

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

<b>SECTION:</b> <sup>17</sup>
<b>DATE:</b>
December 13, 2019

**RECOMMENDATION**

**REPORT: 2018-2019 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, 2019.

**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, 2018. 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 \$78,796,264, which represents \$78,392,755 (pg. 17) of endowment assets and \$403,509 (pg. 3) of planned gift assets. This represents a 2.6% increase from the June 30, 2018 market value, which was \$76,836,763. Fundraising during 2018-2019 totaled \$8,147,619 (pg. 13) of which \$7,038,848 represents cash gifts and \$1,108,771 represents gifts-in-kind.

During this fiscal year, the endowment portfolio experienced an investment return of 4.6% vs. the portfolio benchmark of 5.2%, which is comparable to endowment portfolio returns at other institutions with endowments in the \$51-\$100 million range. The average return since inception on September 30, 1992, of 7.8% continues to surpass the benchmark of 7.4%.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$6,048,287 (pg. 4) for the year ended June 30, 2019. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$2,016,140 (pg. 4).

**FISCAL IMPLICATIONS**

None

**ADMINISTRATIVE RECOMMENDATION**

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



University Executive Officer

December 13, 2019  
Date

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# Eastern Michigan University Foundation

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**Consolidated Financial Report**  
**June 30, 2019**

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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 statement of financial position as of June 30, 2019 and the related consolidated statements of activities, functional expenses, 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, 2019 and the consolidated changes in its net assets, its functional expenses, 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 previously audited Eastern Michigan University Foundation's 2018 consolidated financial statements and expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

To the Board of Trustees  
Eastern Michigan University Foundation

***Emphasis of Matter***

As described in Note 2 to the consolidated financial statements, the Foundation adopted the provisions of ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of July 1, 2018. Our opinion is not modified with respect to this matter.



September 13, 2019

## Eastern Michigan University Foundation

# Consolidated Statement of Financial Position

June 30, 2019  
(with summarized comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,869,793	\$ 6,981,644
Investments (Note 5)	77,136,007	74,734,638
Contributions receivable (Note 3)	1,638,948	2,021,070
Other assets:		
Cash surrender value of life insurance	210,514	219,202
Accounts receivable	5,945	5,344
Investments held under split-interest agreements (Note 5)	403,509	552,547
Building held for sale and equipment (Note 4)	44,222	1,377,309
	<u>                    </u>	<u>                    </u>
Total assets	<u><b>\$ 81,308,938</b></u>	<u><b>\$ 85,891,754</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 504,415	\$ 5,674,212
Split-interest obligations	319,749	424,698
	<u>                    </u>	<u>                    </u>
Total liabilities	824,164	6,098,910
<b>Net Assets (Note 6)</b>		
Net assets without donor restrictions	591,643	745,094
Net assets with donor restrictions	79,893,131	79,047,750
	<u>                    </u>	<u>                    </u>
Total net assets	80,484,774	79,792,844
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u><b>\$ 81,308,938</b></u>	<u><b>\$ 85,891,754</b></u>

## Eastern Michigan University Foundation

# Consolidated Statement of Activities

Year Ended June 30, 2019

(with summarized comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue, Gains, and Other Support</b>				
Administrative and management fee (Note 7)	\$ 1,440,000	\$ -	\$ 1,440,000	\$ 1,440,759
Contributions (Note 9)	296,468	7,469,029	7,765,497	5,997,447
Net realized and unrealized gain on investments (Note 5)	-	2,429,218	2,429,218	4,748,305
Investment income	243,884	571,139	815,023	420,278
Change in value of split-interest agreements	-	50,203	50,203	(37,457)
Special event revenue	-	37,324	37,324	26,295
Net assets released from restrictions	9,790,352	(9,790,352)	-	-
Total revenue, gains, and other support	11,770,704	766,561	12,537,265	12,595,627
<b>Expenses</b>				
Contributions to EMU:				
Expendable contributions	6,048,287	-	6,048,287	3,729,330
Contributions from endowment income	2,016,140	-	2,016,140	2,024,283
General and administrative - Foundation management	821,451	-	821,451	634,029
Fundraising (Note 10)	3,147,546	-	3,147,546	2,940,291
Total expenses	12,033,424	-	12,033,424	9,327,933
<b>(Decrease) Increase in Net Assets - Before funds transferred from EMU</b>	(262,720)	766,561	503,841	3,267,694
<b>Funds Transferred from EMU</b>	109,269	78,820	188,089	147,005
<b>(Decrease) Increase in Net Assets</b>	(153,451)	845,381	691,930	3,414,699
<b>Net Assets - Beginning of year</b>	745,094	79,047,750	79,792,844	76,378,145
<b>Net Assets - End of year</b>	<b>\$ 591,643</b>	<b>\$ 79,893,131</b>	<b>\$ 80,484,774</b>	<b>\$ 79,792,844</b>

**Eastern Michigan University Foundation**

**Consolidated Statement of Functional Expenses**

**Year Ended June 30, 2019**  
**(with summarized comparative totals for 2018)**

	Program Services			Support Services			Total	
	Contributions to EMU	General and Administrative	Fundraising	Advancement Services	2019	2018		
Contributions to EMU	\$ 8,064,427	\$ -	\$ -	\$ -	\$ 8,064,427	\$ 5,753,613		
Salaries and benefits	-	303,855	1,667,441	625,964	2,597,260	2,400,403		
Professional fees	-	133,013	205,363	27,979	366,355	294,121		
Meals and entertainment	-	3,116	142,393	-	145,509	169,866		
Supplies	-	56,090	176,799	97,916	330,805	344,325		
Conferences and travel	-	2,287	112,652	10,935	125,874	109,093		
Other administrative expenses	-	323,090	73,628	6,476	403,194	256,512		
<b>Total functional expenses</b>	<b>\$ 8,064,427</b>	<b>\$ 821,451</b>	<b>\$ 2,376,276</b>	<b>\$ 769,270</b>	<b>\$ 12,033,424</b>	<b>\$ 9,327,933</b>		

See notes to consolidated financial statements.



## Eastern Michigan University Foundation

### Consolidated Statement of Cash Flows

Year Ended June 30, 2019  
(with summarized comparative totals for 2018)

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 691,930	\$ 3,414,699
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	20,626	23,559
Loss on disposal of property and equipment	229,857	-
Net realized and unrealized gain on investments	(3,109,426)	(4,748,305)
Change in cash surrender value of life insurance	8,688	(3,586)
Change in value of split-interest agreements	(50,203)	37,457
Contributions restricted for long-term purposes	(1,023,697)	(1,404,582)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Contributions receivable	382,122	752,550
Accounts receivable	(601)	5,255
Accounts payable	(5,169,797)	4,780,007
Net cash and cash equivalents (used in) provided by operating activities	(8,020,501)	2,857,054
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(17,396)	(23,137)
Proceeds from disposition of building	1,100,000	-
Purchases of investments	(22,992,558)	(17,901,489)
Proceeds from sales and maturities of investments	23,849,653	19,580,101
Net cash and cash equivalents provided by investing activities	1,939,699	1,655,475
<b>Cash Flows from Financing Activities</b>		
Proceeds from new split-interest agreements	-	10,994
Payments on split-interest agreements	(54,746)	(67,853)
Proceeds from contributions restricted for long-term purposes	1,023,697	1,404,582
Net cash and cash equivalents provided by financing activities	968,951	1,347,723
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(5,111,851)	5,860,252
<b>Cash and Cash Equivalents - Beginning of year</b>	6,981,644	1,121,392
<b>Cash and Cash Equivalents - End of year</b>	\$ 1,869,793	\$ 6,981,644

**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. On a stand-alone basis, the Foundation follows not-for-profit accounting. 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.

**Note 2 - Significant Accounting Policies**

***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, 2019.

***Cash Equivalents***

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The total amount of bank deposits (checking and savings accounts) that was insured by the FDIC at year end was \$250,000.

***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 11. 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 fair value at the time of the donation. 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, net of related expenses. These expenses amounted to \$680,208 for the year ended June 30, 2019.

The methods described above and in Note 11 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.

***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 percent to 2.33 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.

**Note 2 - Significant Accounting Policies (Continued)**

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities. Salaries and benefits are allocated based on departmental structure and primary roles, as well as time and effort. Indirect costs have been allocated between the various programs and support services based on estimates of time and effort or departmental basis, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

***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 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, 2019 amounted to \$20,626. However, there was a loss on disposition of the building held for sale, as described in Note 4.

***Impairment or Disposal 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 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. No impairment charge was recognized for the year ended June 30, 2019; however, there was a loss on disposition of the building, as described in Note 4.

***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 10.2 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 8.2 percent.

***Classification of Net Assets***

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Note 2 - Significant Accounting Policies (Continued)**

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law or subject to appropriation of the Foundation.

***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 into which the agreements are entered, 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.

***Income Taxes***

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). PREC is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code.

***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 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.

***Summarized Comparative Information for the Year Ended June 30, 2018***

The consolidated financial information presented for comparative purposes for the year ended June 30, 2018 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 2018 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 participants' account balances and the amounts reported in the consolidated financial statements.

**Note 2 - Significant Accounting Policies (Continued)**

***Adoption of New Accounting Pronouncement***

As of July 1, 2018, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. The temporarily restricted net assets at June 30, 2018 were combined with permanently restricted net assets to total net assets with donor restrictions.

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (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 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. However, consolidated financial statement disclosures will be significantly expanded as a result of the new standard.

The FASB 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 14 will be recognized in the consolidated statement of financial position. 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 June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending June 30, 2020 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**Note 2 - Significant Accounting Policies (Continued)**

***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including September 13, 2019, which is the date the consolidated financial statements were available to be issued.

**Note 3 - Contributions Receivable**

Included in contributions receivable are the following unconditional promises to give at June 30, 2019:

Gross contributions promised	\$ 2,192,320
Less allowance for uncollectibles	<u>(438,464)</u>
Subtotal	1,753,856
Less unamortized discount	<u>(114,908)</u>
Net unconditional promises to give	<u><u>\$ 1,638,948</u></u>
Amounts due in:	
Less than one year	\$ 1,213,954
One to five years	956,366
More than five years	<u>22,000</u>
Total	<u><u>\$ 2,192,320</u></u>

**Note 4 - Property and Equipment**

The cost of property and equipment at June 30, 2019 is summarized as follows:

Furniture and fixtures	\$ 43,533
Computer equipment and software	<u>58,482</u>
Total cost	102,015
Accumulated depreciation	<u>57,793</u>
Net property and equipment	<u><u>\$ 44,222</u></u>

During 2019, the Foundation sold a building that was held for sale for \$1,100,000, net of related closing costs incurred by the Foundation. As a result of the sale, the Foundation recognized a loss on the sale of the building of approximately \$230,000, which has been recorded in general and administrative expenses on the consolidated statement of activities.

## Eastern Michigan University Foundation

# Notes to Consolidated Financial Statements

June 30, 2019

### Note 5 - Investments

Investments consisted of the following at June 30, 2019, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 5,197,710
Mutual funds - Fixed income	10,529,026
Mutual funds - Real asset	2,619,363
Corporate stock securities	121,975
U.S. government securities	198,789
Certificates of deposit (long term)	350,000
Comingled funds - Equity	23,398,791
Comingled funds - Fixed income	5,079,460
Comingled funds - Balanced	9,782,606
Hedge funds	12,822,497
Private equity funds	6,771,965
Real estate holding and land	667,334
Total	<u>\$ 77,539,516</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, 2019 is as follows:

Investment income:	
Dividend and interest income	\$ 815,023
Realized gains - Net	2,756,777
Net unrealized gains	352,649
Investment fees	(680,208)
Total investment income	<u>\$ 3,244,241</u>

### Note 6 - Net Assets

Net assets without donor restrictions consist of the following:

Designation to support underfunded EMU priorities and endowments that support scholarships and academic programs and departments - Funds functioning as endowments for specific purposes	\$ 546,679
Undesignated - Foundation operations	44,964
Total net assets without donor restrictions	<u>\$ 591,643</u>

Net assets with donor restrictions are available for the following purposes:

Subject to expenditures for a specified purpose:	
Scholarships	\$ 16,828,684
Specific program use	10,699,527
Subject to the passage of time - Annuity trust agreements	83,760
Restricted in perpetuity - Endowment	52,281,160
Total	<u>\$ 79,893,131</u>

### Note 7 - 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.

**Notes to Consolidated Financial Statements**

**June 30, 2019**

**Note 7 - Related Party Transactions (Continued)**

In order to support fundraising activities on behalf of EMU, EMU pays the Foundation an amount to be determined annually. For the year ended June 30, 2019, the amount paid to the Foundation was \$1,440,000.

As of June 30, 2019, the Foundation has contributions payable to EMU of \$404,453 and management, general, and fundraising payables to EMU of \$49,404 recorded in accounts payable. During the year ended June 30, 2019, the Foundation incurred \$621,895 in management, general, and fundraising expenses payable to EMU.

**Note 8 - Retirement Plans**

The Foundation provides 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 2019, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2019 amounted to approximately \$68,000.

**Note 9 - 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, 2019 were as follows:

Accrual basis contribution revenue	\$ 7,765,497
Collections on deferred gifts in excess of current gift deferrals and amortization	<u>382,122</u>
Total	<u><u>\$ 8,147,619</u></u>

**Note 10 - Fundraising Expenses**

Fundraising expenses are composed of the following:

Gifts and records	\$ 769,270
Other fundraising	<u>2,378,276</u>
Total	<u><u>\$ 3,147,546</u></u>

**Note 11 - 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, 2019 and the valuation techniques used by the Foundation to determine those fair values.

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

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



Notes to Consolidated Financial Statements

June 30, 2019

Note 11 - 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.

<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2019</u>				
	<u>Quoted Prices in</u>		<u>Net Asset Value</u>	<u>Balance at June 30, 2019</u>
	<u>Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>		
Investments - Including investments held under split-interest agreements:				
Mutual funds - Fixed income	\$ 10,529,026	\$ -	\$ -	\$ 10,529,026
Mutual funds - Equity	5,197,710	-	-	5,197,710
Mutual funds - Real asset	2,619,363	-	-	2,619,363
Corporate stock securities	121,975	-	-	121,975
U.S. government securities	-	198,789	-	198,789
Certificates of deposit	350,000	-	-	350,000
Commingled funds - Equity measured at net asset value	-	-	23,398,791	23,398,791
Commingled funds - Fixed income measured at net asset value	-	-	5,079,460	5,079,460
Commingled funds - Balanced measured at net asset value	-	-	9,782,606	9,782,606
Hedge funds measured at net asset value	-	-	12,822,497	12,822,497
Private equity funds measured at net asset value	-	-	6,771,965	6,771,965
Total assets	<u>\$ 18,818,074</u>	<u>\$ 198,789</u>	<u>\$ 57,855,319</u>	<u>\$ 76,872,182</u>

The fair value of U.S. government securities at June 30, 2019 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.

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of the change in circumstances that caused the transfer. During the year ended June 30, 2019, there were no transfers between levels of the fair value hierarchy.

Notes to Consolidated Financial Statements

June 30, 2019

**Note 11 - 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. Therefore, these investments are not included in the fair value measurements above.

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

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

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

	Investments Held at June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds	\$ 23,398,791	\$ -	Daily	2-30 days
Fixed-income funds	5,079,460	-	Daily	2-3 days
Balanced funds	9,782,606	-	Daily, Monthly	5-30 days
Hedge funds	12,822,497	-	Monthly, Quarterly	30-90 days
Opportunistic/Private equity	6,771,965	6,466,821	N/A	N/A
<b>Total</b>	<b>\$ 57,855,319</b>	<b>\$ 6,466,821</b>		

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.

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.

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 that 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.

Hedge 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.

Notes to Consolidated Financial Statements

June 30, 2019

**Note 11 - Fair Value Measurements (Continued)**

Opportunistic/Private equity - Private equity is an ownership interest in a nonpublicly traded limited liability company (LLC) or limited partnership (LP). The segment is focused primarily 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 multiyear investment horizons. Risk is specific to the strategy being utilized and may be above that of the general market.

**Note 12 - Donor-restricted and Board-designated Endowments**

The Foundation's endowment includes both 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 endowments, 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 State Prudent Management of Institutional Funds Act (SPMIFA) 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 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 is classified as restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 77,846,076	\$ 77,846,076
Board-designated endowment funds	546,679	-	546,679
Total	<u>\$ 546,679</u>	<u>\$ 77,846,076</u>	<u>\$ 78,392,755</u>

Notes to Consolidated Financial Statements

June 30, 2019

**Note 12 - Donor-restricted and Board-designated Endowments (Continued)**

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 322,254	\$ 75,961,962	\$ 76,284,216
Investment return - Net of realized and unrealized gains and losses	224,425	3,047,416	3,271,841
Contributions and board transfers to endowment funds	-	2,709,769	2,709,769
Appropriation of endowment assets for expenditure	-	(3,873,071)	(3,873,071)
Endowment net assets - End of year	<u>\$ 546,679</u>	<u>\$ 77,846,076</u>	<u>\$ 78,392,755</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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in restricted net assets were \$32,762 as of June 30, 2019 on funds with a fair value of approximately \$1.9 million. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new restricted contributions and continued appropriation for certain programs that was deemed prudent by the board of trustees. The Foundation monitors these situations and adjusts annual spending as needed.

***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(s), 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 6.4 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, multiasset, 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.

Notes to Consolidated Financial Statements

June 30, 2019

**Note 12 - 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 2018-2019 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2017. 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 6.4 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 is \$571,169 at June 30, 2019.

**Note 13 - Liquidity and Availability of Resources**

The following reflects the Foundation's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

Total assets at year end	\$ 81,308,938
Less fixed and nonfinancial assets	<u>(44,222)</u>
Financial assets - At year end	81,264,716
Less those unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	27,528,211
Subject to appropriation and satisfaction of donor restrictions - Donor endowments	52,281,160
Other contractual restrictions	210,514
Investments held in annuity trust	83,760
Board designations - Quasi-endowment fund, primarily for long-term investing	<u>546,679</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 614,392</u>

The Foundation's primary responsibility is to hold assets for the benefit of others. The Foundation invests those assets to produce income in accordance with donor restrictions and its spending policy. The Foundation has a policy to structure its budget for general expenditures from the management fees collected and appropriations of endowment earnings per its spending policy.

The Foundation also realizes there could be unanticipated liquidity needs for programs and scholarships and has adequate accumulated earnings from which to draw, as noted in Note 6.

**Notes to Consolidated Financial Statements**

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**June 30, 2019**

**Note 14 - 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 \$2,800 and quarterly payments of approximately \$750.

Future minimum lease payments are as follows:

<u>Years Ending</u>	<u>Amount</u>
2020	\$ 36,991
2021	17,148
2022	<u>2,230</u>
Total	<u>\$ 56,369</u>

Rent expense for 2019 was \$39,782.



EASTERN MICHIGAN UNIVERSITY

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

**December 13, 2019**

### **FY19 Annual Update**

- Present FY19 Consolidated Financial Report
- Report on FY19 Fundraising Results
- Report on FY19 Endowment Activity

## FY19 Consolidated Financial Report

- Audit went very well; unqualified opinion on audited financial statements
- Total Assets = **\$81.3M**
- Total Liabilities = **\$0.8M**
- Total Net Assets = **\$80.5M**; increase of **\$0.7M** from 6/30/18 balance

## FY19 Financial Highlights Total Fundraising

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

Accrual Basis Contribution Revenue (per EMUF Fin Stmt)	\$7,765,497
Reverse Change in Contributions Receivable Adjustment (Inc in Cont Rev)	382,122
Reverse New Split Interest Agreement Adjustment (Inc in Cont Rev)	0
Add Pledges/Revocable Bequests Documented (not in EMUF Fin Stmt)	6,853,140
Less Pledge/Revocable Bequest Payments Received (not in EMUF Fin Stmt)	<u>(1,691,217)</u>
<b>Total Fundraising</b>	<b>\$13,309,542</b>
Cash Received	\$7,038,848
GIKs Received	1,108,771
Pledges/Revocable Bequests Documented	6,853,140
Less Pledge/Revocable Bequest Payments Received	<u>(1,691,217)</u>
<b>Total Fundraising</b>	<b>\$13,309,542</b>
<b>Total FY19 Fundraising Goal</b>	<b>\$13,000,000</b>



## FY19 Financial Highlights Immediate Use Gifts & Endowment Funding

<b>Expendable Contributions to EMU (per EMUF Fin Stmt)</b>	<b>\$4,939,516</b>
Gifts-in-Kind Made Directly to EMU (per EMUF Fin Stmt)	1,108,771
<b>Total Immediate Use Gifts to EMU for Scholarships &amp; Programs</b>	<b>\$6,048,287</b>
<b>Funding Provided to EMU from Endowed Scholarships &amp; Endowments (per EMUF Fin Stmt)</b>	<b><u>\$2,016,140</u></b>
<b>Total Impact of Immediate Use and Endowment Spending (compared to \$5.7M in FY18)</b>	<b>\$8,064,427</b>

## FY19 Summary of Endowment Activity

<b>Market Value @ 6/30/18</b>	<b>\$ 76.0M</b>
Gifts and Transfers	2.8M
Spending and Transfers (EMU)	(2.4M)
Spending and Transfers (EMUF)	(1.4M)
Investment Return	3.9M
Investment Fees	<u>(0.7M)</u>
<b>Market Value @ 6/30/19</b>	<b>78.2M</b>
<b>Split Interest Agreements @ 6/30/19</b>	<b><u>0.4M</u></b>
<b>End and SI Agreement Value @ 6/30/19</b>	<b>\$ 78.6M</b>

## **FY19 Summary of Endowment Activity**

- EMUF FY19 investment return = **4.6%** vs benchmark return of **5.2%**. 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%**

## **EMU Foundation Endowment Review**

As of June 30, 2019

## **Endowment Impact Account Statistics**

- Number of Funds--828
- Largest Endowment--\$5.5MM
- Average Size--\$86,000
- Number above \$1M--15
- Total Spending--\$2.6MM

## **Endowments by Type**

- Scholarship--679
- Non Scholarship--149

## **Endowments by College/Unit**

- CAS--289
- COB--61
- COE--126
- CHHS--73
- CET--59
- Halle Library--8
- Athletics--51
- Other--161

## **Best Opportunities for Endowment Growth**

- Campaign Priorities
- Scholarships
- Planned Gifts