

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 20
DATE: December 10, 2013

RECOMMENDATION

REPORT: The 2012-2013 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, 2013.

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, 2013. 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 \$58,044,421. This represents a 12.9 percent increase from the June 30, 2012 market value, which was \$51,413,003. Contributions during 2012-2013 were \$5,007,775, of which \$4,740,600 represented cash gifts. Contributions designated toward endowed scholarships, endowments and planned gifts managed by the Foundation totaled \$1,412,797.

During this fiscal year, the endowment portfolio experienced a gross investment return of 15.4 percent vs. the portfolio benchmark of 15.5 percent, which compares favorably to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average annual return since inception on September 30, 1992, of 8.1 percent continues to surpass the benchmark of 7.6 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$3,178,756 for the year ended June 30, 2013. Of that total, \$2,726,733 was transferred to EMU by the EMU Foundation; \$267,175 represents gifts of property and equipment that were received by EMU directly; and \$184,848 represents cash gifts that were received by EMU directly. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$1,302,163.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

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

University Executive Officer

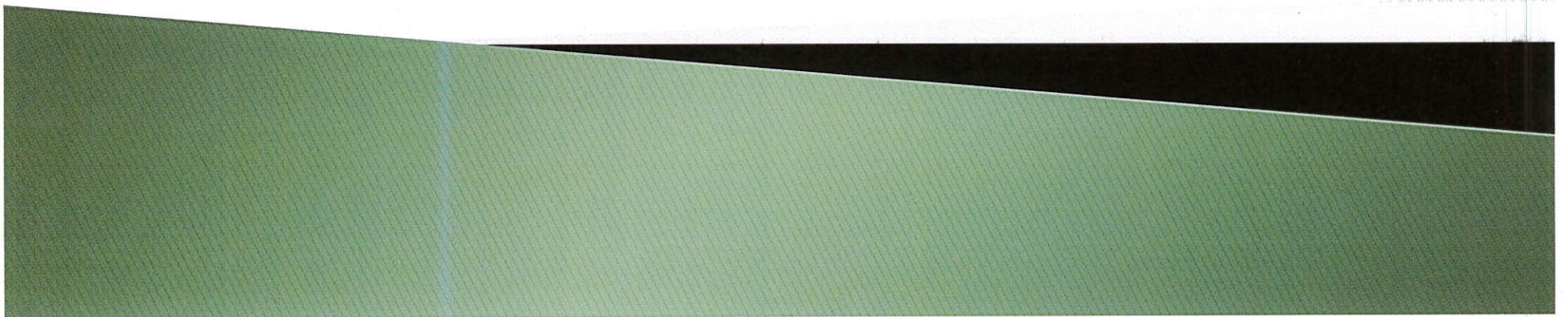
Date

EASTERN
MICHIGAN UNIVERSITY

FOUNDATION

EMU Board of Regents Update

December 10, 2013



Agreement Between EMU and EMUF

- ▶ Present FY13 Consolidated Financial Report
- ▶ Report on FY13 Fundraising Results
- ▶ Report on FY13 Endowment Activity
- ▶ Report on FY13 Endowment Spending

FY13 Consolidated Financial Report

- ▶ Audit went very well; unqualified opinion on audited financial statements
- ▶ Total Assets = \$ 60.8M
- ▶ Total Liabilities = \$ 0.9M
- ▶ Total Net Assets = \$ 59.9M; increase of \$ 6.0M over 6/30/12 balance

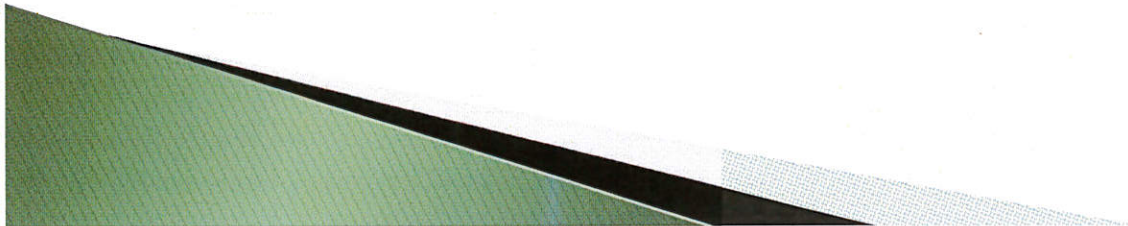
FY13 Financial Report Highlights

- ▶ Actual Contributions of **\$ 5.0M**
- ▶ FY13 # of Donors = **9,746**, increase of **4%** over previous 4 year average (FY09 - FY12) of **9,367**
- ▶ Immediate Use Gifts to EMU for Scholarships & Programs = **\$ 3.2M**
- ▶ Funding Provided to EMU from Endowments/Planned Gifts = **\$ 1.3M**
- ▶ Total Impact of Immediate Use and Endowment/Planned Gift Spending = **\$ 4.5M**

FY13 Summary of Endowment Activity

Market Value @ 6/30/12	\$ 50.6M
Gifts and Transfers	2.0M
Spending and Transfers	(1.3M)
Investment Return (net of fees)	5.9M
Market Value @ 6/30/13	57.2M
Split Interest Agreements @ 6/30/13	0.8M
End and SI Agreement Value @ 6/30/13	\$ 58.0M

(Highest Value in EMU's History!!)

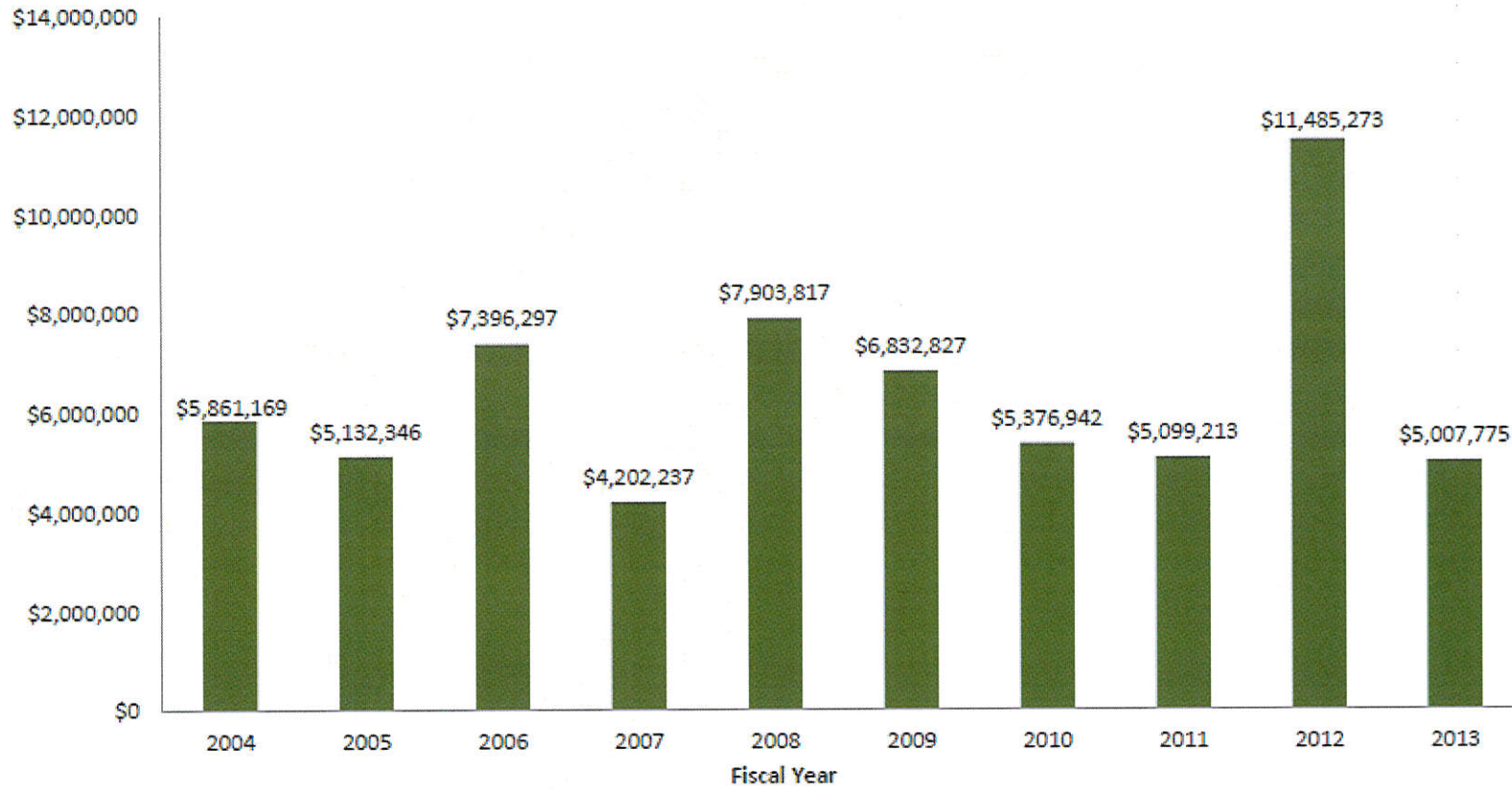


FY13 Summary of Endowment Activity

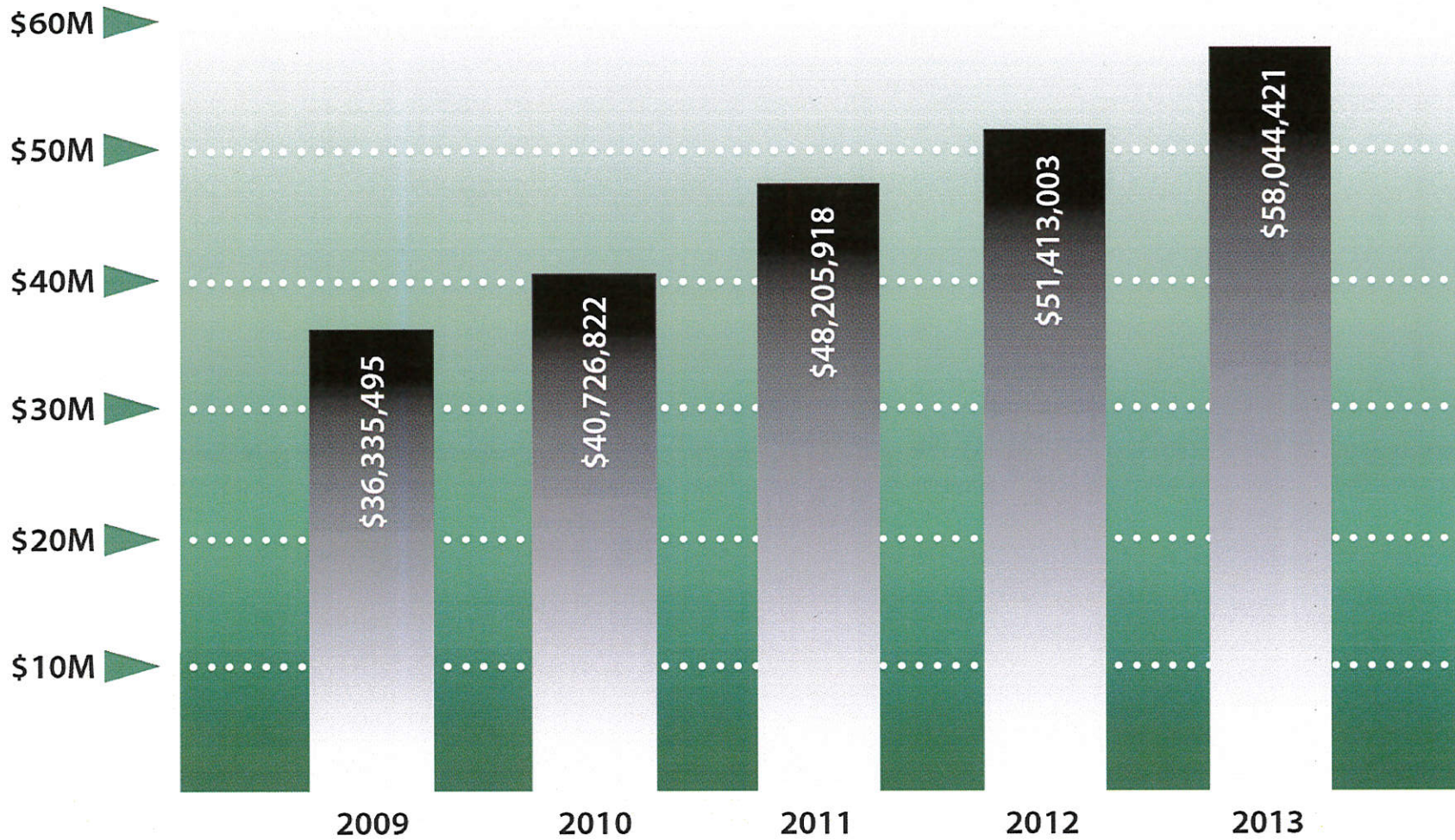
- ▶ EMUF FY13 gross investment return = **15.4%** vs benchmark return of **15.5%**. Compares very favorably to endowments in the \$ 51M - \$ 100M range
- ▶ Cumulative average return since inception in September 1992 = **8.1%** vs benchmark return of **7.6%**
- ▶ 3 year average endowment market value as of 6/30/13 = **\$ 51M** vs goal in 5 year plan of **\$ 52M**
- ▶ FY13 endowment spending (amount transferred to EMU + amount used by EMUF for operations) = **5.77%** of 3 year average endowment market value vs goal in 5 year plan of **6.25%**, which is favorable

Additional Information

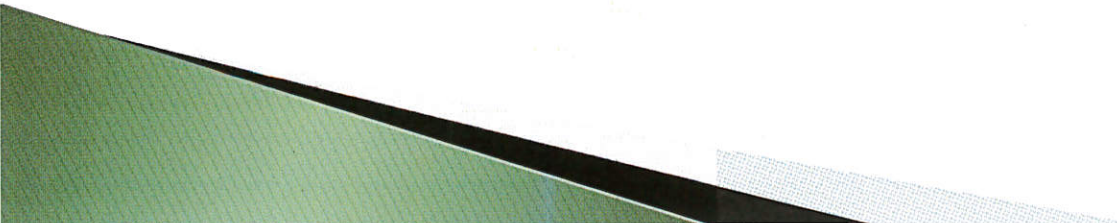
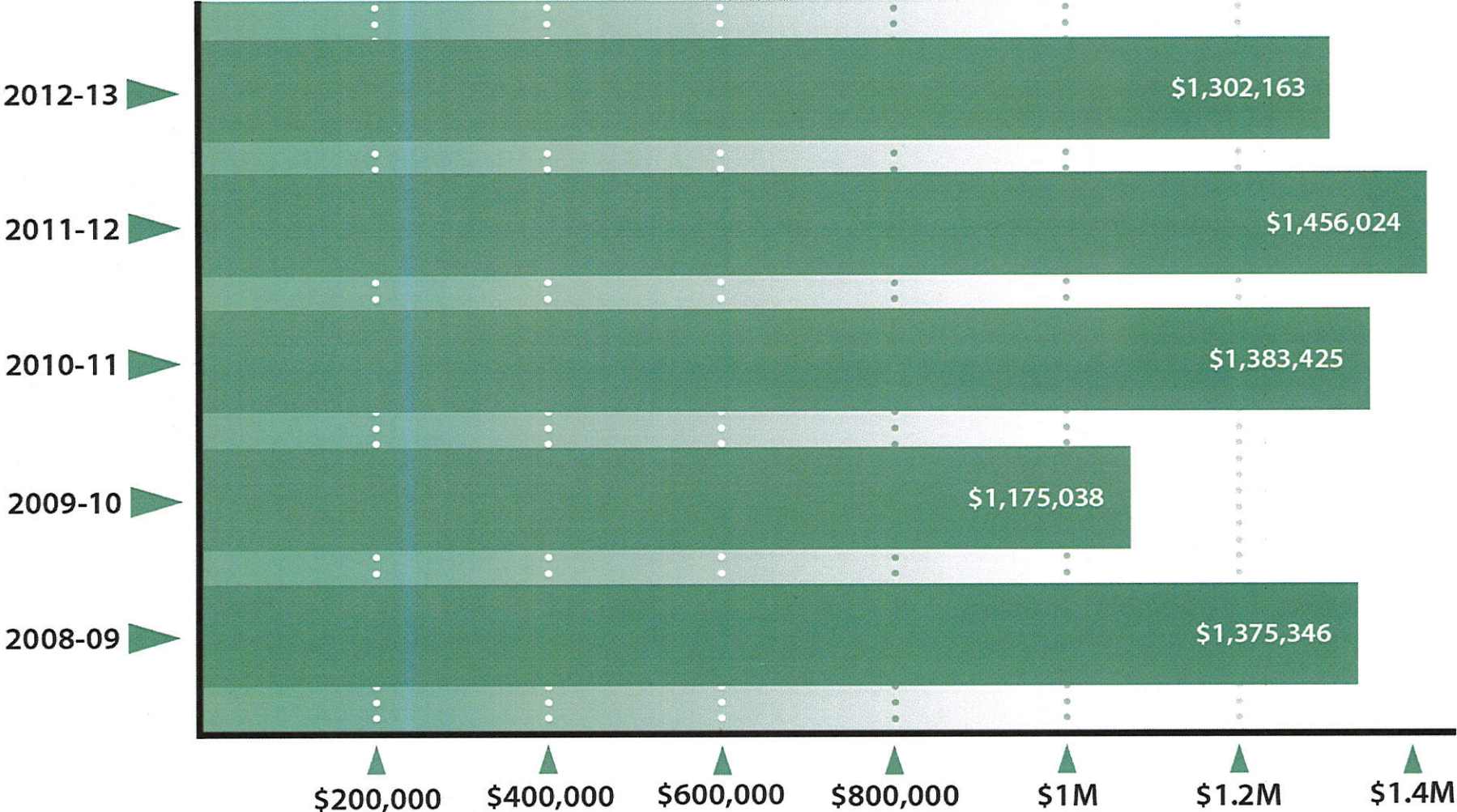
Fundraising Total by Fiscal Year



Endowment Market Value

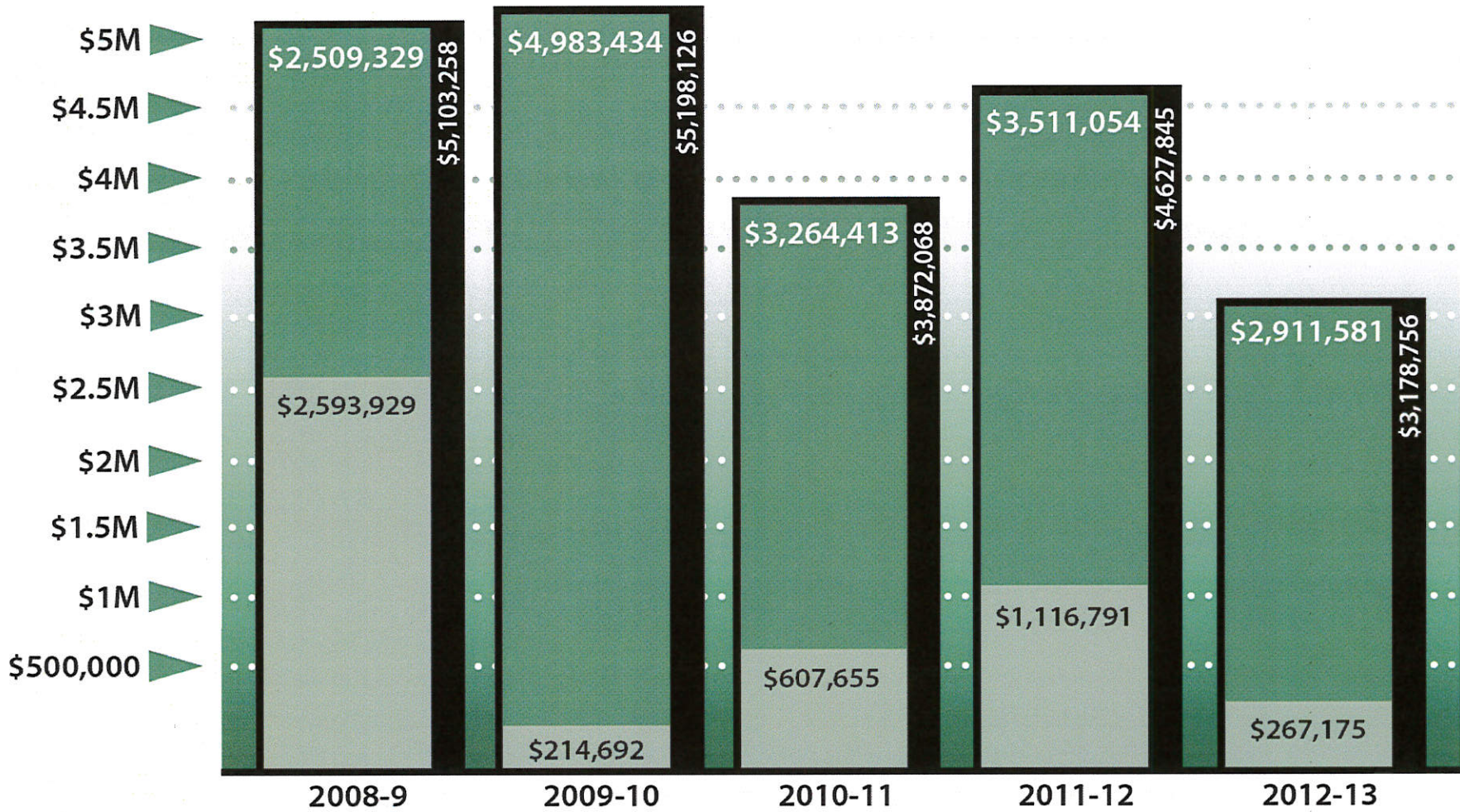


Funding Provided From Endowed Scholarships and Endowments



Immediate Use Gifts to EMU for Programs and Scholarships

Cash Gifts
 Gifts-in-Kind
 Total Gifts



Eastern Michigan University Foundation

Consolidated Financial Report
June 30, 2013

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 financial statements of Eastern Michigan University Foundation (the "Foundation"), which comprise the consolidated balance sheet as of June 30, 2013 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior year summarized information has been derived from the Foundation's 2012 consolidated financial statements and, in our report dated September 17, 2012, we expressed an unqualified opinion on those 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, 2013 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 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

September 4, 2013

Eastern Michigan University Foundation

Consolidated Balance Sheet June 30, 2013 (with comparative totals for June 30, 2012)

	June 30, 2013	June 30, 2012
Assets		
Cash and cash equivalents	\$ 1,017,935	\$ 2,188,573
Investments (Note 4)	56,167,196	48,874,561
Dividend and interest receivable	46,650	49,932
Contributions receivable (Note 2)	509,480	907,081
Other assets:		
Cash surrender value of life insurance	294,900	283,070
Accounts receivable	10,767	9,013
Property and equipment - Net (Note 3)	1,960,796	1,951,001
Investments held under split-interest agreements (Note 4)	830,322	850,956
Total assets	\$ 60,838,046	\$ 55,114,187
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 349,085	\$ 588,088
Split-interest obligations	537,560	557,825
Other liabilities	4,474	9,106
Total liabilities	891,119	1,155,019
Net Assets (Note 5)		
Unrestricted	1,140,618	299,010
Temporarily restricted	17,830,983	14,353,588
Permanently restricted	40,975,326	39,306,570
Total net assets	59,946,927	53,959,168
Total liabilities and net assets	\$ 60,838,046	\$ 55,114,187

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

	Year Ended June 30				2012
	2013			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue, Gains, and Other Support					
Contributions (Note 8)	\$ 247,449	\$ 2,228,197	\$ 1,668,756	\$ 4,144,402	\$ 7,215,434
Administrative and management fee (Note 6)	1,828,000	-	-	1,828,000	1,903,000
Investment income (Note 4)	838,670	205,070	-	1,043,740	779,139
Net realized and unrealized gains (losses) on investments (Note 4)	-	6,397,317	-	6,397,317	(1,034,138)
Miscellaneous income	43,293	24,301	-	67,594	78,737
Net assets released from restrictions	5,442,182	(5,442,182)	-	-	-
Total revenue, gains, and other support	8,399,594	3,412,703	1,668,756	13,481,053	8,942,172
Expenses					
Contributions to EMU:					
Expendable contributions	2,726,733	-	-	2,726,733	3,025,963
Contributions from endowment income	1,302,163	-	-	1,302,163	1,456,024
General and administrative - Foundation management	537,211	-	-	537,211	564,592
Fundraising (Note 9)	2,991,879	-	-	2,991,879	3,034,639
Total expenses	7,557,986	-	-	7,557,986	8,081,218
Increase in Net Assets - Before other changes in net assets	841,608	3,412,703	1,668,756	5,923,067	860,954
Funds Transferred from EMU	-	102,999	-	102,999	126,150
Change in Value of Split-Interest Agreements	-	(38,307)	-	(38,307)	215,182
Increase in Net Assets	841,608	3,477,395	1,668,756	5,987,759	1,202,286
Net Assets - Beginning of year	299,010	14,353,588	39,306,570	53,959,168	52,756,882
Net Assets - End of year	\$ 1,140,618	\$ 17,830,983	\$ 40,975,326	\$ 59,946,927	\$ 53,959,168

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows Year Ended June 30, 2013 (with comparative totals for year ended June 30, 2012)

	Year Ended	
	June 30, 2013	June 30, 2012
Cash Flows from Operating Activities		
Increase in net assets	\$ 5,987,759	\$ 1,202,286
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	110,136	110,276
Net realized and unrealized (gain) loss on investments	(6,397,317)	1,034,138
Change in cash surrender value of life insurance	(11,830)	(6,290)
Change in value of split-interest agreements	38,307	(215,182)
Contributions restricted for long-term purposes	(1,668,756)	(3,867,845)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	397,601	2,599,182
Dividend and interest receivable	3,282	(3,912)
Accounts receivable	(1,754)	6,476
Accounts payable	(239,003)	(211,798)
Other liabilities	(4,632)	180
	(1,786,207)	647,511
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(119,931)	(41,054)
Purchases of investments	(24,529,963)	(24,066,592)
Proceeds from sales and maturities of investments	23,655,279	19,654,881
	(994,615)	(4,452,765)
Net cash used in investing activities		
Cash Flows from Financing Activities		
Payments on split-interest agreements	(72,321)	(91,695)
Proceeds from new split-interest agreements	13,749	69,775
Proceeds from contributions restricted for long-term purposes	1,668,756	3,867,845
	1,610,184	3,845,925
Net cash provided by financing activities		
Net (Decrease) Increase in Cash and Cash Equivalents	(1,170,638)	40,671
Cash and Cash Equivalents - Beginning of year	2,188,573	2,147,902
Cash and Cash Equivalents - End of year	\$ 1,017,935	\$ 2,188,573
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	\$ 110,632	\$ 113,075

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 1 - Nature of Business and Significant Accounting Policies

Eastern Michigan University Foundation (the "Foundation"), located in Ypsilanti, Michigan, receives, holds, invests, and administers funds for the purpose of contributing to and making expenditures on behalf of Eastern Michigan University (EMU). Under governmental accounting principles, the Foundation is considered a component unit of EMU. 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. In 2012, PREC sold contributed land received in 2011. No intercompany transactions requiring elimination during consolidation occurred during the year ended June 30, 2012. PREC had no activity during the year ended June 30, 2013.

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 and is adjusted to fair value as needed. The cost of real estate holding was determined by appraisal when real estate was originally contributed to the Foundation in a prior year. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using the average cost method. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets, net of related expenses. These expenses amounted to \$333,517 for the year ended June 30, 2013.

During the year ended June 30, 2012, land contributed in 2011 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 0.15 percent to 5.50 percent. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

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

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

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, 2013 amounted to \$110,136.

Split-interest Agreements - The Foundation is a remainder beneficiary of several charitable annuities and unitrusts. Required distributions to other beneficiaries range from 5.0 percent to 11.9 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 1.2 percent to 10.0 percent.

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

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

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

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, 2013, 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, 2010.

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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

Summarized Comparative Information for the Year Ended June 30, 2012 - The consolidated financial information presented for comparative purposes for the year ended June 30, 2012 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 2012 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 4, 2013, 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, 2013:

Gross contributions promised	\$ 1,453,745
Less allowance for uncollectibles	(939,461)
Subtotal	514,284
Less unamortized discount	(4,804)
Net unconditional promises to give	\$ 509,480
Amounts due in:	
Less than one year	\$ 1,057,619
One to five years	360,126
More than five years	36,000
Total	\$ 1,453,745

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2013 is summarized as follows:

Buildings	\$ 2,299,933
Equipment and software	<u>1,129,131</u>
Total cost	3,429,064
Less accumulated depreciation	<u>(1,468,268)</u>
Net carrying amount	<u>\$ 1,960,796</u>

Note 4 - Investments

Investments consisted of the following at June 30, 2013, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 5,736,420
Mutual funds - Fixed income	1,084,598
Corporate stock securities - Domestic	32,342,268
Corporate stock securities - International	8,101,014
Corporate bonds	3,786,769
U.S. government securities	4,705,569
Certificates of deposit (long term)	<u>573,546</u>
Subtotal	56,330,184
Real estate holding	55,000
Land	<u>612,334</u>
Total	<u>\$ 56,997,518</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, 2013 is as follows:

Dividend and interest income	\$ 1,043,740
Realized gains - Net	<u>2,531,672</u>
Net realized income	3,575,412
Net unrealized gain	<u>3,865,645</u>
Total investment gain	<u>\$ 7,441,057</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 9,888,648
Specific program use	7,649,573
Time-restricted - Annuity trust agreements	<u>292,762</u>
Total	<u>\$ 17,830,983</u>

Permanently restricted net assets are endowments invested in perpetuity, the income from which is expendable for distributions to EMU for scholarships and other programs.

Unrestricted net assets consist of the following:

Designated to support underfunded EMU priorities and endowments that support scholarships and academic programs and departments:	
Funds functioning as endowments for specific purposes	\$ 564,439
Funds not yet allocated	<u>279,437</u>
Total designated	843,876
Undesignated:	
Foundation operations	856,806
Permanently restricted endowment losses in excess of corpus	<u>(560,064)</u>
Total undesignated	<u>296,742</u>
Total unrestricted net assets	<u>\$ 1,140,618</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, 2013, the amount paid to the Foundation was \$1,828,000.

As of June 30, 2013, the Foundation has contributions payable to EMU of approximately \$309,000 and management, general, and fundraising payables to EMU of approximately \$35,000 recorded in accounts payable. During the year ended June 30, 2013, the Foundation paid EMU approximately \$535,400 in management, general, and fundraising expenses.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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 2013, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2013 amounted to approximately \$64,000.

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, 2013 were as follows:

Accrual basis contribution revenue	\$ 4,144,402
Gifts in-kind made directly to EMU	267,175
Collections on deferred gifts in excess of current gift deferrals and amortization	397,601
Current year adjustment to split-interest agreements	13,749
Gifts deposited directly at EMU	184,848
Total fundraising collections	<u>\$ 5,007,775</u>

Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 793,764
Other fundraising	2,198,115
Total	<u>\$ 2,991,879</u>

Note 10 - Fair Value Measurements

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 10 - Fair Value Measurements (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2013 and the valuation techniques used by the Foundation to determine those fair values.

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

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

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the year ended June 30, 2013, there were no transfers between levels of the fair value hierarchy.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

	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, 2013
Investments - Including investments held under split- interest agreements:				
Mutual funds - Equity	\$ 5,736,420	\$ -	\$ -	\$ 5,736,420
Mutual funds - Fixed income	1,084,598	-	-	1,084,598
Corporate stock securities - Domestic	32,342,268	-	-	32,342,268
Corporate stock securities - International	8,101,014	-	-	8,101,014
Corporate bonds - Domestic	-	3,786,769	-	3,786,769
U.S. government securities	-	4,705,569	-	4,705,569
Certificates of deposit (long term)	573,546	-	-	573,546
Total	<u>\$ 47,837,846</u>	<u>\$ 8,492,338</u>	<u>\$ -</u>	<u>\$ 56,330,184</u>

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

Note 11 - Donor-restricted and Board-designated Endowments

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

Interpretation of Relevant Law

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

- (1) The duration and preservation of the fund
- (2) The purpose of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (560,062)	\$ 16,360,876	\$ 40,975,326	\$ 56,776,140
Board-designated endowment funds	564,439	-	-	564,439
Total funds	<u>\$ 4,377</u>	<u>\$ 16,360,876</u>	<u>\$ 40,975,326</u>	<u>\$ 57,340,579</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ (816,930)	\$ 12,266,943	\$ 39,306,570	\$ 50,756,583
Investment return - Net of depreciation (realized and unrealized)	820,407	6,551,550	-	7,371,957
Contributions and board transfers to endowment funds	900	262,462	1,668,756	1,932,118
Appropriation of endowment assets for expenditure	-	(2,720,079)	-	(2,720,079)
Endowment net assets - End of year	<u>\$ 4,377</u>	<u>\$ 16,360,876</u>	<u>\$ 40,975,326</u>	<u>\$ 57,340,579</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 \$560,062 as of June 30, 2013. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees.

Return Objectives and Risk Parameters

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4 percent of an eligible endowment fund's average market value over the prior 12 quarters through the second fiscal year end preceding the fiscal year in which the distribution is planned; the fiscal year 2012-2013 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2011. 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 3.0 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 8.5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Mortgage Payable to the Endowment Fund

In October 2009, the Foundation utilized temporarily restricted earnings on endowment assets to settle a mortgage due to an unrelated party. The total mortgage paid with endowment funds was \$2,031,499. A 25-year note payable was established to reimburse the endowment fund with monthly principal and interest payments of \$12,842. The amount due to the endowment fund from unrestricted or the release of temporarily restricted funds is \$1,883,690 at June 30, 2013.

Note 12 - Lease Commitments

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

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2013

Note 12 - Lease Commitments (Continued)

The future minimum lease payments are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2014	\$ 11,724
2015	6,411
2016	2,616
2017	<u>1,962</u>
Total	<u>\$ 22,713</u>

Rent expense for 2013 was \$11,724.