

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: <b>23</b>
DATE:  February 7, 2017

**RECOMMENDATION**

**REPORT: The 2015-2016 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, 2016.

**STAFF SUMMARY**

In accordance with Section C.8. 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, 2016. The annual financial audit of the Foundation and its subsidiary was performed by Plante & Moran, PLLC, and they have provided an unqualified financial opinion.

Total endowment and planned gift assets reported at year-end were \$67,908,058, which represents \$67,235,806 (Note 11 of Consolidated Financial Statements, pg. 20) of endowment assets and \$672,252 (Consolidated Balance Sheet, pg. 3) of planned gift assets. This represents a 0.4 percent increase from the June 30, 2015 market value, which was \$67,641,503. Fundraising during 2015-2016 totaled \$8,873,916 (Note 8 of Consolidated Financial Statements, pg. 14) of which \$8,612,159 represents cash gifts and \$261,757 represents gifts-in-kind.

During this fiscal year, the endowment portfolio experienced an investment return of negative 1.7 percent vs. the portfolio benchmark of negative 0.7 percent, which is comparable to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average annual return since inception on September 30, 1992, of 7.8 percent continues to surpass the benchmark of 7.4 percent.

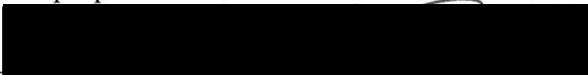
Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$3,702,095 for the year ended June 30, 2016. Of that total, \$3,600,788 (Consolidated Statement of Activities and Changes in Net Assets, pg. 4) represents cash and gifts of property and equipment that was transferred to EMU by the EMU Foundation, and \$101,307 (Note 8 of Consolidated Financial Statements, pg. 14) represents cash gifts that were received by EMU directly. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$1,902,654 (Consolidated Statement of Activities and Changes in Net Assets, pg. 4).

**FISCAL IMPLICATIONS**

None

**ADMINISTRATIVE RECOMMENDATION**

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

  
University Executive Officer

*February 7, 2017*  
Date

# **Eastern Michigan University Foundation**

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**Consolidated Financial Report**  
**June 30, 2016**

# **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, 2016 and the related consolidated statement of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 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.



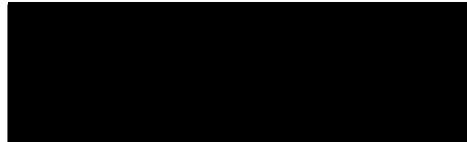
To the Board of Trustees  
Eastern Michigan University Foundation

***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, 2016 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 21, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



September 19, 2016

# Eastern Michigan University Foundation

## Consolidated Balance Sheet June 30, 2016 (with comparative totals for June 30, 2015)

	June 30, 2016	June 30, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 128,115	\$ 223,323
Investments (Note 4)	66,387,308	65,552,180
Contributions receivable (Note 2)	1,449,492	1,572,556
Other assets:		
Cash surrender value of life insurance	209,138	317,851
Accounts receivable	9,992	9,838
Building held for sale and equipment (Note 3)	1,397,068	1,837,662
Investments held under split-interest agreements (Note 4)	672,252	810,259
Total assets	<u>\$ 70,253,365</u>	<u>\$ 70,323,669</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 457,510	\$ 347,111
Split-interest obligations	500,240	523,591
Other liabilities	4,474	4,474
Total liabilities	962,224	875,176
<b>Net Assets (Note 5)</b>		
Unrestricted	1,055,481	1,807,542
Temporarily restricted	19,475,235	23,516,374
Permanently restricted	48,760,425	44,124,577
Total net assets	<u>69,291,141</u>	<u>69,448,493</u>
Total liabilities and net assets	<u>\$ 70,253,365</u>	<u>\$ 70,323,669</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

(with comparative totals for year ended June 30, 2015)

	Year Ended June 30				
	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Revenue, Gains, and Other Support</b>					
Contributions (Note 8)	\$ 333,395	\$ 3,680,302	\$ 4,635,848	\$ 8,649,545	\$ 5,808,505
Administrative and management fee (Note 6)	1,593,000	-	-	1,593,000	1,593,000
Investment income (Note 4)	145,229	-	-	145,229	606,724
Net realized and unrealized loss on investments (Note 4)	(523,480)	(993,546)	-	(1,517,026)	(33,366)
Miscellaneous income	19,318	13,460	-	32,778	71,198
Net assets released from restrictions	6,741,135	(6,741,135)	-	-	-
Total revenue, gains, and other support	8,308,597	(4,040,919)	4,635,848	8,903,526	8,046,061
<b>Expenses</b>					
Contributions to EMU:					
Expendable contributions	3,600,788	-	-	3,600,788	3,949,877
Contributions from endowment income	1,902,654	-	-	1,902,654	1,570,703
General and administrative - Foundation management	1,110,080	-	-	1,110,080	438,762
Fundraising (Note 9)	2,447,136	-	-	2,447,136	2,613,959
Total expenses	9,060,658	-	-	9,060,658	8,573,301
<b>(Decrease) Increase in Net Assets - Before other changes in net assets</b>	(752,061)	(4,040,919)	4,635,848	(157,132)	(527,240)
<b>Funds Transferred from EMU</b>	-	50,137	-	50,137	135,618
<b>Change in Value of Split-interest Agreements</b>	-	(50,357)	-	(50,357)	37,879
<b>(Decrease) Increase in Net Assets</b>	(752,061)	(4,041,139)	4,635,848	(157,352)	(353,743)
<b>Net Assets - Beginning of year</b>	1,807,542	23,516,374	44,124,577	69,448,493	69,802,236
<b>Net Assets - End of year</b>	<b>\$ 1,055,481</b>	<b>\$ 19,475,235</b>	<b>\$ 48,760,425</b>	<b>\$ 69,291,141</b>	<b>\$ 69,448,493</b>

# Eastern Michigan University Foundation

## Consolidated Statement of Cash Flows Year Ended June 30, 2016 (with comparative totals for year ended June 30, 2015)

	Year Ended	
	June 30, 2016	June 30, 2015
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (157,352)	\$ (353,743)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	86,923	93,495
Net realized and unrealized loss on investments	1,517,026	33,366
Change in cash surrender value of life insurance	108,713	(8,530)
Change in value of split-interest agreements	50,357	(37,879)
Contributions restricted for long-term purposes	(4,635,848)	(1,994,375)
Impairment expense on property	370,000	-
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	123,064	(1,054,031)
Dividend and interest receivable	-	44,708
Accounts receivable	(154)	388
Accounts payable	110,399	(182,500)
Other liabilities	-	(3,607)
Net cash used in operating activities	(2,426,872)	(3,462,708)
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(16,329)	(1,698)
Purchases of investments	(27,504,297)	(66,566,617)
Proceeds from sales and maturities of investments	25,290,150	65,777,536
Net cash used in investing activities	(2,230,476)	(790,779)
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(73,708)	(78,173)
Proceeds from new split-interest agreements	-	61,333
Proceeds from contributions restricted for long-term purposes	4,635,848	1,994,375
Net cash provided by financing activities	4,562,140	1,977,535
<b>Net Decrease in Cash and Cash Equivalents</b>	(95,208)	(2,275,952)
<b>Cash and Cash Equivalents - Beginning of year</b>	223,323	2,499,275
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 128,115</u>	<u>\$ 223,323</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### 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. PREC had no activity during the year ended June 30, 2016.

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

**Investments** - Investments in mutual funds, corporate stocks, government securities, and CDs are carried at quoted fair market value whenever available. Fair value is determined based on the fair value measurement principles described in Note 10. The commingled funds, hedge funds, and private equity funds, which are not readily marketable, are measured at fair value, valued at net asset value per share as the practical expedient. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. The investments in the real estate holding and land are recorded at cost or historical donated 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 \$373,502 for the year ended June 30, 2016.

The methods described above and in Note 10 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

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

**Contributions Receivable** - Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. The rates range from 0.11 to 5.00 percent. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

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

**Life Insurance Cash Surrender Value** - The Foundation is the owner of certain life insurance policies on various donors who have named the Foundation as beneficiary. These policies are valued at their cash surrender value. The cash surrender value is based on the amount paid less any surrender charges and outstanding loans or interest. Changes in the cash surrender value are recorded on the consolidated statement of activities and changes in net assets within interest income.

**Property and Equipment** - Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 39 years. Depreciation expense for the year ended June 30, 2016 amounted to \$86,923.

**Impairment of Long-lived Assets** - The Foundation reviews the recoverability of long-lived assets, including buildings, equipment, and furniture and fixtures, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

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

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuities and unitrusts. Required distributions to other beneficiaries range from 4.9 to 11.9 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 1.2 to 10.0 percent.

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

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

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## Notes to Consolidated Financial Statements June 30, 2016

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

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

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

**Summarized Comparative Information for the Year Ended June 30, 2015** - The consolidated financial information presented for comparative purposes for the year ended June 30, 2015 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 2015 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 19, 2016, which is the date the consolidated financial statements were available to be issued.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

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

#### Upcoming Accounting Changes

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August, 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including moving from three classes of net assets down to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact this standard will have on the consolidated financial statements.

The Financial Accounting Standards Board also issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Foundation's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Foundation has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2016:

Gross contributions promised	\$ 1,826,059
Less allowance for uncollectibles	<u>(365,212)</u>
Subtotal	1,460,847
Less unamortized discount	<u>(11,355)</u>
Net unconditional promises to give	<u>\$ 1,449,492</u>
Amounts due in:	
Less than one year	\$ 1,008,203
One to five years	<u>817,856</u>
Total	<u>\$ 1,826,059</u>

### Note 3 - Building Held For Sale and Equipment

The cost of property and equipment at June 30, 2016 is summarized as follows:

Building held for sale	\$ 1,129,855
Equipment and software	<u>380,536</u>
Total cost	1,510,391
Less accumulated depreciation	<u>(113,323)</u>
Net carrying amount	<u>\$ 1,397,068</u>

During the year ended June 30, 2016, the Foundation's board of trustees concluded to vacate its building. The building had a carrying value of \$2,307,423, with accumulated depreciation of \$807,567, resulting in net value of \$1,499,856. The Foundation has prepared the building for immediate sale and has engaged a professional broker to actively market the property and review potential offers. Management estimated a fair value of this property to be approximately \$1,130,000, which is based on market information provided by the real estate expert. Accordingly, an impairment loss of approximately \$370,000 was recognized during 2016. This amount is included in the general and administrative line item in the consolidated statement of activities and changes in net assets.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 4 - Investments

Investments consisted of the following at June 30, 2016, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 4,561,564
Mutual funds - Fixed income	6,716,216
Mutual funds - Real asset	3,509,628
Corporate stock securities	220,599
U.S. government securities	438,642
Certificates of deposit (long term)	621,450
Commingled funds - Equity	20,358,367
Commingled funds - Fixed income	6,334,182
Commingled funds - Balanced	14,303,349
Hedge funds	8,785,580
Private equity funds	542,649
Subtotal	66,392,226
Real estate holding	55,000
Land	612,334
Total	<u>\$ 67,059,560</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, 2016 is as follows:

Dividend and interest income	\$ 145,229
Realized losses - Net	<u>(763,499)</u>
Net realized loss	(618,270)
Net unrealized loss	<u>(753,527)</u>
Total investment loss	<u>\$ (1,371,797)</u>

### Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 11,391,550
Specific program use	7,911,673
Time-restricted - Annuity trust agreements	<u>172,012</u>
Total	<u>\$ 19,475,235</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 5 - Net Assets (Continued)

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

Unrestricted net assets consist of the following:

Designated to support underfunded EMU priorities and endowments that support scholarships and academic programs and departments:

Funds functioning as endowments for specific purposes	\$ 579,441
Funds not yet allocated	426,196
Total designated	1,005,637

Undesignated:

Foundation operations	493,730
Permanently restricted endowment losses in excess of corpus	(443,886)
Total undesignated	49,844

Total unrestricted net assets	\$ 1,055,481
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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, 2016, the amount paid to the Foundation was \$1,593,000.

As of June 30, 2016, the Foundation has contributions payable to EMU of \$352,372 and management, general, and fundraising payables to EMU of \$45,147 recorded in accounts payable. During the year ended June 30, 2016, the Foundation incurred \$525,255 in management, general, and fundraising expenses payable to EMU.

### Note 7 - Defined Contribution Plans

The Foundation sponsors a defined contribution 403(b) plan for all eligible full-time employees, as defined. Employees may make elective contributions to the 403(b) plan in accordance with IRS regulations. The Foundation may make contributions to the 403(b) plan up to 6 percent of the employees' base salaries. During fiscal year 2016, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2016 amounted to approximately \$53,000.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### 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, 2016 were as follows:

Accrual basis contribution revenue	\$ 8,649,545
Collections on deferred gifts in excess of current gift deferrals and amortization	123,064
Gifts deposited directly at EMU	<u>101,307</u>
Total fundraising collections	<u>\$ 8,873,916</u>

### Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 765,752
Other fundraising	<u>1,681,384</u>
Total	<u>\$ 2,447,136</u>

### Note 10 - Fair Value Measurements

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

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2016, and the valuation techniques used by the Foundation to determine those fair values.

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

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. T

hese Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

# **Eastern Michigan University Foundation**

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## **Notes to Consolidated Financial Statements June 30, 2016**

### **Note 10 - Fair Value Measurements (Continued)**

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

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

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, 2016, there were no transfers between levels of the fair value hierarchy.



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 10 - Fair Value Measurements (Continued)

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2016
Investments - Including investments held under split-interest agreements:					
Mutual funds - Fixed income	\$ 6,716,216	\$ -	\$ -	\$ -	\$ 6,716,216
Mutual funds - Equity	4,561,564	-	-	-	4,561,564
Mutual funds - Real asset	3,509,628	-	-	-	3,509,628
Corporate stock securities	220,599	-	-	-	220,599
U.S. government securities	-	438,642	-	-	438,642
Certificates of deposit (long term)	621,450	-	-	-	621,450
Commingled funds - Equity measured at net asset value	-	-	-	20,358,367	20,358,367
Commingled funds - Fixed-income measured at net asset value	-	-	-	6,334,182	6,334,182
Commingled funds - Balanced measured at net asset value	-	-	-	14,303,349	14,303,349
Hedge funds measured at net asset value	-	-	-	8,785,580	8,785,580
Private equity funds measured at net asset value	-	-	-	542,649	542,649
Total	<u>\$ 15,629,457</u>	<u>\$ 438,642</u>	<u>\$ -</u>	<u>\$ 50,324,127</u>	<u>\$ 66,392,226</u>

The fair value of U.S. government securities at June 30, 2016 was determined primarily based on Level 2 inputs. The Foundation estimates the fair value of these investments by using contractual cash flows, benchmark yield and credit spreads, prepayment speeds, and collateral performance.

# **Eastern Michigan University Foundation**

## **Notes to Consolidated Financial Statements June 30, 2016**

### **Note 10 - Fair Value Measurements (Continued)**

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

Land and real estate held for investment of \$612,334 and \$55,000, respectively, are valued at cost or historical donated value. Accordingly, these investments are therefore not included in the fair value measurements above.

#### **Assets Measured at Fair Value on a Nonrecurring Basis at June 30, 2016**

The Foundation also has an asset that under certain conditions is subject to measurement at fair value on a nonrecurring basis. This asset is the building held for sale, which is measured at fair value because events or changes in circumstances occurred that indicate that the carrying value of the asset may not be recoverable. The Foundation has estimated the fair value of this asset based primarily on Level 3 inputs, which include real estate broker market data and potential third-party offers to purchase. The Foundation recognized a noncash impairment charge of approximately \$370,000 at June 30, 2016, to adjust the asset to its estimated fair value as disclosed in Note 3.

#### **Investments in Entities that Calculate Net Asset Value per Share**

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

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 10 - Fair Value Measurements (Continued)

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

#### Investments Held at June 30, 2016

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds (a)	\$ 20,358,367	\$ -	Daily	2-30 days
Fixed-income funds (b)	6,334,182	-	Daily	1-2 days
Balanced funds (c)	14,303,349	-	Weekly, Monthly	5-30 days
Hedge fund of funds (d)	8,785,580	-	Monthly, Quarterly	65-75 days
Opportunistic/Private equity (e)	542,649	6,376,223	N/A	N/A
Total	<u>\$ 50,324,127</u>	<u>\$ 6,376,223</u>		

- (a) Equity funds invest in publicly traded securities listed in domestic, international, and/or emerging markets. This segment of the portfolio is intended to provide global growth exposure. Investments are diversified across market capitalization and geographic region.
- (b) Fixed-income funds invest in debt instruments of sovereign and/or corporate issuers. This segment of the portfolio is primarily focused on income generation. Investments are diversified across credit quality, market sector, and geographic region.
- (c) Balanced funds have the ability to invest in equity, fixed income, and real assets. The balanced segment is primarily focused on diversification and volatility mitigation via liquid tactical strategies providing exposure which may otherwise be difficult for the portfolio to obtain. The strategies are focused on providing an attractive absolute return at a reasonable level of risk.
- (d) Hedge fund of funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies are typically diversified by manager and investment style and may include allocations to styles such as relative value, event-driven, hedged equity, and global macro, among others. Fund of hedge funds typically target an absolute return that is independent of market returns. Investments in this asset class are meant to provide a diversified alpha source. Holdings in hedge funds are recognized to be less liquid than public market securities and may include a lockup for initial investments. Risk in this asset class is specific to the strategy being utilized. The volatility of hedge funds of funds typically is similar to that of fixed income.
- (e) Opportunistic/Private equity - Private equity is an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is primarily focused on providing global growth exposure. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Investments in this asset class are illiquid and typically include multi-year investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

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

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

#### Interpretation of Relevant Law

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

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (443,885)	\$ 18,339,825	\$ 48,760,425	\$ 66,656,365
Board-designated endowment funds	579,441	-	-	579,441
Total funds	<u>\$ 135,556</u>	<u>\$ 18,339,825</u>	<u>\$ 48,760,425</u>	<u>\$ 67,235,806</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

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

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of year	\$ 536,592	\$ 22,170,077	\$ 44,124,575	\$ 66,831,244
Investment return - Net of depreciation (realized and unrealized)	(406,036)	(857,570)	-	(1,263,606)
Contributions and board transfers to endowment funds	5,000	226,844	4,635,850	4,867,694
Appropriation of endowment assets for expenditure	-	(3,199,526)	-	(3,199,526)
Endowment net assets - End of year	<u>\$ 135,556</u>	<u>\$ 18,339,825</u>	<u>\$ 48,760,425</u>	<u>\$ 67,235,806</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 \$443,885 as of June 30, 2016. 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, 2016**

### **Note 11 - Donor-restricted and Board-designated 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 satisfy the spending policy and allow for additional growth in the portfolio at least equal to the rate of inflation net of investment management fees, in order to maintain the portfolio's purchasing power. The asset allocation approach is to diversify portfolio exposures to balance risks across markets and strategies. The target policy of the Foundation is 10 percent domestic all cap equities, 4 percent international equities, 4 percent emerging international equities, 12 percent global equity, 10 percent core fixed income, 5 percent absolute return fixed income, 5 percent emerging market debt, 15 percent global asset allocation/risk parity, 15 percent hedge funds, 10 percent real assets, and 10 percent opportunistic/private equity. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 6.2 percent annually. Actual returns in any given year may vary.

#### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment funds are well diversified and include investments in cash and cash equivalents, equity, fixed income, multi-asset, and alternative asset classes. The asset allocation policy adopted by the Foundation's board of trustees defines the investment goals and objectives as well as asset class targets and ranges. The diversification of investment assets is designed to control risk and dampen the variability of endowment returns from year to year.

# **Eastern Michigan University Foundation**

## **Notes to Consolidated Financial Statements June 30, 2016**

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

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

The Foundation has a policy of appropriating for distribution each year 3 percent of an eligible endowment fund's average market value over the prior 12 quarters through the second fiscal year end preceding the fiscal year in which the distribution is planned; the fiscal year 2015-2016 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2014. In establishing this policy, the Foundation considered the long-term expected return on its endowment. In addition to this specific appropriation, the Foundation also distributes up to 2.0 percent of an endowment fund's 12-quarter average market value to the Foundation's operating budget as a source of revenue for the Foundation's operating expenses. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 6.2 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

#### **Mortgage Payable to the Endowment Fund**

In October 2009, the Foundation utilized temporarily restricted earnings on endowment assets to settle a mortgage due to an unrelated party. The total mortgage paid with endowment funds was \$2,031,499. A 25-year note payable was established to reimburse the endowment fund with monthly principal and interest payments of \$12,842. The amount due to the endowment fund from unrestricted funds or the release of temporarily restricted funds is \$1,737,120 at June 30, 2016.

### **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. Additionally, during fiscal year 2016, the Foundation entered into a 60-month equipment lease for Xerox machines requiring monthly base payments of \$2,602.



# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2016

### Note 12 - Lease Commitments (Continued)

The future minimum lease payments are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 33,189
2018	31,227
2019	31,227
2020	31,227
2021	<u>13,011</u>
Total	<u>\$ 139,881</u>

Rent expense for 2016 was \$22,594.

## **EMU Board of Regents Update Advancement Division**

February 7, 2017

### **FY16 Annual Update**

- Present FY16 Consolidated Financial Report
- Report on FY16 Fundraising Results
- Report on FY16 Endowment Activity
- Report on FY16 Endowment Spending

## FY16 Consolidated Financial Report

- Audit went very well; unqualified opinion on audited financial statements
- Total Assets = **\$70.3M**
- Total Liabilities = **\$1.0M**
- Total Net Assets = **\$69.3M**; decrease of **\$0.1M** from 6/30/15 balance

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## FY16 Financial Highlights Total Fundraising

### Reconciliation of Accrual Basis Fundraising to Total Reported Fundraising:

Accrual Basis Contribution Revenue (per EMUF Fin Stmt)	\$8,649,545
Reverse Change in Contributions Receivable Adjustment (Inc in Cont Rev)	123,064
Reverse New Split Interest Agreement Adjustment (Inc in Cont Rev)	0
Add Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	101,307
Add Pledges/Revocable Bequests Documented (not in EMUF Fin Stmt)	2,772,821
<b>Total Fundraising</b>	<b>\$11,646,737</b>
Cash Received	\$8,612,159
GIKs Received	261,757
Pledges/Revocable Bequests Documented	2,772,821
<b>Total Fundraising</b>	<b>\$11,646,737</b>
<b>Total FY16 Fundraising Goal</b>	<b>\$10,000,000</b>

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## FY16 Financial Highlights Immediate Use Gifts & Endowment Funding

Expendable Contributions to EMU (per EMUF Fin Stmt)	\$3,339,031
Gifts-in-Kind Made Directly to EMU (per EMUF Fin Stmt)	261,757
Gifts Deposited Directly at EMU (not in EMUF Fin Stmt)	<u>101,307</u>
<b>Total Immediate Use Gifts to EMU for Scholarships &amp; Programs</b>	<b>\$3,702,095</b>

<b>Funding Provided to EMU from Endowed Scholarships &amp; Endowments (per EMUF Fin Stmt)</b>	<b><u>\$1,902,654</u></b>
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<b>Total Impact of Immediate Use and Endowment Spending (compared to \$5.6M in FY15)</b>	<b>\$5,604,749</b>
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## FY16 Summary of Endowment Activity

Market Value @ 6/30/15	\$ 65.7M
Gifts and Transfers	5.0M
Spending and Transfers (EMU)	(1.9M)
Spending and Transfers (EMUF)	(1.3M)
Investment Return	(0.9M)
Investment Fees	<u>(0.4M)</u>
Market Value @ 6/30/16	66.2M
Split Interest Agreements @ 6/30/16	<u>0.7M</u>
End and SI Agreement Value @ 6/30/16	<b>\$ 66.9M</b>

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## FY16 Summary of Endowment Activity

- EMUF FY16 investment return = **negative 1.7%** vs benchmark return of **negative 0.7%**. Consistent with returns for endowments in the \$51M - \$100M range
- Cumulative average return since inception in September 1992 = **7.8%** vs benchmark return of **7.4%**
- FY16 endowment spending (amount transferred to EMU + amount used by EMUF for operations) = **5.0%** of 6/30/15 3-year average endowment market value (\$62,300,000) vs goal in 5-year plan of **5.0%**, which is favorable

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## Advancement Division Highlights and Initiatives

February 7, 2017



## Points of Pride

- Most successful fundraising year in EMU history – \$11.6M FY16; \$3.2M Bill and Dee Brehm (Fuller Foundation) and \$1.7M Bruce and Diane Halle Foundation
- Most successful Giving Tuesday – 773 donors gave \$287,000; 88% increase in donors (410 in FY16) and 69% increase in donations (\$170,000 in FY16)
- Major software conversion to Blackbaud Raiser's Edge – late February 2017
- Preparation for future comprehensive fundraising campaign
- Identified new location to house the Office of Advancement (Starkweather Hall)

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## Strategic Action Committees

Strategic action committees are integrated into Foundation Board projects and initiatives.

### Events

- Created 2 year rolling engagement event calendar
- Created campus-wide event consortium for improved coordination

### Culture of Philanthropy

- Partnership with Human Resources – Campus training

### Staff Development

- Opportunities for education and training
- Enhanced HR processes

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## FY17 Initiatives

### **Advancement Services**

- All focus on software conversion and training

### **Alumni Engagement**

- Increased focus on engaging segmented groups of alumni
- “Month-long” homecoming initiatives month of October
- 2-year rolling event calendar

### **Development**

- Laying groundwork for future campaign
- Gift pyramid build-out
- Case development

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## Foundation & Alumni Board Initiatives

- Thank A Professor/Mentor (Senior giving initiative)
- Increased involvement in orientation to encourage student and parent giving
- “Homecoming” to include month-long activities for alumni participation
- Inviting campus/community members to join Board sub-committees

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## FY17 New Staff

### **Carole Booms, '91 & '97**

- Director of Annual Giving

### **Dr. Connie Ruhl-Smith**

- Director of Development-International Relations

### **Donna Moffett**

- Data Integrity Coordinator

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## Moving Forward

- Continue focus on key prospects
- Enhance customer service through education and training
- Continue working with fundraising counsel to be well-prepared for future campaign
- Invest in staff and volunteer training

**Thank you for your continued support!**

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