

# **Edinboro University Foundation**

Financial Statements and  
Supplementary Information

June 30, 2016 and 2015



**BAKER TILLY**

Candor. Insight. Results.

# Edinboro University Foundation

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## Independent Auditors' Report

Board of Directors  
Edinboro University Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of Edinboro University Foundation, which comprise the statement of financial position, as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edinboro University Foundation as of June 30, 2016 and 2015, 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.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 28-30 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

*Baker Tilly Viechow Krause, LLP*

Pittsburgh, Pennsylvania  
September 6, 2016

**Edinboro University Foundation**Statement of Financial Position  
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,231,984	\$ 1,642,613
Trustee held funds	168,415	168,415
Due from affiliated entities	82,120	86,700
Other current assets	<u>360,807</u>	<u>612,650</u>
Total current assets	1,843,326	2,510,378
<b>Investments</b>	22,092,846	21,432,276
<b>Trustee Held Funds</b>	17,728,389	17,274,476
<b>Fixed Assets, Net of Accumulated Depreciation</b>	84,939,672	88,435,671
<b>Deferred Financing Costs</b>	681,745	714,091
<b>Beneficial Interest in Remainder Trust</b>	299,383	299,383
<b>Other Assets</b>	<u>719,542</u>	<u>293,484</u>
Total assets	<u>\$ 128,304,903</u>	<u>\$ 130,959,759</u>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 141,623	\$ 164,400
Due to affiliated entities	183,100	261,899
Accrued interest payable	3,307,495	3,337,574
Construction contracts and retainage payable	168,415	168,415
Current portion of long-term debt	<u>1,615,000</u>	<u>1,405,000</u>
Total current liabilities	<u>5,415,633</u>	<u>5,337,288</u>
<b>Endowments Held on Behalf of Others</b>		
Funds under investment management for:		
Edinboro University of Pennsylvania	13,689,521	13,342,947
Edinboro University Alumni Association	<u>1,680,448</u>	<u>1,765,683</u>
Total endowments held on behalf of others	<u>15,369,969</u>	<u>15,108,630</u>
<b>Long-Term Debt</b>	<u>110,823,319</u>	<u>112,398,913</u>
Total liabilities	<u>131,608,921</u>	<u>132,844,831</u>
<b>Net Assets</b>		
Unrestricted net assets, board designated	-	82,500
Unrestricted, undesignated	(11,813,883)	(10,155,684)
Accumulated losses on donor-restricted endowments	<u>(84,889)</u>	<u>(36,391)</u>
Total unrestricted net assets	(11,898,772)	(10,109,575)
Temporarily restricted net assets	2,028,117	2,143,765
Permanently restricted net assets	<u>6,566,637</u>	<u>6,080,738</u>
Total net assets	<u>(3,304,018)</u>	<u>(1,885,072)</u>
Total liabilities and net assets	<u>\$ 128,304,903</u>	<u>\$ 130,959,759</u>

See notes to financial statements

**Edinboro University Foundation**Statement of Activities  
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support and Revenues</b>				
Rental income	\$ 12,859,440	\$ -	\$ -	\$ 12,859,440
Unrealized gains (losses) on investments	74,763	(232,578)	-	(157,815)
Contributions	3,085	1,109,549	490,663	1,603,297
Interest and dividend income, net of investment expense	119,831	42,093	-	161,924
Portfolio management fee income	195,535	-	-	195,535
Realized gains on investments	-	9,462	-	9,462
Adjustment to cash surrender value of life insurance	-	-	(4,764)	(4,764)
Other Income	10,426	-	-	10,426
Net assets released from restrictions: Satisfaction of purpose restrictions	1,044,174	(1,044,174)	-	-
<b>Total public support and revenues</b>	<u>14,307,254</u>	<u>(115,648)</u>	<u>485,899</u>	<u>14,677,505</u>
<b>Expenses</b>				
Program services	15,668,139	-	-	15,668,139
Management and general expenses	391,340	-	-	391,340
Fundraising expenses	36,972	-	-	36,972
<b>Total expenses</b>	<u>16,096,451</u>	<u>-</u>	<u>-</u>	<u>16,096,451</u>
<b>Increase (Decrease) in Net Assets</b>	(1,789,197)	(115,648)	485,899	(1,418,946)
<b>Net Assets, Beginning</b>	<u>(10,109,575)</u>	<u>2,143,765</u>	<u>6,080,738</u>	<u>(1,885,072)</u>
<b>Net Assets, Ending</b>	<u>\$ (11,898,772)</u>	<u>\$ 2,028,117</u>	<u>\$ 6,566,637</u>	<u>\$ (3,304,018)</u>

See notes to financial statements

**Edinboro University Foundation**

Statement of Activities

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support and Revenues</b>				
Rental income	\$ 12,433,265	\$ -	\$ -	\$ 12,433,265
Unrealized gains (losses) on investments	12,742	(148,523)	-	(135,781)
Contributions	287,128	723,047	93,486	1,103,661
Interest and dividend income, net of investment expense	33,112	28,504	-	61,616
Portfolio management fee income	212,535	-	-	212,535
Realized gains on investments	-	228,756	-	228,756
Change in value of split-interest agreement	-	-	34,020	34,020
Adjustment to cash surrender value of life insurance	-	-	12,858	12,858
Other Income	503,391	-	-	503,391
Net assets released from restrictions:				
Satisfaction of purpose restrictions	1,061,596	(1,061,596)	-	-
Transfers and other adjustments	58,363	217,232	(275,595)	-
<b>Total public support and revenues</b>	<u>14,602,132</u>	<u>(12,580)</u>	<u>(135,231)</u>	<u>14,454,321</u>
<b>Expenses</b>				
Program services	16,217,253	-	-	16,217,253
Management and general expenses	414,076	-	-	414,076
Fundraising expenses	4,853	-	-	4,853
<b>Total expenses</b>	<u>16,636,182</u>	<u>-</u>	<u>-</u>	<u>16,636,182</u>
<b>Decrease in Net Assets</b>	<u>(2,034,050)</u>	<u>(12,580)</u>	<u>(135,231)</u>	<u>(2,181,861)</u>
<b>Net Assets, Beginning</b>	<u>(8,075,525)</u>	<u>2,156,345</u>	<u>6,215,969</u>	<u>296,789</u>
<b>Net Assets, Ending</b>	<u>\$ (10,109,575)</u>	<u>\$ 2,143,765</u>	<u>\$ 6,080,738</u>	<u>\$ (1,885,072)</u>

See notes to financial statements

# Edinboro University Foundation

## Statement of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (1,418,946)	\$ (2,181,861)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	3,572,363	3,603,092
Unrealized investment losses	157,815	135,781
Change in value of split interest agreement	-	(34,020)
Adjustment to cash surrender value of life insurance	4,764	(12,858)
Realized investment gains, net	(9,462)	(228,756)
(Increase) decrease in:		
Other assets	(178,979)	(482,732)
Due from affiliated entities	4,580	68,079
Increase (decrease) in:		
Accounts payable and accrued liabilities	(22,777)	51,427
Due to affiliated entities	(78,799)	40,760
Accrued interest payable	(30,079)	(24,550)
Pledge payable	-	(5,000)
	<u>2,000,480</u>	<u>929,362</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Payments for fixed assets	(4,612)	(33,723)
(Increase) decrease in trustee held funds	(453,913)	273,704
Purchase of investments	(5,956,341)	(6,594,912)
Proceeds from sale of investments	5,147,418	6,428,330
Increase in agency endowment liability	261,339	347,260
	<u>(1,006,109)</u>	<u>420,659</u>
Net cash provided by (used in) investing activities		
<b>Cash Flows from Financing Activities</b>		
Principal payments related to long-term debt	(1,405,000)	(1,120,000)
	<u>(1,405,000)</u>	<u>(1,120,000)</u>
Net change in cash and cash equivalents	(410,629)	230,021
<b>Cash and Cash Equivalents, Beginning</b>	<u>1,642,613</u>	<u>1,412,592</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 1,231,984</u>	<u>\$ 1,642,613</u>
<b>Supplemental Disclosures of Non-cash Investing and Financing Activities</b>		
Fixed assets included in construction contracts and retainage payable	<u>\$ 168,415</u>	<u>\$ 168,415</u>
<b>Supplemental Disclosure of Other Cash Flow Information</b>		
Interest paid	<u>\$ 6,645,867</u>	<u>\$ 6,699,697</u>

See notes to financial statements



# Edinboro University Foundation

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Notes to Financial Statements

June 30, 2016 and 2015

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

### Nature of Operations

Edinboro University Foundation (the "Foundation"), a not-for-profit organization, was formed in 1998 for the benefit of the students, faculty, and staff of Edinboro University of Pennsylvania of the State System of Higher Education (the "University"). Dedicating its time and resources to developing private sources of financial support for the University's mission, the Foundation strives to build permanent endowments that will support the University's students, faculty, and staff in perpetuity. The Foundation also owns and operates student housing facilities on the campus of the University.

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

The Foundation has evaluated all subsequent events through September 6, 2016, which is the date these financial statements were issued. See Note 15.

As evidenced by the accompanying financial statements, the Foundation had deficit unrestricted net assets of approximately \$11,899,000 and \$10,110,000 as of June 30, 2016 and 2015, respectively, and recognized decreases in net assets of approximately \$1,400,000 and \$2,200,000 for the years then ended. On August 25, 2016, the University committed to a refinancing of the Foundation's existing bonds and to assume both of the bonds and related student housing property by which the bonds are secured. The Foundation has represented that this proposed subsequent release of its bond obligations will lead to improvements in its overall financial condition. The advanced refunding closing is scheduled to occur on September 7, 2016. See Note 15.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include depreciation of property and equipment, the allowance for uncollectible accounts, and the fair value of investments and financial instruments. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments purchased with original maturities of three months or less, excluding trustee held funds and certain short-term instruments classified as investments.

# Edinboro University Foundation

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Notes to Financial Statements  
June 30, 2016 and 2015

## Unconditional Promises to Give

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

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

## Investments

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

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

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

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

## Trustee Held Funds

Trustee held funds include cash equivalents held by a bank trustee under the terms of a loan agreement with the Pennsylvania Higher Educational Facilities Authority ("PHEFA").

# Edinboro University Foundation

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Notes to Financial Statements

June 30, 2016 and 2015

## Fixed Assets

Fixed assets are stated at cost less accumulated depreciation, computed on a straight-line basis over the lesser of the lease term or the estimated useful lives of the assets. The estimated useful lives are as follows:

Assets	Life
Buildings and improvements	10-40 years
Furniture and fixtures	10 years
Equipment	3-5 years
Land improvements	20 years
Vehicles and heavy equipment	5 years

Expenditures for repair and maintenance costs which extend the useful lives of assets are capitalized and routine maintenance and repair costs are expensed as incurred.

## Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the underlying loan agreement using the straight-line method, which does not materially differ from the effective interest method. Amortization was \$32,346 for both of the years ended June 30, 2016 and 2015.

## Beneficial Interest in Remainder Trust

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

## Endowments Held on Behalf of Others

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

## Endowment Investment Return

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

# Edinboro University Foundation

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Notes to Financial Statements  
June 30, 2016 and 2015

## **Endowment Spending Policy**

Commonwealth of Pennsylvania Act 141 permits the Foundation to allocate to income each year a portion of endowment return. The law allows not-for-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage, which by law must be between 2% and 7%, is elected annually by the Board of Directors. The endowment market value is determined based on an average spanning three years. The Foundation's spending policy allowed for a payout of up to 4% for fiscal years 2016 and 2015, of the rolling three-year average balances, which is based on market value.

## **Unrestricted, Temporarily and Permanently Restricted Net Assets**

Unrestricted net assets are those whose use by the Foundation is not subject to donor-imposed restrictions. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

## **Board Designated Net Assets**

The Foundation's Board of Directors has voluntarily approved segregations of unrestricted net assets to be utilized for specific programs, projects and operational expenses. Such items are reported as board designated net assets within the unrestricted net asset category.

## **Rental Revenue Recognition**

Rental revenue is recognized on a monthly basis as it is due under the terms of short-term, operating lease agreements for student housing at the University. All revenue is recorded net of estimated allowances for uncollectible receivables. Rental revenue is based on units rented, which is dependent on student residency populations, by semester. See Note 15.

## **Donor Restricted Gifts**

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

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

# Edinboro University Foundation

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Notes to Financial Statements  
June 30, 2016 and 2015

## **In-Kind Gifts**

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Management believes that such contributions were not material to the financial statements during the years ended June 30, 2016 and 2015.

## **Legacies and Bequests**

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

## **Income Taxes**

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

The Foundation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in fiscal years 2016 and 2015.

The Foundation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in management and general expense.

## **New Accounting Pronouncements**

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Foundation may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Foundation is currently assessing the effect that ASU 2014-09 and 2015-14 will have on its results from operations, financial position and cash flows.

## Edinboro University Foundation

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Notes to Financial Statements

June 30, 2016 and 2015

During April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in balance sheet as a direct deduction from the carrying amount of that debt liability instead of an asset. The recognition and measurement guidance for debt issuance costs are not affected by this update. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Foundation does not believe that the adoption of ASU 2015-03 will have a material effect on its results of operations, financial position and cash flows.

During May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This ASU was issued to address the diversity in practice relating to how certain investments measured at net asset value are categorized in the fair value hierarchy. The amendments in this update remove the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for the Foundation's fiscal year beginning July 1, 2016; early adoption is permitted. The Foundation is assessing the impact that this update will have on its results of operations, financial position and cash flows.

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

During February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 establishes principles that require a lessee create a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Foundation is currently assessing the effect that ASU 2016-02 will have on its results of operations, financial position and cash flows.

# Edinboro University Foundation

Notes to Financial Statements  
June 30, 2016 and 2015

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

## 2. Investments

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

	<u>2016</u>	<u>2015</u>
Mutual funds/Common Funds	\$ 19,318,142	\$ 18,512,122
Common stocks	2,153,608	2,725,169
Money market funds	<u>621,096</u>	<u>194,985</u>
Total	<u>\$ 22,092,846</u>	<u>\$ 21,432,276</u>

## 3. Fair Value Measurements

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

The levels of the fair value hierarchy are as follows:

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

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

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

# Edinboro University Foundation

## Notes to Financial Statements

June 30, 2016 and 2015

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

Fair values of assets measured on a recurring basis are as follows at June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks:				
Consumer discretionary	\$ 263,346	\$ 263,346	\$ -	\$ -
Consumer staples	240,373	240,373	-	-
Energy	151,301	151,301	-	-
Financial	337,336	337,336	-	-
Healthcare	320,267	320,267	-	-
Industrials	214,820	214,820	-	-
Materials	56,717	56,717	-	-
Technologies	427,760	427,760	-	-
Telecommunications	64,098	64,098	-	-
Utilities	77,590	77,590	-	-
Total common stocks	<u>2,153,608</u>	<u>2,153,608</u>	<u>-</u>	<u>-</u>
Debt-based mutual funds:				
United States treasuries	313,371	313,371	-	-
Investment grade securities	474,109	474,109	-	-
Other debt-based securities	2,499,565	2,499,565	-	-
Government National Mortgage Association	185,306	185,306	-	-
Equity-based mutual funds:				
Mid cap	1,133,948	1,133,948	-	-
International	1,233,729	1,233,729	-	-
Small cap	345,160	345,160	-	-
Unclassified	3,268,607	3,268,607	-	-
Commonfund:				
Multi-Strategy Equity	5,970,637	-	5,970,637	-
Multi-Strategy Bond	2,918,083	-	2,918,083	-
International Equity	975,627	-	975,627	-
Total mutual funds	<u>19,318,142</u>	<u>9,453,795</u>	<u>9,864,347</u>	<u>-</u>
Money market funds	<u>621,096</u>	<u>621,096</u>	<u>-</u>	<u>-</u>
Total investments	22,092,846	12,228,499	9,864,347	-
Beneficial interest in remainder trust	<u>299,383</u>	<u>-</u>	<u>-</u>	<u>299,383</u>
Total	<u>\$ 22,392,229</u>	<u>\$ 12,228,499</u>	<u>\$ 9,864,347</u>	<u>\$ 299,383</u>



# Edinboro University Foundation

## Notes to Financial Statements

June 30, 2016 and 2015

Fair values of assets measured on a recurring basis are as follows at June 30, 2015:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stocks:				
Consumer discretionary	\$ 332,025	\$ 332,025	\$ -	\$ -
Consumer staples	241,253	241,253	-	-
Energy	219,076	219,076	-	-
Financial	455,519	455,519	-	-
Healthcare	420,699	420,699	-	-
Industrials	268,025	268,025	-	-
Materials	98,673	98,673	-	-
Technologies	537,361	537,361	-	-
Telecommunications	71,882	71,882	-	-
Utilities	80,656	80,656	-	-
	<u>2,725,169</u>	<u>2,725,169</u>	<u>-</u>	<u>-</u>
Total common stocks				
Debt-based mutual funds:				
United States treasuries	813,449	813,449	-	-
Investment grade securities	230,431	230,431	-	-
Other debt-based securities	1,641,880	1,641,880	-	-
Government National Mortgage Association	329,740	329,740	-	-
Equity-based mutual funds:				
Mid cap	1,226,148	1,226,148	-	-
International	1,737,073	1,737,073	-	-
Small cap	872,166	872,166	-	-
Unclassified	1,631,551	1,631,551	-	-
Commonfund:				
Multi-Strategy Equity	6,126,009	-	6,126,009	-
Multi-Strategy Bond	2,789,870	-	2,789,870	-
International Equity	1,113,805	-	1,113,805	-
	<u>18,512,122</u>	<u>8,482,438</u>	<u>10,029,684</u>	<u>-</u>
Total mutual funds				
Money market funds	194,985	194,985	-	-
	<u>21,432,276</u>	<u>11,402,592</u>	<u>10,029,684</u>	<u>-</u>
Total investments				
Beneficial interest in remainder trust	299,383	-	-	299,383
	<u>299,383</u>	<u>-</u>	<u>-</u>	<u>299,383</u>
Beneficial interest in remainder trust				
Total	<u>\$ 21,731,659</u>	<u>\$ 11,402,592</u>	<u>\$ 10,029,684</u>	<u>\$ 299,383</u>

## Edinboro University Foundation

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Notes to Financial Statements  
June 30, 2016 and 2015

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2016 and 2015.

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

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

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

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

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

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

## Edinboro University Foundation

Notes to Financial Statements  
June 30, 2016 and 2015

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

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

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

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 299,383	\$ 265,363
Unrealized gains	-	34,020
Balance, end of year	<u>\$ 299,383</u>	<u>\$ 299,383</u>

The most significant unobservable inputs affecting the fair value of the beneficial interest in remainder trust are the changes in the fair value of the assets comprising the trust, as well as changes in the present value of the estimated future payments to beneficiaries. Significant changes in any of these inputs in isolation could result in a significant change in the fair value measurement. There were no changes in valuation techniques during 2016 and 2015.

#### 4. Trustee Held Funds

The composition of trustee held funds is as follows at June 30:

	<u>2016</u>	<u>2015</u>
Under trust indenture, held by trustee, cash and cash equivalents	\$ 17,896,804	\$ 17,442,891
Less funds allocated toward current construction contracts and retainage payable	<u>168,415</u>	<u>168,415</u>
Non-current portion of funds held by trustee	<u>\$ 17,728,389</u>	<u>\$ 17,274,476</u>
Portion of non-current funds held by trustee reserved for debt service	<u>\$ 8,566,101</u>	<u>\$ 8,481,633</u>

# Edinboro University Foundation

Notes to Financial Statements  
June 30, 2016 and 2015

Pursuant to the terms of the trust indentures underlying the Series 2008 and 2010 Bonds (Note 6), the Foundation is required to maintain an amount equivalent to the lesser of: the maximum annual debt service requirements payable on the bonds (other than the last fiscal year during the term of the bonds); 125% of the average annual debt service on the bonds, or; 10% of the original proceeds of the bonds. There was \$8,566,101 and \$8,481,633 on reserve at June 30, 2016 and 2015, respectively, which the Foundation considers to be a non-current asset.

See Note 15.

## 5. Fixed Assets

Fixed assets consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 98,864,671	\$ 98,864,671
Furniture and fixtures	3,400,265	3,395,653
Equipment	1,630,524	1,630,524
Land improvements	976,956	976,956
Vehicles and heavy equipment	258,197	258,197
Artwork	138,034	138,034
Construction in progress	1,222	1,222
	<u>105,269,869</u>	<u>105,265,257</u>
Total		
Less accumulated depreciation	<u>20,330,197</u>	<u>16,829,586</u>
Total fixed assets, net	<u>\$ 84,939,672</u>	<u>\$ 88,435,671</u>

Depreciation expense was \$3,500,611 and \$3,531,342 for the years ended June 30, 2016 and 2015, respectively.

The Foundation had undertaken a project consisting of financing, through the issuance of tax-exempt bonds through the PHEFA (Note 6), the costs of acquisition, construction, equipping and furnishing student housing on the campus of Edinboro University of Pennsylvania. Phase I consisted of a four-building, 796 bed student housing facility. Phase II consisted of a four-building, 847 bed student housing facility. At June 30, 2013, construction of Phases I and II was substantially complete. Primarily all of the assets noted above relate to the Student Housing Facility.

In connection with the Student Housing Facility projects, the Foundation entered into a Ground Lease Agreement with the University (classified as an operating lease) (Note 10), for the lease of certain land upon which the student housing buildings are located. In addition to defining the rentals to be paid for the premises described therein, the Ground Lease Agreement outlines certain mutual covenants and agreements between the Foundation and the University, and also indicates that title to the Student Housing Facility shall, upon the termination or expiration of the lease, vest with the Commonwealth of Pennsylvania ("Commonwealth"), subject to the rights of the University pursuant to an Agreement between the Commonwealth and the University.

# Edinboro University Foundation

## Notes to Financial Statements

June 30, 2016 and 2015

In addition, the Foundation has contracted with the University to manage the Student Housing Facility pursuant to the terms of a Management Agreement. Related to this agreement, the Foundation received from the University \$12,859,440 and \$12,433,265 during the years ended June 30, 2016 and 2015, respectively, of student housing rental income (which the University billed and collected on the Foundation's behalf) and paid to the University \$4,311,014 and \$4,228,489 during the years ended June 30, 2016 and 2015, respectively, of student housing facility operating expenses. At June 30, 2016 and 2015, the Foundation has a net receivable of \$235,448 and \$120,884, respectively, from the University related to this agreement.

See Note 15.

### 6. Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Note payable (Series 2008 Bonds), Wells Fargo Bank, N. A., as more fully described below, due in varying annual installments through July 1, 2042, interest rates of 4.95% to 5.95%.	\$ 54,530,000	\$ 55,085,000
Note payable (Series 2010 Bonds), Wells Fargo Bank, N. A., as more fully described below, due in varying annual installments through July 1, 2043, interest rates of 3.63% to 6.00%.	58,740,000	59,590,000
Long-term debt	113,270,000	114,675,000
Less unamortized discount	831,681	871,087
Long-term debt, net of discount	112,438,319	113,803,913
Less current portion	1,615,000	1,405,000
Long-term debt, non-current portion	<u>\$ 110,823,319</u>	<u>\$ 112,398,913</u>

#### Series 2008 Bonds

In February 2008, PHEFA issued its Edinboro University Foundation Student Housing Project At Edinboro University of Pennsylvania Revenue Bonds - Series 2008 (the "Series 2008 Bonds"), the proceeds of which were loaned to the Foundation pursuant to a Loan Agreement between PHEFA and the Foundation dated February 1, 2008 (the "Loan Agreement"). The proceeds of the Series 2008 Bonds were used by the Foundation to provide funds to: finance the cost of acquiring, constructing, furnishing and equipping a four-building, 796-bed student housing facility ("Student Housing Facility"), including the buildings, furniture, fixtures and equipment therein and certain demolition activities related thereto, located on the main campus of the University on land leased by the Foundation from the University; to fund a portion of the interest payments on the Series of 2008 Bonds during construction of the Student Housing Facility and for a period of up to six months thereafter; to fund a Debt Service Reserve Fund for the Series 2008 Bonds, and; to pay the costs of issuing the Series 2008 Bonds.

## **Edinboro University Foundation**

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Notes to Financial Statements

June 30, 2016 and 2015

Following the issuance of the Series 2008 Bonds, PHEFA assigned the Loan Agreement to Wells Fargo Bank, N.A. ("Trustee"), as trustee, under a Trust Indenture dated February 1, 2008, as security for the Series 2008 Bonds.

Contemporaneously with the assignment of the Loan Agreement to the Trustee, the Trustee and the Foundation entered into an open-ended leasehold mortgage and security agreement as additional security for the Series 2008 Bonds, granting the Trustee a security interest in the premises, buildings, machinery and equipment, all rents, royalties and income, and the Ground Lease Agreement between the University (as lessor) and the Foundation (as lessee).

Under the terms of the Loan Agreement, the Foundation is required to remit interest payments to the Trustee on or before the 25th day of each calendar month in an amount equal to one-sixth of the interest due on the next succeeding interest payment date. Principal payments are due on or before the 25th day of each calendar month in amounts equal to one-twelfth of the principal amount maturing on the next succeeding July 1 (if any) commencing July 1, 2011. Payments required to effect mandatory redemption of principal amounts are due in amounts equal to one-twelfth of the Series 2008 bonds subject to mandatory redemption on the next succeeding July 1 (if any) beginning July 25, 2010.

### **Series 2010 Bonds**

In May 2010, PHEFA issued its Edinboro University Foundation Student Housing Project At Edinboro University of Pennsylvania Revenue Bonds - Series 2010 (the "Series 2010 Bonds"), the proceeds of which were loaned to the Foundation pursuant to a Loan Agreement between PHEFA and the Foundation dated May 1, 2010 (the "Loan Agreement"). The proceeds of the Series 2010 Bonds were used by the Foundation to provide funds to: finance the cost of acquiring, demolishing, constructing, equipping and furnishing of student housing on the campus of the University consisting of 856 beds ("Student Housing Facility"); to fund a portion of the interest payments on the Series of 2010 Bonds during construction of the Student Housing Facility and for a period of up to six months thereafter; to fund a Debt Service Reserve Fund for the Series 2010 Bonds, and; to pay the costs of issuing the Series 2010 Bonds.

Following the issuance of the Series 2010 Bonds, PHEFA assigned the Loan Agreement to Wells Fargo Bank, N.A. ("Trustee"), as trustee, under a Trust Indenture dated May 1, 2010, as security for the Series 2010 Bonds.

Contemporaneously with the assignment of the Loan Agreement to the Trustee, the Trustee and the Foundation entered into an open-ended leasehold mortgage and security agreement as additional security for the Series 2010 Bonds, granting the Trustee a security interest in the premises, buildings, machinery and equipment, all rents, royalties and income, and the Ground Lease Agreement between the University (as lessor) and the Foundation (as lessee).

# Edinboro University Foundation

## Notes to Financial Statements

June 30, 2016 and 2015

Under the terms of the Loan Agreement, the Foundation is required to remit interest payments to the Trustee on or before the 25th day of each calendar month in an amount equal to one-sixth of the interest due on the next succeeding interest payment date. Principal payments are due on or before the 25th day of each calendar month in amounts equal to one-twelfth of the principal amount maturing on the next succeeding July 1 (if any) commencing July 1, 2013. Payments required to effect mandatory redemption of principal amounts are due in amounts equal to one-twelfth of the Series 2010 bonds subject to mandatory redemption on the next succeeding July 1 (if any) beginning July 25, 2021.

Interest incurred on the notes was \$6,615,788 and \$6,675,147 for the years ended June 30, 2016 and 2015, respectively.

The discount on long-term debt is being amortized to expense over the term of the note. This amortization amounted to \$39,406 and \$39,404 during the years ended June 30, 2016 and 2015, respectively.

Scheduled principal payments are as follows:

Years ending June 30:	
2017	\$ 1,615,000
2018	1,795,000
2019	2,005,000
2020	2,105,000
2021	2,215,000
Thereafter	<u>103,535,000</u>
Total	<u>\$ 113,270,000</u>

The loan agreement related to the bond issues contains certain covenants with which the Foundation must comply. During the years ended June 30, 2016 and 2015, the Foundation was not in compliance with the requirement to maintain at least 96% occupancy of the Student Housing Facilities and for the year ended June 30, 2016, the Foundation was not in compliance with the requirement to maintain a debt service coverage ratio of at least 1.2. Under such circumstances, the Foundation must submit a corrective action plan within 30 days of the date of this auditors' report.

See Note 15.

## 7. Unrestricted Net Assets - Board Designated

The Foundation's Board of Directors has designated a portion of unrestricted net assets for the following purposes as of June 30:

	<u>2016</u>	<u>2015</u>
Stipend Fund	\$ -	\$ 7,500
Student Scholarships	-	25,000
Allied Health Building Lab at Porreco College Support	-	<u>50,000</u>
Total	<u>\$ -</u>	<u>\$ 82,500</u>

## Edinboro University Foundation

Notes to Financial Statements  
June 30, 2016 and 2015

### 8. Temporarily and Permanently Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Various Edinboro University scholarships and related programs	<u>\$ 2,028,117</u>	<u>\$ 2,143,765</u>

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

	<u>2016</u>	<u>2015</u>
Investments to be held in perpetuity by donor stipulations or by Pennsylvania law, the income from which is generally available for scholarships and programs	\$ 6,182,697	\$ 5,692,034
Cash surrender value of donated life insurance policies to benefit scholarship and programs	84,557	89,321
Beneficial interests in remainder trust for endowment purposes	<u>299,383</u>	<u>299,383</u>
Total	<u>\$ 6,566,637</u>	<u>\$ 6,080,738</u>

### 9. Endowment Funds

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

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



## Edinboro University Foundation

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Notes to Financial Statements

June 30, 2016 and 2015

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

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

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various indices such as the S&P 500, Russell 2000, Barclays Capital U.S. Aggregate Bond and EAFE index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide favorable results against these benchmark comparative indexes. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Over the long term, the Foundation expects the current spending policy to allow its endowment to continue to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## Edinboro University Foundation

Notes to Financial Statements  
June 30, 2016 and 2015

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Total donor restricted endowments	\$ (84,889)	\$ 1,459,789	\$ 6,566,637	\$ 7,941,537

Changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (36,391)	\$ 1,182,907	\$ 6,080,738	\$ 7,227,254
Investment return	-	(183,474)	-	(183,474)
Contributions	-	774,643	490,663	1,265,306
Appropriation of endowment assets for expenditure	-	(576,402)	-	(576,402)
Other changes:				
Gifts and transfers to University	-	(4,010)	-	(4,010)
Change in value of split-interest agreements	-	-	-	-
Change in cash surrender value of life insurance	-	-	(4,764)	(4,764)
Other	(48,498)	266,124	-	217,626
Endowment net assets, end of year	\$ (84,889)	\$ 1,459,788	\$ 6,566,637	\$ 7,941,536

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Total donor restricted endowments	\$ (36,391)	\$ 1,182,907	\$ 6,080,738	\$ 7,227,254

## Edinboro University Foundation

Notes to Financial Statements  
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Changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (49,571)	\$ 1,480,820	\$ 6,215,969	\$ 7,647,218
Investment return	-	105,514	-	105,514
Contributions	-	990	93,486	94,476
Appropriation of endowment assets for expenditure	-	(468,241)	-	(468,241)
Other changes:				
Gifts and transfers to University	-	(1,174)	-	(1,174)
Change in value of split- interest agreements	-	-	34,020	34,020
Change in cash surrender value of life insurance	-	-	12,858	12,858
Other	13,180	64,998	(275,595)	(197,417)
Endowment net assets, end of year	<u>\$ (36,391)</u>	<u>\$ 1,182,907</u>	<u>\$ 6,080,738</u>	<u>\$ 7,227,254</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the Foundation to retain as a fund of perpetual duration. The Board of Directors utilizes an extended three-year market value average cycle to make this determination. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$84,889 and \$36,391 as of June 30, 2016 and 2015, respectively.

### 10. Operating Lease

The Foundation has entered into a non-cancelable operating lease for the rental of land from the University ("Lessor"), as related to the Foundation's Student Housing Facilities (the "Ground Lease Agreement"). Rent expense related to this lease was \$37,845 and \$36,742 for the years ended June 30, 2016 and 2015, respectively. Significant terms of this Ground Lease Agreement include the following:

- The termination date of the lease is to be the earlier of July 1, 2054, or the date that all mortgages related to the Student Housing Facility are satisfied beyond July 1, 2044;
- Base rent for Phase I Project Facilities is to be \$16,000 per year beginning in 2010; base rent for Phase II Project Facilities is to be \$16,650 per year beginning in 2012, and the base rent shall be increased 3% per year through lease termination;

## Edinboro University Foundation

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### Notes to Financial Statements

June 30, 2016 and 2015

- An additional annual "Percentage Rent" from Net Available Cash Flows (as defined) (only due to the extent available in any one year) is due to Lessor;
- An annual "System Fee" equal to 0.5% of gross room rental revenues is due to Lessor;
- Throughout the lease term, Lessor has the option to purchase the Student Housing Facility for its fair value;
- At the termination or expiration of the lease, all title to and ownership of the Student Housing Facilities shall automatically and immediately vest with the Commonwealth of Pennsylvania ("Commonwealth"), subject to the rights of the University pursuant to an Agreement between the Commonwealth and the University.

At June 30, 2016, the future minimum base rental payments under this operating lease are summarized as follows (the additional annual rents and fees noted above are not currently determinable, and are not included in the summary below):

Years Ending June 30:		
2017	\$	38,980
2018		40,149
2019		41,354
2020		42,594
2021		43,872
Thereafter		<u>2,488,878</u>
Total	\$	<u>2,695,827</u>

See note 15.

### 11. Portfolio Management Fees

The Foundation assesses an asset management fee on managed scholarship and other endowment funds to be used to support the programs and mission of its affiliated organizations. This fee, which is calculated based on a percentage of the total fair value of investments and billed to the University and Alumni Association, amounted to \$195,535 and \$212,535 for the years ended June 30, 2016 and 2015, respectively.

# Edinboro University Foundation

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Notes to Financial Statements  
June 30, 2016 and 2015

## 12. Related Party Transactions

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

The Foundation receives and manages contributions from donors of assets intended for the benefit of the University. Direct contributions of these assets are recorded on the Foundation's records as contribution income and held in restricted net assets until the donors' requirements have been satisfied, at which time the assets are released from restrictions and paid to the University for various initiatives, awards, and scholarships. These gifts to the University were \$228,060 and \$296,147 for the years ended June 30, 2016 and 2015, respectively.

During the years ended June 30, 2016 and 2015, the Foundation paid \$541,258 and \$700,008, respectively, in indirect expenses to the University related to student housing activities.

As disclosed in Notes 5 and 10, the Foundation has entered into a ground lease agreement with the University and has also contracted with the University to manage the operation of the student housing facility.

See Note 15.

## 13. Concentration of Credit Risk

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

## 14. Contingencies

The Foundation is currently a party to several actions involving a vendor and one of its subcontractors regarding damages arising from negligent construction of a sprinkler system. Outstanding payments are being withheld by the Foundation until the outcome of this matter has been settled. Claims are currently pending before an arbitrator and the outcome is not expected to materially affect the Foundation.

## 15. Subsequent Event

On August 25, 2016, the University committed to a refinancing of the Foundation's Series 2008 and 2010 bonds and agreed to assume both the bonds and related student housing property by which the bonds are secured. This advanced refunding of the bonds and transfer of property is currently scheduled to occur on September 7, 2016. The consummation of this agreement would result in the Series 2008 and 2010 bonds, the student housing property and all related activities, and the trustee funds transferring to the University. The Foundation would then no longer own and operate the student housing facilities.

## Edinboro University Foundation

### Schedule of Functional Expenses -

#### Management and General Expenses and Program Services

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Management and General Expenses</b>		
Personnel expenses	\$ 264,700	\$ 216,172
Board sponsored events	-	82,548
Professional fees	50,796	52,215
Investment expenses	30,311	29,405
Miscellaneous	10,881	15,336
Software and maintenance agreements	16,126	5,968
Insurance	8,945	1,244
Office supplies	1,259	4,446
Board meetings and conferences	2,315	3,705
Dues and memberships	5,165	2,404
Depreciation expense	842	633
	<u>391,340</u>	<u>414,076</u>
Total management and general expenses	<u>\$ 391,340</u>	<u>\$ 414,076</u>
<b>Program Services</b>		
Student housing facility expense	\$ 14,590,614	\$ 15,300,207
Scholarship payments	692,104	615,149
Gifts to Edinboro University	228,340	296,147
Projects and special events	154,961	-
Gifts to others	2,120	5,500
Advertising	-	250
	<u>15,668,139</u>	<u>16,217,253</u>
Total program services	<u>\$ 15,668,139</u>	<u>\$ 16,217,253</u>

## Edinboro University Foundation

Schedule of Rental Income and Expenses -  
Student Housing Facility  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Rental revenue	\$ 12,451,317	\$ 11,905,255
Summer rental revenue	379,450	499,308
Other revenue	28,673	28,702
	<u>12,859,440</u>	<u>12,433,265</u>
<b>Operating Expenses</b>		
Depreciation	3,499,769	3,530,709
Maintenance	1,557,365	1,960,152
Indirect expenses	541,258	700,008
Utilities	655,478	716,788
Room	568,866	517,168
Salaries and benefits	391,463	530,267
Insurance	302,570	290,000
Professional fees	215,112	141,829
Bad debt (recovery) expense	44,933	(12,964)
Office supplies	15,164	67,842
Miscellaneous	8,631	10,227
Food supplies	7,581	7,164
Marketing and advertising	2,593	3,752
	<u>7,810,783</u>	<u>8,462,942</u>
Total operating expenses	<u>7,810,783</u>	<u>8,462,942</u>
Operating income	<u>5,048,657</u>	<u>3,970,323</u>
<b>Nonoperating Revenues and Expenses</b>		
Interest expense, long-term debt	(6,615,788)	(6,675,147)
Interest income, trustee held funds	118,651	41,632
Unrealized gains on investments	74,763	12,742
Insurance proceeds	10,256	503,391
Amortization of bond costs	(71,751)	(71,750)
Bond fees	(92,292)	(90,368)
	<u>(6,576,161)</u>	<u>(6,279,500)</u>
Nonoperating expenses, net	<u>(6,576,161)</u>	<u>(6,279,500)</u>
<b>Excess of Expenses Over Revenues</b>	<u><u>\$ (1,527,504)</u></u>	<u><u>\$ (2,309,177)</u></u>

## Edinboro University Foundation

Schedule of Debt Service Coverage Ratio -  
Student Housing Facility  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Excess of Expenses over Revenues</b>	\$ (1,527,504)	\$ (2,309,177)
<b>Plus Non-Cash and Subordinate Items</b>		
Interest expense, long-term debt	6,615,788	6,675,147
Depreciation	3,499,769	3,530,709
Indirect expenses	541,258	700,008
Amortization of bond costs	71,751	71,750
One-time operating expenses*	500,139	1,076,584
Unrealized gains on investments	(74,763)	(12,742)
	<u>9,626,438</u>	<u>9,732,279</u>
<b>Excess of Revenues Available for Debt Service</b>	<u>\$ 9,626,438</u>	<u>\$ 9,732,279</u>
<b>Annual Debt Service</b>		
2008 Bonds	\$ 3,877,125	\$ 3,764,874
2010 Bonds	4,353,663	4,315,273
	<u>8,230,788</u>	<u>8,080,147</u>
<b>Total Annual Debt Service</b>	<u>\$ 8,230,788</u>	<u>\$ 8,080,147</u>
<b>Debt Service Coverage Ratio</b>	<u>1.17</u>	<u>1.20</u>

\* One time operating expenses include repairs, maintenance and legal fees that were incurred due to unexpected circumstances and not budgeted in the current year.