

# Edinboro University Foundation

*Financial Statements and Supplementary Information*

June 30, 2018

# SKM

SCHAFFNER KNIGHT MINNAUGH & CO.

*Certified Public Accountants*

[www.skmco.com](http://www.skmco.com)

Erie, PA  Jamestown, NY

*An Independently Owned Member, RSM US Alliance*

**Edinboro University Foundation  
Financial Statements and Supplementary Information**

**Years Ended June 30, 2018 and 2017**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Edinboro University Foundation  
Edinboro, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of Edinboro University Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edinboro University Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Schiffman, Krieger, Minnigh + Company P.C.*  
Erie, Pennsylvania  
August 22, 2018

**Edinboro University Foundation**  
**Statements of Financial Position**

	June 30	
	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,570,234	\$ 925,670
Due from affiliated entities	6,075	6,866
Other current assets	129,947	134,896
Total current assets	1,706,256	1,067,432
Investments	28,046,824	26,400,310
Fixed assets, net of accumulated depreciation	2,553	4,645
Beneficial interest in remainder trust	298,936	299,383
Restricted cash	2,167,628	2,165,575
Other assets	680,876	683,474
Total assets	\$ 32,903,073	\$ 30,620,819
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 57,787	\$ 59,806
Due to affiliated entities	41,423	5,033
Total current liabilities	99,210	64,839
Endowments held on behalf of others:		
Funds under investment management for:		
Edinboro University of Pennsylvania	18,042,254	16,408,118
Edinboro University Alumni Association	1,851,774	1,796,693
Total endowments held on behalf of others	19,894,028	18,204,811
Other long-term liabilities	2,165,575	2,165,575
Total liabilities	22,158,813	20,435,225
Net assets:		
Unrestricted, undesignated	429,017	454,076
Accumulated losses on donor-restricted endowments	(49,365)	(59,911)
Total unrestricted net assets	379,652	394,165
Temporarily restricted net assets	2,802,255	2,414,807
Permanently restricted net assets	7,562,353	7,376,622
Total net assets	10,744,260	10,185,594
Total liabilities and net assets	\$ 32,903,073	\$ 30,620,819

*See notes to financial statements.*

**Edinboro University Foundation**  
**Statements of Activities**  
**For the Year Ended June 30, 2018**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Public Support and Revenues:</b>				
Unrealized gains on investments	\$ -	\$ 180,786	\$ -	\$ 180,786
Contributions	3,722	428,601	178,213	610,536
Interest and dividend income, net of investment expenses	8,214	74,011	-	82,225
Portfolio management fee income	197,907	-	-	197,907
Realized gain on investments	-	399,764	-	399,764
Other income	416	-	-	416
Adjustment to cash surrender value of life insurance	-	-	7,965	7,965
Adjustment to beneficial interest in remainder trust	-	-	(447)	(447)
Net assets released from restrictions:				
Satisfaction of purpose restrictions	695,714	(695,714)	-	-
<b>Total public support and revenues</b>	<b>905,973</b>	<b>387,448</b>	<b>185,731</b>	<b>1,479,152</b>
<b>Expenses:</b>				
Program services	711,959	-	-	711,959
Management and general expenses	201,834	-	-	201,834
Fundraising expenses	6,693	-	-	6,693
<b>Total expenses</b>	<b>920,486</b>	<b>-</b>	<b>-</b>	<b>920,486</b>
<b>(Decrease) increase in net assets</b>	<b>(14,513)</b>	<b>387,448</b>	<b>185,731</b>	<b>558,666</b>
<b>Beginning net assets</b>	<b>394,165</b>	<b>2,414,807</b>	<b>7,376,622</b>	<b>10,185,594</b>
<b>Ending net assets</b>	<b>\$ 379,652</b>	<b>\$ 2,802,255</b>	<b>\$ 7,562,353</b>	<b>\$ 10,744,260</b>

*See notes to financial statements.*

**Edinboro University Foundation**  
**Statements of Activities (continued)**  
**For the Year Ended June 30, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Public Support and Revenues:</b>				
Rental income	\$ 637,254	\$ -	\$ -	\$ 637,254
Unrealized gains on investments	-	634,269	-	634,269
Contributions	15,161	421,958	810,477	1,247,596
Interest and dividend income, net of investment expenses	32,344	87,756	-	120,100
Portfolio management fee income	165,854	-	-	165,854
Realized gain on investments	22,174	159,250	-	181,424
Adjustment to cash surrender value of life insurance	-	-	2,870	2,870
Gain on disposal, net	17,901,447	-	-	17,901,447
Other income	-	-	12,863	12,863
Net assets released from restrictions:				
Satisfaction of purpose restrictions	923,543	(912,543)	(11,000)	-
<b>Total public support and revenues</b>	<b>19,697,777</b>	<b>390,690</b>	<b>815,210</b>	<b>20,903,677</b>
<b>Expenses:</b>				
Program services	7,047,206	-	-	7,047,206
Management and general expenses	340,835	4,000	5,225	350,060
Fundraising expenses	16,799	-	-	16,799
<b>Total expenses</b>	<b>7,404,840</b>	<b>4,000</b>	<b>5,225</b>	<b>7,414,065</b>
<b>Increase in net assets</b>	<b>12,292,937</b>	<b>386,690</b>	<b>809,985</b>	<b>13,489,612</b>
<b>Beginning net (deficit) assets</b>	<b>(11,898,772)</b>	<b>2,028,117</b>	<b>6,566,637</b>	<b>(3,304,018)</b>
<b>Ending net assets</b>	<b>\$ 394,165</b>	<b>\$ 2,414,807</b>	<b>\$ 7,376,622</b>	<b>\$ 10,185,594</b>

*See notes to financial statements.*

**Edinboro University Foundation**  
**Statements of Cash Flows**

	<b>For the Years Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities:</b>		
Increase in net assets	\$ 558,666	\$ 13,489,612
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization expense	2,092	1,493,973
Unrealized investment gains	(180,786)	(634,269)
Gain on sale of fixed assets	-	(33,811,091)
Loss on defeasance of bonds	-	15,909,644
Imputed interest, deferred financing costs	-	665,572
Adjustment to cash surrender value of life insurance	7,965	2,870
Adjustment to beneficial interest in remainder trust	447	-
Realized investment gains, net	(399,764)	(181,424)
Change in operating assets and liabilities providing (using) cash:		
Due from affiliated entities	791	75,254
Other assets	(418)	259,109
Accounts payable and accrued liabilities	(2,019)	(81,817)
Due to affiliated entities	36,390	(178,067)
Accrued interest payable	-	(3,307,495)
Net cash provided by (used in) operating activities	<u>23,364</u>	<u>(6,298,129)</u>
<b>Investing Activities:</b>		
Proceeds from sale of fixed assets	-	118,100,000
Decrease in trustee held funds	-	17,728,389
Purchases of investments	(3,182,616)	(4,818,631)
Proceeds from sale of investments	3,242,144	2,775,750
Increase in agency endowment liability	561,672	2,834,842
Net cash provided by investing activities	<u>621,200</u>	<u>136,620,350</u>
<b>Financing activities:</b>		
Principal payments related to long-term debt	-	(1,615,000)
Payments for settlement of bonds	-	(129,013,535)
Net cash used in financing activities	<u>-</u>	<u>(130,628,535)</u>
Net change in cash and cash equivalents	644,564	(306,314)
Cash and cash equivalents at beginning of year	925,670	1,231,984
Cash and cash equivalents at end of year	<u>\$ 1,570,234</u>	<u>\$ 925,670</u>
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Increase in net book value of fixed assets from removal of construction contracts and retainage payable	<u>\$ -</u>	<u>\$ (168,415)</u>
Removal of retainage payable	<u>\$ -</u>	<u>\$ 168,415</u>
<b>Supplemental disclosure of other cash flow information:</b>		
Interest paid	<u>\$ -</u>	<u>\$ 6,545,032</u>

See notes to financial statements.

**Edinboro University Foundation**  
**Notes to the Financial Statements**  
**June 30, 2018**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Edinboro University Foundation (the “Foundation”), a not-for-profit organization, was formed in 1998 for the benefit of the students, faculty, and staff of Edinboro University of Pennsylvania of the State System of Higher Education (the “University”). Dedicating its time and resources to developing private sources of financial support for the University’s mission, the Foundation strives to build permanent endowments that will support the University’s students, faculty, and staff in perpetuity.

The Foundation administers numerous individual charitable funds, each established with an instrument of gift describing either the general or specific purposes for which grants are to be made, usually from income only, but in some cases, from principal.

The Foundation has evaluated all subsequent events through August 22, 2018, which is the date these financial statements were issued.

**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 revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include depreciation of property and equipment, and the fair value of investments and financial instruments. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less, excluding trustee held funds and certain short-term instruments classified as investments, to be cash equivalents.

**Unconditional Promises to Give**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledge is made (this approach does not differ materially from the use of a risk-adjusted rate). Amortization of the discount is included in contribution revenue.

Conditional promises to give are promises for which donor-imposed conditions specify future and uncertain events whose occurrence or failure to occur release the donors from the obligation to transfer the assets in the future. If and when such conditions have been substantially met, these promises cease to be conditional, and revenues are recorded, as appropriate.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Investments**

Equity securities with readily determinable fair values and debt securities are valued at fair value, based on quoted market prices as reported by the Foundation's investment custodians. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of activities.

The cost assigned to investments received as gifts represents fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in the fair value of investments, and all ordinary income from investments, are reported as changes in unrestricted net assets unless their use is temporarily restricted by explicit donor imposed stipulations or by law.

Investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

**Fixed Assets**

Fixed assets are stated at cost less accumulated depreciation, computed on a straight-line basis over the lesser of the lease term or the estimated useful lives of the assets. Expenditures for repair and maintenance costs which extend the useful lives of assets are capitalized and routine maintenance and repair costs are expensed as incurred.

**Beneficial Interest in Remainder Trust**

The Foundation is a beneficiary under a charitable remainder unitrust, an arrangement in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary over the trust's term. Upon termination of this trust, the Foundation will receive the assets remaining in the trust for endowment purposes.

**Restricted Cash**

Restricted cash represents cash held in escrow under restriction as to withdrawal or use under the terms of certain agreements related to the transfer of the Foundation's 2008 and 2010 Series bonds to the University.

**Other Long-Term Liabilities**

Other long-term liabilities represents funds owed in future years based on certain agreements that the Foundation entered into in connection with the transfer of the Foundation's 2008 and 2010 Series bonds to the University.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Endowments Held on Behalf of Others**

The Foundation holds and manages transferred assets for other governmental and not-for-profit organizations (namely, the University and the Edinboro University Alumni Association). Such assets, which are included in investments in the accompanying statements of financial position, are reported as endowments held on behalf of others (i.e. agency funds). The University and the Edinboro University Alumni Association establish investment and spending policies which govern these assets; the Foundation manages these assets within such parameters. The Foundation recognizes the fair value of the assets transferred as an increase in its investments and a corresponding liability attributable to the participating governmental and not-for-profit organizations, with the related investment activity being reported as an increase or decrease in the corresponding liability, as appropriate.

**Endowment Investment Return**

Total endowment investment return is composed of investment income, net realized gains and losses on endowment investments, and net unrealized gains and losses on endowment investments reported at fair value, net of investment fees.

**Endowment Spending Policy**

Commonwealth of Pennsylvania Act 141 permits the Foundation to allocate to income each year a portion of endowment return. The law allows not-for-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage, which by law must be between 2% and 7%, is elected annually by the Board of Directors. The endowment market value is determined based on an average spanning three years. The Foundation's spending policy allowed for a payout of up to 4% for fiscal years 2018 and 2017, of the rolling three-year average balances, which is based on market value.

**Basis of Net Asset Presentation**

The Foundation is required to report information regarding its financial position and activities into three net asset categories according to externally imposed restrictions. The three net asset categories are as follows:

Unrestricted, Undesignated Net Assets – Net assets that are not subject to donor restriction, or donor restricted contributions received for which the corresponding restrictions is met in the same reporting period.

Temporarily Restricted Net Assets – Net assets subject to donor imposed restrictions that may or will be met by passage of time or purpose.

Permanently Restricted Net Assets – Net assets subject to donor imposed restrictions, which require an organization to maintain the net assets in perpetuity.

**Board Designated Net Assets**

The Foundation's Board of Directors is able to approve segregations of unrestricted net assets to be utilized for specific programs, projects and operational expenses. Such items are reported as board designated net assets within the unrestricted net asset category. There were no board designated assets as of June 30, 2018 and 2017.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Donor Restricted Gifts**

All contributions are considered to be available for unrestricted purposes unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. When a donor restriction expires (i.e. when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets are released from restrictions.

Endowments and certain other investments are permanently restricted based on the donor's specifications. Investment earnings available for distribution or losses are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

**In-Kind Gifts**

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Management believes that such contributions were not material to the financial statements during the years ended June 30, 2018 and 2017.

**Legacies and Bequests**

The Foundation is a beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when clear title is established and the proceeds are clearly measurable.

**Income Taxes**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Foundation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The Foundation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in management and general expense. Management determined that there were no tax uncertainties that met the recognition threshold in fiscal years 2018 and 2017. At June 30, 2018 and 2017, there were no unrecognized tax benefits identified or liabilities recorded. With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for the years before June 30, 2015.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**1. Nature of Operations and Summary of Significant Accounting Policies (continued)**

**Pending Accounting Pronouncements**

During May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Foundation may elect to apply the guidance earlier. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Foundation is currently assessing the effect that ASU 2014-09 and 2015-14 will have on its results from operations, financial position and cash flows.

During January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The Foundation elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The Foundation is assessing the impact that the remainder of this standard will have on its results of operations, financial position and cash flows.

During August 2016, the FASB issued ASU No. 2016-14, *Not-For Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is currently assessing the impact this standard will have on its financial statements.

**2. Investments**

The carrying values of the Foundation’s investments consist of the following at June 30:

	<b>2018</b>	<b>2017</b>
Mutual funds/Common funds	<b>\$ 25,380,922</b>	\$ 23,878,646
Common stocks	<b>2,396,602</b>	2,185,745
Money market funds	<b>269,300</b>	335,919
	<b>\$ 28,046,824</b>	\$ 26,400,310

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**3. Fair Value Measurements**

The Foundation measures its investments and charitable remainder trust at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The Foundation, using available market information and appropriate valuation methodologies, has determined the estimated fair value of its financial instruments. However, considerable judgment is required in interpreting data to develop the estimates of fair value.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**3. Fair Value Measurements (continued)**

Fair value of assets measured on a recurring basis is as follows at June 30, 2018:

	Fair Value	Level 1	Level 2	Level 3
Common stocks:				
Consumer discretionary	\$ 370,924	\$ 370,924	\$ -	\$ -
Consumer staples	184,516	184,516	-	-
Energy	140,591	140,591	-	-
Financial	383,546	383,546	-	-
Healthcare	427,862	427,862	-	-
Industrials	206,555	206,555	-	-
Materials	58,288	58,288	-	-
Technologies	559,244	559,244	-	-
Utilities	65,076	65,076	-	-
Total common stocks	<u>2,396,602</u>	<u>2,396,602</u>	-	-
Debt-based mutual funds:				
United States treasuries	754,229	754,229	-	-
Investment grade securities	781,767	781,767	-	-
Other debt-based securities	3,054,346	3,054,346	-	-
Equity-based mutual funds:				
Mid cap	1,627,869	1,627,869	-	-
International	2,119,643	2,119,643	-	-
Small cap	1,020,003	1,020,003	-	-
Unclassified	4,061,112	4,061,112	-	-
Commonfund:				
Multi-Strategy Equity	8,001,242	-	8,001,242	-
Multi-Strategy Bond	972,253	-	972,253	-
International Equity	2,988,458	-	2,988,458	-
Total mutual funds	<u>25,380,922</u>	<u>13,418,969</u>	<u>11,961,953</u>	-
Money market funds	269,300	269,300	-	-
Total investments	<u>28,046,824</u>	<u>16,084,871</u>	<u>11,961,953</u>	-
Beneficial interest in remainder trust				
	298,936	-	-	298,936
Total	<u>\$ 28,345,760</u>	<u>\$ 16,084,871</u>	<u>\$ 11,961,953</u>	<u>\$ 298,936</u>

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**3. Fair Value Measurements (continued)**

Fair value of assets measured on a recurring basis is as follows at June 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Common stocks:				
Consumer discretionary	\$ 270,912	\$ 270,912	\$ -	\$ -
Consumer staples	229,054	229,054	-	-
Energy	144,634	144,634	-	-
Financial	381,533	381,533	-	-
Healthcare	310,483	310,483	-	-
Industrials	222,997	222,997	-	-
Materials	43,816	43,816	-	-
Technologies	468,381	468,381	-	-
Telecommunications	63,070	63,070	-	-
Utilities	50,865	50,865	-	-
Total common stocks	2,185,745	2,185,745	-	-
Debt-based mutual funds:				
United States treasuries	442,652	442,652	-	-
Investment grade securities	355,131	355,131	-	-
Other debt-based securities	3,517,794	3,517,794	-	-
Equity-based mutual funds:				
Mid cap	1,167,651	1,167,651	-	-
International	2,601,395	2,601,395	-	-
Small cap	244,517	244,517	-	-
Unclassified	4,311,630	4,311,630	-	-
Commonfund:				
Multi-Strategy Equity	7,120,884	-	7,120,884	-
Multi-Strategy Bond	2,968,652	-	2,968,652	-
International Equity	1,148,340	-	1,148,340	-
Total mutual funds	23,878,646	12,640,770	11,237,876	-
Money market funds	335,919	335,919	-	-
Total investments	26,400,310	15,162,434	11,237,876	-
Beneficial interest in remainder trust	299,383	-	-	299,383
Total	\$ 26,699,693	\$ 15,162,434	\$ 11,237,876	\$ 299,383

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2018 and 2017.

*Common stocks:* Valued at closing price reported on the active market on which the individual securities are traded.

*Money market funds:* Valued at quoted market prices for identical securities in the active markets that the Foundation had the ability to access at the measurement date.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**3. Fair Value Measurements (continued)**

*Commonfund:* Valued based upon the unit values (NAV) of the funds held by the Foundation at year end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. The Foundation invests in the following Commonfund funds:

**Multi-Strategy Equity** – The Multi-Strategy Equity program allocates assets across a broad spectrum of public equity strategies in proportions considered optimal for a fully diversified equity portfolio. The majority of the program’s assets generally are invested directly or indirectly in a portfolio of common stocks and securities convertible into common stocks of U.S. companies. The program’s allocation to the U.S. equity market includes exposure to companies in the S&P 500 Composite index, the benchmark for the program, as well as companies not included in the index. The program seeks to diversify its portfolio by allocating assets to common stocks and other equity securities of foreign companies in both developed and emerging markets. In addition, the program expects to invest in marketable alternative strategies that seek opportunities in domestic and foreign markets for equity-type returns with low correlation to the equity markets. The investment is valued at net asset value per share and has no unfunded commitments or significant redemption restrictions.

**Multi-Strategy Bond** – The Multi-Strategy Bond program allocates assets across a broad spectrum of fixed income sectors in proportions considered optimal for a fully diversified fixed income portfolio. The majority of the program’s assets generally are invested directly or indirectly in dollar-denominated investment grade bonds and other fixed income securities in an attempt to outperform the broad U.S. bond market. The program seeks to diversify its portfolio by allocating assets to other fixed income securities and strategies, including but not limited to global bonds, inflation-indexed bonds, high yield bonds, emerging markets debt and opportunistic credit strategies. Under normal circumstances, at least 80 percent of the net assets of the program will be invested directly or indirectly in fixed income securities or cash. The benchmark for the program is the Barclays Capital U.S. Aggregate Bond index. The investment is valued at net asset value per share and has no unfunded commitments or significant redemption restrictions.

**International Equity Fund** – The International Equity Fund invests primarily in common stocks and other equity securities of non-U.S. companies (including common stocks, securities convertible into common stocks and warrants to acquire common stocks). Up to 10 percent of the fund can be invested in equity securities of issuers located in emerging markets. The fund is designed to outperform its benchmark, the Morgan Stanley Capital International World ex-U.S. Index, over a full-market cycle, primarily through active stock selection. Portfolio holdings will typically range from 150 to 300 equity securities. The investment is valued at net asset value per share and has no unfunded commitments or significant redemption restrictions.

*Beneficial interest in remainder trust:* Valued using the income approach with significant unobservable inputs based on fair value of the underlying investments. The assets are recorded at the estimated present value of the Foundation’s future cash receipts from the trust assets.

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

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**3. Fair Value Measurements (continued)**

The following table sets forth a summary of changes in the fair value of Level 3 assets for the years ended June 30:

	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ <b>299,383</b>	\$ 299,383
Unrealized loss	<b>(447)</b>	-
Balance, end of year	<b>\$ 298,936</b>	\$ 299,383

The most significant unobservable inputs affecting the fair value of the beneficial interest in remainder trust are the changes in the fair value of the assets comprising the trust, as well as changes in the present value of the estimated future payments to beneficiaries. Significant changes in any of these inputs in isolation could result in a significant change in the fair value measurement. There were no changes in valuation techniques during the years ended June 30, 2018 and 2017.

**4. Fixed Assets**

Fixed assets consist of the following as of June 30:

	<b>2018</b>	<b>2017</b>
Furniture and fixtures	\$ <b>4,832</b>	\$ 4,832
Equipment	<b>216,354</b>	216,354
Total	<b>221,186</b>	221,186
Less: Accumulated depreciation	<b>218,633</b>	216,541
Total fixed assets, net	<b>\$ 2,553</b>	\$ 4,645

Depreciation expense was \$2,092 and \$646,118 for the years ended June 30, 2018 and 2017, respectively.

**5. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are comprised of the following as of June 30:

	<b>2018</b>	<b>2017</b>
Various Edinboro University Foundation scholarships and related programs	<b>\$ 2,802,255</b>	\$ 2,414,807

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**5. Temporarily and Permanently Restricted Net Assets (continued)**

Permanently restricted net assets are comprised of the following as of June 30:

	2018	2017
Investments to be held in perpetuity by donor stipulations or by Pennsylvania law, the income from which is generally available for scholarships and programs	\$ 7,167,025	\$ 6,988,812
Cash surrender value of donated life insurance policies to benefit scholarship and programs	96,392	88,427
Beneficial interests in remainder trust for endowment purposes	298,936	299,383
	\$ 7,562,353	\$ 7,376,622

**6. Endowment Funds**

The Foundation's endowment consists of approximately 200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**6. Endowment Funds (continued)**

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 fund. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices such as the S&P 500, Russell 2000, Barclays Capital U.S. Aggregate Bond and EAFE index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide favorable results against these benchmark comparative indexes. Actual returns in any given year may vary from this amount.

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 Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Over the long term, the Foundation expects the current spending policy to allow its endowment to continue to grow. 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.

Endowment net asset composition by type of fund as of June 30, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Total donor restricted endowments	\$ (49,365)	\$ 2,321,807	\$ 7,562,353	\$ 9,834,795

Changes in endowment net assets for the year ended June 30, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (59,911)	\$ 1,941,591	\$ 7,376,622	\$ 9,258,302
Investment return	-	650,645	-	650,645
Contributions	-	48,860	178,213	227,073
Appropriation of endowment assets for expenditure	-	(306,578)	-	(306,578)
Other changes:				
Gifts and transfers to University	-	(8,465)	-	(8,465)
Change in value of split-interest agreements	-	-	(447)	(447)
Change in cash surrender value of life insurance	-	-	7,965	7,965
Other	10,546	(4,246)	-	6,300
Endowment net assets, end of year	\$ (49,365)	\$ 2,321,807	\$ 7,562,353	\$ 9,834,795

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**6. Endowment Funds (continued)**

Endowment net asset composition by type of fund as of June 30, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Total donor restricted endowments	\$ (59,911)	\$ 1,941,591	\$ 7,376,622	\$ 9,258,302

Changes in endowment net assets for the year ended June 30, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (84,889)	\$ 1,459,788	\$ 6,566,637	\$ 7,941,536
Investment return	-	870,231	-	870,231
Contributions	-	76,923	810,477	887,400
Appropriation of endowment assets for expenditure	-	(427,685)	-	(427,685)
Other changes:				
Gifts and transfers to University	-	(8,188)	(11,000)	(19,188)
Other income	-	-	12,400	12,400
Change in cash surrender value of life insurance	-	-	3,333	3,333
Other	24,978	(29,478)	(5,225)	(9,725)
Endowment net assets, end of year	\$ (59,911)	\$ 1,941,591	\$ 7,376,622	\$ 9,258,302

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 law requires the Foundation to retain as a fund of perpetual duration. The Board of Directors utilizes an extended three-year market value average cycle to make this determination. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$49,365 and \$59,911 as of June 30, 2018 and 2017, respectively.

**7. Portfolio Management Fees**

The Foundation assesses an asset management fee on managed scholarship and other endowment funds to be used to support the programs and mission of the University and Alumni Association. This fee, which is calculated based on a percentage of the total fair value of the investments, amounted to \$197,907 and \$165,854 for the years ended June 30, 2018 and 2017, respectively.

**Edinboro University Foundation**  
**Notes to the Financial Statements (continued)**

**8. Related Party Transactions**

The Foundation manages scholarship assets received from the University and Alumni Association under an endowment custodial relationship (Note 1). These contributing organizations did not grant the Foundation variance power (the ability to redirect the corpus) and retained the ownership of the assets.

The Foundation receives and manages contributions from donors of assets intended for the benefit of the University. Direct contributions of these assets are recorded on the Foundation's records as contribution income and held in restricted net assets until the donors' requirements have been satisfied, at which time the assets are released from restrictions and paid to the University for various initiatives. These gifts to the University were \$135,874 and \$168,695 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2017, the Foundation paid \$90,212, in indirect expenses to the University related to student housing activities. There were no expenses incurred related to student housing activities during the year ended June 30, 2018.

**9. Concentration of Credit Risk**

The Foundation maintains its cash and cash equivalents in bank deposit accounts, which at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to its cash and cash equivalents.

**SUPPLEMENTARY  
INFORMATION**

**Edinboro University Foundation**  
**Schedules of Functional Expenses – Management and**  
**General Expenses and Program Services**

	<b>For the Years Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Management and General Expenses:		
Personnel expenses	\$ 138,928	\$ 227,585
Professional fees	28,100	97,118
Miscellaneous	246	2,317
Software and maintenance agreements	11,370	8,426
Insurance	20,739	637
Office supplies	80	895
Dues and memberships	279	1,831
Depreciation expense	2,092	2,026
	<b>\$ 201,834</b>	<b>\$ 340,835</b>
Program Services:		
Student housing facility expense	\$ 24,779	\$ 5,327,926
Scholarship payments	449,847	615,141
Gifts to Edinboro University	135,999	168,910
Projects and special events	101,334	106,624
Gifts to others	-	828,605
	<b>\$ 711,959</b>	<b>\$ 7,047,206</b>