

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2017 and 2016



Certified Public Accountants and Business Consultants

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
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YEARS ENDED JUNE 30, 2017 AND 2016

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Independent Auditors' Report

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

We have audited the accompanying financial statements of University Properties, Inc. (a component unit of East Stroudsburg University), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 University Properties, Inc. as of June 30, 2017 and 2016, 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.

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures, schedule of costs by providers, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise University Properties, Inc.'s basic financial statements. The statements of financial position by project and statements of activities by project are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The statements of financial position by project and statements of activities by project and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017, on our consideration of the University Properties, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 University Properties, Inc.'s internal control over financial reporting and compliance.

Maillie LLP

West Chester, Pennsylvania
September 21, 2017

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 3,540,303	\$ 4,435,828
Restricted	22,910,045	13,159,393
Accounts receivable, net of allowance of \$62,342 (2017) and \$100,849 (2016)	92,604	144,203
Interest receivable	6,901	1,496
Due from University	505,131	537,089
Prepaid expenses	<u>80,003</u>	<u>82,237</u>
TOTAL CURRENT ASSETS	27,134,987	18,360,246
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$21,187,404 (2017) and \$18,502,329 (2016)	105,321,347	75,757,840
BOND ISSUE COSTS, net of accumulated amortization of \$257,410 (2017) and \$342,714 (2016)	<u>3,368,191</u>	<u>2,517,695</u>
TOTAL ASSETS	<u>\$ 135,824,525</u>	<u>\$ 96,635,781</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,173,970	\$ 4,635,898
Due to University	986,561	4,984,079
Deferred revenue	21,109	20,986
Current portion of bonds payable	<u>41,184,996</u>	<u>1,680,000</u>
TOTAL CURRENT LIABILITIES	48,366,636	11,320,963
OTHER LIABILITIES		
Bonds payable, less current portion	94,155,552	91,808,510
NET DEFICIT		
Unrestricted	<u>(6,697,663)</u>	<u>(6,493,692)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 135,824,525</u>	<u>\$ 96,635,781</u>

See accompanying notes.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenues, gains and other support		
Programs and activities revenues		
Rental income	\$ 12,373,175	\$ 11,855,403
Miscellaneous income	29,726	78,345
Investment income	116,852	22,979
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>12,519,753</u>	<u>11,956,727</u>
Expenses		
Program services		
Amortization	800,668	68,413
Bad debt expense	54,258	82,099
Bank fees	4,699	4,923
Contract services	1,651	2,138
Contributions to University	455,129	-
Depreciation	2,717,252	2,729,727
Insurance	294,124	245,472
Interest	4,107,251	4,675,762
Maintenance and repairs	311,222	535,959
Management fee	194,124	188,460
Marketing and advertising	13,818	15,628
Miscellaneous	2,849	-
Office and postage	89,712	110,509
Professional fees	94,490	96,478
Rent	522,823	168,914
Salaries and benefits	1,862,188	1,812,662
Student programming and services	145,940	127,804
Telephone	374,128	357,917
Travel and lodging	6,830	8,638
Trustee fees	22,750	20,000
Utilities	647,818	661,729
TOTAL EXPENSES	<u>12,723,724</u>	<u>11,913,232</u>
CHANGE IN NET ASSETS	(203,971)	43,495
NET DEFICIT AT BEGINNING OF YEAR	<u>(6,493,692)</u>	<u>(6,537,187)</u>
NET DEFICIT AT END OF YEAR	<u>\$ (6,697,663)</u>	<u>\$ (6,493,692)</u>

See accompanying notes.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (203,971)	\$ 43,495
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,517,920	2,798,140
Increase (decrease) in reserve for doubtful accounts	(38,507)	7,085
(Increase) decrease in		
Accounts receivable	90,106	(62,295)
Interest receivable	(5,405)	(592)
Due from University	31,958	19,878
Prepaid expenses	2,234	1,722
Increase (decrease) in		
Accounts payable and accrued expenses	1,538,072	310,149
Due to University	(3,997,518)	(284,975)
Deferred revenue	123	2,007
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>935,012</u>	<u>2,834,614</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Buildings and improvements	<u>(33,931,922)</u>	<u>(612,733)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond redemption	(24,165,000)	(1,485,000)
Bond issuance	64,545,000	
Bond premium/discount	<u>1,472,037</u>	<u>(25,092)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>41,852,037</u>	<u>(1,510,092)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,855,127	711,789
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17,595,221</u>	<u>16,883,432</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 26,450,348</u>	<u>\$ 17,595,221</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid, net of bond premium/discount	\$ 4,097,123	\$ 4,650,670
Noncash investing activities		
Accrued construction in progress	\$ (2,735,107)	\$ 435,702
Noncash operating and financing activities		
Amortization of bond premium/discount, net	\$ 26,315	\$ 25,092
Bond premium from refinance	\$ 1,616,815	\$ -

See accompanying notes.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE A - NATURE OF ORGANIZATION

University Properties, Inc. (the "Organization") is a not-for-profit organization incorporated in the Commonwealth of Pennsylvania. The Organization was founded in 2003 for the purpose of construction and rental of student housing on the campus of East Stroudsburg University of Pennsylvania (the "University").

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-225-45. Under FASB ASC 958-225-45, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Accounts Receivable

Accounts receivable are presented in the statements of financial position net of estimated uncollectible amounts. The Organization records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful.

Deferred Revenue

Deferred revenue consists of amounts received for rental of student housing that takes place in the following year.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line and accelerated methods over estimated useful lives as follows:

	<u>Years</u>
Buildings	30-40
Building improvements	5-40
Furniture and fixtures	5-10
Machinery and equipment	3-10

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Interest and Taxes

Interest on indebtedness and real estate taxes related to the building are capitalized during the construction/development stage. Such costs are ultimately expensed through depreciation when the building is placed in service. Interest capitalized for the Phase II project for the years ended June 30, 2017 and 2016, was \$2,730,107 and \$218,158, respectively.

Cash and Cash Equivalents

Cash equivalents include cash in demand deposit accounts, money market accounts and any highly liquid commercial paper. At June 30, 2017, cash and cash equivalents reflected on the statements of financial position include bank deposits of \$3,627,533 of which \$580,789 is insured by the FDIC. The remaining cash equivalents consist of money market funds and highly liquid commercial paper which are not insured by the FDIC.

Investments

The Organization adopted FASB ASC 958-320. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Deferred Charges

Costs of obtaining long-term financing are amortized over the lives of the loans for financial reporting and tax purposes. Amortization expense for the years ended June 30, 2017 and 2016, was \$800,668 and \$68,413, respectively. Estimated aggregate amortization expense for each of the next five fiscal years is as follows:

Year Ending June 30,	
2018	\$ 48,588
2019	42,618
2020	43,875
2021	47,159
2022	46,542

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management 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 may differ from those estimates.

Income Tax Status

The Organization is classified as a Section 501(c)(3) organization under the federal Internal Revenue Code. Accordingly, no provision has been made for federal and state income taxes for activity directly related to its tax-exempt purpose.

Sales Tax Exempt Status

On November 10, 2008, the Organization was granted sales tax exempt status under Commonwealth of Pennsylvania law. Sales tax exempt status remains active as of June 30, 2017.

Date of Management's Review

Management has evaluated subsequent events through September 21, 2017, the date which the financial statements were available to be issued.

NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2017</u>	<u>2016</u>
UNRESTRICTED CASH	\$ <u>3,540,303</u>	\$ <u>4,435,828</u>
RESTRICTED CASH AND CASH EQUIVALENTS		
Operating reserve account	\$ -	\$ 251,064
Short-term investments	<u>22,910,045</u>	<u>12,908,329</u>
	\$ <u>22,910,045</u>	\$ <u>13,159,393</u>

The Organization is required to maintain funds in trustee accounts according to the Trust Indenture agreements. Those funds consist of money market funds and highly liquid commercial paper and are presented as short-term investments above.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE D - PROPERTY AND EQUIPMENT

Major classes of property and equipment, including land and construction in process, are as follows:

	<u>2017</u>	<u>2016</u>
PROPERTY USED IN OPERATIONS		
Nondepreciable		
Construction in progress	\$ 37,727,907	\$ 6,183,135
Depreciable		
Buildings and improvements	84,989,667	84,285,856
Furniture and equipment	<u>3,791,176</u>	<u>3,791,177</u>
	126,508,750	94,260,168
Accumulated depreciation	<u>(21,187,403)</u>	<u>(18,502,328)</u>
	<u>\$ 105,321,347</u>	<u>\$ 75,757,840</u>

NOTE E - LONG-TERM DEBT

Student Housing Revenue Bonds, Series of 2010

The revenue from this issue was used to finance the costs of construction, equipping and furnishing of the new student housing facilities (the "2010 Student Housing Project Facilities").

The bonds bear interest at rates ranging from 2.25% to 6.00%; interest is paid semiannually. The rate varies according to the maturity date of the bonds.

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2010, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE E - LONG-TERM DEBT (Continued)

Student Housing Revenue Bonds, Series A of 2016

In August 2016 University Properties, Inc. issued Student Housing Revenue Bonds, Series A of 2016. The revenue from this issue was used for the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

The bonds bear interest at rates ranging from 4.00% to 5.00%; interest is paid semiannually. The rate varies according to the maturity date of the bonds.

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2016, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

Student Housing Revenue Bonds, Series B of 2016

In August 2016 University Properties, Inc. issued Student Housing Revenue Bonds, Series B of 2016. The revenue from this issue was used for the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

The bonds bear interest at a rate of 2.50%; interest is paid semiannually.

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2016, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

Student Housing Revenue Bond Anticipation Notes, Series C-1A of 2016

In August 2016 University Properties, Inc. issued Student Housing Revenue Bond Anticipation Notes, Series C-1A of 2016. The revenue from this issue was used for the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

The notes bear interest at a rate of 0.95%; interest is paid monthly.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE E - LONG-TERM DEBT (Continued)

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2016, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

Student Housing Revenue Bonds, Series D of 2016

In August 2016 University Properties, Inc. issued Student Housing Revenue Bonds, Series D of 2016. The revenue from this issue was used for the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

The notes bear interest at a rate of 2.75%; interest is paid monthly.

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2016, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

Student Housing Revenue Bond Anticipation Notes, Series C-1B of 2016

In August 2016 University Properties, Inc. issued Student Housing Revenue Bond Anticipation Notes, Series C-1B of 2016. The revenue from this issue was used for the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

The notes bear interest at a rate of 0.875%; interest is paid monthly.

The obligation arising from the Loan Agreement has been secured by an Open-End Leasehold Mortgage and Security Agreement dated August 1, 2016, from the Organization to the Trustee, pursuant to which the Organization will grant to the Trustee a first priority mortgage lien on the leasehold interest granted pursuant to the ground lease. Pursuant to the Indenture, the issuer will assign and grant a security interest in all of its rights under the Loan Agreement and mortgage and certain funds and accounts held under the Indenture to the Trustee which, on behalf of the owners of the bonds, will exercise all of the issuer's rights with respect thereto.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE E - LONG-TERM DEBT (Continued)

The bonds and notes mature as follows:

Year Ending June 30,	Student Housing Revenue Bonds Series of 2010	Student Housing Revenue Bonds Series A of 2016	Student Housing Revenue Bonds Series B of 2016	Student Housing Revenue Bond Anticipation Notes Series C-1A of 2016
2018	\$ 1,100,000	\$ 415,000	\$ 400,000	\$ 2,500,000
2019	1,290,000	430,000	-	-
2020	1,510,000	450,000	-	-
2021	1,590,000	465,000	-	-
Thereafter	65,450,000	9,245,000	-	-
	<u>\$ 70,940,000</u>	<u>\$ 11,005,000</u>	<u>\$ 400,000</u>	<u>\$ 2,500,000</u>

Bonds payable are reported in the financial statements as follows:

Principal outstanding	\$ 135,485,000
Unamortized bond discount	(1,829,059)
Unamortized bond premium	1,684,607
	<u>135,340,548</u>
Current portion	<u>(41,184,996)</u>
	<u>\$ 94,155,552</u>

NOTE F - MANAGEMENT AGREEMENT

The Organization is under contractual agreement with Capstone On-Campus Management, LLC to provide management of the University Ridge student housing facility. The agreement dated September 1, 2004, is for a term of five years and may be renewed for two additional five-year terms. The agreement was renewed for a five-year term during the year ended June 30, 2010. The management fee for services was \$194,124 and \$188,460 for the years ended June 30, 2017 and 2016, respectively, and will increase 3% per year.

Commencing August 1, 2010, the Organization engaged the University to provide management services to the 2010 Student Housing Project Facilities. These services include asset management services, market research studies, promotional trips and auditing compliance in accordance with the bond or finance requests. The agreement is to be continued until June 30, 2016, and be renewed thereafter. The management fee includes 100% of direct project management costs and allocable administrative expense not to exceed 5% of revenue as defined in the Trust Indenture.

UNIVERSITY PROPERTIES, INC.
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NOTES TO FINANCIAL STATEMENTS
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Student Housing Revenue Bond Anticipation Notes Series C-1B of 2016	Student Housing Revenue Bonds Series D of 2016	Totals
\$ 36,600,000	\$ 169,996	\$ 41,184,996
-	209,199	1,929,199
-	215,025	2,175,025
-	221,013	2,276,013
-	13,224,767	87,919,767
<u>\$ 36,600,000</u>	<u>\$ 14,040,000</u>	<u>\$ 135,485,000</u>

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE G - LAND LEASE

University Ridge

The Organization has a land lease with East Stroudsburg University of Pennsylvania, which expires in August 2044. Under the terms of the agreement, the Organization will pay the base rent of \$20,000 per year beginning in July 2005. In July 2006, base rent will increase 3% per year through the remaining lease term.

In addition to the payment of base rent, the Organization paid 15% of the net available cash flow according to an amendment agreement entered into by the Organization and the University in August 2010.

2010 Student Housing Project Facilities

In August 2010, the Organization also entered into a land lease agreement with the University, which expires in June 2052. This lease will be applied to the 2010 Student Housing Project Facilities beginning in July 2011. Under the terms of this agreement, the Organization will pay \$25,000 per year in base rent. In July 2012, base rent will increase 3% per year through the remaining lease term.

Commencing July 1, 2011, the Organization will pay an additional 15% of the net available cash flow in addition to the base rent. The Organization was required to make a one-time initial rental payment of \$102,830 upon the execution of this agreement.

Collective minimum base rental payments under the lease agreements are as follows:

Year Ending June 30,	
2018	\$ 58,367
2019	60,118
2020	61,921
2021	63,779

UNIVERSITY PROPERTIES, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE G - LAND LEASE (Continued)

The Organization is subleasing a certain space to the University. The terms of this sublease will be coextensive with the term of the ground lease agreement of the 2010 Student Housing Project Facilities commencing upon the completion of the sublease premises. The initial lease is \$369,600 per lease year with a 3% increase per annum for the Res Life and Campus Police space and 8% for the Rec Center.

Collective minimum base rentals to be received under the lease agreement are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2018	\$ 502,146
2019	529,255
2020	558,140
2021	588,933

NOTE H - RELATED-PARTY TRANSACTIONS

The Organization incurred costs associated with the ground lease agreement with the University and the 2010 Student Housing Project Facilities. The net amount due to the University was \$986,561 and \$4,984,079 at June 30, 2017 and 2016, respectively.

At June 30, 2017 and 2016, the Organization incurred various charges and costs on behalf of the University. The Organization also charged rental income under the sublease agreement to the University in the amount of \$476,693 and \$452,784, for the years ended June 30, 2017 and 2016, respectively. The net amount due from the University was \$499,989 and \$533,573 at June 30, 2017 and 2016, respectively.

NOTE I - COMMITMENTS

The Organization entered into a construction contract in the amount of \$2,821,395 to construct Phase II of its 2010 Student Housing Facilities at the University. Total costs incurred through June 30, 2017, were \$2,821,395, which was paid by the University and included in the amount due to University. As of June 30, 2017, the Organization did not have outstanding construction contract costs to completion. The Organization also entered into a pre-closing development services contract with another contractor for the consulting services relating to the Phase II project. The services include review of the specification, evaluation and submission of design documents, estimating of Phase II project costs and other services relating to the completion of the project. Under this agreement, the Organization is obligated to reimburse the contractor any amount paid in advance by them plus interest and 50% of the development fee of \$1,040,541. As of June 30, 2017, the Organization incurred costs of \$2,150,737 relating to this pre-closing development agreement. Total costs of \$37,828,407 relating to the Phase II project are included in construction in progress.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE J - SETTLEMENT EXPENSE

The Organization has been assessed estimated annual property taxes on the 2010 Student Housing Project by East Stroudsburg Area School District (ESASD) and Monroe County (the "County"). The Organization successfully appealed the assessment with the County Board of Assessment based on University Properties, Inc. being an institution of purely public charity under Pennsylvania Law and that its interest in the real estate is exempt from real estate taxation.

In April 2014, the Organization and ESASD agreed to fully settle the issues. Under this settlement, the Organization made a one-time payment in the amount of \$850,000 to ESASD and amend its written community service policy to provide that a minimum of 50% of any annual cash contribution made by the Organization to the University shall be restricted by the Organization to use for housing or other scholarships that will benefit University students.

In July 2014, the Organization reached an agreement in principle with the County to make a one-time payment of \$91,773 in exchange for the County's agreement not to assess tax against the Organization's properties.

As of June 30, 2017, the Organization had paid ESASD and the County in the amount of \$941,773. There is no outstanding settlement payable as of June 30, 2017 and 2016.

NOTE K - SUBSEQUENT EVENTS

In August 2017, University Properties Inc. issued Revenue Bonds, Series C-2 of 2016, in order to make the scheduled payments on Revenue Bond Anticipation Notes, Series C-1A of 2016 and Revenue Bond Anticipation Notes Series C-1B of 2016. These bonds were issued in the aggregate amount of \$39,100,000 and are part of the refinancing of the Revenue Bonds, Series A of 2006, as well as the construction of a new UPI facility on the campus of East Stroudsburg University (Sycamore Project).

SUPPLEMENTARY INFORMATION

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
STATEMENTS OF FINANCIAL POSITION, BY PROJECT
JUNE 30, 2017

	U. Ridge Project	2010 Project	Sycamore Project	Totals
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents				
Unrestricted	\$ 3,524,125	\$ -	\$ 16,178	\$ 3,540,303
Restricted	62,662	8,531,296	14,316,087	22,910,045
Accounts receivable, net of allowance of \$62,342 (2017)	30,876	61,728	-	92,604
Interest receivable	-	3,696	3,205	6,901
Due from University	1,203	499,989	3,939	505,131
Due to/from U. Ridge and 2010 Project	(2,368,691)	2,368,691	-	-
Due to/from U. Ridge and Sycamore Project	6,562,617	-	(6,562,617)	-
Prepaid expenses	15,222	64,781	-	80,003
TOTAL CURRENT ASSETS	7,828,014	11,530,181	7,776,792	27,134,987
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$21,187,404 (2017)	14,358,967	53,234,473	37,727,907	105,321,347
BOND ISSUE COSTS, net of accumulated amortization of \$257,410 (2017)	602,431	1,694,772	1,070,988	3,368,191
TOTAL ASSETS	\$ 22,789,412	\$ 66,459,426	\$ 46,575,687	\$ 135,824,525
LIABILITIES AND NET DEFICIT				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 71,564	\$ 1,829,349	\$ 4,273,057	\$ 6,173,970
Due to University	323,271	663,290	-	986,561
Advance rent	21,109	-	-	21,109
Current portion of bonds payable	14,430,598	1,100,000	25,654,398	41,184,996
TOTAL CURRENT LIABILITIES	14,846,542	3,592,639	29,927,455	48,366,636
OTHER LIABILITIES				
Bonds payable, less current portion	9,345,009	68,197,196	16,613,347	94,155,552
NET (DEFICIT) ASSETS				
Unrestricted	(1,402,139)	(5,330,409)	34,885	(6,697,663)
TOTAL LIABILITIES AND NET DEFICIT	\$ 22,789,412	\$ 66,459,426	\$ 46,575,687	\$ 135,824,525

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
STATEMENTS OF ACTIVITIES, BY PROJECT
YEAR ENDED JUNE 30, 2017

	<u>U. Ridge Project</u>	<u>2010 Project</u>	<u>Sycamore Project</u>	<u>Totals</u>
UNRESTRICTED NET ASSETS				
Revenues, gains and other support				
Programs and activities revenues				
Rental income	\$ 4,081,166	\$ 8,292,009	\$ -	\$ 12,373,175
Miscellaneous income	13,988	15,738	-	29,726
Investment income	<u>15,238</u>	<u>36,508</u>	<u>65,106</u>	<u>116,852</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>4,110,392</u>	<u>8,344,255</u>	<u>65,106</u>	<u>12,519,753</u>
Expenses				
Program services				
Amortization	768,695	22,052	9,921	800,668
Bad debt expense	12,800	41,458	-	54,258
Bank fees	4,276	423	-	4,699
Contract services	-	1,651	-	1,651
Contributions to University	-	455,129	-	455,129
Depreciation	781,016	1,936,236	-	2,717,252
Insurance	107,151	166,674	20,299	294,124
Interest	556,064	3,551,187	-	4,107,251
Maintenance and repairs	211,959	99,263	-	311,222
Management fee	194,124	-	-	194,124
Marketing and advertising	13,818	-	-	13,818
Miscellaneous	2,848	-	1	2,849
Office and postage	33,740	55,972	-	89,712
Professional fees	47,675	46,815	-	94,490
Rent	323,271	199,552	-	522,823
Salaries and benefits	418,276	1,443,912	-	1,862,188
Student programming and services	11,502	134,438	-	145,940
Telephone	74,141	299,987	-	374,128
Travel and lodging	6,830	-	-	6,830
Trustee fees	9,500	13,250	-	22,750
Utilities	<u>347,778</u>	<u>300,040</u>	<u>-</u>	<u>647,818</u>
TOTAL EXPENSES	<u>3,925,464</u>	<u>8,768,039</u>	<u>30,221</u>	<u>12,723,724</u>
CHANGE IN NET ASSETS	184,928	(423,784)	34,885	(203,971)
NET DEFICIT AT BEGINNING OF YEAR	<u>(1,587,067)</u>	<u>(4,906,625)</u>	<u>-</u>	<u>(6,493,692)</u>
NET (DEFICIT) ASSETS AT END OF YEAR	<u>\$ (1,402,139)</u>	<u>\$ (5,330,409)</u>	<u>\$ 34,885</u>	<u>\$ (6,697,663)</u>

***Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With Government Auditing Standards***

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

We have audited, 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, the financial statements of the University Properties, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year ended and the related notes to the financial statements, and have issued our report thereon dated September 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University Properties, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University Properties, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the University Properties, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the University Properties, Inc. are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maillie LLP

West Chester, Pennsylvania
September 21, 2017

***Independent Auditors' Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards in Accordance With the Uniform Guidance***

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the University Properties, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the University Properties, Inc.'s major federal programs for the year ended June 30, 2017. The University Properties, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University Properties, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University Properties, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University Properties, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, University Properties, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Facilities Loans and Grants program for the year ended June 30, 2017.

To the Board of Directors
University Properties, Inc.
East Stroudsburg, Pennsylvania

Report on Internal Control Over Compliance

Management of the University Properties, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University Properties, Inc. internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University Properties, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

West Chester, Pennsylvania
September 21, 2017

**SUPPLEMENTARY INFORMATION – MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through/Program Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Grant Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Pennsylvania Higher Educational Facilities Authority				
Community Facilities Loans and Grants Cluster	(I) 10.780		\$ 53,140,000	\$ -
Subtotal passed through the Pennsylvania Higher Educational Facilities Authority			53,140,000	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			53,140,000	-
TOTAL FEDERAL AWARDS			\$ 53,140,000	\$ -

(I) Indirect Funding

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
JUNE 30, 2017 AND 2016

NOTE A - GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization under programs of the federal government for the year ended June 30, 2017. Because this schedule presents only a selected portion of operation of the Organization, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Organization.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditure of federal awards is presented on the accrual basis of accounting, which is described in Note B of the Organization's basic financial statements. The information in this schedule is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE C - INDIRECT COST RATES

The Organization has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

NOTE D - LOANS OUTSTANDING

University Properties, Inc. had the following loan balances outstanding at June 30, 2017. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

	<u>CFDA Number</u>	<u>Amount Outstanding</u>
USDA:		
Community Facilities Loans and Grants	10.780	\$53,140,000

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017 AND 2016

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the University Properties, Inc.
2. No material weaknesses relating to the audit of financial statements reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance that are material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Federal Program, And Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards in Accordance with Uniform Guidance.
5. The auditors' report on compliance expresses an unmodified opinion on compliance for major programs.
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a) are reported in this schedule. There were no audit findings.
7. The program tested as a major program was the Community Facilities Loans and Grants, CFDA No. 10.780
9. The threshold for determining Type A programs for the University Properties, Inc. is \$750,000, as those terms are defined in the Uniform Guidance.
10. University Properties, Inc. was not considered a low-risk auditee, as that term is defined in the Uniform Guidance.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

UNIVERSITY PROPERTIES, INC.
(A Component Unit of East Stroudsburg University)
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017 AND 2016

None.