

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2024 and 2023

TURNBULL, HOOVER & KAHL, P.A.
Certified Public Accountants

Frostburg State University Foundation, Inc.

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Board of Directors
Frostburg State University Foundation, Inc.
Frostburg, Maryland

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of Frostburg State University Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frostburg State University Foundation, Inc. as of June 30, 2024 and 2023, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Frostburg State University Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Frostburg State University Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Revenues by Services, Reimbursed Expenses to Frostburg State University Faculty or Staff, Fees Paid to Frostburg State University Faculty or Staff, and Schedule of Transfers to Frostburg State University are presented for purposes of additional analysis and are 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 audit 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.

Tumbull Hoover & Kahf PA.

Oakland, Maryland
September 30, 2024

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 and 2023

ASSETS

	<u>2024</u>	<u>2023</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 416,839	\$ 483,952
Prepaid expenses	13,591	13,330
Student loan receivable	2,585	2,585
Accounts receivable	6,710	-
Pledges receivable - current portion	167,436	152,904
Total Current Assets	<u>607,161</u>	<u>652,771</u>
INVESTMENTS		
Endowment	38,347,920	34,373,227
Development	4,366,940	4,073,082
Operating	2,540,008	2,321,233
Total Investments	<u>45,254,868</u>	<u>40,767,542</u>
OTHER ASSETS		
Charitable gift annuity	39,469	38,129
Pledges receivable, net - long term portion	611,707	706,964
Property, plant, & equipment, net of accumulated depreciation	8,550	8,550
Cash surrender value of donated life insurance policies	455,065	435,871
Total Other Assets	<u>1,114,791</u>	<u>1,189,514</u>
TOTAL ASSETS	<u><u>\$ 46,976,820</u></u>	<u><u>\$ 42,609,827</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 19,388	\$ 72,985
Accrued expenses	21,059	19,940
Total Current Liabilities	<u>40,447</u>	<u>92,925</u>
OTHER LIABILITIES		
Refundable advances	6,205	4,825
Annuity liability	12,411	12,987
Total Other Liabilities	<u>18,616</u>	<u>17,812</u>
Total Liabilities	<u>59,063</u>	<u>110,737</u>
NET ASSETS		
Without donor restrictions	3,605,958	3,214,138
With donor restrictions	43,311,799	39,284,952
Total Net Assets	<u>46,917,757</u>	<u>42,499,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 46,976,820</u></u>	<u><u>\$ 42,609,827</u></u>

The accompanying notes are an integral part of the financial statements.

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF ACTIVITIES and CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, and other support:						
Contributions	\$ 142,277	\$ 3,833,018	\$ 3,975,295	\$ 110,852	\$ 1,874,732	\$ 1,985,584
Investment return, net	303,250	3,098,777	3,402,027	188,369	1,927,684	2,116,053
Sales/other income	6,677	35,901	42,578	6,128	57,856	63,984
Gifts in kind	-	135,669	135,669	-	260,593	260,593
Event admission/registration	18,200	63,419	81,619	17,505	45,703	63,208
Fundraising (non-gift)	-	71,551	71,551	-	55,428	55,428
Sponsorships	-	95,275	95,275	-	162,868	162,868
Grants	9,000	37,000	46,000	9,000	55,416	64,416
Refunds	-	67,881	67,881	13,940	94,850	108,790
Change in value of donated life insurance	-	15,964	15,964	-	15,551	15,551
Change in value of split interest agreements	-	1,916	1,916	-	(38,208)	(38,208)
Net assets released from restrictions						
Satisfaction of program restrictions	3,055,811	(3,055,811)	-	2,980,607	(2,980,607)	-
Total revenues, and other support	3,535,215	4,400,560	7,935,775	3,326,401	1,531,866	4,858,267
(increase in net assets)						
Expenses:						
Program services:						
Endowment funds	1,364,029	-	1,364,029	1,178,638	-	1,178,638
Athletic development	510,246	-	510,246	610,467	-	610,467
Pass through accounts	552,773	-	552,773	572,783	-	572,783
Program support services	628,763	-	628,763	618,719	-	618,719
Total Program Services	3,055,811	-	3,055,811	2,980,607	-	2,980,607
Supporting services:						
Operating	366,585	-	366,585	366,043	-	366,043
Alumni	68,033	-	68,033	97,839	-	97,839
Annual fund	26,679	-	26,679	23,877	-	23,877
Total Supporting Services	461,297	-	461,297	487,759	-	487,759
Total expenses (decrease in net assets)	3,517,108	-	3,517,108	3,468,366	-	3,468,366
Change in Net Assets Before Transfers	18,107	4,400,560	4,418,667	(141,965)	1,531,866	1,389,901
Transfer in	967,099	162,155	1,129,254	944,619	287,338	1,231,957
Transfer out	(593,386)	(535,868)	(1,129,254)	(605,877)	(626,080)	(1,231,957)
Change in Net Assets	391,820	4,026,847	4,418,667	196,777	1,193,124	1,389,901
Net Assets at beginning of year	3,214,138	39,284,952	42,499,090	3,017,361	38,091,828	41,109,189
Net Assets at end of year	\$ 3,605,958	\$ 43,311,799	\$ 46,917,757	\$ 3,214,138	\$ 39,284,952	\$ 42,499,090

The accompanying notes are an integral part of the financial statements.

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

	Program Services			Supporting Services			Grand Total		
	Athletic Development	Endowment Funds	Pass Through Accounts	Program Support Accounts	Total Program Services	Operating		Alumni Accounts	Annual Fund
	\$ -	\$ -	\$ -	\$ 135,669	\$ 135,669	\$ -	\$ -	\$ -	\$ -
Gifts in kind	-	-	-	-	1,412,075	-	-	-	-
Scholarships	55,991	998,194	413,881	37,815	142,120	18,242	43,034	145	61,421
Food/events & programs	-	29,183	19,131	-	-	133,820	-	-	133,820
Salaries	-	-	-	-	-	5,699	2,029	-	7,728
Supplies	63,603	12,277	5,394	11,313	92,587	92,445	2,550	-	94,995
Grants	259,810	243,697	77,110	377,304	957,921	-	-	-	1,052,916
Legal, accounting, and other contractual services	350	14,978	11,600	6,950	33,878	38,343	525	-	38,868
Payroll insurance and taxes	-	-	-	-	-	10,250	-	-	10,250
Travel/other food expenses	31,265	8,263	4,316	1,475	45,319	4,687	306	-	4,993
Advertising	-	652	76	2,185	2,913	750	-	-	750
Printing	833	5,102	1,314	1,326	8,575	2,720	4,731	6,006	13,457
Contributions	375	-	-	500	875	4,338	-	-	4,338
Service fees	-	17	15	131	163	1,294	-	338	1,632
Office supplies and postage	197	1,757	370	265	2,589	3,847	2,209	12,897	18,953
Memberships	10,384	5,615	1,004	36,260	53,263	15,963	7,958	607	24,528
Public relations and gifts	4,700	3,478	1,031	1,358	10,567	2,034	1,603	5,402	9,039
Student aid	-	12,382	-	4,120	16,502	5,077	-	-	5,077
Rentals	253	889	414	727	2,283	-	92	-	92
Trophies/awards	20,618	1,072	-	3,202	24,892	2,967	1,315	-	4,282
Equipment purchases	51,375	16,085	577	3,638	71,675	12,904	-	-	12,904
Refunds	340	-	170	-	510	-	89	-	89
State registrations	-	-	-	-	-	2,399	-	-	2,399
Flowers	304	372	104	2,660	3,440	727	-	-	727
Insurances	1,036	429	-	37	1,502	7,395	1,129	-	8,524
Credit card fees	4,593	964	382	928	6,867	684	463	447	1,594
Bad debt expense	4,219	8,623	15,884	900	29,626	-	-	837	837
TOTAL EXPENSES BEFORE TRANSFERS OUT	510,246	1,364,029	552,773	628,763	3,055,811	366,585	68,033	26,679	461,297
Transfers out	101,813	361,189	8,113	64,753	535,868	433,371	44,150	115,865	593,386
TOTAL EXPENSES	\$ 612,059	\$ 1,725,218	\$ 560,886	\$ 693,516	\$ 3,591,679	\$ 799,956	\$ 112,183	\$ 142,544	\$ 1,054,683

The accompanying notes are an integral part of the financial statements.

TOTAL EXPENSES BEFORE
TRANSFERS OUT
Transfers out
TOTAL EXPENSES

TOTAL EXPENSES BEFORE
TRANSFERS OUT
Transfers out
TOTAL EXPENSES

The accompanying notes are an integral part of the financial statements.

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING JUNE 30, 2024 and 2023

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2024</u>	<u>2023</u>
Change in net assets	\$ 4,418,667	\$ 1,389,901
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Bad debt expense	30,463	39,611
Net unrealized (gain)/loss on investments	(1,632,616)	(1,112,041)
Contributions restricted for long-term investments	(2,554,678)	(975,930)
Change in pledges receivable	50,262	164,915
Change in accounts receivable	(6,710)	(600)
Change in prepaid expenses	(261)	395
Change in accrued vacation	1,119	4,009
Change in refundable advances	1,380	1,665
Change in accounts payable	<u>(53,597)</u>	<u>63,206</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>254,029</u>	<u>(424,869)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Noncash donations	(314,355)	(23,565)
Change in value of charitable gift annuity	(1,340)	42,545
Change in cash surrender value of life insurance	(19,194)	(18,782)
Purchase of investments	<u>(2,540,355)</u>	<u>(483,026)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,875,244)</u>	<u>(482,828)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Change in annuity liability	(576)	(4,337)
Proceeds from contributions restricted for investment in long-term investments	<u>2,554,678</u>	<u>975,930</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,554,102</u>	<u>971,593</u>
NET CHANGE IN CASH	(67,113)	63,896
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>483,952</u>	<u>420,056</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 416,839</u></u>	<u><u>\$ 483,952</u></u>

The accompanying notes are an integral part of the financial statements.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 1. Organization and Nature of Operations

Frostburg State University Foundation, Inc., (the Foundation) is a not-for-profit organization headquartered in Frostburg, Maryland. The Foundation was created in 1970 with the primary purpose of fostering, encouraging, and promoting the growth, progress, and general welfare of Frostburg State University (University). The Board of Directors is a volunteer body composed of between 10 - 40 alumni, University, and civic leaders who work to establish priority areas of support to the University. The Foundation manages an endowment and other funds which are generated through contributions and fundraising projects for use in scholarships, grants, research projects, cultural events and other worthy programs. The Foundation's support comes primarily from outside contributions, as well as, earnings from their investment portfolio.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Foundation are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred regardless of when cash is received or disbursed.

Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Funds without Donor Restriction:

Operating - These provide support for the day to day operation of the Foundation. Additionally, it provides support for special campaigns as requested by the University through the Office of the President, by the executive committee of the Foundation, or by the Foundation executive director.

Annual Fund - These provide support for unrestricted purposes including funding for Opportunity Grants, which are awarded each year to students, faculty, and staff through a competitive application process.

Alumni - These provide support for the University Alumni Association, alumni events, and programs related to networking alumni with each other, students, faculty, and staff.

Funds with Donor Restriction:

Athletic - These provide support for the University Athletics program.

Endowment - These provide support for student scholarships and program support.

Pass-Through - Most of these provide immediate-impact scholarships for students. In addition, some provide a vehicle for life insurance premium payments, and to record expenditures that will be directly reimbursed by non-charitable income.

Program Support - These provide support to schools, departments, divisions, special interests, and other projects approved and recognized by the University. They also support emergency student loans.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation

The Foundation is required to classify net assets, revenues, and gains and losses, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are reported into two categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – This class represents those net assets whose use is not restricted by the donor. These net assets generally result from providing services and receiving contributions and performing administrative functions. These net assets also include board designated net assets. The Foundation’s Board of Directors has set aside amounts received from various donors as designated fund assets and has implemented an investment policy. These amounts are not subjected to donor restrictions.

Net assets with donor restrictions- This class represents those net assets whose use is restricted by the donor for specific stipulations imposed by the donor. These net assets generally result from contributions and other inflows of assets, the use of which is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of these assets permit the Foundation to use the income earned on related investments for general or specific purposes.

When a donor restriction expires as a result of a stipulated time restriction ending or purpose restriction being accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.

Equipment

The Foundation capitalizes purchases of equipment of \$5,000 or more with a useful life exceeding one year. Purchased assets are recorded at cost. Donated assets are recorded at their current or appraised value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets with no salvage value as follows:

	<u>Years</u>
Equipment	10

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Contributions and Grants

Contributions, including unconditional promises to give, are recognized in the period received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give with payments due in future periods are reported as donor restricted support. Amounts outstanding are recorded at the net realizable value discounted based on the period of future payment, using a rate of return that a market a market participant would expect to receive at the date the pledge is received.

Conditional promises to give are recognized as revenue when conditions on which they depend have been substantially met (refer to Note 12 for discussion of conditional promises to give and intentions).

Sales/Other Income

The Foundation reports revenues from all non-gifts that do not fall into another category as sales/other income. Some examples of these type of transactions are cash back on Foundation's credit card, funds from athletics to purchase championship rings and apparel for team members, and sale of books by the Children's Literature Centre for use in event attendee's classroom. The revenue reflects a contractual relationship between the two parties and each party receives commensurate value for services provided.

Pledges Receivable

The pledges receivable balance is based on management's best estimate of the amounts expected to be collected. There are no allowances as of June 30, 2024 and 2023. The amounts the Foundation will ultimately realize could differ from the amounts assumed in arriving at the present value. Amounts due are recorded at the net realizable value discounted using a discount rate of 5.6% and 4.2% for the years ended June 30, 2024 and 2023, respectively.

Bad Debts – Pledges

The Foundation uses the direct write-off method of recording bad debts which is not materially different from generally accepted accounting principles. Under this method, bad debts of pledges receivable are written off in the period in which it is established they are uncollectible. There were pledges receivable written off for the years ending June 30, 2024 and 2023 in the amount of \$30,463 and \$39,611, respectively.

Investments

Investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized and realized gains and losses on sales of securities are recognized based on the cost of specific securities sold. Investments acquired through gifts or bequests are recorded at the market value at the date of the gift. All gains and losses arising from the sale or other disposition of investments and other non-cash assets are accounted for in the fund that owned the assets. Ordinary income from investments is also accounted for in the

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Investments (continued)

fund owning the assets. Changes in unrealized gains and losses are included in the determination of changes in net assets. Investment fees of \$370,234 and \$393,508 are netted against investment income for the years ending June 30, 2024 and 2023, respectively.

The Foundation is part of a pooled investment arrangement with the University System of Maryland Foundation (USMF). The investment with USMF is valued at fair market value and recorded on a per unit basis. Investment gains and losses are distributed monthly among the individual endowment funds on the basis of the number of units of the pool held by each individual endowment account.

See Note 9 for further details on valuation of investments.

Split-Interest Agreements

The Foundation receives contributions in the form of charitable gift annuities, for which the Foundation acts as trustee and holds the assets. When the trust's obligations to all beneficiaries expire, the remaining assets will revert to the Foundation to be used according to the donor's wishes. The Foundation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability. Annuity liabilities are recorded for the required life annuity payments at the present value of expected future cash payments discounted using current interest rates and actuarial assumptions for those annuities that have not been reinsured. The annuity obligations are adjusted each year for changes in the life expectancy of the beneficiaries and are reduced either as payments are made to the donor or as annuities are reinsured.

Amortization of the related discount and revaluation of expected cash flows are recognized as changes in the value of split-interest agreements in the year in which they occur.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received in the consumption of resources.

Tax Exempt Status

The Internal Revenue Service has determined that the Frostburg State University Foundation, Inc. is an organization described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax.

Student Loans Receivable

Student loans receivable represents amounts due from students from advances of funds restricted specifically for student loans. The Foundation reports loans given to students as restricted support. Loans are short term in nature and do not provide an interest rate. The Foundation uses the direct write off method of recording bad debts which is not materially different from generally accepted accounting principles.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Student Loans Receivable (continued)

Under this method, bad debts of student loans receivable are written off in the period in which it is established they are uncollectible. The Foundation recorded no student loan bad debt for the fiscal year June 30, 2024 and 2023.

Concentrations of Credit Risk Related to Pledge Receivables

The Foundation promotes growth, progress and general welfare of Frostburg State University. It also manages endowments and gifts for use in scholarships, grants, research, projects, cultural events and other worthy programs. It conducts its activities from its office located on the campus of Frostburg State University. In the course of conducting its activities, the Foundation encourages alumni, local businesses and the general public to support its purposes by regularly soliciting contributions. Many of the contributors pledge their support over several years in the form of pledges. Pledges that are legally enforceable represent extensions of credit by the Foundation to its supporters.

Cash and Cash Equivalents

The Foundation has defined cash equivalents as highly liquid debt instruments with maturities at dates of purchase of three months or less, except that any such investments purchased with funds held in trusts are classified with the deposits and investments, respectively.

Advertising

The cost of advertising has been expensed as incurred. Advertising costs are incurred for both supporting services and program services.

Classification of Revenues

Contributions and the related investment income earned on the investment of these contributions are reported as increases in net assets with donor restrictions, since it is implicit on the part of the donor that the funds and investment earnings on those funds are restricted for their intended purposes.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished in subsequent reporting periods, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. When donor restrictions expire on the investment earnings of endowed funds, the Foundation's Board of Directors must appropriate the funds for expenditure and expend the funds before they can be reclassified to net assets without donor restrictions.

Contributed Services

A significant amount of donated services are performed by unpaid volunteer officers and committees to manage and promote Foundation programs and activities. The value of this contributed time is not reflected in the accompanying financial statements because it does not meet the criteria for recognition under generally accepted accounting standards.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Refundable Advances

The Foundation receives payments in advance of events. Revenue is recognized when qualifying expenditures are incurred and conditions are met. Funds received in advance of satisfying obligations are recorded as refundable advances in the statements of financial position. As of June 30, 2024 and 2023, the Foundation has refundable advances of \$6,205 and \$4,825, respectively.

Other Matters

The Foundation's investments and investment policy are consistent with the Maryland Uniform Management of Institutional Funds Act which does not have specific restrictions on investments. The Act provides guidance to not-for-profit organizations concerning the management of endowed funds. The investment with USMF is invested for the long-term in a diversified portfolio managed by the USMF in-house investment staff along with the USMF Investment Committee. The staff and committee select an asset mix with the objective of earning a total return which will be sufficient to cover both spending and inflation.

In addition, the Foundation interprets state law as requiring the preservation of the purchasing power of investment funds unless explicit donor stipulations restrict the use of net appreciation. Therefore, the Foundation has adopted the spending rate policy of the USMF, which is set to preserve the purchasing power of the assets, to protect against erosion of principal, and to promote stability and predictability of annual budgeting. In order to meet this objective, the USMF Board of Trustees has authorized a formulaic approach to determining the annual spending rate. Under the formula, the optimal annual spending rate may not be less than 3% nor exceed 5% and is based on the average market value over the prior twenty quarters of an endowment fund and changes in the Higher Education Price Index. However, the Foundation has the option of adopting a lower spending rate, if necessary. The rate is then applied to the March 31 market value for each endowed fund. See Note 14 for more information.

Note 3. Concentration of Credit Risk

Cash and cash equivalents are invested in interest bearing accounts at financial institutions and in money market funds. Accounts at each institution are insured for up to \$250,000 by the Federal Deposit Insurance Corporation or are covered by a separate collateral agreement. There were no uninsured or uncollateralized accounts at June 30, 2024 or June 30, 2023.

The Foundation believes that it has limited credit risk associated with pledges receivable due to the size of the amount owed and its donor base.

Note 4. Defined Contribution Plan

The Foundation contributes 7.25% annually to the full time equivalent employees' Individual Retirement Accounts, which amounted to \$8,285 in 2024 and \$7,811 in 2023.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 5. Pledges Receivable

Pledges receivable are due as follows at June 30:

	<u>2024</u>	<u>2023</u>
Contributions receivable	\$ 867,224	\$ 931,674
Less: unamortized discount	(88,081)	(71,806)
Net Contributions receivable	<u>\$ 779,143</u>	<u>\$ 859,868</u>
Amounts due in:	<u>2024</u>	<u>2023</u>
Within one year	\$ 175,738	\$ 155,293
One to five years	691,486	776,381
More than five years	-	-
Total	<u>\$ 867,224</u>	<u>\$ 931,674</u>

The discount rates used to calculate the present value component are as follows:

	<u>1-5 Years</u>
2024	5.6%
2023	4.2%

Note 6. Property, Plant, and Equipment

Property and equipment is accounted for at cost as part of the without donor restrictions in current fund. The assets, at cost, in this fund are as follows:

	<u>2024</u>	<u>2023</u>
Artwork	\$ 8,550	\$ 8,550
Office Equipment	1,586	1,586
Less: Accumulated Depreciation	(1,586)	(1,586)
Net book value	<u>\$ 8,550</u>	<u>\$ 8,550</u>

The depreciation expense was \$0 and \$0 for 2024 and 2023, respectively.

Note 7. Investment Income

The following schedule summarizes the investment return in the statement of activities:

	<u>2024</u>	<u>2023</u>
Interest and Dividend Income	\$ 796,485	\$ 674,984
Net Realized Gains (Losses)	1,343,160	722,536
Net Unrealized Gains (Losses)	1,632,616	1,112,041
Less: Investment Fees	(370,234)	(393,508)
Net investment return	<u>\$ 3,402,027</u>	<u>\$ 2,116,053</u>

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 8. Investments

The Foundation maintains an investment securities portfolio that was managed by professional money managers. The Foundation also holds certain marketable securities.

Investment securities held by University of Maryland Foundation (USMF) are composed of the following:

<u>Description Of Securities</u>	<u>2024</u> <u>Market</u>	<u>2023</u> <u>Market</u>
Safe Assets	\$ 1,364,500	\$ 2,007,026
Public Risk Assets:		
Public Equity	13,396,130	11,419,554
Liquid Credit	5,239,166	4,157,135
Diversifying Strategies	-	-
Marketable Diversifiers	3,647,249	3,267,702
Intermediate Assets	5,380,765	4,044,989
Private Risk Assets:		
Private Equity	7,856,603	7,877,288
Illiquid Credit	457,812	543,322
Resources and Infrastructure	2,467,256	2,420,807
Real Estate	2,518,747	2,478,813
Other	<u>553,522</u>	<u>429,248</u>
Total Investment Securities Held by USMF	<u>\$ 42,881,750</u>	<u>\$ 38,645,884</u>

Investment securities held by Wilmington Trust are comprised of the following:

<u>Description Of Securities</u>	<u>2024</u> <u>Market</u>	<u>2023</u> <u>Market</u>
Cash and Temporary Investments	\$ 64,489	\$ 61,891
Real Assets	24,158	38,281
Mutual Funds-Equity	1,063,579	917,035
Mutual Funds-Fixed	<u>499,280</u>	<u>459,542</u>
Total Investment Securities Held by Wilmington Trust	<u>\$ 1,651,506</u>	<u>\$ 1,476,749</u>

Short term investments at market value are comprised of the following:

<u>Description Of Securities</u>	<u>2024</u>	<u>2023</u>
Savings	\$ 9,302	\$ 9,262
Certificates of Deposit	<u>712,310</u>	<u>635,647</u>
Total Short Term Investments	<u>\$ 721,612</u>	<u>\$ 644,909</u>
Total Investments	<u>\$ 45,254,868</u>	<u>\$ 40,767,542</u>

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 9. Fair Value Measurements

Fair values of assets measured on a recurring basis at June 30, 2024 are as follows:

Fair Value Measurements at Reporting Date Using:				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024				
Short Term Investments	\$721,612	\$721,612	\$ -	\$ -
Money Market Funds	64,489	64,489	-	-
Registered Investment Companies-Equity	1,063,579	1,063,579	-	-
Registered Investment Companies – Real Assets	24,158	24,158	-	-
Registered Investment Companies-Fixed	<u>499,280</u>	<u>499,280</u>	-	-
Total assets in the fair value hierarchy	2,373,118	2,373,118	-	-
Investment measured at net asset value: ^(a)				
Plan Interest in University of Maryland Foundation	<u>42,881,750</u>	-	-	-
Total Investments	45,254,868	2,373,118	-	-
Charitable Gift Annuity	39,469	-	39,469	-
Cash Surrender Value of Donated Life Insurance Policies	<u>455,065</u>	<u>455,065</u>	-	-
Total	<u>\$45,749,402</u>	<u>\$2,828,183</u>	<u>\$ 39,469</u>	<u>\$ -</u>

Fair values of assets measured on a recurring basis at June 30, 2023 are as follows:

Fair Value Measurements at Reporting Date Using:				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2023				
Short Term Investments	\$644,909	\$644,909	\$ -	\$ -
Money Market Funds	61,891	61,891	-	-
Registered Investment Companies-Equity	917,035	917,035	-	-
Registered Investment Companies – Real Assets	38,281	38,281	-	-
Registered Investment Companies-Fixed	<u>459,542</u>	<u>459,542</u>	-	-
Total assets in the fair value hierarchy	2,121,658	2,121,658	-	-
Investment measured at net asset value: ^(a)				
Plan Interest in University of Maryland Foundation	<u>38,645,884</u>	-	-	-
Total Investments	40,767,542	2,121,658	-	-
Charitable Gift Annuity	38,129	-	38,129	-
Cash Surrender Value of Donated Life Insurance Policies	<u>435,871</u>	<u>435,871</u>	-	-
Total	<u>\$41,241,542</u>	<u>\$2,557,529</u>	<u>\$ 38,129</u>	<u>\$ -</u>

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 9. Fair Value Measurements (continued)

^(a)In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

The framework for measuring fair value 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 as follows:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 inputs to the valuation methodology include the following:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from, or corroborated by, observable market data by correlation or other meansIf the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following provides a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2024 and 2023.

- Money market funds are valued based on net asset value at year end.
- The Investments in USMF are valued, as a practical expedient, utilizing the net asset valuation of the investment pool provided by USMF, without adjustment, when the net asset valuations of the investments are calculated in a manner consistent with U.S. GAAP for investment companies. The Foundation applies the practical expedient to its investment in USMF consistently with the Foundation's entire position in the investment, unless it is probable that the Foundation will sell a portion of an investment at an amount different from the net asset valuation. If it is probable that the Foundation will sell an investment at an amount different from the net asset valuation or in other situations where the

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 9. Fair Value Measurements (continued)

practical expedient is not available, the Foundation considers other factors in addition to the net asset valuation, such as features of the investment, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

- Donated life insurance policies are valued at the cash surrender values of the policies, which is the guaranteed value payable upon the termination of the policies.
- Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.
- Short term investments are valued based on net asset value at year end.
- Charitable gift annuities are valued at the present value of estimated future distributions to be paid over the expected term of the agreements

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

Note 10. Investments in Entities that Calculate Net Asset Value Per Share Practical Expedient

The Foundation has the following investments in entities that calculate net asset value per share as a practical expedient at June 30, 2024 and 2023:

	Fair Value	Unfunded Commitments	Redemption Frequencies (if currently eligible)	Maximum Redemption Notice Period
June 30, 2024				
Investment with USMF	\$ 42,881,750	-	Each business day	One Year
			Redemption Frequencies (if currently eligible)	Maximum Redemption Notice Period
June 30, 2023				
Investment with USMF	\$ 38,645,884	-	Each business day	One Year

The Investment with USMF is a pooled investment fund that invests in public securities, private securities, real assets, bonds, and cash. The fund seeks to provide a steady and sustainable distribution of funds to the pooled investors, to achieve returns in excess of inflation plus spending plus fees and provide capital for spending distributions. The fair values of the

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 10. Investments in Entities that Calculate Net Asset Value Per Share Practical Expedient (continued)

investments in this category have been estimated using market quotations, if available. To the extent that market quotations are not available, fair value is estimated using the net asset value per share of the investments, available quotations of similar instruments, or meaningful third party transactions in the private market, or considering the financial condition and operating results of the issuer, the amount that the fund can reasonably expect to realize upon the sale of the securities, and any other factors deemed relevant. Redemptions may be made on any business day. Redemption from this investment is dependent on redemption from the underlying investments of the portfolio. The notice period for redemption ranges from one month to one year. Withdrawals from this fund may be restricted, subject to the liquidity of the underlying investments. The Foundation has not experienced any restrictions on redemptions made.

Note 11. Management of Investments

The Foundation has signed an investment management agreement with USMF, whereby funds held by the Foundation will be invested according to the policies set and approved by USMF's Board of Trustees. USMF is the custodian of the Foundation's investment assets under this agreement. This agreement also allows the Foundation to invest its assets in USMF investment pools. The investment manager and custodial management fees are deducted from investment income earned.

USMF serves as custodian and investment manager of approximately 95% of the Foundation's investments. The assets in these funds consisted of donations and earnings at June 30, 2024 and 2023. The other investments are managed and directly invested by a third party custodian.

Note 12. Conditional Promise to Give

In the normal course of operations, the Foundation has been notified as being designated to receive various deferred gifts from alumni and friends in support of Frostburg State University that are not recorded in the financial statements because of their contingent nature. However, the Foundation facilitates and does record deferred gifts through the use of Memorandums of Understanding detailing the donor's intent and stipulations for administration of the gift for such items as bequests, charitable remainder trusts and insurance policies. The approximate amount of those gifts at June 30, 2024 and 2023 is \$4,156,632 and \$4,537,853, respectively. All of the gifts are to be received at the death of the donor.

Note 13. Life Insurance Policies

The Foundation is owner and beneficiary of life insurance policies with face amounts of \$595,000 and \$595,000 and cash surrender values of approximately \$455,065 and \$435,871 at June 30, 2024 and 2023, respectively.

Note 14. Endowments

The Foundation's endowment consists of approximately 405 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment funds. The net assets associated with endowment funds, including funds designated by the Board to function as

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 14. Endowments (continued)

endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The entirety of the Foundation's endowment funds are held and managed by the University System of Maryland Foundation for an investment management fee. Accordingly, Frostburg State University Foundation has adopted University System of Maryland Foundation's investment strategies and spending policy.

The Board of Trustees has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) 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 donor restricted net assets as (a) the original value of the 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 of the accumulation is added to the fund. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the Foundation and the endowment fund
- (3) The general economic conditions
- (4) The possible effect of inflation or 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

The Foundation's endowment funds consist of the following as of June 30, 2024:

	Without donor restrictions	With donor restrictions	Total
Funds treated as endowment funds	\$ 2,540,008	\$ 1,993,823	\$ 4,533,831
Donor –restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	38,374,979	38,374,979
	\$ 2,540,008	\$ 40,368,802	\$42,908,810

The Foundation's endowment funds consist of the following as of June 30, 2023:

	Without donor restrictions	With donor restrictions	Total
Funds treated as endowment funds	\$ 2,321,233	\$ 1,951,425	\$ 4,272,658
Donor –restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	34,398,368	34,398,368
	\$ 2,321,233	\$ 36,349,793	\$38,671,026

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 14. Endowments (continued)

Changes in endowment net assets for the years ended June 30:

2024	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ 2,321,233	\$ 36,349,793	\$38,671,026
Investment return, net of expenses	209,562	3,336,510	3,546,072
Contributions	126,173	2,878,575	3,004,748
Appropriation for spendable	(-)	(1,960,049)	(1,960,049)
Appropriation of endowment assets for expenditure	(116,960)	(236,027)	(352,987)
Endowment net assets, end of year	\$ 2,540,008	\$ 40,368,802	\$42,908,810

2023	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ 2,197,554	\$ 35,117,737	\$37,315,291
Investment return, net of expenses	141,382	2,233,629	2,375,011
Contributions	27,422	1,089,572	1,116,994
Appropriation for spendable	(-)	(1,757,057)	(1,757,057)
Appropriation of endowment assets for expenditure	(45,125)	(334,088)	(379,213)
Endowment net assets, end of year	\$ 2,321,233	\$ 36,349,793	\$38,671,026

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 or MUPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. The Foundation allows for spending on underwater funds. Future market gains will be used to restore this deficiency. At June 30, 2024, there were no funds with deficiencies, if there were deficits, they would be reported in net assets with donor restrictions. There were 0 underwater funds as of June 30, 2024 and 4 underwater funds as of June 30, 2023.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 14. Endowments (continued)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for the endowment that seek to provide a steady and sustainable distribution of funds to support operations. The Investment Committee governs according to fundamental investment principles, approved by the Investment Committee with the objective of achieving superior risk-adjusted returns in order to grow the corpus of the capital base and provide capital for spending distributions. Specifically, the goal of the endowment is to achieve returns in excess of inflation plus spending plus fees. With the context of risk-taking, specific risk metrics are outlined for the Investment Committee to reassess the portfolio's positioning if these levels are breached.

Strategies Employed for Achieving Objectives

To satisfy its objectives, USMF employs a diversified asset allocation that allows for investment in public risk assets (primarily liquid investments), private risk assets (illiquid portion of portfolio), intermediate assets (private assets with shorter, finite illiquidity periods) and safe assets (cash, US Government securities and money market funds). In addition, on an as needed basis to further protect capital, assets may be allocated to the portfolio overlay class (liquid, exchange traded instruments that aim to hedge against undesired risks).

The asset allocation target ranges inclusive of these securities as of June 30, 2024 and 2023 are as follows:

<u>2024</u>			
Asset Class	Policy Target	Minimum	Maximum
Safe Assets	3%	0%	25%
Intermediate Assets	15%	5%	25%
Public Risk Assets	52%	25%	75%
Private Risk Assets	30%	10%	75%
<u>2023</u>			
Safe Assets	3%	0%	25%
Intermediate Assets	15%	5%	25%
Public Risk Assets	52%	25%	75%
Private Risk Assets	30%	10%	75%

The Endowment Portfolio is constructed based on the following principles:

- 1) **Allocation**: The overall goal of the investment committee in establishing the asset class ranges is to create balance across the portfolio between sources of return, liquidity timeliness, and types of risk. The purpose and definition of each asset class and sub-class is as follows:
 - a) **Safe Assets** are defined as investments with little-to-no principal risk. These assets are cash, U.S. Government securities and money market funds. This portion of the portfolio is in place to provide capital preservation and stability during volatile periods as well as facilitate spending and capital call requirements. Maintaining safe assets minimizes the risk of becoming forced sellers of assets during moments of market stress.
 - b) **Intermediate Assets** represent private, finite life investment vehicles whose term is generally longer than public risk assets, but shorter than private risk assets. Since there is

Note 14. Endowments (continued)

b) **Intermediate Assets (continued)**

modest illiquidity within these investments, they seek to earn returns above market lending rates, but not as high as private risk assets. Many strategies within this asset class have a credit or contractual yield orientation, with lower correlation to public equity markets. These include strategies such as direct lending, distressed lending/sales, and niche credit opportunities. In many cases, collateral is attached to these investments and/or they seek a higher priority of payments within a stressed or distressed environment. They offer idiosyncratic return/risk predictable and consistent; thereby aiming to reduce overall portfolio risk in tandem with earning attractive returns.

c) **Portfolio Overlay** is another line of defense for capital preservation. Allocation towards this asset class will be infrequent and in line with protecting the entire portfolio from unwanted risks and market shocks. This is achieved through a number of liquid exchange-traded instruments that aim to hedge against undesired risks. The target allocation is set to zero percent because allocating capital to this asset class will only be on an as-needed, opportunistic basis.

d) **Public Risk Assets** define the liquid investments. These investments are traded in liquid markets/exchanges. Within this section of the portfolio, a number of uncorrelated objectives across equity and credit managers and instruments are sought. Orientations vary as they seek growth, value, momentum, inflation protection, and/or catalyst driven events.

e) **Private Risk Assets** are the illiquid portion of the portfolio, serving as the primary return enhancement over broad public equity markets. Because of the long-term nature of the endowment's capital, the portfolio can hold illiquid investments that may take years for profit realization. While the use of capital is sacrificed during this timeframe, these investments are held to higher hurdles of performance, as they are expected to earn a significant return premium over public market equivalent investments. These investments seek to invest in the debt and/or equity of businesses as well as physical assets. A wide variety of strategies are utilized across varied geographies, sectors, and liquidity profiles, so as to achieve market and vintage year diversification.

- 2) **Diversification:** By allocating funds to asset classes whose returns are not highly correlated over time, the Investment Committee aims to mitigate some of the volatility inherent in equities and thereby provide greater stability in spending distributions than might be possible with a more concentrated portfolio. Although such diversification means the endowment may not reap all of the benefits of equity bull markets, it will also avoid the full brunt of bear markets. No more than 5% of the endowment fund's assets may be invested in one fund and no more than 10% of the endowment fund's assets may be invested in one manager. The Investment Committee, however, may make an exception in special circumstances.
- 3) **Rebalancing:** In order to reap the benefits of diversification, portfolio holdings will be rebalanced as necessary to ensure that the actual portfolio asset allocation does not deviate materially from policy target allocation ranges.

Spending Policy and Relationship of Spending Policy to Investment Objectives

The Foundation has a spending rate policy for endowment funds in order to preserve the purchasing power of the assets, to protect against erosion of nominal principal and to promote stability and predictability of annual budgeting. The spending rate determines the amount to be

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 14. Endowments (continued)

distributed for current spending. If the agreement with the donor so provides, any amounts remaining after annual distributions are reinvested and become part of the corpus. If the agreement is silent as to earnings in excess of distributions, then under Foundation policy any amounts remaining after the distributions are reinvested and available for future spending. Their agreements provide that the corpus can be invaded to provide for spending stability.

The Foundation's policy of appropriating as of July 1 of the fiscal year was based on the following:

The Board of Trustees has authorized a formulaic approach to determine the annual spending rate. The spending rate is a combination of the following two factors by weighting (a) 30% and (b) 70% to calculate a per unit rate. Once calculated, the rate should be between 3.5% and 4.5% of the moving average market value for the years ended June 30, 2024 and 2023. Spending rates may not violate any donor restrictions.

- a) Compute the average market value for the most recent period ending December 31 using the previous twenty (20) quarters. Calculate 5% of this average market value. This is equivalent of using a moving average as each year the first four quarters drop off and the most recent four quarters are added.
- b) Calculate an adjusted spending rate using the prior year's percentage increased by the Higher Education Price Index (HEPI).

The spending rate for 2024 was 4.00%. The spending rate for 2023 was 4.00%.

Newly created individual endowment funds, in order to have annual spendable income, must be invested for at least one year prior to the calculation date and have a minimum value of \$10,000. In establishing this policy, the Investment Committee considered the long-term expected return on the endowment and its goal of preserving principle. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate that protects capital on an inflation-adjusted basis.

Note 15. Net Asset Activity

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2024</u>	<u>2023</u>
Subject to expenditures for specified purpose:		
Academic and Faculty	\$ 2,010,287	\$ 2,216,997
Scholarships	929,116	715,250
Research	3,594	2,912
	<u>2,942,997</u>	<u>2,935,159</u>
Endowments:		
Subject to Foundation's endowment spending policy:		
Academic and Faculty	13,022,248	11,224,912
Scholarships	27,241,824	25,023,845
Research	104,730	101,036
Total endowments:	<u>40,368,802</u>	<u>36,349,793</u>
Total net assets with donor restrictions	<u>\$ 43,311,799</u>	<u>\$ 39,284,952</u>

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 15. Net Asset Activity(continued)

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes as specified by donors. Such net assets were released as follows during the years ended June 30:

	<u>2024</u>	<u>2023</u>
Satisfaction of purpose restrictions:		
Scholarships	\$ 1,412,075	\$ 1,318,780
Research	5,645	6,049
Academic and Faculty	1,638,122	1,655,778
Total satisfaction of purpose restrictions	\$ 3,055,842	\$ 2,980,607

The Foundation has board-designated net assets for the university support and the alumni. Net assets without donor restrictions – Board-designated net assets are designated for the following during the years ended June 30:

	<u>2024</u>	<u>2023</u>
University support	\$ 2,050,919	\$ 1,891,189
Alumni	130,560	84,963
Total Board-designated net assets	\$ 2,181,479	\$ 1,976,152

Note 16. Concentrations

Approximately 95% of the Foundation's investment portfolio is pooled with USMF. The USMF invests in financial instruments that potentially subject the Foundation to a concentration of credit risk. The trust division of one financial institution holds these assets as custodian. The total deposits at this institution exceed the amount guaranteed by federal agencies and, therefore, bear some risk since they are not collateralized.

The Foundation also 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 value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Note 17. Tax Exempt Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Board has not made any provisions for federal income taxes in the accompanying financial statements. Additionally, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of section 509(a) of the Internal Revenue Code.

Management has reviewed the Organization's tax positions for all open tax years (tax years after June 30, 2021) and has determined that no provision for income taxes is required in the Organization's financial statements, in accordance with financial and accounting disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a U.S. income tax return.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 18. Related Parties

The Foundation agrees to provide a fund raising management service including account management and support services for the benefit of the University. To facilitate this program the University agrees to provide the services of staff, space and shared equipment such as data processing, office machines, communications devices, and files at no charge to the Foundation in accordance with the annual operating budget of the University and under the condition that gross expenditures of the Foundation in support of the University shall exceed the fair market value of such services and support as determined by an end of fiscal year financial review. Shared staff includes a portion of the time that the University's Vice President of Advancement serves as the Executive Director of the Frostburg State University Foundation. Shared staff also includes the Director of Advancement Services and a Development Associate. The portion of the assigned duties of the University's Vice President of Advancement to be dedicated to duties as Executive Director of the Frostburg State University Foundation shall be carried out without reimbursement to the University. Both parties agree to promote a positive and mutually beneficial working relationship. It is understood and accepted that each party will incur costs associated with the support of each other and it is not the intent of either party to profit or avoid payment of reasonable incurred costs at the expense of the other.

Note 19 Contingencies

From time to time the Foundation is involved in various legal actions arising from normal business activities. Management believes that such actions now pending are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Foundation's financial position.

Note 20: Gifts-in-Kind

The Foundation's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Foundation. If an asset is provided that does not allow the Foundation to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending of the type of asset.

The Foundation received donated books with an estimated fair market value of \$46,512 and \$112,987 for the years ended June 30, 2024 and 2023, respectively. The books were made available to local children to enhance their reading.

The Foundation received donated works of art and other antiques with an estimated fair market value of \$11,469 and \$0 for the years ended June 30, 2024 and 2023, respectively. These items are currently located in various buildings around the college campus.

The Foundation received donated science equipment with an estimated fair market value of \$0 and \$136,000 for the years ended June 30, 2024 and 2023, respectively.

The Foundation received donated construction materials for the Bobcat Stadium with an estimated fair market value of \$70,123 and \$0 for the years ended June 30, 2024 and 2023, respectively.

Frostburg State University Foundation, Inc.
Notes to Financial Statements

Note 20: Gifts-in-Kind (continued)

The Foundation also received various unreimbursed expenditures from Foundation board members, and other smaller gifts. These items have an estimated fair market value of \$7,565 and \$11,606 for the years ended June 30, 2024 and 2023, respectively.

Note 21: Liquidity and Availability

The Foundation manages its financial assets to provide sufficient liquidity for operations and to provide operating income through investments while safeguarding principal. The investment policy details the composition, objectives, and types of investments needed for the Foundation's liquidity. The Foundation invests in several certificates of deposit with varying maturity dates to enhance the Foundation's liquidity (see Note 8). The Foundation's operating account receives an annual distribution from the endowed accounts (see Note 14). This distribution helps fund the Foundation's operations and fund board designated objectives.

Cash and other financial assets available within one year at June 30, 2024 and 2023 are as follows:

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	\$ 416,839	\$ 483,952
Accounts receivable	6,710	-
Student loan receivable	2,585	2,585
Contributions receivable, net	779,143	859,868
Investments	45,254,868	40,767,542
Subtotal of financial assets at year end	46,460,145	42,113,947
Less amounts with limits on usage:		
Spendable net assets with donor restrictions	(2,942,997)	(2,935,159)
Spendable net assets with board designations	(2,181,479)	(1,976,152)
Endowment net assets with donor restrictions	(40,368,802)	(36,349,793)
Total financial assets available for general use within one year	\$ 966,867	\$ 852,843

Note 22. Subsequent Events

The Foundation has evaluated, for possible financial statement disclosure, subsequent events through September 30, 2024 the date, which the financial statements were available to be issued, and determined there were no such events.

SUPPLEMENTARY INFORMATION

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FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
REIMBURSED EXPENSES TO FROSTBURG STATE UNIVERSITY FACULTY OR STAFF
YEAR ENDED JUNE 30, 2024
DEVELOPMENT/MEETINGS/TRAVEL/FOOD

Keith Byrnes	\$ 2,200.68
Karen Lau	1,859.46
Shannon Gribble	1,208.00
Anthony Williams	994.37
Eric Wagoner	720.58
Ronald Nowaczyk	709.85
Allen Flanagan	655.09
Steve Gartelman	521.89
Kathleen Jocoy	446.25
Kenneth Levitt	444.50
Troy Donoway	363.27
William Vasko	319.32
Brent Weber	196.06
Jodi Eirich	179.55
Tim Magrath	162.52
Donnell VanSkiver	119.89
Jordan Swogger	111.86
Joel Hoover	87.80
Laz Sye	87.79
Adam Lewis	87.74
Sudhir Singh	81.00
Evan Offstein	63.31
Brian Lang	60.40
Nooh Bany Muhammad	55.19
Oleg Kucher	48.08
Martha Macgill	40.00
Troy Dell	40.00
Sara-Beth Bittinger	36.76
Kim James	35.00
Karen Kerns	33.26
Lisa Hersch	29.96
Clarissa Lang	29.64
	<hr/>
	\$ 12,029.07
	<hr/>

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.
FEES PAID TO FROSTBURG STATE UNIVERSITY FACULTY OR STAFF
YEAR ENDED JUNE 30, 2024

Contracted Services	Amount
n/a = none	<u>\$ -</u>
	<u><u>\$ -</u></u>

FROSTBURG STATE UNIVERSITY FOUNDATION, INC.

**SCHEDULE OF TRANSFERS TO FROSTBURG STATE UNIVERSITY
YEAR ENDED JUNE 30, 2024**

<u>CASH</u>	<u>Transfers to FSU</u>	<u>In Support of FSU</u>	<u>Total</u>
Scholarships	\$1,409,118	\$ 2,957	\$1,412,075
Food events/programs	89,851	113,690	203,541
Supplies	3,598	96,717	100,315
Grants	1,052,916	-	1,052,916
Contractual services	-	72,746	72,746
Travel reimbursements	-	50,312	50,312
Advertising	-	3,663	3,663
Office supplies and postage	6,922	14,620	21,542
Contributions	-	5,213	5,213
Memberships	-	77,791	77,791
Public relations and gifts	2,657	16,949	19,606
Student aid	4,752	16,827	21,579
Printing	8,932	13,100	22,032
Awards	-	29,174	29,174
Equipment purchases	-	84,579	84,579
Rentals	-	2,375	2,375
Refunds	-	599	599
Insurances	-	10,026	10,026
Flowers	-	4,167	4,167
TOTAL CASH	2,578,746	615,505	3,194,251
<u>GIFTS-IN-KIND</u>			
Equipment and services	135,669	-	135,669
TOTAL FROM ALL SOURCES	\$2,714,415	\$ 615,505	\$3,329,920