

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 15
DATE: December 15, 2017

RECOMMENDATION

REPORT: The 2016-2017 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, 2017.

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, 2017. 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 \$73,271,329, which represents \$72,649,465 (pg. 20) of endowment assets and \$621,864 (pg. 3) of planned gift assets. This represents a 7.9 percent increase from the June 30, 2016 market value, which was \$67,908,058. Fundraising during 2016-2017 totaled \$5,404,099 (pg. 14) of which \$5,265,275 represents cash gifts and \$138,824 represents gifts-in-kind.

During this fiscal year, the endowment portfolio experienced an investment return of 11.3 percent vs. the portfolio benchmark of 10.4 percent, which is comparable to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average annual return since inception on September 30, 1992, of 8.0 percent continues to surpass the benchmark of 7.5 percent.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$3,560,535 (pg. 4) for the year ended June 30, 2017. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$2,015,073 (pg. 4).

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

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


University Executive Officer

December 15, 2017
Date

Eastern Michigan University Foundation

Consolidated Financial Report

June 30, 2017

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, 2017 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.

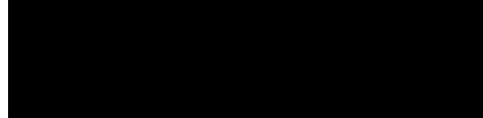
Opinion

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, 2017 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.

To the Board of Trustees
Eastern Michigan University Foundation

Report on Summarized Comparative Information

We have previously audited Eastern Michigan University Foundation's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



September 18, 2017

Eastern Michigan University Foundation

Consolidated Balance Sheet June 30, 2017 (with comparative totals for June 30, 2016)

	June 30, 2017	June 30, 2016
Assets		
Cash and cash equivalents	\$ 1,121,392	\$ 128,115
Investments (Note 4)	71,595,628	66,387,308
Contributions receivable (Note 2)	2,773,620	1,449,492
Other assets:		
Cash surrender value of life insurance	215,616	209,138
Accounts receivable	10,599	9,992
Building held for sale and equipment (Note 3)	1,377,731	1,397,068
Investments held under split-interest agreements (Note 4)	621,864	672,252
Total assets	\$ 77,716,450	\$ 70,253,365
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 894,205	\$ 457,510
Split-interest obligations	444,100	500,240
Other liabilities	-	4,474
Total liabilities	1,338,305	962,224
Net Assets (Note 5)		
Unrestricted	1,177,625	1,055,481
Temporarily restricted	25,412,639	19,475,235
Permanently restricted	49,787,881	48,760,425
Total net assets	76,378,145	69,291,141
Total liabilities and net assets	\$ 77,716,450	\$ 70,253,365

Eastern Michigan University Foundation

Consolidated Statement of Activities and Changes in Net Assets Year Ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

	Year Ended June 30				
	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Contributions (Note 8)	\$ 309,367	\$ 5,391,404	\$ 1,027,456	\$ 6,728,227	\$ 8,649,545
Administrative and management fee (Note 6)	1,488,000	-	-	1,488,000	1,593,000
Investment income (Note 4)	226,516	174,222	-	400,738	145,229
Net realized and unrealized gain (loss) on investments (Note 4)	-	7,200,924	-	7,200,924	(1,517,026)
Miscellaneous income	-	16,428	-	16,428	32,778
Net assets released from restrictions	6,976,462	(6,976,462)	-	-	-
Total revenue, gains, and other support	9,000,345	5,806,516	1,027,456	15,834,317	8,903,526
Expenses					
Contributions to EMU:					
Expendable contributions	3,560,535	-	-	3,560,535	3,600,788
Contributions from endowment income	2,015,073	-	-	2,015,073	1,902,654
General and administrative - Foundation management	655,620	-	-	655,620	1,110,080
Fundraising (Note 9)	2,671,973	-	-	2,671,973	2,447,136
Total expenses	8,903,201	-	-	8,903,201	9,060,658
Increase (Decrease) in Net Assets - Before other changes in net assets	97,144	5,806,516	1,027,456	6,931,116	(157,132)
Funds Transferred from EMU	25,000	143,933	-	168,933	50,137
Change in Value of Split-interest Agreements	-	(13,045)	-	(13,045)	(50,357)
Increase (Decrease) in Net Assets	122,144	5,937,404	1,027,456	7,087,004	(157,352)
Net Assets - Beginning of year	1,055,481	19,475,235	48,760,425	69,291,141	69,448,493
Net Assets - End of year	\$ 1,177,625	\$ 25,412,639	\$ 49,787,881	\$ 76,378,145	\$ 69,291,141

Eastern Michigan University Foundation

Consolidated Statement of Cash Flows Year Ended June 30, 2017 (with comparative totals for year ended June 30, 2016)

	Year Ended	
	June 30, 2017	June 30, 2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 7,087,004	\$ (157,352)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	29,751	86,923
Net realized and unrealized (gain) loss on investments	(7,200,924)	1,517,026
Change in cash surrender value of life insurance	(6,478)	108,713
Change in value of split-interest agreements	13,045	50,357
Contributions restricted for long-term purposes	(1,027,456)	(4,635,848)
Impairment expense on property	-	370,000
Changes in operating assets and liabilities which (used) provided cash:		
Contributions receivable	(1,324,128)	123,064
Accounts receivable	(607)	(154)
Accounts payable	436,695	110,399
Other liabilities	(4,474)	-
Net cash used in operating activities	(1,997,572)	(2,426,872)
Cash Flows from Investing Activities		
Purchases of property and equipment	(10,414)	(16,329)
Purchases of investments	(20,253,355)	(27,504,297)
Proceeds from sales and maturities of investments	22,296,347	25,290,150
Net cash provided by (used in) investing activities	2,032,578	(2,230,476)
Cash Flows from Financing Activities		
Payments on split-interest agreements	(69,185)	(73,708)
Proceeds from contributions restricted for long-term purposes	1,027,456	4,635,848
Net cash provided by financing activities	958,271	4,562,140
Net Increase (Decrease) in Cash and Cash Equivalents	993,277	(95,208)
Cash and Cash Equivalents - Beginning of year	128,115	223,323
Cash and Cash Equivalents - End of year	\$ 1,121,392	\$ 128,115

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

Eastern Michigan University Foundation (the "Foundation"), located in Ypsilanti, Michigan, receives, holds, invests, and administers funds for the purpose of contributing to and making expenditures on behalf of Eastern Michigan University (EMU). Under governmental accounting principles, the Foundation is considered a component unit of EMU. Planned Real Estate Corp. (PREC), a wholly owned nonprofit subsidiary of the Foundation, was incorporated as a title holding company for the purpose of owning and managing real estate donated to the Foundation.

Significant accounting policies are as follows:

Principles of Consolidation - The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, PREC. PREC had no activity during the year ended June 30, 2017.

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 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 \$353,792 for the year ended June 30, 2017.

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, 2017

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 1.24 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 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, 2017 amounted to \$29,751. The asset held for sale as further discussed in Note 3 is not being depreciated.

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, 2017

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

Notes to Consolidated Financial Statements June 30, 2017

Note I - 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, 2016 - The consolidated financial information presented for comparative purposes for the year ended June 30, 2016 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 2016 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 financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including September 18, 2017, which is the date the consolidated financial statements were available to be issued.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

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 No. 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 Foundation is currently evaluating the impact of the standard and will present the two classes of net assets, add the liquidity footnote, expense matrix, and related disclosures. 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 FASB 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 accounting requirements are not expected to have a significant impact to the Foundation. The leases described in Note 12 will be recognized in the consolidated balance sheet. 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.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

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

In May 2014, the FASB issued ASU 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. Management has assessed the various revenue streams of the Foundation and determined that major revenue streams are not expected to be significantly impacted by the standard.

Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2017:

Gross contributions promised	\$ 9,103,587
Less allowance for uncollectibles	<u>(6,097,997)</u>
Subtotal	3,005,590
Less unamortized discount	<u>(231,970)</u>
Net unconditional promises to give	<u>\$ 2,773,620</u>
Amounts due in:	
Less than one year	\$ 3,676,548
One to five years	5,397,039
More than five years	<u>30,000</u>
Total	<u>\$ 9,103,587</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note 3 - Building Held For Sale and Equipment

The cost of property and equipment at June 30, 2017 is summarized as follows:

Building held for sale	\$ 1,129,855
Equipment and software	<u>357,967</u>
Total cost	1,487,822
Less accumulated depreciation	<u>(110,091)</u>
Net carrying amount	<u>\$ 1,377,731</u>

During the year ended June 30, 2016, the Foundation's board of trustees concluded to vacate its building. The Foundation 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. The net carrying value of the building was reduced by \$370,000 to reflect the estimated fair value. As of June 30, 2017, the building remains held for sale. No additional impairment charge was recognized for the year ended June 30, 2017.

Note 4 - Investments

Investments consisted of the following at June 30, 2017, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 4,568,354
Mutual funds - Fixed income	8,630,070
Mutual funds - Real asset	5,164,366
Corporate stock securities	199,575
U.S. government securities	438,377
Certificates of deposit (long term)	618,048
Commingled funds - Equity	20,026,988
Commingled funds - Fixed income	8,738,369
Commingled funds - Balanced	15,570,477
Hedge funds	4,951,013
Private equity funds	<u>2,644,521</u>
Subtotal	71,550,158
Real estate holding	55,000
Land	<u>612,334</u>
Total	<u>\$ 72,217,492</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note 4 - Investments (Continued)

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, 2017 is as follows:

Dividend and interest income	\$ 400,738
Realized gains - Net	<u>763,398</u>
Subtotal	1,164,136
Net unrealized gain	<u>6,437,526</u>
Total investment gain	<u>\$ 7,601,662</u>

Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 15,009,027
Specific program use	10,225,848
Time-restricted - Annuity trust agreements	<u>177,764</u>
Total	<u>\$ 25,412,639</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	\$ 579,441
Funds not yet allocated	<u>339,554</u>
Total designated	918,995
Undesignated:	
Foundation operations	493,730
Permanently restricted endowment losses in excess of corpus	<u>(235,100)</u>
Total undesignated	<u>258,630</u>
Total unrestricted net assets	<u>\$ 1,177,625</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

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, 2017, the amount paid to the Foundation was \$1,488,000.

As of June 30, 2017, the Foundation has contributions payable to EMU of \$831,480 and management, general, and fundraising payables to EMU of \$43,596 recorded in accounts payable. During the year ended June 30, 2017, the Foundation incurred \$582,408 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 2017, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2017 amounted to approximately \$54,000.

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. Total fundraising collections for the year ended June 30, 2017 were as follows:

Accrual basis contribution revenue	\$ 6,728,227
Current gift deferrals in excess of collections on deferred gifts and amortization	<u>(1,324,128)</u>
Total fundraising collections	<u>\$ 5,404,099</u>

Note 9 - Fundraising Expenses

Fundraising expenses are comprised of the following:

Gifts and records	\$ 826,451
Other fundraising	<u>1,845,522</u>
Total	<u>\$ 2,671,973</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

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, 2017 and the valuation techniques used by the Foundation to determine those fair values.

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

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

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

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, 2017, there were no transfers between levels of the fair value hierarchy.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

	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, 2017
Investments - Including investments held under split-interest agreements:					
Mutual funds - Fixed income	\$ 8,630,070	\$ -	\$ -	\$ -	\$ 8,630,070
Mutual funds - Equity	4,568,354	-	-	-	4,568,354
Mutual funds - Real asset	5,164,366	-	-	-	5,164,366
Corporate stock securities	199,575	-	-	-	199,575
U.S. government securities	-	438,377	-	-	438,377
Certificates of deposit (long term)	618,048	-	-	-	618,048
Commingled funds - Equity measured at net asset value	-	-	-	20,026,988	20,026,988
Commingled funds - Fixed-income measured at net asset value	-	-	-	8,738,369	8,738,369
Commingled funds - Balanced measured at net asset value	-	-	-	15,570,477	15,570,477
Hedge funds measured at net asset value	-	-	-	4,951,013	4,951,013
Private equity funds measured at net asset value	-	-	-	2,644,521	2,644,521
Total	<u>\$ 19,180,413</u>	<u>\$ 438,377</u>	<u>\$ -</u>	<u>\$ 51,931,368</u>	<u>\$ 71,550,158</u>

The fair value of U.S. government securities at June 30, 2017 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, 2017

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, 2017

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.

Investments in Entities that Calculate Net Asset Value per Share

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

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

Investments Held at June 30, 2017

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds (a)	\$ 20,026,988	\$ -	Daily	2-30 days
Fixed-income funds (b)	8,738,369	-	Daily	1-2 days
Balanced funds (c)	15,570,477	-	Weekly, Monthly	5-30 days
Hedge fund of funds (d)	4,951,013	-	Monthly, Quarterly	65-75 days
Opportunistic/Private equity (e)	<u>2,644,521</u>	<u>6,084,547</u>	N/A	N/A
Total	<u>\$ 51,931,368</u>	<u>\$ 6,084,547</u>		

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note 10 - Fair Value Measurements (Continued)

- (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.

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, 2017

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (235,100)	\$ 22,517,243	\$ 49,787,881	\$ 72,070,024
Board-designated endowment funds	579,441	-	-	579,441
Total funds	<u>\$ 344,341</u>	<u>\$ 22,517,243</u>	<u>\$ 49,787,881</u>	<u>\$ 72,649,465</u>

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

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

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - Beginning of year	\$ 135,556	\$ 18,339,825	\$ 48,760,425	\$ 67,235,806
Investment return - Net of depreciation (realized and unrealized)	208,785	7,308,767	-	7,517,552
Contributions and board transfers to endowment funds	-	275,104	1,027,456	1,302,560
Appropriation of endowment assets for expenditure	-	(3,406,453)	-	(3,406,453)
Endowment net assets - End of year	<u>\$ 344,341</u>	<u>\$ 22,517,243</u>	<u>\$ 49,787,881</u>	<u>\$ 72,649,465</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 \$235,100 as of June 30, 2017. 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, 2017

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, 2017

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 2016-2017 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2015. 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 \$1,682,331 at June 30, 2017.

Note 12 - Lease Commitments

The Foundation is obligated under certain operating leases for office equipment. The terms of the leases are generally 60 months with monthly payments totaling approximately \$2,600 and quarterly payments of \$750.

Eastern Michigan University Foundation

Notes to Consolidated Financial Statements June 30, 2017

Note 12 - Lease Commitments (Continued)

The future minimum lease payments are as follows:

Years Ending June 30	Amount
2018	\$ 34,944
2019	34,201
2020	34,201
2021	15,985
2022	2,230
Total	<u>\$ 121,561</u>

Rent expense for 2017 was \$33,314.