

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

<b>SECTION: 20</b>
<b>DATE:</b> December 8, 2022

**RECOMMENDATION**

**REPORT: 2021-2022 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 fiscal year ended on June 30, 2022.

**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 fiscal year ended on June 30, 2022. 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 \$92,768,853, which represents \$92,105,005 (pg. 16) of endowment assets and \$663,848 (pg. 3) of planned gift assets. This represents a 3.2% decrease from the June 30, 2021 market value, which was \$95,853,191. Fundraising during 2021-2022 totaled \$15,037,828 (pg. 12) of which \$14,227,717 represents cash gifts and \$810,111 represents gifts-in-kind.

During this fiscal year, the endowment portfolio experienced an investment return of -4.4% vs. the portfolio benchmark of -9.6%. The average return since inception on September 30, 1992, of +7.5% continues to surpass the benchmark of +7.1%.

Current expendable gifts and gifts-in-kind distributed to and received directly by Eastern Michigan University for programs and scholarships totaled \$11,063,976 (pg. 4) for the year ended June 30, 2022. In addition, funding distributed to EMU from endowed scholarships and endowments totaled \$2,123,389 (pg. 4).

**FISCAL IMPLICATIONS**

None

**ADMINISTRATIVE RECOMMENDATION**

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



December 8, 2022  
Date



EASTERN MICHIGAN UNIVERSITY

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

**December 8, 2022**

# FY22 Annual Update

- Present FY22 Consolidated Financial Report
- Report on FY22 Fundraising Results
- Report on FY22 Endowment Activity

# FY22 Consolidated Financial Report

- Audit went very well; unqualified opinion on audited financial statements
- Total Assets = **\$99.0M**
- Total Liabilities = **\$1.9M**
- Total Net Assets = **\$97.1M**; decrease of **\$2.3M** from 6/30/21 balance

# FY22 Financial Highlights

## Total Fundraising

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

Accrual Basis Contribution Revenue (per EMUF Fin Stmt)	\$16,312,673
Reverse Change in Contributions Receivable Adjustment/Misc Adj (Inc in Cont Rev)	(1,274,845)
Reverse New Split Interest Agreement Adjustment (Inc in Cont Rev)	0
Add Pledges/Revocable Bequests Documented (not in EMUF Fin Stmt)	11,632,629
Less Pledge/Revocable Bequest Payments Received (not in EMUF Fin Stmt)	<u>(6,387,949)</u>
<b>Total Fundraising</b>	<b>\$20,282,508</b>
Cash Received	\$14,227,717
GIKs Received	810,111
Pledges/Revocable Bequests Documented	11,632,629
Less Pledge/Revocable Bequest Payments Received	<u>(6,387,949)</u>
<b>Total Fundraising</b>	<b>\$20,282,508</b>
<b>Total FY22 Fundraising Goal</b>	<b>\$14,000,000</b>



# FY22 Financial Highlights

## Immediate Use Gifts & Endowment Funding

Expendable Contributions to EMU (per EMUF Fin Stmt)	\$10,253,865
Gifts-in-Kind Made Directly to EMU (per EMUF Fin Stmt)	810,111
<b>Total Immediate Use Gifts to EMU for Scholarships &amp; Programs</b>	<b>\$11,063,976</b>
<b>Funding Provided to EMU from Endowed Scholarships &amp; Endowments (per EMUF Fin Stmt)</b>	<b><u>\$2,123,389</u></b>
<b>Total Impact of Immediate Use and Endowment Spending (compared to \$10.3M in FY21)</b>	<b>\$13,187,365</b>

# FY22 Summary of Endowment Activity

Market Value @ 6/30/21	\$ 94.3M
Gifts and Transfers	4.3M
Spending and Transfers (EMU)	(2.2M)
Spending and Transfers (EMUF)	(1.5M)
Investment Return (Loss)	(3.4M)
Investment Fees	<u>(0.5M)</u>
Market Value @ 6/30/22	91.0M
Split Interest Agreements @ 6/30/22	<u>0.7M</u>
End and SI Agreement Value @ 6/30/22	\$ 91.7M

# FY22 Summary of Endowment Activity

- EMUF FY22 investment return equals **-4.4%** vs benchmark return of **-9.6%**
- Cumulative average return since inception in September 1992 = **+7.5%** vs benchmark return of **+7.1%**





# **STRATEGIC PLAN FOR ALUMNI ENGAGEMENT**

October 2022

# Strategic Plan Process



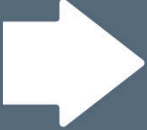
**MARCH**  
DISCOVERY AND STAKEHOLDER INTERVIEWS



**APRIL**  
ORGANIZATIONAL ASSESSMENT COMPLETED  
INTRODUCED RECOMMENDATION FOR STRATEGIC PLAN



**AUGUST**  
WORKING GROUP | ASPIRATIONAL VISION  
ADDITIONAL STAKEHOLDER INPUT



**SEPTEMBER**  
DEVELOPMENT OF GOALS, STRATEGIES, TIMELINES  
ORGANIZATIONAL CONSIDERATIONS



# STRATEGIC GOALS



**ORGANIZATIONAL  
EXCELLENCE**



**DATA  
ANALYTICS**



**PURPOSEFUL  
ENGAGEMENT**



**CAMPUS  
COLLABORATION**



**STRATEGIC  
COMMUNICATIONS**

# Anticipated Outcomes

**1**

**More alumni will choose to engage with EMU in meaningful ways**

**2**

**More alumni will consistently invest in EMU to create positive change**

**3**

**More alumni will feel a greater sense of pride about EMU and the value of their degree**

**4**

**EMU Colleges and units will increasingly partner with Alumni Relations**

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# Eastern Michigan University Foundation

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**Consolidated Financial Report**  
**June 30, 2022**



**Eastern Michigan University Foundation**

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## Independent Auditor's Report

To the Board of Trustees  
Eastern Michigan University Foundation

### **Opinion**

We have audited the consolidated financial statements of Eastern Michigan University Foundation (the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2022 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Foundation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Board of Trustees  
Eastern Michigan University Foundation

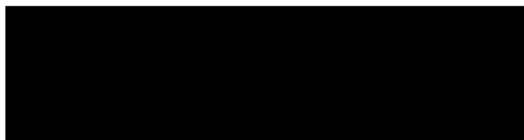
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the Foundation's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 17, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



September 16, 2022

## Eastern Michigan University Foundation

# Consolidated Statement of Financial Position

June 30, 2022  
(with summarized comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,342,543	\$ 3,708,673
Investments (Note 4)	89,930,199	93,668,692
Contributions receivable (Note 3)	3,891,263	2,616,418
Other assets	168,637	185,013
Investments held under split-interest agreements (Note 4)	663,848	859,607
Property and equipment - Net	30,254	39,192
Total assets	<u>\$ 99,026,744</u>	<u>\$ 101,077,595</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,429,587	\$ 1,035,466
Split-interest obligations	473,904	581,478
Total liabilities	1,903,491	1,616,944
<b>Net Assets (Note 5)</b>		
Without donor restrictions - Undesignated	1,110,599	1,021,497
With donor restrictions	96,012,654	98,439,154
Total net assets	<u>97,123,253</u>	<u>99,460,651</u>
Total liabilities and net assets	<u>\$ 99,026,744</u>	<u>\$ 101,077,595</u>

## Eastern Michigan University Foundation

# Consolidated Statement of Activities

Year Ended June 30, 2022

(with summarized comparative totals for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue, Gains, and Other Support</b>				
Support from EMU (Note 6)	\$ 1,278,567	\$ -	\$ 1,278,567	\$ 1,278,567
Contributions of cash and other financial assets (Note 8)	213,551	16,099,122	16,312,673	12,006,219
Net realized and unrealized (losses) gains on investments (Note 4)	-	(4,179,554)	(4,179,554)	17,853,696
Investment income	2,772	198,325	201,097	238,790
Change in value of split-interest agreements	-	36,836	36,836	(113,622)
Special event revenue	17,225	21,477	38,702	6,688
Net assets released from restrictions	14,756,376	(14,756,376)	-	-
<b>Total revenue, gains, and other support</b>	<b>16,268,491</b>	<b>(2,580,170)</b>	<b>13,688,321</b>	<b>31,270,338</b>
<b>Expenses</b>				
Contributions to EMU:				
Expendable contributions	11,063,976	-	11,063,976	8,349,341
Contributions from endowment income	2,123,389	-	2,123,389	1,923,610
General and administrative - Foundation management	521,203	-	521,203	506,245
Fundraising and advancement services	2,534,466	-	2,534,466	2,388,018
<b>Total expenses</b>	<b>16,243,034</b>	<b>-</b>	<b>16,243,034</b>	<b>13,167,214</b>
<b>Increase (Decrease) in Net Assets - Before funds transferred from EMU</b>	<b>25,457</b>	<b>(2,580,170)</b>	<b>(2,554,713)</b>	<b>18,103,124</b>
<b>Funds Transferred from EMU</b>	<b>63,645</b>	<b>153,670</b>	<b>217,315</b>	<b>217,827</b>
<b>Increase (Decrease) in Net Assets</b>	<b>89,102</b>	<b>(2,426,500)</b>	<b>(2,337,398)</b>	<b>18,320,951</b>
<b>Net Assets - Beginning of year</b>	<b>1,021,497</b>	<b>98,439,154</b>	<b>99,460,651</b>	<b>81,139,700</b>
<b>Net Assets - End of year</b>	<b>\$ 1,110,599</b>	<b>\$ 96,012,654</b>	<b>\$ 97,123,253</b>	<b>\$ 99,460,651</b>



**Eastern Michigan University Foundation**

**Consolidated Statement of Functional Expenses**

Year Ended June 30, 2022

(with summarized comparative totals for 2021)

	Program Services			Support Services			Total	
	Contributions to EMU	General and Administrative	Fundraising	Advancement Services	2022	2021		
Contributions to EMU	\$ 13,187,365	\$ -	\$ -	\$ -	\$ 13,187,365	\$ 10,272,951		
Salaries and benefits	-	325,763	1,332,023	567,549	2,225,335	2,170,222		
Professional fees	-	98,560	52,227	40,614	191,401	208,752		
Meals and entertainment	-	567	116,417	-	116,984	29,563		
Supplies	-	23,456	211,036	97,467	331,959	340,159		
Conferences and travel	-	5,383	51,907	1,489	58,779	8,073		
Other administrative supplies and contracted services	-	67,474	59,486	4,251	131,211	137,494		
<b>Total functional expenses</b>	<b>\$ 13,187,365</b>	<b>\$ 521,203</b>	<b>\$ 1,823,096</b>	<b>\$ 711,370</b>	<b>\$ 16,243,034</b>	<b>\$ 13,167,214</b>		

See notes to consolidated financial statements.

## Eastern Michigan University Foundation

# Consolidated Statement of Cash Flows

Year Ended June 30, 2022  
(with summarized comparative totals for 2021)

	2022	2021
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (2,337,398)	\$ 18,320,951
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	15,888	15,020
Net realized and unrealized losses (gains) on investments	4,179,554	(17,853,696)
Change in cash surrender value of life insurance	18,302	(29,822)
Change in value of split-interest agreements	(36,836)	113,622
Contributions restricted for long-term purposes	(3,273,429)	(2,829,153)
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Contributions receivable	(1,274,845)	(397,140)
Accounts receivable and other assets	(1,926)	672
Accounts payable	394,121	568,824
Net cash and cash equivalents used in operating activities	(2,316,569)	(2,090,722)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(6,950)	(18,680)
Purchases of investments	(55,179,645)	(47,021,172)
Proceeds from sales and maturities of investments	54,934,343	44,305,154
Net cash and cash equivalents used in investing activities	(252,252)	(2,734,698)
<b>Cash Flows from Financing Activities</b>		
Payments on split-interest agreements	(70,738)	(71,421)
Proceeds from contributions restricted for long-term purposes	3,273,429	2,829,153
Net cash and cash equivalents provided by financing activities	3,202,691	2,757,732
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	633,870	(2,067,688)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,708,673	5,776,361
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,342,543</b>	<b>\$ 3,708,673</b>

**Notes to Consolidated Financial Statements**

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**June 30, 2022**

**Note 1 - Nature of Business**

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, 2022.

***Cash Equivalents***

The Foundation considers all highly liquid investments with an original maturity of three months or less when purchased 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, and CDs are carried at quoted fair value whenever available. Fair value is determined based on the fair value measurement principles described in Note 9. 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 when purchased 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 approximately \$469,000 for the year ended June 30, 2022.

The methods described above and in Note 9 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 0.07 percent to 2.80 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 program 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 and is recorded in other assets on the consolidated statement of financial position. 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 three to seven years. The cost of property and equipment is stated net of \$43,226 of accumulated depreciation at June 30, 2022. Depreciation expense for the year ended June 30, 2022 amounted to \$15,888.

***Impairment or Disposal of Long-lived Assets***

The Foundation reviews the recoverability of long-lived assets, including land, 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, 2022.

***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 8.0 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 for which 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, where 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 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 revenue with donor restrictions. All other contributions are reported as revenue without donor restrictions, including contributions and support from EMU, as discussed in Note 6.

***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, 2021***

The consolidated financial information presented for comparative purposes for the year ended June 30, 2021 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 2021 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 Foundation's investment balances and the amounts reported in the consolidated financial statements.



**Notes to Consolidated Financial Statements**

June 30, 2022

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

***Upcoming Accounting Pronouncement***

The Financial Accounting Standards Board (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 12 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, 2023, in accordance with recent FASB guidance, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

***Subsequent Events***

The consolidated financial statements and related disclosures include evaluation of events up through and including September 16, 2022, 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, 2022:

Gross contributions promised	\$ 4,557,188
Less allowance for uncollectibles	<u>(455,719)</u>
Subtotal	4,101,469
Less unamortized discount	<u>(210,206)</u>
Net unconditional promises to give	<u>\$ 3,891,263</u>
Amounts due in:	
Less than one year	\$ 1,693,794
One to five years	1,977,424
More than five years	<u>885,970</u>
Total	<u>\$ 4,557,188</u>

Included in the above balances is a beneficial interest in a charitable lead trust with a receivable balance of \$885,719.

## Eastern Michigan University Foundation

# Notes to Consolidated Financial Statements

June 30, 2022

### Note 4 - Investments

Investments consisted of the following at June 30, 2022, including investments held under split-interest agreements:

Mutual funds - Equity	\$ 394,006
Mutual funds - Fixed income	5,257,351
Mutual funds - Balanced	3,560,257
Corporate stock securities	56,270
Certificates of deposit (long term)	400,000
Equity funds measured at net asset value	37,013,176
Fixed-income funds measured at net asset value	16,652,340
Real asset funds measured at net asset value	7,602,929
Hedge funds measured at net asset value	7,990,413
Private equity funds measured at net asset value	10,999,971
Real estate holding and land	667,334
Total	<u>\$ 90,594,047</u>

Net realized and unrealized gains in the accompanying consolidated financial statements have been offset with related losses. Investment loss for the year ended June 30, 2022 is as follows:

Investment loss:	
Dividend and interest income	\$ 670,478
Net realized gains	14,610,032
Net unrealized losses	(18,789,586)
Investment fees	(469,381)
Total investment loss	<u>\$ (3,978,457)</u>

### Note 5 - 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	\$ 805,651
Undesignated - Foundation operations	304,948
Total net assets without donor restrictions	<u>\$ 1,110,599</u>

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

Subject to expenditures for a specified purpose:	
Scholarships	\$ 20,801,405
Specific program use	12,955,050
Subject to the passage of time - Annuity trust agreements	189,944
Restricted in perpetuity - Endowment	62,066,255
Total	<u>\$ 96,012,654</u>

### Note 6 - Related Party Transactions

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

Separately, in order to support fundraising activities, EMU supports and funds the Foundation an amount determined annually. For the year ended June 30, 2022, the amount paid to the Foundation was \$1,278,567.



**Notes to Consolidated Financial Statements**

June 30, 2022

**Note 6 - Related Party Transactions (Continued)**

The Foundation awards contributions to EMU based on donor restrictions and endowment policies, as described in other notes. The Foundation also utilizes some of the employees and services of EMU in its operations, for which it is billed. During the year ended June 30, 2022, the Foundation incurred \$481,111 in management, general, and fundraising expenses payable to EMU. As of June 30, 2022, the Foundation has contributions payable to EMU of \$1,352,073 and management, general, and fundraising payables to EMU of \$39,775 recorded in accounts payable.

**Note 7 - 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 2022, the Foundation contributed 4 percent of the employees' base salaries.

Total contributions to the plan for the year ended June 30, 2022 amounted to approximately \$63,000.

**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, 2022 were as follows:

Accrual basis contribution revenue	\$ 16,312,673
Current gift deferrals and amortization in excess of collections on deferred gifts	<u>(1,274,845)</u>
Total	<u>\$ 15,037,828</u>

**Note 9 - 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.

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

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

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. The fair value of beneficial investment in charitable lead trust at June 30, 2022 was determined based on the present value of expected fixed payment stream, as described in the trust agreement, with a discount rate of 0.16 percent.

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

**Notes to Consolidated Financial Statements**

**June 30, 2022**

**Note 9 - Fair Value Measurements (Continued)**

The following table presents information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2022 and the valuation techniques used by the Foundation to determine those fair values:

	<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2022</u>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at June 30, 2022
Investments - Including investments held under split-interest agreements:				
Mutual funds - Fixed income	\$ 5,257,351	\$ -	\$ -	\$ 5,257,351
Mutual funds - Equity	394,006	-	-	394,006
Mutual funds - Balanced	3,560,257	-	-	3,560,257
Corporate stock securities	56,270	-	-	56,270
Certificates of deposit	400,000	-	-	400,000
Equity funds measured at net asset value			37,013,176	37,013,176
Fixed-income funds measured at net asset value			16,652,340	16,652,340
Real asset funds measured at net asset value			7,602,929	7,602,929
Hedge funds measured at net asset value			7,990,413	7,990,413
Private equity funds measured at net asset value			10,999,971	10,999,971
Total investment	9,667,884	-	80,258,829	89,926,713
Beneficial investment in charitable lead trust	-	885,719	-	885,719
Total assets	<u>\$ 9,667,884</u>	<u>\$ 885,719</u>	<u>\$ 80,258,829</u>	<u>\$ 90,812,432</u>

Land and real estate held for investment of \$612,334 and \$55,000, respectively, are valued at cost when purchased 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 where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.



**Notes to Consolidated Financial Statements**

**June 30, 2022**

**Note 9 - Fair Value Measurements (Continued)**

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

	Investments Held at June 30, 2022			
	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Equity funds	\$ 37,013,176	\$ -	Daily, Weekly, Monthly	1-30 days
Fixed-income funds	16,652,340	-	Daily	2-3 days
Hedge funds	7,990,413	-	Monthly, Quarterly	60-90 days
Real assets funds	7,602,929	1,855,063	Daily	2 days
Opportunistic/Private equity	10,999,971	4,869,341	N/A	N/A
<b>Total</b>	<b>\$ 80,258,829</b>	<b>\$ 6,724,404</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 focused primarily on income generation. Investments are diversified across credit quality, market sector, and geographic region.

Hedge funds - A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. These strategies typically are 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. A fund of hedge funds typically targets 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.

Real assets funds - The public segment is focused primarily on providing inflation-adjusted dividend yield and collateral return from commodities, and it can be a function of net operating income within the real estate space. The segment may be diversified across a spectrum of markets, geographies, and investment styles. Private real assets are an ownership interest in a non-publicly traded limited liability company (LLC) or limited partnership (LP). The segment is focused primarily on providing inflation-adjusted dividend yield and collateral return from commodities and can be a function of net operating income within the real estate space. 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.

Opportunistic/Private equity - Private equity is an ownership interest in a non-publicly traded limited liability company or limited partnership. 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.



**Notes to Consolidated Financial Statements**

June 30, 2022

**Note 10 - 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. Certain net assets with donor purpose restrictions have been designated by the Foundation to be spent over time like an endowment, referred to as term endowments.

***Interpretation of Relevant Law***

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Foundation has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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

Endowment Net Asset Composition by Type of Fund as of June 30, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 579,441	\$ -	\$ 579,441
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	62,066,255	62,066,255
Accumulated investment gains	-	10,331,425	10,331,425
Term endowment	-	19,127,884	19,127,884
Total	<u>\$ 579,441</u>	<u>\$ 91,525,564</u>	<u>\$ 92,105,005</u>

**Notes to Consolidated Financial Statements**

**June 30, 2022**

**Note 10 - Donor-restricted and Board-designated Endowments (Continued)**

	Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 579,441	\$ 94,414,143	\$ 94,993,584
Investment return - Net of realized and unrealized gains and losses	-	(3,839,312)	(3,839,312)
Contributions and board transfers to term endowment funds	-	4,673,632	4,673,632
Appropriation of endowment assets for expenditure	-	(3,722,899)	(3,722,899)
Endowment net assets - End of year	<u>\$ 579,441</u>	<u>\$ 91,525,564</u>	<u>\$ 92,105,005</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. Deficiencies of this nature exist in several donor-restricted endowment funds, which together have an original gift value of approximately \$5,181,649, a current fair value of approximately \$4,984,025, and a deficiency in net assets of \$197,625 as of June 30, 2022. These deficiencies resulted from unfavorable market fluctuations 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, 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 50 percent equities, 22 percent fixed income, 12 percent opportunistic/private equity, 7 percent hedge funds, 5 percent real assets, and 4 percent global asset allocation/risk parity. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.6 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, 2022

**Note 10 - 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 4 percent of an eligible endowment fund's average market value over the prior 12 quarters through the second fiscal year end preceding the fiscal year in which the distribution is planned; the fiscal year 2021 - 2022 appropriation was based on the 12-quarter average market value of the fund as of June 30, 2020. 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 5.6 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 earnings with donor restrictions 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 funds without donor restrictions is \$571,169 at June 30, 2022.

**Note 11 - Liquidity and Availability of Resources**

The following reflects the Foundation's financial assets as of June 30, 2022, 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	\$ 99,026,744
Less fixed and nonfinancial assets	<u>(30,254)</u>
Financial assets - At year end	98,996,490
Less those unavailable for general expenditures within one year due to - Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	33,756,455
Subject to appropriation and satisfaction of donor restrictions - Donor endowments	62,066,255
Other contractual restrictions	165,867
Investments held in annuity trust	<u>189,944</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,817,969</u></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 described in Note 5.

## Eastern Michigan University Foundation

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# Notes to Consolidated Financial Statements

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June 30, 2022

### 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 \$2,000 and quarterly payments of approximately \$450.

Future minimum lease payments are as follows:

<u>Years Ending</u>	<u>Amount</u>
2023	\$ 25,478
2024	25,478
2025	25,479
2026	9,689
2027	1,346
Total	<u>\$ 87,470</u>

Rent expense for 2022 was \$26,362.