

**UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST INC.**

**FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT)
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

DRAFT

UNIVERSITY OF ENDINBURGH
USA DEVELOPMENT TRUST INC.
FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT)
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014

TABLE OF CONTENTS DRAFT

	<u>Page Number</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 7

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INDEPENDENT AUDITOR'S REPORT

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Board of Directors
University of Edinburgh
USA Development Trust

We have audited the accompanying financial statements of the University of Edinburgh USA Development Trust ("UEUDT") which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Edinburgh USA Development Trust. as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lederer, Levine & Associates, LLC

UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015 AND 2014

DRAFT

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents (Notes B and D)	\$ 493,090	\$ 339,629
Contributions receivable, net (Notes B and C)	488,095	822,853
Other receivable (Note D)	100,000	100,000
Investments (Notes B and F)	97,976	103,814
Other assets (Notes B and G)	<u>415,533</u>	<u>326,858</u>
	\$ <u>1,594,694</u>	\$ <u>1,693,154</u>
TOTAL ASSETS		
 LIABILITIES		
Accrued expenses and other payables	\$ <u>13,475</u>	\$ <u>10,703</u>
TOTAL LIABILITIES	<u>13,475</u>	<u>10,703</u>
 NET ASSETS		
Unrestricted	1,093,124	859,598
Temporarily restricted (Note H)	<u>488,095</u>	<u>822,853</u>
TOTAL NET ASSETS	<u>1,581,219</u>	<u>1,682,451</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>1,594,694</u>	 \$ <u>1,693,154</u>

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

UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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	2015		2014	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT AND REVENUE:				
Contributions	\$ 365,046	\$ 365,046	\$ 426,234	\$ 426,234
In-kind contributions (Notes B and G)	88,675	88,675	6,058	6,058
Investment (loss) (Note F)	(5,615)	(5,615)	(6,930)	(6,930)
Net assets released from restrictions	334,758	(334,758)	303,197	(303,197)
TOTAL SUPPORT AND REVENUE	<u>782,864</u>	<u>(334,758)</u>	<u>728,559</u>	<u>(303,197)</u>
EXPENSES:				
Program services - grant expense (Note B)	521,880		643,477	643,477
Management and general	27,458		26,050	26,050
TOTAL EXPENSES	<u>549,338</u>	<u>549,338</u>	<u>669,527</u>	<u>669,527</u>
CHANGE IN NET ASSETS	233,526	(334,758)	59,032	(303,197)
Net Assets - Beginning of Year	<u>859,598</u>	<u>1,682,451</u>	<u>800,566</u>	<u>1,126,050</u>
NET ASSETS - END OF YEAR	<u>\$ 1,093,124</u>	<u>\$ 1,581,219</u>	<u>\$ 859,598</u>	<u>\$ 822,853</u>
			<u>\$ 859,598</u>	<u>\$ 1,682,451</u>

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

UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (101,232)	\$ (244,165)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization of discount on contributions receivable	(23,243)	(38,803)
Unrealized losses on investments	5,838	7,242
In-kind contribution - other assets	(88,675)	(6,058)
Changes in operating assets and liabilities:		
Decrease (Increase) in assets:		
Contributions receivable	358,001	350,100
Other receivable		(100,000)
Increase in liabilities:		
Accrued expenses and other payables	<u>2,772</u>	<u>3</u>
Net Cash Provided (Used) by Operating Activities	<u>153,461</u>	<u>(31,681)</u>
Net Increase (Decrease) in Cash	153,461	(31,681)
Cash and cash equivalents - beginning of year	<u>339,629</u>	<u>371,310</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 493,090</u>	<u>\$ 339,629</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ -0-</u>	<u>\$ -0-</u>

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

**UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

DRAFT

Note A – Organization and Nature of Activities

The University of Edinburgh USA Development Trust (“UEUDT”) is a nonprofit corporation whose purpose is to educate the public on the reputation and importance of the University of Edinburgh and develop and improve its financial condition.

UEUDT is organized under the Virginia Nonstock Corporation Act and has been granted exemption from federal income tax pursuant to Section 501 (c) (3) of the Internal Revenue Code.

Note B – Summary of Significant Accounting Policies

Method of Accounting

UEUDT prepares its financial statements using the accrual basis of accounting. UEUDT follows accounting principles generally accepted in the United States of America (“US GAAP”) which include certain specialized requirements set forth in publications of the Financial Accounting Standards Board.

Cash and Cash Equivalents

UEUDT considers all highly liquid investments with a maturity of less than three months to be cash equivalents.

Restricted Contributions

Contributions are recognized when the donor makes a promise to give to UEUDT that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives. UEUDT capitalizes property and equipment with a useful life of two years or more and a cost of \$1,000 or more.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

In-Kind Contributions

Contributions of donated non-cash assets are recorded at their fair values when received. Contributions of services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

Grant Expenditures

Grant expenditures are considered incurred at the time of approval by the Board of Directors.

UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

D R A F T

Note B – Summary of Significant Accounting Policies (Continued)

Accounting for Uncertainty in Income Taxes

UEUDT's accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 29, 2016.

Fair Value Measurements

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

US GAAP established a fair value hierarchy organized into three levels based upon the "input" assumptions used in pricing assets. Level 1 inputs relate to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices that are observable either directly or indirectly with fair value being determined through the use of models or other valuation methodologies. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The values by input level of the UEUDT's investments as of December 31, 2015 and 2014 are as follows:

	2015			
	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ <u>97,976</u>	\$ _____	\$ _____	\$ <u>97,976</u>
	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ <u>103,814</u>	\$ _____	\$ _____	\$ <u>103,814</u>

Reclassification

Certain line items in the December 31, 2014 financial statements have been reclassified to conform to the December 31, 2015 presentation.

Note C - Contributions Receivable

Contributions receivable, which are unconditional promises to give, are summarized as follows at December 31:

Contributions receivable expected to be collected in:

	2015	2014
Less than one year	\$ 250,000	\$ 358,000
One to five years	<u>250,000</u>	<u>500,000</u>
	500,000	858,000
Less: discount to net present value at 5% as determined by management	<u>11,905</u>	<u>35,147</u>
	<u>\$ 488,095</u>	<u>\$ 822,853</u>

UNIVERSITY OF EDINBURGH
USA DEVELOPMENT TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(continued)

D R A F T

Note D – Other Receivable

Other receivable consists of an amount due from the University of Edinburgh at December 31:

	2015	2014
	\$ <u>100,000</u>	\$ <u>100,000</u>

Note E – Concentrations

- 1) For the year ended December 31, 2015, one donor contributed approximately 21% of all the UEUDT' contributions. For the year ended December 31, 2014 one donor contributed approximately 19% of all UEUDT's contributions.
- 2) UEUDT maintains bank accounts at a bank which is an institution insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At December 31, 2015 and 2014, the total uninsured cash balance approximated \$275,160 and \$173,816, respectively. Management believes that credit risk related to these accounts to be minimal.

Note F – Investments

Investments consist of the following at December 31:

	2015	2014
Equities	\$ <u>97,976</u>	\$ <u>103,814</u>

UEUDT's equity holdings at December 31, 2015 and 2014 consisted entirely of shares of a grantor trust (the "Trust"). The investment objective of the Trust is for the shares to reflect the price of the British Pound Sterling.

Shares of the Trust are subject to market volatility that could substantially change their carrying value in the near term.

Investment (loss) consists of the following at December 31:

	2015	2014
Interest and dividends	\$ 223	\$ 312
Unrealized (losses)	<u>(5,838)</u>	<u>(7,242)</u>
Total	\$ <u>(5,615)</u>	\$ <u>(6,930)</u>

Note G – Other Assets

	2015	2014
Charles Darwin Books and documents	\$ 320,800	\$ 320,800
Penny Royal Caxton Bible	6,058	6,058
John Steinbeck Books	<u>88,675</u>	<u>88,675</u>
	\$ <u>415,533</u>	\$ <u>326,858</u>

The books, documents and Bible are currently on loan to the Edinburgh University Library.

Note H – Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2015 and 2014 are subject to time restrictions only. These net assets relate to contributions receivable in future periods from donors. While certain UEUDT donors have made suggestions regarding the use of donated funds, the actual use of these funds is subject to the discretion of the UEUDT Board of Directors.