

# **Eastern Michigan University Foundation**

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**Consolidated Financial Report**  
**June 30, 2007**

# **Eastern Michigan University Foundation**

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## Independent Auditor's Report

To the Board of Trustees  
Eastern Michigan University Foundation

We have audited the accompanying consolidated balance sheet of Eastern Michigan University Foundation (the "Foundation") as of June 30, 2007 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized information has been derived from the Foundation's 2006 financial statements and, in our report dated August 9, 2006, we expressed an unqualified opinion on those financial statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eastern Michigan University Foundation at June 30, 2007 and the consolidated changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

August 29, 2007

# Eastern Michigan University Foundation

## Consolidated Balance Sheet (with comparative totals for June 30, 2006)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,171,364	\$ 3,466,673
Investments (Note 4)	47,087,591	42,136,472
Receivables	335,480	606,554
Inventory	26,809	27,343
Loans and advances to affiliates (Note 7)	170,000	-
Dividend and interest receivable	140,749	123,511
Contributions receivable (Note 2)	713,523	261,437
Other assets:		
Cash surrender value of life insurance	252,120	254,591
Other assets	142,581	78,544
Property and equipment (Note 3)	2,129,110	2,170,565
Investments held under split-interest agreements (Note 4)	1,623,592	1,539,225
Total assets	<u>\$ 56,792,919</u>	<u>\$ 50,664,915</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 733,602	\$ 300,590
Mortgages payable (Note 5)	2,213,728	2,235,253
Split-interest obligations	827,284	807,360
Other liabilities	220,560	209,534
Total liabilities	3,995,174	3,552,737
<b>Net Assets</b>		
Unrestricted (Note 6)	2,203,150	2,221,075
Temporarily restricted (Note 6)	21,642,258	17,657,377
Permanently restricted	28,952,337	27,233,726
Total net assets	<u>52,797,745</u>	<u>47,112,178</u>
Total liabilities and net assets	<u>\$ 56,792,919</u>	<u>\$ 50,664,915</u>

# Eastern Michigan University Foundation

## Consolidated Statement of Activities and Changes in Net Assets (with comparative totals for year ended June 30, 2006)

	Year Ended				June 30, 2006
	June 30, 2007			Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue, Gains, and Other Support</b>					
Contributions	\$ 378,740	\$ 2,011,028	\$ 1,718,611	\$ 4,108,379	\$ 5,836,096
ECMC revenue	1,599,869	-	-	1,599,869	1,710,934
Administrative and management fee (Note 7)	1,837,425	-	-	1,837,425	1,630,644
Investment income (Note 4)	987,771	94,466	-	1,082,237	893,825
Net realized and unrealized gains and losses on investments (Note 4)	-	5,389,667	-	5,389,667	3,386,456
Miscellaneous income	63,049	6,680	-	69,729	80,558
Net assets released from restrictions	3,428,531	(3,428,531)	-	-	-
<b>Total revenue, gains, and other support</b>	<b>8,295,385</b>	<b>4,073,310</b>	<b>1,718,611</b>	<b>14,087,306</b>	<b>13,538,513</b>
<b>Expenses</b>					
Contributions to EMU:					
Expendable contributions	2,529,048	-	-	2,529,048	2,623,709
Contributions from endowment income	913,775	-	-	913,775	931,229
Other	3,960	-	-	3,960	10,289
General and administrative - Foundation management	452,533	-	-	452,533	510,892
Fund-raising	2,890,976	-	-	2,890,976	2,187,253
ECMC expenses	1,535,468	-	-	1,535,468	1,542,465
<b>Total expenses</b>	<b>8,325,760</b>	<b>-</b>	<b>-</b>	<b>8,325,760</b>	<b>7,805,837</b>
<b>Increase (Decrease) in Net Assets - Before other changes in net assets</b>	<b>(30,375)</b>	<b>4,073,310</b>	<b>1,718,611</b>	<b>5,761,546</b>	<b>5,732,676</b>
<b>Funds Transferred from EMU</b>	<b>12,450</b>	<b>46,145</b>	<b>-</b>	<b>58,595</b>	<b>-</b>
<b>Change in Value of Split-interest Agreements</b>	<b>-</b>	<b>(134,574)</b>	<b>-</b>	<b>(134,574)</b>	<b>(87,003)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(17,925)</b>	<b>3,984,881</b>	<b>1,718,611</b>	<b>5,685,567</b>	<b>5,645,673</b>
<b>Net Assets - Beginning of year</b>	<b>2,221,075</b>	<b>17,657,377</b>	<b>27,233,726</b>	<b>47,112,178</b>	<b>41,466,505</b>
<b>Net Assets - End of year</b>	<b>\$ 2,203,150</b>	<b>\$ 21,642,258</b>	<b>\$ 28,952,337</b>	<b>\$ 52,797,745</b>	<b>\$ 47,112,178</b>

# Eastern Michigan University Foundation

## Consolidated Statement of Cash Flows (with comparative totals for year ended June 30, 2006)

	Year Ended	
	June 30, 2007	June 30, 2006
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 5,685,567	\$ 5,645,673
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	119,923	140,661
Net realized and unrealized gains on investments	(5,389,667)	(3,386,456)
Change in cash surrender value of life insurance	(25,772)	(21,623)
Change in value of split-interest agreements	134,574	87,003
Contributions restricted for long-term purposes	(1,718,611)	(991,033)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	271,074	(242,341)
Inventory	534	(829)
Contributions receivable	(452,086)	497,585
Accrued interest and dividends	(17,238)	(31,576)
Other assets	(64,037)	(37,410)
Accounts payable	433,012	(527,621)
Accrued liabilities and other	11,026	91,618
Net cash (used in) provided by operating activities	(1,011,701)	1,223,651
<b>Cash Flows from Investing Activities</b>		
Proceeds from life insurance policy	28,243	-
Purchases of property and equipment	(78,468)	(76,081)
Purchases of investments	(13,523,075)	(17,868,058)
Proceeds from sales and maturities of investments	13,877,256	16,622,463
Advances to related parties	(170,000)	-
Net cash provided by (used in) investing activities	133,956	(1,321,676)
<b>Cash Flows from Financing Activities</b>		
Payments on mortgage and notes payable	(21,525)	(20,220)
Payments on split-interest agreements	(155,394)	(154,613)
Proceeds from new split-interest agreements	70,000	10,000
Proceeds from contributions restricted for long-term purposes	1,689,355	987,092
Net cash provided by financing activities	1,582,436	822,259
<b>Net Increase in Cash and Cash Equivalents</b>	704,691	724,234
<b>Cash and Cash Equivalents - Beginning of year</b>	3,466,673	2,742,439
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,171,364</b>	<b>\$ 3,466,673</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for</b>		
Interest	\$ 118,769	\$ 120,073
Income taxes	77,000	20,095

# Eastern Michigan University Foundation

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## Notes to Consolidated Financial Statements June 30, 2007

### Note I - Nature of Business and Significant Accounting Policies

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

Significant accounting policies are as follows:

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries, ECMC and PREC. All significant intercompany transactions have been eliminated in consolidation.

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

**Investments** - Investments in government and corporate debt and equity securities are stated at current quoted market value. Investments in partnerships, for which a quoted market value is not available, are stated at fair value as determined by the general partner. The real estate holding is recorded at its appraised value. Investments in land are reported at cost, which approximates market. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using the average cost method. Investment income is recorded on the accrual basis and is reported in the consolidated statement of activities and changes in net assets, net of related expenses. These expenses amounted to \$432,317 for the year ended June 30, 2007.

Endowed funds use an investment pool approach, under which each restricted purpose endowment has a specific unit interest based on its capital contributions to the pool. Income earned in the pool is allocated quarterly to unrestricted funds for general operations and to the individual endowments in proportion to the unit interests as of the end of the quarter. Gains and losses from the sale of pooled investments and unrealized gains and losses on investments held are allocated in the same manner.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

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

**Accounts Receivable** - Accounts receivable consist primarily of amounts due to ECMC for providing food, beverage, and other management services and is presented net of an allowance for uncollectible accounts of \$2,500. The allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that the determination is made.

**Inventory** - Inventory is carried at the lower of cost or market, by use of the first-in, first-out (FIFO) method of valuation.

**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. 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.

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

**Property and Equipment** - Property and equipment are recorded at cost when purchased and at estimated fair market value when donated. Depreciation on property and equipment is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. Depreciation expense for the year ended June 30, 2007 amounted to \$119,923.

**Split-interest Agreements** - The Foundation is a remainder beneficiary of several charitable annuity and unitrusts. Required distributions to other beneficiaries range from 5 percent to 11.9 percent of gift or market value, as defined by each agreement. The discount rates used to calculate the present value range from 3.2 percent to 10 percent.

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

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

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

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

**Contributions** - Contributions to the Foundation of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Contributions received with donor-imposed time or purpose restrictions are reported as restricted revenue. All other contributions are reported as unrestricted revenue.

Contributions to EMU are recorded as expense when approved by the Foundation. Contributions payable to EMU as of June 30, 2007 were approximately \$375,500.

**Fund-raising** - Fund-raising costs are charged to expense as incurred. The majority of all development activities for the benefit of EMU and the Foundation are conducted by the Foundation.

**Tax Status** - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. PREC is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code. ECMC is subject to federal income taxes and accounts for them in accordance with SFAS No. 109, *Accounting for Income Taxes*. Total federal income tax expense on ECMC income for the year ended June 30, 2007 was \$16,600. Deferred taxes are immaterial.

**Use of Estimates** - The preparation of 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.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

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

**Summarized Comparative Information for the Year Ended June 30, 2006** - The financial information presented for comparative purposes for the year ended June 30, 2006 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 2006 financial statements, from which the summarized information was derived.

### Note 2 - Contributions Receivable

Included in contributions receivable are the following unconditional promises to give at June 30, 2007:

Gross contributions promised	\$ 1,141,640
Less allowance for uncollectibles	<u>(280,508)</u>
Subtotal	861,132
Less unamortized discount	<u>(147,609)</u>
Net unconditional promises to give	<u>\$ 713,523</u>
Amounts due in:	
Less than one year	\$ 388,282
One to five years	708,858
More than five years	<u>44,500</u>
Total	<u>\$ 1,141,640</u>

### Note 3 - Property and Equipment

The cost of property and equipment at June 30, 2007 is summarized as follows:

Buildings	\$ 2,125,871
Equipment and software	1,850,100
Land improvements	<u>50,383</u>
Total cost	4,026,354
Less accumulated depreciation	<u>(1,897,244)</u>
Net carrying amount	<u>\$ 2,129,110</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

### Note 4 - Investments

Investments consisted of the following at June 30, 2007, including investments held under split-interest agreements:

	<u>Market Value</u>
Mutual funds	\$ 2,208,438
Corporate stock securities	36,818,555
Corporate bonds	3,883,505
U.S. government securities	5,135,027
Venture capital partnership	15,658
Real estate holding	<u>55,000</u>
Total EMUF	48,116,183
ECMC land	<u>595,000</u>
Consolidated total	<u>\$ 48,711,183</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, 2007 is as follows:

Dividend and interest income	\$ 1,082,237
Realized gains - Net	<u>2,675,324</u>
Net realized income and losses	3,757,561
Net unrealized gain	<u>2,714,343</u>
Total investment income	<u>\$ 6,471,904</u>

### Note 5 - Mortgages Payable

Mortgages payable as of June 30, 2007 are as follows:

Mortgage note payable to unrelated third party, collateralized by real estate. Requires monthly interest-only payments, bearing interest at 5.25 percent, with the principal due in June 2009	\$ 2,031,499
Mortgage note payable from ECMC to unrelated third party, collateralized by real estate, payable in monthly installments of \$2,803 including interest at 6.25 percent, final balloon payment due in June 2009	<u>182,229</u>
Total mortgages payable	<u>\$ 2,213,728</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

### Note 5 - Mortgages Payable (Continued)

The scheduled future principal payments of the mortgages are as follows:

Years Ending June 30	Amount
2008	\$ 22,898
2009	<u>2,190,830</u>
Total	<u>\$ 2,213,728</u>

Total mortgage and note interest expense for the year ended June 30, 2007 was approximately \$119,000.

### Note 6 - Net Assets

Temporarily restricted net assets are available for the following purposes:

Purpose-restricted:	
Scholarships	\$ 11,420,193
Specific program use	9,425,755
Time-restricted - Annuity trust agreements	<u>796,310</u>
Total	<u>\$ 21,642,258</u>

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

Unrestricted net assets consist of the following:

Designated to support underfunded EMU priorities - Endowments that support scholarships and academic programs and departments:	
Funds functioning as endowments for specific purposes	\$ 298,128
Funds not yet allocated	<u>138,753</u>
Total designated	436,881
Undesignated:	
Net of equity of ECMC	1,175,991
Foundation operations	<u>590,278</u>
Total undesignated	<u>1,766,269</u>
Total unrestricted net assets	<u>\$ 2,203,150</u>

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

### Note 7 - Related Party Transactions

Effective July 1, 2006, new operating agreements were entered into between EMU and the Foundation, and EMU and ECMC, respectively. These two separate operating agreements supercede similar agreements entered into in July 2001 and the joint operating agreement between the Foundation, ECMC, and EMU dated November 1995.

Under the agreement between EMU and the Foundation, the Foundation continues to have the responsibility to manage and invest endowment and other contributed assets held for the benefit of EMU and manage development and fund-raising programs for the benefit of EMU, including management of gift records and receipts.

In order to support fund-raising activities on behalf of the University, EMU pays to the Foundation an amount to be determined annually. For the year ended June 30, 2007, the amount paid to the Foundation was \$1,837,425.

Under the agreement between ECMC and EMU, ECMC continues to have the responsibility for the management of Eagle Crest Golf Club (ECGC) and Eagle Crest Conference Center (ECCC). ECMC receives management fees from EMU for the services it provides under the agreement. The fees are composed of a fixed fee of \$28,900 (subject to future increases for changes in the Consumer Price Index) plus 30 percent of net income as defined in the agreement. Total management fee revenue recognized by ECMC during the year ended June 30, 2007 was \$77,580.

During the year ended June 30, 2007, ECMC advanced funds to ECGC totaling \$170,000. These advances are noninterest-bearing.

### Note 8 - Defined Contribution Plans

The Foundation sponsors a defined contribution 403(b) plan for all eligible full-time employees, as defined. Employees may make elective contributions to the 403(b) plan in accordance with IRS regulations. The Foundation may make contributions to the 403(b) plan up to 6 percent of the employees' base salaries. During fiscal year 2007, the Foundation contributed 6 percent of the employees' base salaries.

ECMC sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. ECMC makes contributions to the 401(k) plan at 5 percent of the employees' base salaries.

Total contributions to the plans for the year ended June 30, 2007 amounted to approximately \$93,000.

# Eastern Michigan University Foundation

## Notes to Consolidated Financial Statements June 30, 2007

### Note 9 - Fund-raising Collections

Fund-raising 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 financial statements but are collectible over a period of years. The Foundation's fund-raising efforts also result in current gifts made directly to EMU that are not reported as contributions by the Foundation. Total fund-raising collections for the year ended June 30, 2007 were as follows:

Accrual basis contribution revenue	\$ 4,108,379
Gifts in-kind made directly to EMU	357,844
Collections on deferred gifts in excess of current gift deferrals and amortization	(452,086)
Gifts deposited directly at EMU	36,328
Return of prior year contributions	111,238
Current collections on split-interest agreements in excess of recorded revenue	<u>40,744</u>
Total fund-raising collections	<u>\$ 4,202,447</u>

### Note 10 - Fund-raising Expenses

Fund-raising expenses are comprised of the following:

Gifts and records	\$ 669,038
Other fund-raising	<u>2,221,938</u>
Total	<u>\$ 2,890,976</u>