

ELLIN & TUCKER

TOWSON UNIVERSITY FOUNDATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Towson University Foundation, Inc.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying Statements of Financial Position of Towson University Foundation, Inc. (Foundation) as of June 30, 2019 and 2018, and 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.

AUDITORS' 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 audits 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 auditors' 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 auditors consider 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Towson University Foundation, Inc. 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.



ELLIN & TUCKER
Certified Public Accountants

Baltimore, Maryland
September 17, 2019

STATEMENTS OF FINANCIAL POSITION
Towson University Foundation, Inc.
June 30, 2019 and 2018

ASSETS

ASSETS	2019	2018
Cash and Cash Equivalents	\$ 3,799,308	\$ 2,791,108
Accrued Interest Receivable	122,672	97,245
Investments (Note 5)	79,132,031	74,963,982
Contributions Receivable (Note 6)	3,148,504	2,459,089
Other Assets	226,844	213,263
Equipment	2,341	992
Charitable Trusts (Note 7)	120,044	128,791
	\$ 86,551,744	\$ 80,654,470
Total Assets		

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,100,136	\$ 608,653
Scholarships Payable	343,533	5,023
	1,443,669	613,676
Total Liabilities		
NET ASSETS		
Without Donor Restrictions (Note 11)	3,352,669	3,131,282
With Donor Restrictions (Note 12)	81,755,406	76,909,512
	85,108,075	80,040,794
Total Net Assets		
Total Liabilities and Net Assets	\$ 86,551,744	\$ 80,654,470

(See Independent Auditors' Report and Accompanying Notes)

STATEMENTS OF ACTIVITIES
Towson University Foundation, Inc.
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Contributions	\$ 364,529	\$ 5,784,947	\$ 6,149,476	\$ 5,723,924
Grants and Contracts	-	91,869	91,869	86,225
Special Programs	-	313,137	313,137	291,126
Investment Return, Net	610,388	3,870,848	4,481,236	5,354,036
Change in Value of Annuities	-	11,224	11,224	5,964
Sales	-	291,389	291,389	225,514
Miscellaneous	23	136,167	136,190	135,186
Special Fund-Raising	-	268,592	268,592	207,915
Interfund Charges and Transfers	485,311	(485,311)	-	-
Net Assets Released from Restrictions	5,436,968	(5,436,968)	-	-
Total Support and Revenue	<u>6,897,219</u>	<u>4,845,894</u>	<u>11,743,113</u>	<u>12,029,890</u>
FUNCTIONAL EXPENSES				
University Programs, Support and Scholarships	5,344,486	-	5,344,486	4,562,242
Management and General	644,112	-	644,112	622,286
Fund-Raising	687,234	-	687,234	624,008
Total Functional Expenses	<u>6,675,832</u>	<u>-</u>	<u>6,675,832</u>	<u>5,808,536</u>
Change in Net Assets	221,387	4,845,894	5,067,281	6,221,354
NET ASSETS - BEGINNING OF YEAR	<u>3,131,282</u>	<u>76,909,512</u>	<u>80,040,794</u>	<u>73,819,440</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,352,669</u></u>	<u><u>\$ 81,755,406</u></u>	<u><u>\$ 85,108,075</u></u>	<u><u>\$ 80,040,794</u></u>

(See Independent Auditors' Report and Accompanying Notes)

STATEMENT OF ACTIVITIES
Towson University Foundation, Inc.
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 325,754	\$ 5,398,170	\$ 5,723,924
Grants and Contracts	-	86,225	86,225
Special Programs	-	291,126	291,126
Investment Return, Net	217,856	5,136,180	5,354,036
Change in Value of Annuities	-	5,964	5,964
Sales	-	225,514	225,514
Miscellaneous	15	135,171	135,186
Special Fund-Raising	-	207,915	207,915
Interfund Charges and Transfers	392,662	(392,662)	-
Net Assets Released from Restrictions	4,711,965	(4,711,965)	-
Total Support and Revenue	5,648,252	6,381,638	12,029,890
FUNCTIONAL EXPENSES			
University Programs, Support and Scholarships	4,562,242	-	4,562,242
Management and General	622,286	-	622,286
Fund-Raising	624,008	-	624,008
Total Functional Expenses	5,808,536	-	5,808,536
Change in Net Assets	(160,284)	6,381,638	6,221,354
NET ASSETS - BEGINNING OF YEAR	3,291,566	70,527,874	73,819,440
NET ASSETS - END OF YEAR	\$ 3,131,282	\$ 76,909,512	\$ 80,040,794

(See Independent Auditors' Report and Accompanying Notes)

STATEMENT OF FUNCTIONAL EXPENSES
Towson University Foundation, Inc.
For the Year Ended June 30, 2019

	University Programs, Support and Scholarships	Management and General	Fund- Raising	Total
Personnel	\$ -	\$ 376,176	\$ 69,297	\$ 445,473
Scholarships and Awards	1,711,426	-	-	1,711,426
Program Events	11,345	-	-	11,345
Special Events	-	-	28,599	28,599
Consultants	491,758	6,095	231,255	729,108
Public Relations and Promotions	589,830	756	206,719	797,305
Transfer of Equipment to Towson University	124,932	-	-	124,932
Financial Support to Towson University	1,020,394	84,115	6,702	1,111,211
Printing	95,644	180	7,958	103,782
Equipment	245,388	49,950	18,354	313,692
Bank Fees	38,111	21,134	31,492	90,737
Educational Programs	203,290	-	2,431	205,721
Contractual Services	239,052	3,720	25,638	268,410
Conferences	42,180	4,980	2,973	50,133
Advertising	16,396	-	-	16,396
Insurance	5,633	14,505	-	20,138
Travel	386,678	1,257	4,896	392,831
Office	23,039	5,971	2,279	31,289
Legal and Professional	-	57,420	-	57,420
Building	600	-	-	600
Dues and Memberships	25,056	5,484	4,736	35,276
Telephone	1,908	1,170	-	3,078
Postage	12,032	300	235	12,567
Depreciation	-	1,206	-	1,206
Miscellaneous	59,794	9,693	43,670	113,157
Total Functional Expenses	\$ 5,344,486	\$ 644,112	\$ 687,234	\$ 6,675,832

(See Independent Auditors' Report and Accompanying Notes)

STATEMENT OF FUNCTIONAL EXPENSES

Towson University Foundation, Inc.

For the Year Ended June 30, 2018

	University Programs, Support and Scholarships	Management and General	Fund- Raising	Total
Personnel	\$ -	\$ 352,773	\$ 63,924	\$ 416,697
Scholarships and Awards	1,522,774	-	-	1,522,774
Program Events	410	-	-	410
Special Events	-	-	60,869	60,869
Consultants	326,564	16,653	202,391	545,608
Public Relations and Promotions	397,820	183	222,829	620,832
Transfer of Equipment to Towson University	147,464	-	-	147,464
Financial Support to Towson University	1,063,240	76,643	830	1,140,713
Printing	71,417	78	2,447	73,942
Equipment	279,231	34,327	12,647	326,205
Bank Fees	36,844	24,273	22,829	83,946
Educational Programs	374,450	-	3,049	377,499
Contractual Services	49,319	5,058	3,873	58,250
Conferences	42,704	4,841	-	47,545
Advertising	10,773	-	961	11,734
Insurance	4,280	12,241	-	16,521
Travel	127,143	343	5,151	132,637
Office	29,292	5,027	490	34,809
Legal and Professional	1,800	70,149	-	71,949
Dues and Memberships	42,773	6,001	4,565	53,339
Telephone	2,287	-	-	2,287
Postage	7,008	101	1,306	8,415
Depreciation	-	632	-	632
Miscellaneous	24,649	12,963	15,847	53,459
Total Functional Expenses	\$ 4,562,242	\$ 622,286	\$ 624,008	\$ 5,808,536

(See Independent Auditors' Report and Accompanying Notes)

STATEMENTS OF CASH FLOWS
Towson University Foundation, Inc.
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,067,281	\$ 6,221,354
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,206	632
Change in Discount on Contributions Receivable	(16,298)	131,001
Restricted Contributions for Endowment	(1,560,200)	(946,210)
Realized (Gain) Loss on Sale of Investments	(442,756)	233,802
Unrealized Gain on Investments	(1,963,355)	(4,037,247)
Net Changes in:		
Receivables	(712,125)	(1,092,179)
Charitable Trusts	8,747	(5,964)
Accounts Payable, Accrued Expenses and Scholarships Payable	829,993	(32,186)
Net Cash Provided by Operating Activities	1,212,493	473,003
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(2,555)	-
Purchase of Investments	(13,098,762)	(16,391,756)
Sale of Investments	11,336,824	12,838,583
Net Cash Used in Investing Activities	(1,764,493)	(3,553,173)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted Contributions for Endowment	1,560,200	946,210
Net Change in Cash and Cash Equivalents	1,008,200	(2,133,960)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,791,108	4,925,068
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,799,308	\$ 2,791,108

(See Independent Auditors' Report and Accompanying Notes)

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

NATURE OF FOUNDATION

Towson University Foundation, Inc. (Foundation), a non-profit corporation formed in 1970, manages funds received for the benefit of Towson University (University). The Foundation is organized to receive, hold, invest, manage, use, dispose of and administer property of all kinds whether given absolutely, in trust or by way of agency or otherwise for the benefit and promotion of the University or for all of the education and support activities that may be conducted by the University.

In fulfilling its mission, the Foundation maintains three separate and distinct account types:

ENDOWMENT ACCOUNTS

Accounts where the principal is retained in perpetuity and carried as net assets with donor restrictions of the Foundation. Income generated from the invested principal is used to fulfill the donor's intent, allow for associated fees and continue the growth of the endowment in order to maintain its value over time. A scholarship endowment requires a \$25,000 minimum gift that may be accumulated over a three-year period. Non-scholarship endowments require a \$10,000 minimum gift and may also be accumulated over a three-year period. Amounts available for spending against the endowment are calculated annually as of June 30, subject to policies and procedures of the Foundation.

SCHOLARSHIP/AWARD ACCOUNTS

Accounts established to accept gifts restricted by the donor for the presentation of scholarships and awards and whose gift amount does not qualify as an endowment or was not intended to be an endowment by the donor. The net assets are reported as with donor restrictions until expended.

UNIVERSITY PROGRAMS AND SUPPORT ACCOUNTS

Accounts are used for current activities and operations to support the University. These result from gifts and fund-raising events sponsored by various University departments and affiliated on-campus activity groups. Expenditures are reflected as University and/or department program services within the financial statements. The net assets are reported as with or without donor restrictions until expended.

(See Independent Auditors' Report)

ACCOUNTING STANDARDS CODIFICATION

All references in the financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB). The Codification is the single source of authoritative GAAP in the United States.

NEW ACCOUNTING STANDARDS UPDATE

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The Foundation has adopted this ASU as of and for the year ended June 30, 2019 with retrospective application for the financial statements for the year ended **June 30, 2018**. As a result, the Foundation changed its presentation of its net asset classes and expanded the disclosures as required by the ASU. In addition, the investment expenses are netted against investment return in the accompanying Statements of Activities.

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. Under the accrual basis of accounting, support and revenue are recorded when earned and expenses are recorded when incurred. Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are comprised of operating (resources available for support of operations) and board designated funds (resources to be spent only for purposes approved by the Board). Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Contributions, which include unconditional promises to give, are recorded as revenue in the period the promise is received and as contributions receivable in the Statements of Financial Position as long as receipt is expected within five years. Unconditional promises to give which are expected to be received after five years are not recorded as income until receipt

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is expected within five years and collection is not in doubt. Conditional promises to give are recorded as revenue when conditions of receipt are met, and the receivable is due within five years.

CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

CASH AND INVESTMENTS

As of June 30, 2019 and 2018, the Foundation had cash and investments, which are held by local banks and an investment management organization, in excess of statutory or private deposit insurance. The Foundation believes it is not exposed to any significant credit risk on cash.

Investments are reported at fair value in the Statements of Financial Position. Realized and unrealized gains and losses are included in the Statements of Activities. See Note 5 for a discussion of fair value measurements.

CONTRIBUTIONS

In accordance with the Not-for-Profit Entities Revenue Recognition Topic of the Codification, contributions received are recorded as support within net assets with donor restrictions or net assets without donor restrictions. All donor-restricted support is reported as an increase in support in net assets with donor restrictions, depending on the nature of the restriction.

EQUIPMENT

Furnishings and equipment above \$1,000 are recorded at cost if purchased or fair value at the date of the donation if received by gift. Lesser amounts are expensed. Furnishings and equipment (except for general ledger software and equipment used by the Foundation) are gifted to the University and expensed by the Foundation as acquired. Software and equipment are depreciated over their estimated useful lives ranging from three to five years using the straight-line method.

CHARITABLE TRUSTS

Charitable trusts represent the estimated net present value of charitable remainder trusts which name the Foundation as the beneficiary.

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COLLECTIONS

The Foundation’s collections consist of art objects and antiques held for educational, research, scientific, and curatorial purposes. Each of the items is catalogued, preserved, and cared for, and activities verifying its existence and assessing its condition are performed periodically. The Foundation estimates the value of the collections at approximately \$2,253,000. The collections, which were acquired through contributions since the Foundation’s inception, are not recognized as assets in the Statements of Financial Position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restrictions if the net assets used to purchase the items are restricted by donors. Contributions of collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

GRANTS AND CONTRACTS

Included in grants and contracts in both 2019 and 2018 is \$25,000 of royalty income received by the Foundation for the Alumni Association, which sold the alumni mailing list to a financial institution. The proceeds were deposited in the Foundation’s Alumni Association operating account.

SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through September 17, 2019, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation’s financial assets available to meet cash needs for general expenditures within one year of the Statements of Financial Position date are as follows:

	2019	2018
Cash and Cash Equivalents	\$ 3,799,308	\$ 2,791,108
Accrued Interest Receivable	122,672	97,245
Investments	79,132,031	74,963,982
Contributions Receivable	3,148,504	2,459,089
Other Assets	152,058	123,435
Charitable Trusts	120,044	128,791
Total Financial Assets	86,474,617	80,563,650

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	2019	2018
Financial Assets to be Collected in More Than One Year:		
Contribution Receivables Without Donor Restrictions	-	(1,500)
Charitable Trusts	(120,044)	(128,791)
Other Assets	(62,685)	(65,734)
Contractual or Donor-Imposed Restrictions:		
Endowment Funds	(44,715,962)	(42,996,414)
Donor Contributions Restricted to Specific Purposes	(37,039,444)	(33,913,098)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	4,536,482	3,458,113
Board-Designated Operating Reserves	(230,552)	(150,000)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year after Board Designations	\$ 4,305,930	\$ 3,308,113

As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 3 **INCOME TAXES**

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Internal Revenue Service has determined the Foundation is not a private foundation within the meaning of Section 509(a) of the Code.

The Foundation follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a “more-likely-than-not” threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

(See Independent Auditors’ Report)

NOTE 4 AFFILIATIONS

The Foundation is a state university affiliated foundation organized and operated for the benefit of, and to carry out, the purpose of the University, a constituent institution of the University System of Maryland.

The President of the University serves as an ex-officio member of the Foundation's Board.

NOTE 5 VALUATION OF INVESTMENTS

Investments at June 30, 2019 and 2018 consisted of the following:

	2019		2018	
	Cost	Market	Cost	Market
Certificates of Deposit	\$ 1,788,999	\$ 1,824,873	\$ 339,180	\$ 339,925
Bond Mutual Funds	11,958,458	12,098,412	11,945,713	11,721,457
Stock Mutual Funds	22,005,385	41,872,035	21,658,293	40,653,088
USMF Fund	7,410,455	9,549,731	7,344,444	8,989,514
CLO Fund	3,210,800	3,221,178	1,803,375	1,826,425
Corporate Bonds and U.S. Treasury and Government Agency Securities	10,184,605	10,384,250	11,275,562	11,278,378
Common Stocks	154,531	181,552	141,976	155,195
	<u>\$ 56,713,233</u>	<u>\$ 79,132,031</u>	<u>\$ 54,508,543</u>	<u>\$ 74,963,982</u>

Investment income (loss) for the years ended June 30, 2019 and 2018 consisted of the following:

	2019	2018
Interest and Dividends	\$ 2,236,236	\$ 1,706,975
Realized Losses on Sale of Investments	(8,563)	(255,498)
Realized Gains on Sale of Investments	451,319	21,696
Unrealized Losses on Investments	(705,466)	(307,668)
Unrealized Gains on Investments	2,668,821	4,344,915
	4,642,347	5,510,420
Less: Investment Fees	161,111	156,384
Total	<u>\$ 4,481,236</u>	<u>\$ 5,354,036</u>

(See Independent Auditors' Report)

The Fair Value Measurements and Disclosures Section of the Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments in Level 1 include listed equities and listed derivatives. As required by the Codification, the Foundation does not adjust the quoted price for these investments, even in situations where it holds a large position and a sale could reasonably impact the quoted price.
- Level 2 Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Generally, investments in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.
- Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Generally, investments in this category include general and limited partnership interests in corporate private equity and real estate funds, mezzanine funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following are descriptions of the valuation methodologies used for assets measured at fair value:

Mutual Funds and Common Stocks: Valued at quoted prices in an active market.

Corporate Bonds and U.S. Treasury and Government Agency Securities: Certain bonds and government securities are valued at the closing price reported in the market in which they are traded. Other bonds and government securities are

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valued based on yields currently available on comparable securities of issuers with similar credit ratings.

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

The Foundation follows ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share. ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using the net asset value (NAV) of the investment as a practical expedient within the fair value hierarchy. ASU 2015-07 also removes the requirement to make certain disclosures for investments that are eligible to be measured at fair value using the NAV practical expedient.

The Foundation's investments in Barings Investment Grade CLO Fund and University System of Maryland Foundation, Inc. Comingled Fund are measured at fair value using the NAV as a practical expedient and are not categorized within the fair value hierarchy.

Barings Investment Grade CLO Fund (CLO Fund): The Foundation holds an interest in the CLO Fund. The CLO Fund invests primarily in a portfolio of debt tranches of cash flow collateralized loan obligations. Collateralized loan obligations are securitizations issued by bankruptcy-remote, special purpose investment vehicles that are formed to acquire and manage and are collateralized primarily by corporate loans that are senior in the underlying obligator's capital structure to other debt issued. Redemptions from the CLO Fund are available monthly and require 30 days advanced notice.

University System of Maryland Foundation, Inc. Comingled Fund (USMF Fund): The Foundation holds an interest in the USMF Fund. The University System of Maryland Foundation has discretionary investment authority over the Foundation's interest and provides periodic value assessments of the USMF Fund, which are incorporated into the Foundation's financial statements. The USMF Fund's investments consisted of equity and debt securities, private capital investment entities, off-shore investment vehicles and other partnership investments. There are no redemption restrictions for withdrawing Foundation investments from the USMF Fund.

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NOTES TO FINANCIAL STATEMENTS, CONTINUED
Towson University Foundation, Inc.

The following tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2019 and 2018:

	2019		Total
	Level 1	Level 2	
Certificates of Deposit	\$ 1,824,874	\$ -	\$ 1,824,874
Mutual Funds:			
Emerging Market	3,448,609	-	3,448,609
Foreign Value	3,517,306	-	3,517,306
Bond	12,098,412	-	12,098,412
Exchange Traded	5,591,970	-	5,591,970
Blend	29,314,150	-	29,314,150
	<u>53,970,447</u>	<u>-</u>	<u>53,970,447</u>
Common Stocks:			
Basic Materials	10,319	-	10,319
Consumer Goods	25,553	-	25,553
Financial	23,043	-	23,043
Healthcare	25,166	-	25,166
Industrial Goods	8,008	-	8,008
Real Estate	6,809	-	6,809
Services	28,336	-	28,336
Technology	49,641	-	49,641
Utilities	4,677	-	4,677
	<u>181,552</u>	<u>-</u>	<u>181,552</u>
Fixed Income:			
Corporate Bonds	-	6,779,742	6,779,742
Treasury Bonds	-	864,404	864,404
Agency Bonds	-	2,740,103	2,740,103
	<u>-</u>	<u>10,384,249</u>	<u>10,384,249</u>
Total Investments at Fair Value	<u>\$ 55,976,873</u>	<u>\$ 10,384,249</u>	66,361,122
CLO Fund			3,221,178
USMF Fund			<u>9,549,731</u>
Total Investments			<u>\$ 79,132,031</u>

(See Independent Auditors' Report)

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Towson University Foundation, Inc.

	2018		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of Deposit	\$ 339,925	\$ -	\$ 339,925
Mutual Funds:			
Emerging Market	3,589,787	-	3,589,787
Foreign Value	3,479,696	-	3,479,696
Bond	11,721,457	-	11,721,457
Exchange Traded	5,314,868	-	5,314,868
Blend	28,268,737	-	28,268,737
	<u>52,374,545</u>	<u>-</u>	<u>52,374,545</u>
Common Stocks:			
Basic Materials	11,502	-	11,502
Communication Services	2,025	-	2,025
Consumer Goods	8,882	-	8,882
Financial	27,888	-	27,888
Healthcare	20,973	-	20,973
Industrial Goods	6,375	-	6,375
Services	31,515	-	31,515
Technology	41,845	-	41,845
Utilities	4,190	-	4,190
	<u>155,195</u>	<u>-</u>	<u>155,195</u>
Fixed Income:			
Corporate Bonds	-	5,870,421	5,870,421
Treasury Bonds	-	933,393	933,393
Agency Bonds	-	4,474,564	4,474,564
	<u>-</u>	<u>11,278,378</u>	<u>11,278,378</u>
 Total Investments at Fair Value	 <u>\$ 52,869,665</u>	 <u>\$ 11,278,378</u>	 64,148,043
 CLO Fund			1,826,425
USMF Fund			<u>8,989,514</u>
 Total Investments			 <u>\$ 74,963,982</u>

(See Independent Auditors' Report)

RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect amounts reported in the financial statements.

NOTE 6 CONTRIBUTIONS RECEIVABLE

The Foundation enters into agreements with donors involving future nonreciprocal transfers of cash. Such agreements are recorded as contribution revenue and receivables (pledges and planned gifts) if the agreement is, in substance, an unconditional promise to give.

Contributions receivable at June 30, 2019 and 2018 are as follows:

	2019	2018
Contributions Receivable	\$ 3,486,174	\$ 2,743,095
Less: Allowance for Uncollectible Pledges	(191,089)	(121,127)
Less: Discount to Present Value	(146,581)	(162,879)
Net Contributions Receivable	<u>\$ 3,148,504</u>	<u>\$ 2,459,089</u>

Contributions are due as follows:

Year Ending June 30,		
	2020	\$ 1,134,831
	2021	1,029,893
	2022	557,450
	2023	423,000
	2024	341,000
		<u>\$ 3,486,174</u>

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the one-year Treasury Bill rate of 1.93% and 2.32% for the years ended June 30, 2019 and 2018, respectively. Amortization of the discounts is included in contribution revenue.

NOTE 7 CHARITABLE TRUSTS

The Foundation is the beneficiary of certain charitable remainder trusts with estimated values of \$120,044 and \$128,791 at June 30, 2019 and 2018, respectively.

(See Independent Auditors' Report)

NOTE 8 **ENDOWMENT FUNDS**

The Foundation’s endowment consists of various donor restricted funds established to provide a source of income for ongoing donor-advised program expenses. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

INTERPRETATION OF RELEVANT LAW

The Board of Directors of the Foundation has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund as net assets with donor restriction. Additionally, any accumulation of donor-restricted endowment funds that are not required to be maintained in perpetuity are classified as restricted net assets until those amounts are appropriated for expenditure by the Foundation subject to the Board-approved spending policy. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) Duration and preservation of the fund
- (2) Purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) Investment policies of the Foundation

ENDOWMENT FUND COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2019 AND 2018

	With Donor Restrictions	
	2019	2018
Donor-Restricted Endowment Funds:		
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ 44,421,694	\$ 42,800,755
Accumulated Investment Gains	22,496,798	20,959,383
	\$ 66,918,492	\$ 63,760,138

(See Independent Auditors’ Report)

CHANGES IN ENDOWMENT FUNDS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	With Donor Restrictions
Endowment Funds, July 1, 2017	\$ 59,116,240
Investment Return, Net	5,075,250
Contributions	1,931,984
Other	39,996
Appropriation of Endowments for Expenditure	(2,403,332)
Endowment Funds, June 30, 2018	63,760,138
Investment Return, Net	3,841,885
Contributions	1,577,637
Other	45,401
Appropriation of Endowments for Expenditure	(2,306,569)
Endowment Funds, June 30, 2019	\$ 66,918,492

UNDERWATER ENDOWMENT FUNDS

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. No such deficiencies existed at June 30, 2019 and 2018.

RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has established 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 preserve 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 donor-specified periods. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the portfolio's custom index, as defined by the indices represented by the portfolio's asset allocation, while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return approximating the spending rate plus the Consumer Price Index annually. Actual returns in any given year may vary from this amount.

(See Independent Auditors' Report)

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through 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.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Foundation has a Board-approved Endowment Spending Policy that targets an amount not to exceed 7% (which is inclusive of spending for programmatic, administrative and University support expenses) of its endowment fund's average fair market value over the prior 20 quarters through the fiscal year ending 12 months before the start of the fiscal year in which distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Annually, the Spending Policy Committee debates the prudence of the spending percentage, keeping in mind the seven prudence guidelines for appropriation as outlined in UPMIFA. Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average rate of return approximating the spending rate plus the Consumer Price Index. This is consistent with the objective to maintain the purchasing power of the endowment assets in perpetuity or for a donor-specified term as well as provide additional real growth through new gifts and investment return.

NOTE 9 DONATED SERVICES

No amounts have been reflected in the financial statements for donated services, as no objective basis is available to measure the value of such services. However, a substantial number of volunteers donate significant amounts of time to the Foundation's program services, fund-raising campaigns, and general administration.

Additionally, the Foundation utilized facilities and equipment of the University under a contractual agreement renewed annually each July 1. This contractual agreement recognizes that the support provided by the Foundation to the University exceeds the value of the benefit received.

NOTE 10 RETIREMENT PLANS

The Foundation has a tax-deferred annuity (TDA) plan, pursuant to the requirements of IRC Section 403(b). The TDA plan allows eligible employees to tax defer a portion of their compensation.

(See Independent Auditors' Report)

The Foundation also has a defined contribution retirement plan, pursuant to the requirements of IRC Section 403(b). The Foundation makes contributions to this plan equal to 7.25% of compensation. The Foundation made contributions totaling \$22,850 and \$21,022 during the years ended June 30, 2019 and 2018, respectively.

NOTE 11 NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions at June 30, 2019 and 2018 are as follows:

	2019	2018
Board Designated Operating Reserves	\$ 150,000	\$ 150,000
University Programs	80,552	-
Undesignated	3,122,117	2,981,282
	\$ 3,352,669	\$ 3,131,282

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 and 2018 are restricted for the following purposes:

	2019	2018
Subject to Expenditure for Specified Purposes:		
Scholarships and Other Student Support	\$ 1,782,463	\$ 1,675,407
University Program Support	12,673,754	11,206,153
Subject to Foundation's Spending Policy and Appropriation:		
Scholarships	12,963,918	12,326,716
University Program Support	9,619,309	8,704,822
Investment at Historical Value	44,715,962	42,996,414
	\$ 81,755,406	\$ 76,909,512

(See Independent Auditors' Report)