

EDGEWOOD COLLEGE, INC.

Madison, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

EDGEWOOD COLLEGE, INC.

TABLE OF CONTENTS As of and for the Years Ended June 30, 2016 and 2015

Independent Auditors' Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 29

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Edgewood College, Inc.
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Edgewood College, Inc. (the "College"), which comprise the statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 Edgewood College, Inc. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016 on our consideration of Edgewood College, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Milwaukee, Wisconsin
November 3, 2016

EDGEWOOD COLLEGE, INC.

STATEMENTS OF FINANCIAL POSITION As of June 30, 2016 and 2015

ASSETS		
	2016	2015
Cash and cash equivalents	\$ 21,856,686	\$ 21,257,383
Short-term investments	6,049,476	5,993,007
Restricted cash and cash equivalents	964,181	756,721
Student accounts receivable (less allowance for doubtful accounts of \$205,000 for 2016 and 2015)	2,004,752	1,913,185
Government grants receivable	81,521	127,989
Other receivables	237,943	233,133
Inventories	198,834	139,038
Prepaid expenses	544,966	660,654
Investments	36,553,174	35,756,382
Investment in joint venture	72,717	55,758
Beneficial interest in private foundation	13,773,752	15,037,250
Student notes receivable (less allowance for doubtful notes of \$114,750 for 2016 and \$116,750 for 2015)	865,573	812,151
Contributions receivable	2,458,483	2,720,643
Property, plant, equipment and library books, net	62,102,984	53,536,671
Unamortized bond costs	78,097	83,606
TOTAL ASSETS	\$ 147,843,139	\$ 139,083,571
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable - operating	\$ 1,622,789	\$ 935,332
Accounts payable - construction	943,741	520,161
Accrued expenses	4,056,370	2,652,137
Deposits held in custody for others	537,845	453,811
Deferred revenue	3,559,332	3,687,209
Capital lease obligations	564,105	247,231
Bonds payable	15,905,000	10,125,000
Refundable U.S. government student loans	893,599	893,599
Total Liabilities	28,082,781	19,514,480
NET ASSETS		
Unrestricted		
Undesignated	68,460,379	70,198,883
Board designated	22,196,724	19,150,342
Total Unrestricted	90,657,103	89,349,225
Temporarily restricted	8,609,767	8,607,494
Permanently restricted	20,493,488	21,612,372
Total Net Assets	119,760,358	119,569,091
TOTAL LIABILITIES AND NET ASSETS	\$ 147,843,139	\$ 139,083,571

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES				
Tuition and fees	\$ 53,452,768	\$ -	\$ -	\$ 53,452,768
Less: Federal grants	(340,934)	-	-	(340,934)
Institutional aid	<u>(13,022,394)</u>	-	-	<u>(13,022,394)</u>
Net Tuition and Fees	40,089,440	-	-	40,089,440
Sales and services of auxiliary enterprises	5,436,311	-	-	5,436,311
Gifts and private grants	158,103	1,307,773	-	1,465,876
Government grants and contracts	635,519	-	-	635,519
Investment income	246,694	-	-	246,694
Investment income beneficial interest - operating	-	216,667	-	216,667
Long-term investment return designated for current operations	697,430	317,314	-	1,014,744
Other	<u>614,821</u>	<u>53,246</u>	-	<u>668,067</u>
Total Operating Revenues	47,878,318	1,895,000	-	49,773,318
Net assets released from restrictions	<u>1,583,872</u>	<u>(1,583,872)</u>	-	-
Total Operating Revenues and Other Support	<u>49,462,190</u>	<u>311,128</u>	-	<u>49,773,318</u>
OPERATING EXPENSES				
Program				
Instruction	19,538,786	-	-	19,538,786
Academic support	10,190,393	-	-	10,190,393
Student services	6,791,486	-	-	6,791,486
Public service	678,409	-	-	678,409
Auxiliary enterprises	2,869,259	-	-	2,869,259
Support				
Institutional support	5,798,226	-	-	5,798,226
Fundraising	1,215,066	-	-	1,215,066
Allocable				
Operation and maintenance	4,374,363	-	-	4,374,363
Depreciation	2,636,854	-	-	2,636,854
Interest	251,938	-	-	251,938
Less: Allocated expenses	<u>(7,263,155)</u>	-	-	<u>(7,263,155)</u>
Total Operating Expenses	<u>47,081,625</u>	-	-	<u>47,081,625</u>
Change in Net Assets from Operating Activities	<u>2,380,565</u>	<u>311,128</u>	-	<u>2,691,693</u>
NON-OPERATING ACTIVITIES				
Long-term Investment return in excess of (less than) amount designated for operations	(1,091,795)	(490,035)	-	(1,581,830)
Interest rate swap loss	(819,381)	-	-	(819,381)
Change in beneficial interest in private foundation	-	-	(1,263,498)	(1,263,498)
Investment income beneficial interest - capital related	-	433,333	-	433,333
Change in equity in joint venture	16,959	-	-	16,959
Gifts and private grants for long-term endowment	311,946	-	137,592	449,538
Gifts and private grants for long-lived capital items	-	264,453	-	264,453
Net assets released from restrictions - plant	509,407	(509,407)	-	-
Reclassifications	<u>177</u>	<u>(7,199)</u>	<u>7,022</u>	-
Change in Net Assets from Non-operating Activities	<u>(1,072,687)</u>	<u>(308,855)</u>	<u>(1,118,884)</u>	<u>(2,500,426)</u>
CHANGE IN NET ASSETS	1,307,878	2,273	(1,118,884)	191,267
NET ASSETS - Beginning of Year	<u>89,349,225</u>	<u>8,607,494</u>	<u>21,612,372</u>	<u>119,569,091</u>
NET ASSETS - END OF YEAR	<u>\$ 90,657,103</u>	<u>\$ 8,609,767</u>	<u>\$ 20,493,488</u>	<u>\$ 119,760,358</u>

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUES				
Tuition and fees	\$ 54,453,353	\$ -	\$ -	\$ 54,453,353
Less: Federal grants	(475,787)	-	-	(475,787)
Institutional aid	<u>(13,040,414)</u>	-	-	<u>(13,040,414)</u>
Net Tuition and Fees	40,937,152	-	-	40,937,152
Sales and services of auxiliary enterprises	5,427,894	-	-	5,427,894
Gifts and private grants	131,367	993,296	-	1,124,663
Government grants and contracts	750,317	-	-	750,317
Investment income	160,714	-	-	160,714
Investment income beneficial interest - operating	-	285,933	-	285,933
Long-term investment return designated for current operations	582,370	284,574	-	866,944
Other	<u>630,452</u>	<u>31,575</u>	-	<u>662,027</u>
Total Operating Revenues	48,620,266	1,595,378	-	50,215,644
Net assets released from restrictions	<u>1,367,678</u>	<u>(1,367,678)</u>	-	-
Total Operating Revenues and Other Support	<u>49,987,944</u>	<u>227,700</u>	-	<u>50,215,644</u>
OPERATING EXPENSES				
Program				
Instruction	19,326,807	-	-	19,326,807
Academic support	9,936,561	-	-	9,936,561
Student services	6,429,626	-	-	6,429,626
Public service	606,964	-	-	606,964
Auxiliary enterprises	2,749,707	-	-	2,749,707
Support				
Institutional support	6,059,220	-	-	6,059,220
Fundraising	874,518	-	-	874,518
Allocable				
Operation and maintenance	4,390,231	-	-	4,390,231
Depreciation	2,689,639	-	-	2,689,639
Interest	368,006	-	-	368,006
Less: Allocated expenses	<u>(7,447,876)</u>	-	-	<u>(7,447,876)</u>
Total Operating Expenses	<u>45,983,403</u>	-	-	<u>45,983,403</u>
Change in Net Assets from Operating Activities	<u>4,004,541</u>	<u>227,700</u>	-	<u>4,232,241</u>
NON-OPERATING ACTIVITIES				
Long-term Investment return in excess of (less than) amount designated for operations	(292,822)	(144,445)	-	(437,267)
Interest rate swap gains	6,843	-	-	6,843
Change in beneficial interest in private foundation	-	-	(304,117)	(304,117)
Investment income beneficial interest - capital related	-	414,067	-	414,067
Change in equity in joint venture	(9,948)	-	-	(9,948)
Gifts and private grants for long-term endowment	-	500,000	239,700	739,700
Gifts and private grants for long-lived capital items	-	2,068,421	-	2,068,421
Unamortized bond costs on refinanced bonds	(76,519)	-	-	(76,519)
Net assets released from restrictions - plant	<u>633,912</u>	<u>(633,912)</u>	-	-
Change in Net Assets from Non-operating Activities	<u>261,466</u>	<u>2,204,131</u>	<u>(64,417)</u>	<u>2,401,180</u>
CHANGE IN NET ASSETS	4,266,007	2,431,831	(64,417)	6,633,421
NET ASSETS - Beginning of Year	<u>85,083,218</u>	<u>6,175,663</u>	<u>21,676,789</u>	<u>112,935,670</u>
NET ASSETS - END OF YEAR	<u>\$ 89,349,225</u>	<u>\$ 8,607,494</u>	<u>\$ 21,612,372</u>	<u>\$ 119,569,091</u>

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 191,267	\$ 6,633,421
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	2,636,854	2,689,639
Bond cost amortization	5,509	9,247
Realized and unrealized losses on investments	1,176,052	118,422
(Gain) loss on investment in joint venture	(16,959)	9,948
Decrease in valuation of beneficial interest in private foundation	1,263,498	304,117
Contributions received restricted for long-term investment and plant	(1,623,751)	(2,332,301)
Unrealized (gain) loss on interest rate swap agreements	819,381	(6,843)
Unamortized bond costs on refinanced bonds	-	76,519
Changes in assets and liabilities:		
Prepaid expenses	115,688	(28,755)
Receivables	(49,909)	222,822
Inventories	(59,796)	19,100
Accounts payable	687,457	344,497
Accrued expenses	584,852	(629,688)
Deposits held in custody for others	84,034	(41,834)
Deferred revenue	(127,877)	(110,215)
Contributions receivable	262,160	(847,955)
Net Cash Flows from Operating Activities	5,948,460	6,430,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash and cash equivalents	(207,460)	(259,481)
Purchases of property, plant, equipment and library books	(10,336,952)	(817,831)
Proceeds from investments sold	8,960,328	551,923
Purchases of investments	(10,989,641)	(7,006,400)
Note receivable payments received	-	346,631
Notes advanced to students	(184,211)	(199,391)
Principal collections on notes to students	130,789	211,796
Net Cash Flows from Investing Activities	(12,627,147)	(7,172,753)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for long-term investment and plant	1,623,751	2,332,301
Bond proceeds	6,745,000	-
Bond issuance costs	-	(8,982)
Principal payments on bonds	(965,000)	(925,000)
Principal payments on capital leases	(125,761)	(156,376)
Net Cash Flows from Financing Activities	7,277,990	1,241,943
Net Change in Cash and Cash Equivalents	599,303	499,331
CASH AND CASH EQUIVALENTS - Beginning of Year	21,257,383	20,758,052
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 21,856,686	\$ 21,257,383
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (net of \$73,368 and \$0 capitalized)	\$ 232,071	\$ 363,200
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired with construction payables	\$ 943,741	\$ 520,161
Assets acquired by capital lease	564,105	11,850
Assets acquired through dining services contract	-	595,879
Retirement of 2006 debt issue with proceeds from 2015 debt issue	-	10,050,000
Bond issuance costs paid with proceeds of 2015 debt issue	-	75,000

See accompanying notes to financial statements.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Edgewood College, Inc. (the “College”) is an educational institution sponsored by the Sinsinawa Dominican Congregation of the Most Holy Rosary offering graduate and undergraduate degrees.

The accounting policies of the College reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications: For the purposes of financial reporting, the College classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions to be received after one year are discounted at the interest rate in effect in the year the pledge was received. Amortization of the discount is recorded as additional contribution revenue. An allowance, if any, is made for doubtful contributions receivable based upon management’s judgment and analysis of the past collection history and other relevant factors. Contributions determined to be not collectible are recorded as bad debt expense. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service. Gifts for long-lived assets and the related release when placed into service are included in the non-operating activities section of the Statements of Activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Net Asset Classifications (continued)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.

Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

Government Grants and Contracts Revenues – Revenue from government grants and contracts is recognized as it is earned through expenditures in accordance with the related agreement.

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Cash Equivalents - The College considers highly liquid investments including money market accounts and certificates of deposit with a maturity of less than two years when purchased, except for those held for long-term endowment or plant investment, to be cash equivalents. The College is required to maintain funds relating to the Perkins Loan Program in a separate account. At June 30, 2016 and 2015 the Perkins Loan program account balances were \$67,202 and \$138,934, respectively.

Restricted Cash and Cash Equivalents - The College co-owns bank accounts with Edgewood High School of the Sacred Heart and Edgewood Campus School which are held as reserve accounts for future capital repairs or improvements as established by condominium association and building tenancy-in-common agreements.

Student Accounts Receivable - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts which is based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received.

A late payment fee is charged to students that do not pay by the initial payment due date each term or enroll in a payment plan. Students can enroll in a payment plan that allows them to pay over the course of one term. A finance charge is charged on the unpaid balance at the end of each month and is recognized as it is charged. A student account receivable is considered to be delinquent when a scheduled payment is more than 30 days past the payment due date.

Inventories - Inventories consisting of items for the bookstore are valued at lower of cost or market determined by the first-in, first-out method.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments – Investments are carried at fair value, primarily based on quoted market prices or quoted net asset values, except for certificates of deposit which are carried at cost and approximate market value. Investment transactions are recorded as of the trade date. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold.

Investment in Joint Venture - The College is a member of the Center for Healthcare Education and Simulation, Inc. (the Center), a non-stock, non-profit organization. The Center has three members including Edgewood College, Inc., Meriter Hospital, Inc. and SSM Health Care of Wisconsin, Inc. which have identical rights and obligations with respect to voting, dissolution, redemption, transfer and otherwise. The Center is governed by a Board of Directors consisting of two directors representing each member. The Center is established to provide educational experiences for students enrolled in nursing or other medical professional programs, new and experienced nurses, and other medical professionals. The College's investment in the joint venture is accounted for using the equity method and is reported as an asset in the Statements of Financial Position and as change in equity in joint venture in the Statements of Activities.

Beneficial Interest in Private Foundation - The College is a stated beneficiary of a private foundation from which the College receives a specified percentage of the annual distributions made by the foundation. The College's beneficial interest in the private foundation is reported as an asset in the Statements of Financial Position and as change in beneficial interest in private foundation in the Statements of Activities.

Property, Plant, Equipment and Library Books - Physical plant, equipment and library books are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of property, equipment and library books is provided on the straight-line method over the estimated useful lives of the respective assets. The College uses the following depreciable lives:

- > Buildings - 50 years
- > Building and land improvements - 20 years
- > Library books - 12 years
- > Vehicles – 5 years
- > Software - 5 years
- > Equipment - 3 to 7 years

The College capitalizes building and land improvements greater than \$20,000 and software and equipment additions of \$5,000 or more. Collections of works of art, historical treasures and similar assets are not capitalized. Normal repairs and maintenance expenses are charged to operations as incurred.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. For the years ending June 30, 2016 and 2015 there have been no such losses.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset Retirement Obligations - The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. Over time, the liability is accreted to its present value each year. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the Statements of Activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

All of the College's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

At June 30, 2016 and 2015, the asset retirement obligations are estimated to be approximately \$136,000 and \$108,000, respectively. This obligation has been included in accrued expenses within the Statements of Financial Position.

Unamortized Bond Costs – Series 2015 Bond costs of \$83,982 are being amortized over the term of the related debt using the effective interest method. At June 30, 2016 the College had \$5,885 of accumulated amortization. The 2006 bonds were redeemed and refinanced in 2015 and the related unamortized bond costs were written off.

Deferred Tuition Revenue and Prepaid Expenses - Certain revenues and expenses for summer courses and programs are deferred as of June 30, and are recognized as of the beginning of the next fiscal year as this is the period in which most of the summer school classes are in session. Students are generally billed prior to the start of the course or program. Summer school deferred revenue as of June 30, 2016 and 2015 approximated \$2,836,000 and \$2,923,000, respectively. Prepaid expenses related to summer school as of June 30, 2016 and 2015 approximated \$275,000 and \$290,000, respectively.

Grants to Specified Students – Amounts received from Federal and State agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amount of such grants from the State of Wisconsin totaled \$1,931,069 and \$2,188,573, and the amount from the Federal Pell grant totaled \$2,165,373 and \$2,598,588 during the years ended June 30, 2016 and 2015, respectively.

Income Tax Status - The Internal Revenue Service has determined that the College is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of June 30, 2016 and 2015. The College's tax returns are subject to review and examination by Federal and State authorities. The tax returns for the current year as well as fiscal years 2013 and thereafter are open to examination by Federal and State authorities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

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. Actual results could differ from those estimates.

Advertising Costs - The College follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for the years ended June 30, 2016 and 2015 approximated \$330,000 and \$371,000, respectively.

Refundable U.S. Government Student Loans - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the Statements of Financial Position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Expenses incurred before cash is received are recorded as receivables.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Reclassifications – The 2015 Statement of Activities includes reclassifications between revenue and expense categories to conform to the 2016 presentation. The 2015 reclassifications have no effect on the previously reported amounts of Total Operating Revenues or Total Operating Expenses.

New Accounting Pronouncements - The Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of ASU 2016-14 on the College's financial statements.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities, other investments, contributions receivable, and accounts and notes receivable. The College places substantially all of its cash and liquid investments with a variety of financial institutions and limits the amount of credit exposure at any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the Midwestern United States. In addition, the College's students receive a substantial amount of support from State and Federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents, restricted cash and cash equivalents, student accounts receivable and other receivables, accounts payable, accrued expenses and deposits held in custody for others approximate fair value because of the short term maturity of these financial instruments.

A reasonable estimate of the fair value of the student notes receivables and refundable US government student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The investment in joint venture is carried at the equity value which approximates fair value.

Investments, beneficial interest in private foundation and interest rate exchange agreements are carried at fair value.

The carrying amount of bonds payable approximate fair value due to the variable interest rates.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term Investments				
Mutual funds	\$ 6,049,476	\$ 6,049,476	\$ -	\$ -
Investments				
Money market - Plant Funds	3,096,611	-	3,096,611	-
Money market - Endow Fund	678	-	678	-
Mutual funds - Endow Fund	30,124,279	30,124,279	-	-
Mutual funds - Other	207,863	207,863	-	-
Alternative investments - Endow Fund				
Low Volatility Hedge Fund	1,625,743	-	1,625,743	-
Beneficial Interest in Private Foundation				
	13,773,752	-	-	13,773,752
Totals	\$ 54,878,402	\$ 36,381,618	\$ 4,723,032	\$ 13,773,752
LIABILITIES				
Accrued Expenses				
Interest rate exchange agreements	\$ 898,442	\$ -	\$ 898,442	\$ -

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents financial instruments that are measured at fair value on a recurring basis by the fair value hierarchy as of June 30, 2015:

	Total	Level 1	Level 2	Level 3
ASSETS				
Short-term Investments				
Mutual funds	\$ 5,993,007	\$ 5,993,007	\$ -	\$ -
Investments				
Money market - Plant Funds	2,079,799	-	2,079,799	-
Money market - Endow Fund	17,069	-	17,069	-
Mutual funds - Endow Fund	27,283,652	27,283,652	-	-
Mutual funds - Other	208,869	208,869	-	-
Alternative investments - Endow Fund				
Low Volatility Hedge Fund	1,486,506	-	1,486,506	-
Beneficial Interest in Private Foundation				
	15,037,250	-	-	15,037,250
Totals	\$ 52,106,152	\$ 33,485,528	\$ 3,583,374	\$ 15,037,250
LIABILITIES				
Accrued Expenses				
Interest rate exchange agreements	\$ 79,061	\$ -	\$ 79,061	\$ -

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Money Market Funds - The fair value of money market funds is classified as Level 2 as it is based upon observable inputs that do not have quoted prices in active markets.

Mutual Funds - Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Alternative Investments - Investments in the Low Volatility Hedge Fund are classified as level 2 as the fair value is based on multiple sources of information, which may include market data and/or market prices from either markets that are not active, or are for the same or similar assets in active markets. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the College has estimated its fair value by using the net asset value provided by the investee as of June 30.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

Beneficial Interest in Private Foundation - The beneficial interest in the private foundation is classified as Level 3 as the fair value is based upon the discounted valuation of the foundation's assets as they are distributable to the College over the life of the Foundation.

Interest Rate Exchange Agreements - Interest rate exchange agreements are classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments. See Note 9.

While the College 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 estimate of fair value at the reporting date.

The following table presents a reconciliation of the Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2016:

	Balance June 30, 2015	Net Realized and Unrealized Gains (Loss)	Purchases (Sales)	Net Transfers In (Out) of Level 3	Balance June 30, 2016
Beneficial interest in private foundation	<u>\$ 15,037,250</u>	<u>\$ (1,263,498)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,773,752</u>

The amount of total loss for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at June 30, 2016.

\$ (1,263,498)

Net realized and unrealized gains (loss) is included within change in beneficial interest in private foundation on the Statements of Activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the Statement of Financial Position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended June 30, 2015:

	Balance June 30, 2014	Net Realized and Unrealized Gains	Purchases (Sales)	Net Transfers In (Out) of Level 3	Balance June 30, 2015
Beneficial interest in private foundation	\$ 15,341,367	\$ (304,117)	\$ -	\$ -	\$ 15,037,250

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to assets measured at fair value still held at June 30, 2015. \$ (304,117)

Net realized and unrealized gains are included within long-term investment return and change in beneficial interest in private foundation on the Statements of Activities.

The fair value of certain funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. Accounting guidance allows for the use of the NAV as a “practical expedient” estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the College’s interest in the fund. Investments are categorized as Level 2 instruments when the College has the ability to redeem its investment in the entity at the NAV per share in the near term. If the College does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The College generally considers a redemption period of six months or less to be considered near term.

The following table lists the alternative investments by major category at June 30, 2016:

	Low Volatility Hedge Fund – Blackstone Partners Offshore Fund Ltd.
Fair Value June 30, 2016	\$ 1,625,743
Significant Investment Strategy	Low volatility hedge fund of funds
Remaining Life	N.A.
Dollar amount of unfunded commitments	None
Timing to Draw Down Commitments	N.A.
Redemption Terms	Semi-annual redemption with 95 day notice
Redemption Restrictions	None
Redemption Provisions in Place at Year End	None

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 – INVESTMENTS

The following summarizes the College's investments at June 30:

	<u>2016</u>	<u>2015</u>
Short-term Investments		
Mutual Funds – Short-term bonds	\$ 6,049,476	\$ 5,993,007
Investments		
Endowment Fund		
Money market funds	\$ 678	\$ 17,069
Mutual funds		
Domestic Equity	12,510,351	11,373,735
International Equity	7,718,189	7,190,580
Global Tactical Asset Allocation	1,920,488	1,711,003
Real Assets	1,622,988	1,284,119
Fixed Income	6,352,263	5,724,215
Alternative investments		
Low Volatility Hedge Fund	1,625,743	1,486,506
Plant Fund		
Money market funds	3,096,611	2,079,799
Certificates of deposit	1,498,000	4,680,487
Other		
Mutual funds	<u>207,863</u>	<u>208,869</u>
Total Investments	<u>\$ 36,553,174</u>	<u>\$ 35,756,382</u>

The estimated fair value of the Low Volatility Hedge Fund is based on the valuation provided by the external investment manager as of June 30. The College believes the carrying amount of this investment is a reasonable estimate of fair value. Because this investment is not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 – INVESTMENTS (cont.)

Investment income for the years ended June 30 consists of the following:

	<u>2016</u>	<u>2015</u>
Interest on cash and cash equivalents	\$ 73,183	\$ 46,225
Interest and dividends on short-term investments	115,800	118,101
Unrealized gains (losses) on short-term investments	30,670	(39,344)
Interest on loans and notes receivable	18,404	28,531
Investment interest and dividends	471,166	599,319
Investment expenses	(85,948)	(83,363)
Realized gains on investments	162,001	97,457
Unrealized losses on investments	<u>(1,105,668)</u>	<u>(176,535)</u>
Totals	<u>\$ (320,392)</u>	<u>\$ 590,391</u>
Statement of Activities -		
Investment Income	\$ 246,694	\$ 160,714
Long-term investment return designated for current operations	1,014,744	866,944
Long-term investment return in excess (deficit) of amount designated for operations	<u>(1,581,830)</u>	<u>(437,267)</u>
Totals	<u>\$ (320,392)</u>	<u>\$ 590,391</u>

Long-term investment return designated for current operations is the amount of endowment return that has been appropriated for expenditure from the endowment fund based on the spending policy. The remaining endowment return is reported as Long-term investment return in excess (deficit) of amount designated for operations. See Note 15.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 5 – CREDIT QUALITY OF STUDENT NOTES RECEIVABLE

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2016 and 2015, student notes represented .6% of total assets.

At June 30, 2016 and 2015, student loans consisted of the following:

	2016	2015
Federal government programs	\$ 970,065	\$ 914,151
Institutional programs	10,258	14,750
Totals	980,323	928,901
Less: allowance for doubtful accounts		
Beginning of year	(116,750)	(95,750)
(Increase) decrease	2,000	(21,000)
End of year	(114,750)	(116,750)
Student Notes Receivable, Net	\$ 865,573	\$ 812,151

Funds advanced by the Federal government of \$893,599 at June 30, 2016 and 2015 are ultimately refundable to the government and are classified as liabilities in the Statements of Financial Position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student notes receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At June 30, 2016 and 2015, the following amounts were past due under student loan programs:

June 30	Amounts Past Due			
	1-60 days	60-90 days	90+ days	Total
2016	\$ 363	\$ 448	\$ 100,891	\$ 101,702
2015	763	874	98,495	100,132

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30 are composed of and are to be used for the following:

	<u>2016</u>	<u>2015</u>
Capital funds	\$ 1,528,787	\$ 1,978,325
Scholarships and programs	<u>1,098,614</u>	<u>947,227</u>
Total contributions receivable	2,627,401	2,925,552
Less: Discount	<u>(168,918)</u>	<u>(204,909)</u>
Net Contributions Receivable	<u>\$ 2,458,483</u>	<u>\$ 2,720,643</u>
Less than one year	\$ 695,060	
One to five years	1,451,234	
More than five years	<u>481,107</u>	
Total Contributions Receivable	<u>\$ 2,627,401</u>	

Contributions have been discounted at the interest rate in effect in the year the pledge was made. This rate was 2.16% for 2016 and 2.36% for 2015. Approximately 78% and 83% of contributions receivable on June 30, 2016 and 2015, respectively, were from five donors.

NOTE 7 – PROPERTY, PLANT, EQUIPMENT AND LIBRARY BOOKS

A summary of property, plant, equipment and library books as of June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 725,510	\$ 725,510
Buildings and improvements	72,724,302	72,881,425
Equipment	8,252,608	7,996,889
Library books	2,532,775	2,552,959
Vehicles	162,894	183,352
Construction in process	<u>11,504,298</u>	<u>1,120,964</u>
Total	95,902,387	85,461,099
Less: Accumulated depreciation	<u>(33,799,403)</u>	<u>(31,924,428)</u>
Net Property, Plant, Equipment and Library Books	<u>\$ 62,102,984</u>	<u>\$ 53,536,671</u>

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 8 – Long-Term Obligations

BONDS PAYABLE

Bonds payable at June 30 consist of the following:

	2016	2015
<p>Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2015 were issued in the full amount of \$16,870,000 with an initial advance of \$10,125,000 drawn on May 29, 2015 used to redeem outstanding Series 2006 Bonds. Supplemental advances totaling \$6,745,000 were made in 2015-16 to finance a residence hall construction project. The Series 2015 Bonds have a variable interest rate (1.288% at June 30, 2016) and semiannual maturities varying from \$230,000 to \$517,500 through April 2035. The bonds are secured by various covenants and conditions along with a security interest in all real and personal property of the College.</p>	<p><u>\$ 15,905,000</u></p>	<p><u>\$ 10,125,000</u></p>

To minimize the effect of changes in the interest rate the College has entered into an interest rate swap agreement on a portion of the Series 2015 Bonds. The fixed interest rate under this swap agreement is 1.70% and the credit fee is .95%. Under the agreement, the College either pays or receives interest depending on the relationship between the variable rate and the fixed rate. See Note 9 regarding derivative instruments.

The College is required to comply with certain financial covenants. For the Series 2015 Bonds the College must maintain a debt service coverage ratio of greater than 1.15 to 1, a minimum liquidity ratio of 1.2 to 1 and a ratio of liabilities to net assets of less than .55 to 1.0. The College was in compliance with all of the above financial covenants as of June 30, 2016 and 2015.

Future principal payments on the 2015 bonds are due as follows:

<u>Years Ending June 30,</u>	
2017	\$ 1,000,000
2018	1,035,000
2019	800,000
2020	815,000
2021	825,000
2022 to 2026	4,320,000
2027 to 2031	4,705,000
2032 to 2035	<u>2,405,000</u>
Total	<u>\$ 15,905,000</u>

Bond interest expense incurred during the years ended June 30, 2016 and 2015 was \$304,000 (of which \$73,000 was capitalized) and \$332,000 (of which \$0 was capitalized), respectively.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

OBLIGATIONS UNDER CAPITAL LEASES

The College leases various assets under capital lease agreements. Total capitalized assets acquired under leases are \$485,000 and \$695,000 at June 30, 2016 and 2015 respectively. Total accumulated depreciation on assets acquired under leases is \$48,000 and \$385,000 at June 30, 2016 and 2015, respectively. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 134,799
2018	134,799
2019	134,799
2020	134,799
2021	<u>134,799</u>
Total Minimum Lease Payments	673,995
Less: Amount representing interest	<u>(109,890)</u>
Present Value of Minimum Lease Payments	<u>\$ 564,105</u>

NOTE 9 – DERIVATIVE INSTRUMENTS

The College uses an interest rate swap agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt (see Note 8). An interest rate swap agreement is used to manage identified and approved exposure and is not used for speculative purposes. The interest rate swap agreement is recognized as either an asset or liability on the Statements of Financial Position and is measured at fair value. Interest rate swap agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gains and losses from the interest rate swap agreement are reflected in the Statements of Activities.

An interest rate swap agreement between the College and a third party (counterparty) provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparty will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the College's counterparty. The counterparty to this contract is a financial institution that carries investment-grade credit ratings. The interest rate swap agreement contains collateral provisions applicable to both parties to mitigate credit risk. The College does not anticipate non-performance by its counterparties.

For the years ended June 30, 2016 and 2015 the College paid \$147,120 and \$225,228 more than it received in interest under the interest rate swap agreements. The difference between interest received and interest paid under the agreements is recorded as interest expense in the Statements of Activities.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 9 – DERIVATIVE INSTRUMENTS (cont.)

The following is a summary of the outstanding positions under these interest rate swap agreements as of June 30:

Year	Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
2016	Floating to fixed rate swap	\$ 13,870,000	May 1, 2025	1.70%	74% of LIBOR interest rate
2015	Floating to fixed rate swap	\$ 7,125,000	May 1, 2025	1.70%	74% of LIBOR interest rate

The College also pays a .95% credit fee related to the Series 2015 Bonds.

Derivative instrument reported in the Statements of Financial Position at fair value as of June 30 are as follows:

Derivative Designated as Hedging Instrument	Liabilities Derivative	
	Statement of Financial Position Location	Fair Value
		2016 2015
Interest rate swap agreement	Accrued expenses	\$ 898,442 \$ 79,061

The effect of the derivative instrument is reported in the Statements of Activities as follows:

Derivative Not Designated as Hedging Instruments	Location of Gain on Derivative Recognized in the Statements of Activities	Amount of Gain on Derivative Recognized in the Statements of Activities	
		2016	2015
		Interest rate swap agreement	Interest rate swap gain

Derivative Designated as Hedging Instruments	Location of Loss on Derivative Recognized in the Statements of Activities	Amount of Loss on Derivative Recognized in the Statements of Activities	
		2016	2015
		Interest rate swap agreement	Interest rate swap loss

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 10 – LINE OF CREDIT

The College has a \$1,000,000 unsecured line of credit with BMO Harris Bank NA as of June 30, 2016 and June 30, 2015. Interest is at the LIBOR rate plus 1.8%. The line of credit agreement matures on May 29, 2017. No borrowings were made under this line of credit during the years ended June 30, 2016 or 2015.

NOTE 11 – RELATED PARTIES

For the years ended June 30, 2016 and 2015 the College had total contributions from board members of \$156,286 and \$246,155, respectively.

As of June 30, 2016 and 2015, the College had approximately \$35,000 and \$368,000, respectively, of contributions receivable from board members.

NOTE 12 – OPERATING LEASES

The College leases vehicles and equipment, usually over a three-year period. Rent expense for the years ended June 30, 2016 and 2015 was \$37,441 and \$49,528, respectively. Future lease commitments are due as follows:

<u>Years Ending June 30,</u>	
2017	\$ 19,386
2018	14,823
2019	<u>10,085</u>
Total	<u>\$ 44,294</u>

NOTE 13 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 3,050,276	\$ 3,510,679
Various educational programs	1,809,273	1,749,246
Building projects	1,546,733	937,712
Restricted pledges receivable	<u>2,203,485</u>	<u>2,409,857</u>
Totals	<u>\$ 8,609,767</u>	<u>\$ 8,607,494</u>

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 13 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONT.)

Temporarily restricted net assets were released from donor restrictions as follows:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 1,041,235	\$ 872,932
Other	542,637	494,746
Building projects	<u>509,407</u>	<u>633,912</u>
Totals	<u>\$ 2,093,279</u>	<u>\$ 2,001,590</u>

Permanently restricted net assets as of June 30 represent the original corpus of the following restricted gifts where the earnings on such are used for unrestricted or restricted activities as designated by the donor.

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
Student loans	\$ 34,309	\$ 34,309
Student scholarships	3,472,756	3,358,482
Various donor-imposed activities	3,166,120	2,871,544
Endowment pledges	46,551	310,787
Beneficial interest in private foundation	<u>13,773,752</u>	<u>15,037,250</u>
Totals	<u>\$ 20,493,488</u>	<u>\$ 21,612,372</u>

NOTE 14 – RETIREMENT PLANS

The College provides retirement benefits for all employees after they have met the requirements for participation through the Teachers Insurance and Annuity Association (TIAA) and/or College Retirement Equities Fund (CREF). These are noncontributory annuity purchase plans and all assets are vested with the employee. The College contributed an amount equal to 10 percent of the eligible salary of an employee, up to a maximum of \$7,000 for the years ended June 30, 2016 and 2015. The total contributions of the College to the plans for the years ended June 30, 2016 and 2015 were \$1,985,700 and \$1,831,192, respectively.

NOTE 15 – ENDOWMENT

The College's endowment consists of 94 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT (cont.)

Interpretation of Relevant Law - In August 2009, the State of Wisconsin adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The College's governing board has interpreted the Wisconsin enacted version of UPMIFA as requiring the preservation of the fair value of the 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 College classifies as permanently restricted net assets (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 the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College 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 College 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 College
7. The investment policies of the College

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,940,652	\$ 6,638,876	\$ 9,579,528
Board-designated endowment funds	22,196,724	-	-	22,196,724
Total Endowment Net Assets	<u>\$ 22,196,724</u>	<u>\$ 2,940,652</u>	<u>\$ 6,638,876</u>	<u>\$ 31,776,252</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,430,864	\$ 6,230,026	\$ 9,660,890
Board-designated endowment funds	19,150,342	-	-	19,150,342
Total Endowment Net Assets	<u>\$ 19,150,342</u>	<u>\$ 3,430,864</u>	<u>\$ 6,230,026</u>	<u>\$ 28,811,232</u>

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT (cont.)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2015	\$ 19,150,342	\$ 3,430,864	\$ 6,230,026	\$ 28,811,232
Investment return:				
Investment income	261,016	115,564	-	376,580
Net loss – realized and unrealized	(655,381)	(288,285)	-	(943,666)
Total Investment Return	(394,365)	(172,721)	-	(567,086)
Contributions	103,500	-	401,828	505,328
Appropriation of endowment assets for expenditure	(697,430)	(317,314)	-	(1,014,744)
Other changes:				
Transfer to board designated fund	4,034,500			4,034,500
Reclassification	177	(177)	7,022	7,022
Net Assets, June 30, 2016	\$ 22,196,724	\$ 2,940,652	\$ 6,638,876	\$ 31,776,252

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2014	\$ 17,193,164	\$ 3,064,374	\$ 5,810,760	\$ 26,068,298
Investment return:				
Investment income	351,756	156,999	-	508,755
Net loss – realized and unrealized	(62,208)	(16,870)	-	(79,078)
Total Investment Return	289,548	140,129	-	429,677
Contributions	-	500,000	419,266	919,266
Appropriation of endowment assets for expenditure	(582,370)	(284,574)	-	(866,944)
Other changes:				
Transfer to board designated fund	2,250,000			2,250,000
Reclassification	-	10,935	-	10,935
Net Assets, June 30, 2015	\$ 19,150,342	\$ 3,430,864	\$ 6,230,026	\$ 28,811,232

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 15 – ENDOWMENT (cont.)

Funds with Deficiencies - 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 UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$746 and \$0 as of June 30, 2016 and 2015. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The College 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 College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that equal or exceed the spending rate plus inflation (Consumer Price Index-CPI) over a three to five year market cycle. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation and capital preservation. The College targets a diversified asset allocation that places a greater emphasis on capital appreciation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The College has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value over the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at a rate approximating the rate of inflation. This is consistent with the College'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.

EDGEWOOD COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Financial Awards from Grantors

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such awards could result in claims against the College for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

Construction Project Contracts

The College is nearing completion of a new residence hall addition and renovation project. The construction and architectural contracts total \$11.4 million. The remaining balance to complete these contracts as of June 30, 2016 was \$.5 million.

NOTE 17 – SUBSEQUENT EVENTS

The College has evaluated subsequent events through November 3, 2016, which is the date that the financial statements were approved and issued.