</u>	<u>\$ 40,433,572</u>	<u>\$ 8,624,611</u>	<u>\$ -</u>

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

	Venture Capital Partnership
Balance - June 30, 2011	\$ 9,107
Return of capital	(7,525)
Net realized loss	(1,582)
Balance - June 30, 2012	<u>\$ -</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

### Note 10 - Fair Value (Continued)

The Foundation estimates the fair value of the venture capital partnership investment based on statements and as disclosed by the general partner. The venture capital partnership was dissolved during the year ended June 30, 2012. The realized loss of \$1,582 on Level 3 investments was recognized as a decrease in net assets in the consolidated statement of activities and changes in net assets.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the realized losses for these assets presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Land held for investment of \$612,334 is included in the consolidated balance sheet at a lower of cost or market (as determined by appraisal). Real estate held for investment of \$55,000 is also included at lower of cost or market (as estimated by management). These investments are, therefore, not included in the fair value measurements above.

### Note 11 - Donor- and Board-restricted Endowments

The Foundation's endowment includes donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The board of trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

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

- (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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (1,380,471)	\$ 12,266,943	\$ 39,306,570	\$ 50,193,042
Board-designated endowment funds	563,541	-	-	563,541
Total funds	<u>\$ (816,930)</u>	<u>\$ 12,266,943</u>	<u>\$ 39,306,570</u>	<u>\$ 50,756,583</u>

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ (99,842)	\$ 14,103,378	\$ 35,438,725	\$ 49,442,261
Investment return - Net of depreciation (realized and unrealized)	(717,088)	507,391	-	(209,697)
Contributions and board transfers to endowment funds	-	480,948	3,867,845	4,348,793
Appropriation of endowment assets for expenditure	-	(2,824,774)	-	(2,824,774)
Endowment net assets - End of year	<u>\$ (816,930)</u>	<u>\$ 12,266,943</u>	<u>\$ 39,306,570</u>	<u>\$ 50,756,583</u>

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,380,471 as of June 30, 2012. 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

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

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Foundation's target policy indices while assuming a moderate level of investment risk. The target policy of the Foundation is: 40 percent S&P 500, 15 percent MSCI EAFE, 15 percent Russell 2000, 10 percent DJ Global Moderate Portfolio, 15 percent Barclays Aggregate Bond, and 5 percent U.S. Treasury Bill - three month. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 percent annually. Actual returns in any given year may vary.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4 percent of an eligible endowment fund's average market value over the prior 12 quarters through the second fiscal year end preceding the fiscal year in which the distribution is planned; the fiscal year 2011-2012 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2010. In establishing this policy, the Foundation considered the long-term expected return on its endowment. In addition to this specific appropriation, the Foundation also distributes up to 3.25 percent of an endowment fund's 12-quarter average market value to the Foundation's operating budget as a source of revenue for the Foundation's operating expenses. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 8.5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2012

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

#### Mortgage Payable to Endowment Fund

In October 2009, the Foundation utilized temporarily restricted earnings on endowment assets to settle a mortgage due to an unrelated party. The total mortgage paid with endowment funds was \$2,031,499. A 25-year note payable was established to reimburse the endowment fund with monthly principal and interest payments of \$12,842. The amount due to the endowment fund from unrestricted or the release of temporarily restricted funds is \$1,927,159 at June 30, 2012.

### Note 12 - Lease Commitments

The Foundation is obligated under certain operating leases for office equipment. During fiscal year 2007, the Foundation entered into a 60-month equipment lease for a postage machine requiring quarterly payments of \$195, and in fiscal year 2009 entered into a 36-month equipment lease for a copy machine requiring monthly payments of \$824.

During the year ended June 30, 2012, the Foundation entered into a 60-month equipment lease for a postage machine requiring quarterly payments of \$654, and entered into a 39-month equipment lease for a copy machine requiring monthly payments of \$759.

The future minimum lease payments are as follows:

Years Ending June 30	Amount
2013	\$ 11,724
2014	11,724
2015	6,411
2016	2,616
2017	1,962
Total	<u>\$ 34,437</u>

Rent expense for 2012 was \$11,376.