

Edinboro University Foundation

Financial Statements

June 30, 2019

SKM

SCHAFFNER KNIGHT MINNAUGH & CO.

Certified Public Accountants

www.skmco.com

Erie, PA  Jamestown, NY

An Independently Owned Member, RSM US Alliance

**Edinboro University Foundation
Financial Statements**

Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, as of and for the years ended June 30, 2019 and 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Adoption of this guidance changed the manner in which net assets is presented and reporting of certain other aspects of its financial statements as a not-for-profit entity. Our opinion is not modified with respect to this matter.

Schiffman, Knight, Munnich & Company P.C.

Erie, Pennsylvania
August 29, 2019

Edinboro University Foundation
Statements of Financial Position

	June 30	
	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,429,504	\$ 1,570,234
Due from affiliated entities	6,520	6,075
Other current assets	178,335	129,947
Total current assets	1,614,359	1,706,256
Investments	30,011,166	28,046,824
Fixed assets, net of accumulated depreciation	844	2,553
Beneficial interest in remainder trust	-	298,936
Restricted investments	2,207,597	2,167,628
Other assets	710,237	680,876
Total assets	\$ 34,544,203	\$ 32,903,073
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 64,920	\$ 57,787
Due to affiliated entities	8,369	41,423
Total current liabilities	73,289	99,210
Endowments held on behalf of others:		
Funds under investment management for:		
Edinboro University of Pennsylvania	18,820,562	18,042,254
Edinboro University Alumni Association	1,960,412	1,851,774
Total endowments held on behalf of others	20,780,974	19,894,028
Other long-term liabilities	2,165,575	2,165,575
Total liabilities	23,019,838	22,158,813
Net assets:		
Unrestricted, undesignated	550,337	429,017
Accumulated losses on donor-restricted endowments	(45,102)	(49,365)
Total without donor restrictions	505,235	379,652
With donor restrictions	11,019,130	10,364,608
Total net assets	11,524,365	10,744,260
Total liabilities and net assets	\$ 34,544,203	\$ 32,903,073

See notes to financial statements.

Edinboro University Foundation
Statements of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues:			
Unrealized gains on investments	\$ 23,524	\$ 327,564	\$ 351,088
Contributions	522	954,918	955,440
Interest and dividend income, net of investment expenses	39,373	84,243	123,616
Portfolio management fee income	393,865	-	393,865
Realized gain on investments	-	135,667	135,667
Other income	-	657	657
Adjustment to cash surrender value of life insurance	-	4,328	4,328
Net assets released from restrictions:			
Satisfaction of purpose restrictions	852,855	(852,855)	-
Total public support and revenues	1,310,139	654,522	1,964,661
Expenses:			
Program services	1,043,989	-	1,043,989
Supporting services	140,567	-	140,567
Total expenses	1,184,556	-	1,184,556
Increase in net assets	125,583	654,522	780,105
Beginning net assets	379,652	10,364,608	10,744,260
Ending net assets	\$ 505,235	\$ 11,019,130	\$ 11,524,365

See notes to financial statements.

Edinboro University Foundation
Statements of Activities (continued)
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues:			
Unrealized gains on investments	\$ -	\$ 180,786	\$ 180,786
Contributions	3,722	606,814	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)	-
Total public support and revenues	905,973	573,179	1,479,152
Expenses:			
Program services	847,085	-	847,085
Supporting services	73,401	-	73,401
Total expenses	920,486	-	920,486
(Decrease) increase in net assets	(14,513)	573,179	558,666
Beginning net assets	394,165	9,791,429	10,185,594
Ending net assets	\$ 379,652	\$ 10,364,608	\$ 10,744,260

See notes to financial statements.

**Edinboro University Foundation
Statements of Functional Expenses**

For the Year Ended June 30, 2019

	Program Services			Supporting Services			Total Expenses
	Scholarships and Grants	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Expenses:							
Personnel expenses	\$ 53,688	\$ 96,638	\$ 150,326	\$ 53,688	\$ 10,738	\$ 64,426	\$ 214,752
Professional fees	-	-	-	32,574	-	32,574	32,574
Miscellaneous	-	-	-	2,394	-	2,394	2,394
Software and maintenance agreements	-	-	-	13,743	-	13,743	13,743
Insurance	3,396	-	3,396	16,350	-	16,350	19,746
Office supplies	-	-	-	9,082	-	9,082	9,082
Dues and memberships	-	-	-	289	-	289	289
Depreciation expense	-	-	-	1,709	-	1,709	1,709
Credit card processing fees	3,098	3,098	6,196	-	-	-	6,196
Student housing facility expense	-	5,627	5,627	-	-	-	5,627
Scholarship payments	385,774	-	385,774	-	-	-	385,774
Gifts to Edinboro University	-	408,407	408,407	-	-	-	408,407
Projects and special events	-	84,263	84,263	-	-	-	84,263
Total expenses	<u>\$ 445,956</u>	<u>\$ 598,033</u>	<u>\$ 1,043,989</u>	<u>\$ 129,829</u>	<u>\$ 10,738</u>	<u>\$ 140,567</u>	<u>\$ 1,184,556</u>

See notes to financial statements.

Edinboro University Foundation
Statements of Functional Expenses (continued)

For the Year Ended June 30, 2018

	Program Services			Supporting Services			Total Expenses
	Scholarships and Grants	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Expenses:							
Personnel expenses	\$ 62,518	\$ 62,518	\$ 125,036	\$ 13,892	\$ -	\$ 13,892	\$ 138,928
Professional fees	-	-	-	28,100	-	28,100	28,100
Miscellaneous	-	-	-	245	-	245	245
Software and maintenance agreements	-	-	-	11,370	-	11,370	11,370
Insurance	3,396	-	3,396	17,343	-	17,343	20,739
Office supplies	-	-	-	80	-	80	80
Dues and memberships	-	-	-	279	-	279	279
Depreciation expense	-	-	-	2,092	-	2,092	2,092
Credit card processing fees	3,347	3,347	6,694	-	-	-	6,694
Student housing facility expense	-	24,779	24,779	-	-	-	24,779
Scholarship payments	449,847	-	449,847	-	-	-	449,847
Gifts to Edinboro University	-	135,999	135,999	-	-	-	135,999
Projects and special events	-	101,334	101,334	-	-	-	101,334
Total expenses	<u>\$ 519,108</u>	<u>\$ 327,977</u>	<u>\$ 847,085</u>	<u>\$ 73,401</u>	<u>\$ -</u>	<u>\$ 73,401</u>	<u>\$ 920,486</u>

See notes to financial statements.

Edinboro University Foundation
Statements of Cash Flows

	For the Years Ended June 30	
	2019	2018
Operating Activities:		
Increase in net assets	\$ 780,105	\$ 558,666
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	1,709	2,092
Unrealized investment gains	(351,088)	(180,786)
Adjustment to cash surrender value of life insurance	4,328	7,965
Adjustment to beneficial interest in remainder trust	-	447
Settlement of beneficial interest in remainder trust	298,936	-
Realized investment gains, net	(135,667)	(399,764)
Change in operating assets and liabilities (using) providing cash:		
Due from affiliated entities	(445)	791
Other assets	(82,077)	(418)
Accounts payable and accrued liabilities	7,133	(2,019)
Due to affiliated entities	(33,054)	36,390
Net cash provided by operating activities	489,880	23,364
Investing Activities:		
Purchases of investments	(231,009)	(3,182,616)
Proceeds from sale of investments	94,430	3,242,144
(Decrease) increase in agency endowment liability	(494,031)	561,672
Net cash (used in) provided by investing activities	(630,610)	621,200
Net change in cash and cash equivalents	(140,730)	644,564
Cash and cash equivalents at beginning of year	1,570,234	925,670
Cash and cash equivalents at end of year	\$ 1,429,504	\$ 1,570,234

See notes to financial statements.

Edinboro University Foundation
Notes to the Financial Statements
June 30, 2019

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.

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 net assets without donor restrictions 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. The trust was terminated and the funds were received by the Foundation in July 2018.

Restricted Investments

Restricted investments represent investments held 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 2019 and 2018, 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 based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

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 by the donor has stipulated the funds be maintained in perpetuity.

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 donor 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), assets are reclassified as without donor restrictions and reported in the statement of activities as net assets 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 net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor 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, 2019 and 2018.

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.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the different program services. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expense	Method of Allocation
• Personnel expenses	Time and effort
• Credit card processing fees	Estimate based on average charges
• Student housing facility expense	Actual expenses incurred
• Scholarship payments	Actual scholarships paid
• Gifts to Edinboro University	Actual gifts paid
• Project and special events	Actual benefits paid

Edinboro University Foundation
Notes to the Financial Statements (continued)

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

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 2019 and 2018. At June 30, 2019 and 2018, 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, 2016.

Subsequent Events

The Foundation has evaluated subsequent events for potential recognition and/or disclosure through August 29, 2019, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 for one year making it effective for annual reporting periods beginning after December 15, 2018. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to assist preparers with identifying performance obligations and implementing licensing guidance under the new revenue standard. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This ASU provides clarifying guidance in certain narrow areas and adds some practical expedients relative to assessing collectability, presentation of taxes collected from customers, noncash consideration, contract modifications at transition, and completed contracts at transition and technical corrections. The amendments have the same effective date and transition requirements as ASU 2014-09. The Foundation has not yet selected a transition method, but has evaluated the impact of the pending adoption of these ASU’s on its financial statements. Based on the Foundation’s evaluation, management has concluded that the retroactive adoption of these ASU’s will not have a material impact on the Foundation’s financial position or its reported results of operations.

Edinboro University Foundation
Notes to the Financial Statements (continued)

1. Recently Issued Accounting Pronouncements (continued)

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.

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

During June 2018, the FASB issued ASU No. 2018-08, *Not-for Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made to Not-for-Profit Entities*. The new guidance is intended to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 is effective for fiscal years beginning after December 31, 2019, with early adoption permitted. 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:

	2019	2018
Mutual funds/Common funds	\$ 28,496,105	\$ 25,380,922
Common stocks	3,095,610	2,396,602
Money market funds	627,048	269,300
	\$ 32,218,763	\$ 28,046,824

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.

Edinboro University Foundation
Notes to the Financial Statements (continued)

3. Fair Value Measurements (continued)

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.

Fair value of assets measured on a recurring basis is as follows at June 30, 2019:

	Fair Value	Level 1	Level 2	Level 3
Common stocks:				
Consumer discretionary	\$ 381,026	\$ 381,026	\$ -	\$ -
Consumer staples	243,657	243,657	-	-
Energy	109,753	109,753	-	-
Financial	365,856	365,856	-	-
Healthcare	486,013	486,013	-	-
Industrials	297,919	297,919	-	-
Materials	30,320	30,320	-	-
Real estate	91,856	91,856	-	-
Technologies	671,098	671,098	-	-
Telecommunications	324,955	324,955	-	-
Utilities	93,157	93,157	-	-
Total common stocks	3,095,610	3,095,610	-	-
Debt-based mutual funds:				
United States treasuries	625,867	625,867	-	-
Other debt-based securities	6,358,811	6,358,811	-	-
Equity-based mutual funds:				
Mid cap	2,307,725	2,307,725	-	-
International	1,978,059	1,978,059	-	-
Small cap	834,616	834,616	-	-
Large cap	2,421,167	2,421,167	-	-
Unclassified	1,041,115	1,041,115	-	-
Commonfund:				
Multi-Strategy Equity	8,733,100	-	8,733,100	-
Multi-Strategy Bond	3,211,471	-	3,211,471	-
International Equity	984,174	-	984,174	-
Total mutual funds	28,496,105	15,567,360	12,928,745	-
Money market funds	627,048	627,048	-	-
Total investments	29,123,153	16,194,408	12,928,745	-
Total	\$ 32,218,763	\$ 19,290,018	\$ 12,928,745	\$ -

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	2,396,602	2,396,602	-	-
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	1,669,471	1,669,471	-	-
International	2,417,659	2,417,659	-	-
Small cap	1,020,003	1,020,003	-	-
Large cap	2,054,251	2,054,251	-	-
Unclassified	1,667,243	1,667,243	-	-
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	25,380,922	13,418,969	11,961,953	-
Money market funds	269,300	269,300	-	-
Total investments	28,046,824	16,084,871	11,961,953	-
Beneficial interest in remainder trust	298,936	-	-	298,936
Total	\$ 28,345,760	\$ 16,084,871	\$ 11,961,953	\$ 298,936

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, 2019 and 2018.

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:

	2019	2018
Balance, beginning of year	\$ 298,936	\$ 299,383
Sales	(298,936)	-
Unrealized loss	-	(447)
	\$ -	\$ 298,936
Balance, end of year	\$ -	\$ 298,936

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, 2019 and 2018.

4. Fixed Assets

Fixed assets consist of the following as of June 30:

	2019	2018
Furniture and fixtures	\$ 4,832	\$ 4,832
Equipment	216,354	216,354
Total	221,186	221,186
Less: Accumulated depreciation	220,342	218,633
Total fixed assets, net	\$ 844	\$ 2,553

Depreciation expense was \$1,709 and \$2,092 for the years ended June 30, 2019 and 2018, respectively.

5. Net Assets with Donor Restrictions

All net assets that have a donor restriction are restricted for the benefit of scholarships for students of Edinboro University. The individual scholarships vary vastly based on the types of degrees, majors, and extracurricular activities. As such, net assets with donor restrictions for the benefit of scholarships are comprised of the following as of June 30:

	2019	2018
Various Edinboro University Foundation scholarships and related programs	\$ 3,106,430	\$ 2,802,255
Investments to be held in perpetuity by donor stipulations or by Pennsylvania law, the income from which is generally available for scholarships and programs	7,811,980	7,167,025
Cash surrender value of donated life insurance policies to benefit scholarship and programs	100,720	96,392
Beneficial interests in remainder trust for endowment purposes	-	298,936
	\$ 11,019,130	\$ 10,364,608

Edinboro University Foundation
Notes to the Financial Statements (continued)

6. Board Designated Net Assets

The Foundation's Board of Directors is able to approve segregations of net assets without donor restrictions to be utilized for specific programs, projects and operational expenses. Such items would be reported as board designated net assets within the net asset category without donor restrictions. At June 30, 2019 and 2018, there were no board designated assets.

7. Endowment Funds

The Foundation's endowment consists of approximately 200 individual funds established for a variety of purposes. 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 net assets with donor restrictions (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 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)

7. 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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Total donor restricted endowments	\$ (45,102)	\$ 10,439,886	\$ 10,394,784

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ (49,365)	\$ 9,884,160	\$ 9,834,795
Investment return	-	536,637	536,637
Contributions	-	347,203	347,203
Appropriation of endowment assets for expenditure	-	(266,776)	(266,776)
Other changes:			
Gifts and transfers to University	-	(61,403)	(61,403)
Change in cash surrender value of life insurance	-	4,328	4,328
Other	4,263	(4,263)	-
Endowment net assets, end of year	\$ (45,102)	\$ 10,439,886	\$ 10,394,784

Edinboro University Foundation
Notes to the Financial Statements (continued)

7. Endowment Funds (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Total donor restricted endowments	\$ (49,365)	\$ 9,884,160	\$ 9,834,795

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ (59,911)	\$ 9,318,213	\$ 9,258,302
Investment return	-	650,645	650,645
Contributions	-	227,073	227,073
Appropriation of endowment assets for expenditure	-	(306,578)	(306,578)
Other changes:			
Gifts and transfers to University	-	(8,465)	(8,465)
Other income	-	(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)	\$ 9,884,160	\$ 9,834,795

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in donor restricted endowment funds, which together have an original gift value of \$539,052, a current fair value of \$493,950, and a deficiency of \$45,102 as of June 30, 2019 and as of June 30, 2018 an original gift value of \$521,059, a current fair value of \$471,694, and a deficiency of \$49,365. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

8. 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 \$393,865 and \$197,907 for the years ended June 30, 2019 and 2018, respectively.

Edinboro University Foundation
Notes to the Financial Statements (continued)

9. 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 donor 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 \$408,407 and \$135,999 for the years ended June 30, 2019 and 2018, respectively.

10. 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.

11. Liquidity and Availability of Resources

The Foundation manages its liquidity and reserves following three guiding principles:

1. Operating within a prudent range of financial soundness and stability;
2. Maintaining adequate liquid assets to fund near-term operating needs; and
3. Maintaining sufficient reserves to provide reasonable assurance that obligations will be discharged.

The Foundation's liquidity policy structures its financial assets to be available as general expenditures, liabilities and other obligations become due. In order to adhere to this policy, the Foundation forecasts future cash flows, monitors liquidity, and monitors its reserves. During the years ended June 30, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment fund for the following year.

	June 30	
	2019	2018
Cash and cash equivalents	\$ 137,550	\$ 85,328
Due from affiliated entities	6,520	6,075
Other current assets	25,766	8,866
Financial assets available to meet cash needs for general expenditures within one year	\$ 169,836	\$ 100,269