UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
The University of the Sciences in Philadelphia:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of the Sciences in Philadelphia, which comprise the statements of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of the Sciences in Philadelphia as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

The accompanying financial statements of the University of the Sciences in Philadelphia as of June 30, 2012 and for the year then ended were audited by other auditors whose report thereon dated December 14, 2012, expressed an unmodified opinion on those financial statements.

KPMG LLP

Philadelphia, Pennsylvania
November 14, 2013

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statements of Financial Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	22,339,435	18,069,134
Receivables, net:			
Student accounts		2,046,000	2,002,411
Student loans		6,241,514	6,442,423
Government		786,801	1,320,871
Contributions		2,425,670	917,545
Other		279,716	189,675
Investments		173,748,510	164,340,769
Beneficial interest in trusts		512,483	483,633
Prepaid expenses and other assets		962,272	1,005,705
Debt service reserve fund		5,525,630	5,525,630
Deposits with trustees		25,156,598	—
Bond issuance costs, net		2,892,374	2,619,895
Land, buildings, and equipment, net		114,274,210	107,025,349
Total assets	$	357,191,213	309,943,040
Liabilities and Net Assets			
Accounts payable and accrued liabilities	$	10,963,252	9,543,573
Refundable government grants and loans		5,273,878	5,236,571
Tuition deposits and deferred revenue		10,637,571	10,240,227
Annuity liabilities		269,576	313,868
Other liabilities		170,337	202,599
Bonds payable, net		135,742,590	104,374,778
Total liabilities		163,057,204	129,911,616
Unrestricted		135,727,541	125,027,471
Temporarily restricted		15,628,884	12,971,053
Permanently restricted		42,777,584	42,032,900
Total net assets		194,134,009	180,031,424
Total liabilities and net assets	$	357,191,213	309,943,040

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statement of Activities

Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Tuition and fees, gross	$ 97,070,717	—	—	97,070,717
Less direct grants and allowances	(29,505,847)	—	—	(29,505,847)
Tuition and fees, net	67,564,870	—	—	67,564,870
Government grants	2,317,236	—	—	2,317,236
Private gifts and grants	3,519,870	—	—	3,519,870
Investment income	9,101,486	—	—	9,101,486
Educational departments	108,537	—	—	108,537
Auxiliary services	8,863,539	—	—	8,863,539
Other	336,097	—	—	336,097
Total operating revenue	91,811,635	—	—	91,811,635
Operating expenses:				
Instruction	37,648,117	—	—	37,648,117
Research	4,348,226	—	—	4,348,226
Academic support	9,133,908	—	—	9,133,908
Student services	15,867,299	—	—	15,867,299
Institutional support	14,192,505	—	—	14,192,505
Scholarships	453,236	—	—	453,236
Auxiliary enterprises	7,259,245	—	—	7,259,245
Total operating expenses	88,902,536	—	—	88,902,536
Change in net assets from operating activities	2,909,099	—	—	2,909,099
Nonoperating:				
Contributions restricted for long-term investments	—	1,355,971	694,386	2,050,357
Net gain on long-term investments after endowment payout of $6,300,000	6,288,991	3,073,678	—	9,362,669
Investment income	—	—	31,254	31,254
Annuity adjustment	—	(6,518)	7,287	769
Postretirement benefit related changes other than net periodic postretirement cost	(251,563)	—	—	(251,563)
Recoveries in deficiencies in historical values	1,622,454	(1,634,211)	11,757	—
Net assets released from restrictions	131,089	(131,089)	—	—
Total nonoperating	7,790,971	2,657,831	744,684	11,193,486
Change in net assets	10,700,070	2,657,831	744,684	14,102,585
Net assets – beginning of year	125,027,471	12,971,053	42,032,900	180,031,424
Net assets – end of year	$ 135,727,541	15,628,884	42,777,584	194,134,009

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statement of Activities

Year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Tuition and fees, gross	$ 94,685,659	—	—	94,685,659
Less direct grants and allowances	(27,093,543)	—	—	(27,093,543)
Tuition and fees, net	67,592,116	—	—	67,592,116
Government grants	2,734,063	—	—	2,734,063
Private gifts and grants	3,154,112	—	—	3,154,112
Investment income	7,566,911	—	—	7,566,911
Educational departments	82,071	—	—	82,071
Auxiliary services	9,129,487	—	—	9,129,487
Other	419,747	—	—	419,747
Total operating revenue	90,678,507	—	—	90,678,507
Operating expenses:				
Instruction	35,145,478	—	—	35,145,478
Research	4,467,319	—	—	4,467,319
Academic support	9,111,322	—	—	9,111,322
Student services	16,526,528	—	—	16,526,528
Institutional support	14,856,999	—	—	14,856,999
Scholarships	539,270	—	—	539,270
Auxiliary enterprises	6,977,683	—	—	6,977,683
Total operating expenses	87,624,599	—	—	87,624,599
Change in net assets from operating activities	3,053,908	—	—	3,053,908
Nonoperating:				
Contributions restricted for long-term investments	—	802,751	700,484	1,503,235
Net loss on long-term investments after endowment payout of $5,900,000	(4,680,325)	(2,264,524)	—	(6,944,849)
Investment income	—	177,993	4,434	182,427
Annuity adjustment	—	(15,099)	(16,992)	(32,091)
Pension related changes other than net periodic pension cost	(60,294)	—	—	(60,294)
Deficiencies in historical values	(1,421,528)	1,407,483	14,045	—
Total nonoperating	(6,162,147)	108,604	701,971	(5,351,572)
Change in net assets	(3,108,239)	108,604	701,971	(2,297,664)
Net assets – beginning of year	128,135,710	12,862,449	41,330,929	182,329,088
Net assets – end of year	$ 125,027,471	12,971,053	42,032,900	180,031,424

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	14,102,585	(2,297,664)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		6,589,335	6,292,517
Contributions restricted for long-term investments		(2,050,357)	(1,503,235)
Net (gain) loss on long-term investments		(15,633,819)	2,816,472
Change in fair value of beneficial interest in trust		(28,850)	20,980
Cancellations and allowance for student loans		283,023	202,748
Changes in operating assets and liabilities:			
Student accounts receivable		(43,589)	(273,020)
Government receivables		534,070	(605,748)
Contributions receivable		(1,508,125)	(280,561)
Other receivables		(90,041)	(80,851)
Prepaid expenses and other current assets		43,433	1,420,652
Accounts payable and accrued liabilities		(683,215)	(1,742,377)
Refundable government grants and loans		37,307	57,825
Tuition deposits and deferred revenue		397,344	584,285
Annuity liabilities		(44,292)	292
Other liabilities		(32,262)	20,232
Net cash provided by operating activities		1,872,547	4,632,547
Cash flows from investing activities:			
Proceeds from sale of investments		15,352,118	37,863,741
Purchase of investments		(9,121,407)	(29,305,046)
Investment cash		(4,633)	402,791
Disbursements for loans to students		(807,025)	(1,138,332)
Accrued interest from loans to students		(40,816)	(40,912)
Repayment of loans by students		765,727	846,246
Purchase of property and equipment		(11,720,416)	(5,879,080)
Net cash (used in) provided by investing activities		(5,576,452)	2,749,408
Cash flows from financing activities:			
Contributions restricted for long-term investments		2,050,357	1,503,235
Proceeds from bond issuance		32,571,510	—
Change in debt service reserve fund		—	658,743
Deposit with trustees of unexpended bond proceeds		(25,156,598)	—
Payment for debt issuance costs		(451,063)	(4,598)
Repayment of bonds		(1,040,000)	(1,000,000)
Net cash provided by financing activities		7,974,206	1,157,380
Net increase in cash and cash equivalents		4,270,301	8,539,335
Cash and cash equivalents – beginning of year		18,069,134	9,529,799
Cash and cash equivalents – end of year	$	22,339,435	18,069,134
Supplemental disclosures of cash flow information – noncash investing activities:			
Accrued purchases of property and equipment	$	2,102,895	735,653
Cash paid for interest		4,706,182	4,794,800

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

The University of the Sciences in Philadelphia (the University) is a nonprofit independent institution of higher education with a commitment to excellence in teaching, research, and service. The institution consists of the following five colleges:

Philadelphia College of Pharmacy
Misher College of Arts and Sciences
Samson College of Health Sciences
College of Graduate Studies
Mayes College of Healthcare Business and Policy

The mission of the University is to provide undergraduate, professional, and graduate education in the health professions and natural sciences. The University is committed to the principles of equal employment and equal access to education for all persons, regardless of gender, age, disability, race, creed, color, sexual orientation, or national origin.

During the year ended June 30, 2013, the University enrolled 2,770 students, which is equivalent to 2,630 full-time students, or 2,436 undergraduate and first degree students plus 334 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 55% and physical therapy at 12%.

(a) Basis of Presentation

The financial statements of the University, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole and to present balances and transactions in three separate classes of net assets.

The three net assets categories reflected in the accompanying financial statements are as follows:

- *Unrestricted* – Net assets that are free of donor-imposed restrictions. This includes all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on quasi-endowment investments.
- *Temporarily Restricted* – Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. This category includes realized and unrealized gains on permanently restricted endowment and other long-term investments that are in excess of the Board of Trustee's approved spending rule. Temporarily restricted net assets, which are received and used within the same year, are reported as unrestricted.
- *Permanently Restricted* – Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University.

(b) Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with a maturity date not exceeding 90 days at the date of purchase. The University maintains cash and cash equivalents in financial institutions, and they typically exceed federally insured limits. The University has not experienced any losses from maintaining cash and cash equivalent accounts in excess of federally insured limits. Management does not believe it is exposed to any significant credit risk in cash accounts.

(c) Concentration of Credit Risk

The University's financial instruments, which are exposed to concentrations of credit risk, consist primarily of cash and cash equivalents, investments, and deposits with bond trustees. These funds are held in various high-quality financial institutions managed by the University's personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits. The University believes that the concentrations of credit risk are limited to its cash and cash equivalents, investments, and deposits with bond trustees.

(d) Deposits with Trustees

Deposits with trustees represent funds held in trust in accordance with the University's outstanding debt agreements for unexpended bond proceeds, are reported at fair value and Level 1 within the fair value hierarchy.

(e) Investments

The fair value of investments is based upon quoted market values provided by external investment custodians, when available.

The estimated fair value of certain alternative investments, such as hedge fund, private equity, real estate, and other investments, are based on the reported net asset value per share as a practical expedient as of June 30, 2013 and 2012. Because certain investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These instruments may contain elements of both credit risk and market risk. Such risks include, but are not limited to: limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition. The University generally classifies alternative investments within either Level 2 if its investment in the entity can be redeemed at or near the reporting date (within 10 days) or Level 3 if its investment is not redeemable.

Investments in such funds do carry certain risks including lack of regulatory oversight, interest rate risk and market risk. Due to the level of risk associated with these investments, it is at least reasonably possible that changes in risk factors in the near term might materially affect the amounts reported in the statements of financial position.

Investment sales and purchases are recorded on a trade-date basis.

(Continued)

(f) Beneficial Interest in Trusts

These funds represent resources neither in the possession of nor under the control of the University, but are paid and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. They are recorded using Level 3 inputs as described in note 10 at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence.

(g) Contributions

Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment has been received. Unconditional promises are recognized at the estimated present value of the future cash flows, which are considered Level 3 inputs to fair value as described in note 10, net of allowances. Conditional promises are recorded when donor stipulations are substantially met. Temporarily restricted gifts whose restrictions are met in the same year as the contributions have been recorded as unconditional promises. Promises of noncash assets are recorded at their fair value.

(h) Allowances for Doubtful Accounts

The allowances for doubtful accounts on student accounts, student loans, government, contribution and other receivables are provided based upon management's judgment including such factors as prior collection history and type of receivable. The University writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. At June 30, 2013 and 2012, the allowance for doubtful accounts was approximately $3,929,000 and $3,611,000, respectively.

(i) Land, Buildings, and Equipment

Plant assets are stated at cost. Contributed assets, which are used for operations, are stated at fair value as of the date donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the buildings (40-60 years) and equipment (5-25 years).

Maintenance repairs and minor replacements are charged to expense as incurred.

(j) Tuition and Fees

The University maintains a policy of offering qualified applicants admission without regard to financial circumstances. This policy provides for financial aid to those admitted in the form of direct grants, loans, and employment during the academic year. Tuition and fees have been reduced by these direct grants.

(k) Allocation of Certain Expenses

The statement of activities presents expenses by functional classification. Operation and maintenance of plant and depreciation are allocated based on square footage. Interest expense is allocated to the functional classifications that benefited from the use of the proceeds of the debt and on an allocation based on square footage.

(Continued)

(l) Fair Value of Other Financial Instruments

The fair value of cash and cash equivalents, student and other accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses and other liabilities approximate their respective carrying amounts. The fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds, which are considered Level 2 inputs to fair value as described in note 10.

(m) Use of Estimates

The preparation of the 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. The most significant estimates and assumptions relate to the determination of the allowances for receivables, alternative investment values, annuity liabilities, useful lives of fixed assets, assumptions related to postretirement benefits, conditional asset retirement obligations, allocation of certain expenses and reported fair values of certain of the University's assets and liabilities.

(n) Nonoperating Activities

Nonoperating activities reflect transactions of a long-term investment or capital nature including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment, annuity adjustments and pension related changes other than net periodic pension cost. Realized and unrealized gains and losses in excess of the University's spending policy for operations are recorded as nonoperating revenue or expense.

(o) Tax Status

The University has been recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, except for taxes on income from activities unrelated to its exempt purpose. Accordingly, the University is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. No provisions for income taxes have been made in the accompanying financial statements for 2013 or 2012.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the University, and has concluded that as of June 30, 2013 there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

(p) Conditional Asset Retirement Obligation

The University considers a conditional asset retirement an obligation that includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settling the obligation is conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The University records the fair value of a liability for a legal obligation associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized. At June 30, 2013 and 2012, the conditional asset retirement obligation was $664,284 and $656,125, respectively. The liability is recorded as a component of accounts payable and accrued liabilities in the statements of financial position.

(q) New Accounting Pronouncement

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance that expands the existing disclosure requirements for fair value measurements, primarily for Level 3 measurements, which are measurements based on unobservable inputs. This guidance is largely consistent with current fair value measurement principles with few exceptions that do not result in a change in general practice. The amendments will include enhancements to disclosures about fair value measurements. The guidance was adopted for the year ended June 30, 2013. The adoption of this guidance did not have a material impact on the University's financial position or results of activities as the guidance relates only to disclosure requirements.

(2) Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2013 and 2012, student loans represented 1.7% and 2.1% of total assets, respectively.

At June 30, student loans consisted of the following:

	2013	2012
Federal government programs	$ 6,016,119	$ 6,220,989
Less cancelations	(15,023)	(23,749)
Institutional programs	2,518,253	2,255,018
	8,519,349	8,452,258
Less allowance for doubtful accounts:		
Beginning of year	(2,009,835)	(1,830,509)
Increases	(268,000)	(179,326)
End of year	(2,277,835)	(2,009,835)
Student loans receivable, net	$ 6,241,514	$ 6,442,423

The University participates in various federal revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of approximately $3,700,000 at June 30, 2013 and 2012 are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan.

At June 30, 2013 and 2012, the following amounts were past due under student loan programs:

June 30	1-60 days past due	60-90 days past due	90+ days past due	Total past due
2013	$ 4,077	864	651,072	656,013
2012	4,819	680	575,977	581,476

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. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Perkins Loan Program are guaranteed by the government, and therefore, no reserves are placed on any past-due balances under the program.

(3) Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2013	2012
Contributions receivable in:		
Less than one year	$ 454,713	$ 324,163
One to five years	2,554,950	646,500
	3,009,663	970,663
Less discount to present value	(583,993)	(53,118)
	$ 2,425,670	$ 917,545

For the years ended June 30, 2013 and 2012, the University's discount rate was 5.4% and 3.0%, respectively. There was no allowance related to contributions receivable at June 30, 2013 and 2012.

(Continued)

(4) Investments

The fair and cost values of the University's investments by type of investment were as follows at June 30:

	2013		2012	
	Fair value	**Cost**	**Fair value**	**Cost**
Money market accounts	$ 400,300	400,300	$ 395,667	395,667
Asset class:				
Fixed income	34,315,990	33,436,830	37,411,618	35,972,344
Asset allocation	51,138,280	44,830,206	45,520,889	42,253,877
Domestic equity	30,567,937	22,787,107	28,804,440	25,374,451
International equity	20,849,301	13,585,980	18,960,239	14,164,191
Alternative and limited partnerships	36,476,702	31,582,740	33,247,916	30,148,966
	$ 173,748,510	146,623,163	$ 164,340,769	148,309,496

For the years ended June 30, 2013 and 2012, the University incurred $1,244,273 and $1,089,765, respectively, in advisory and custodial fees for these investments. These fees have been netted against investment income in the statements of activities.

(5) Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consisted of the following:

	2013	2012
Land and improvements	$ 8,517,744	$ 8,517,744
Buildings and improvements	155,453,588	152,212,165
Equipment	20,891,786	18,855,873
Construction in progress	8,099,936	261,935
	192,963,054	179,847,717
Less accumulated depreciation	(78,688,844)	(72,822,368)
	$ 114,274,210	$ 107,025,349

The University recorded depreciation expense of $6,574,450 and $6,249,546 for the years ended June 30, 2013 and 2012, respectively.

(6) Bonds Payable

On January 15, 2005, the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued 2005A tax-exempt bonds totaling $40,545,000. Proceeds were used to establish refunding escrows for the 1995 and 1998 PHEFA bonds, to redeem the 2002 PHEFA bonds, for the construction and equipping of a new science and technology center, the expansion of the central utility plant, and other capital projects, plus the payment of capital interest expense and certain debt issuance expenses. These bonds are insured and are secured by a mortgage on the McNeil Science and Technology Center. The 2005A PHEFA bonds are fixed-rate instruments.

On May 17, 2008, the PHEFA issued 2008 tax-exempt bonds totaling $67,400,000 on behalf of the University. Proceeds were used to redeem the 2005B and the 2006 PHEFA bonds and certain debt issuance costs as well as to establish a debt service reserve fund. The 2008 PHEFA bonds are fixed-rate instruments insured by Assured Guarantee.

On September 12, 2012, the PHEFA issued 2012 tax-exempt bonds totaling $31,000,000 on behalf of the University. Debt proceeds will be used to fund project expenditures for the construction of a new academic facility in addition to payments for issuance costs and capitalized interest.

All bonds of the University have been issued by PHEFA. The University is obligated to the PHEFA under a loan instrument providing for payments equal to the amount of the debt service on the revenue bonds. The University is also required to meet certain liquidity and net revenue covenants.

Bonds payable is comprised of the following at June 30:

	2013	2012
Series 2005A – 3.0% to 5.0%; maturing 11/1/2033 and 11/1/2036	$ 33,985,000	$ 35,025,000
Series of 2005A net premium	518,801	547,756
Series of 2008 – 3.5% to 5.0%; maturing 11/1/2032 and 11/1/2037	67,400,000	67,400,000
Series of 2008 net premium	1,306,273	1,402,022
Series of 2012 – 4.0% to 5.0%; maturing 11/1/2039 and 11/1/2042	31,000,000	—
Series of 2012 net premium	1,532,516	—
Total bonds payable, net	$ 135,742,590	$ 104,374,778

The estimated fair value of long-term debt is based on quoted market prices for the same or similar issues. At June 30, 2013 and 2012, the estimated fair value was $133,799,075 and $110,750,120, respectively. The June 30, 2013 estimated fair value is $1,414,075 more than its carrying value of $132,385,000.

The maturities of all bonds for the next five years and thereafter ending June 30 are as follows:

	Maturing
2014	$ 2,255,000
2015	2,345,000
2016	2,440,000
2017	2,540,000
2018	2,650,000
Thereafter	120,155,000
Total	$ 132,385,000

(7) Line of Credit

The University has an available line of credit in the amount of $2,000,000 with interest charged at the bank's prime rate that expires on April 30, 2014. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2013.

(8) Net Assets

The components of the major classifications of net assets at June 30 are as follows:

	2013	2012
Unrestricted net assets:		
Unallocated	$ 1,919,825	$ 1,919,825
Designated for:		
Specific purposes, University's and department's	2,232,041	2,009,100
Student loans	3,181,181	3,232,869
Funds functioning as endowment	105,647,936	97,736,489
Future investment in facilities	8,162,766	5,767,229
Net investment in plant	14,583,792	14,361,959
	$ 135,727,541	$ 125,027,471

		2013		2012
Temporarily restricted net assets:				
Purpose restrictions for instruction, scholarships and capital expenditures	$	5,898,436	$	4,669,345
Endowment earnings in excess of spending policy		9,618,788		8,210,326
Annuities (endowment)		111,660		91,382
	$	15,628,884	$	12,971,053
Permanently restricted net assets:				
Student loans	$	191,475	$	189,836
Endowment for:				
General operations		12,736,964		12,555,999
Research		6,757,725		6,677,222
Student/Academic support		1,321,473		1,307,944
Instruction		4,105,585		4,086,513
Scholarships		17,662,387		17,210,502
Annuities (endowment)		1,975		4,884
	$	42,777,584	$	42,032,900

(9) Postretirement Benefits Other than Pensions

The University provides certain health care and life insurance benefits for retired employees who reach retirement age while working for the University. The University accrues for expected medical and other postretirement benefits over the years that the employees render the necessary service. The University has recognized its benefit obligation of $199,410 and $450,474 at June 30, 2013 and 2012 for its postretirement benefit plans in the statements of financial position.

(10) Fair Value Measurements

The University has valued its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Financial assets and liabilities whose values are based on one or more of the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in nonactive markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or assets that have near-term liquidity (within 10 days of June 30);
4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the University to determine such fair value.

June 30, 2013	Level 1	Level 2	Level 3	Total
Beneficial interest in trusts	$ —	$ —	$ 512,483	$ 512,483
Investments:				
Money market accounts	400,300	—	—	400,300
Asset class:				
Fixed income	34,315,990	—	—	34,315,990
Asset allocation	17,534,818	25,480,440	8,123,023	51,138,281
Domestic equity	30,567,937	—	—	30,567,937
International equity	20,849,301	—	—	20,849,301
Alternative and limited partnerships:				
Private equity	—	—	6,618,594	6,618,594
Hedge	—	—	15,760,019	15,760,019
Inflation hedge	—	5,857,470	—	5,857,470
Absolute	—	—	8,240,618	8,240,618
Total investments	103,668,346	31,337,910	38,742,254	173,748,510
Total assets	$ 103,668,346	$ 31,337,910	$ 39,254,737	$ 174,260,993

In the fiscal year ended June 30, 2013 there were no transfers among levels 1, 2 and 3.

June 30, 2012	Level 1	Level 2	Level 3	Total
Beneficial interest in trusts	$ —	$ —	$ 483,633	$ 483,633
Investments:				
Money market accounts	395,667	—	—	395,667
Asset class:				
Fixed income	37,411,618	—	—	37,411,618
Asset allocation	16,409,220	22,620,901	6,490,768	45,520,889
Domestic equity	28,804,440	—	—	28,804,440
International equity	18,960,239	—	—	18,960,239
Alternative and limited partnerships:				
Private equity	—	—	5,761,920	5,761,920
Hedge	—	—	13,936,635	13,936,635
Inflation hedge	—	6,240,622	—	6,240,622
Absolute	—	—	7,308,739	7,308,739
Total investments	101,981,184	28,861,523	33,498,062	164,340,769
Total assets	$ 101,981,184	$ 28,861,523	$ 33,981,695	$ 164,824,402

In the fiscal year ended June 30, 2012, the University transferred approximately $6,000,000 from Level 2 to Level 1. This transfer was made based on information about the marketability and liquidity of the investments.

The following tables present additional information about assets measured at fair value on a recurring basis and for which the University has utilized Level 3 inputs to determine fair value for the years ended June 30, 2013 and 2012:

	Fair value July 1, 2012	Net realized gains	Net unrealized gains (losses)	Purchases	Sales	Fair value June 30, 2013
Beneficial interest in trusts	$ 483,633	—	28,850	—	—	512,483
Asset allocation	6,490,768	—	1,632,254	—	—	8,123,022
Private equity	5,761,920	194,197	(525,589)	1,258,879	(70,811)	6,618,596
Hedge	13,936,635	—	1,823,383	—	—	15,760,018
Absolute	7,308,739	—	931,879	—	—	8,240,618
	$ 33,981,695	194,197	3,890,777	1,258,879	(70,811)	39,254,737

	Fair value July 1, 2011	Net realized gains	Net unrealized (losses) gains	Purchases	Sales	Fair value June 30, 2012
Beneficial interest in trusts	$ 504,613	—	(20,980)	—	—	483,633
Asset allocation	6,036,127	—	454,641	—	—	6,490,768
Private equity	5,291,463	224,785	(346,126)	607,241	(15,443)	5,761,920
Hedge	14,196,523	—	(259,888)	—	—	13,936,635
Absolute	7,310,759	—	9,352	13,546	(24,918)	7,308,739
	$ 33,339,485	224,785	(163,001)	620,787	(40,361)	33,981,695

The following table represents the fair value measurements of investments in certain entities that calculate net asset value (NAV) per share (or its equivalent) as of June 30, 2013 and the University's ability to redeem out of these investment funds as follows:

	Level 2	Level 3	Unfunded commitments	Redemption frequency	Redemption notice period
Asset allocation (a)	$ 25,480,440	$ —	$ —	daily	1 day
Asset allocation (b)	—	8,123,022	—	monthly	14 days
Alternative private equity (c)	—	6,618,595	5,390,000	n/a	n/a
Alternative hedge (d)	—	7,646,076	—	quarterly	70 days
Alternative hedge (e)	—	8,113,943	—	3 years	100 days
Alternative inflation hedge (f)	5,857,470	—	—	monthly	8 – 10 days
Alternative absolute (g)	—	8,240,618	—	1 year	100 days
	$ 31,337,910	$ 38,742,254	$ 5,390,000		

(a) Investments in various global multi-asset funds. The fair value of these funds have been estimated using the NAV per share of the investments.

(b) Invests in a diversified global asset class and active security selection. Their policies focus on long-term preservation of purchasing power rather than a focus on short-term returns. The fair values have been estimated using the NAV per share of the investments. These assets provide distributions.

(c) Comprised of various private equity funds that invest primarily in U.S. media and communications industry and/or life science and health care industries. The fair values of these funds are estimated using the NAV per share of the investments.

(d) Seeks to generate an attractive level of absolute and risk adjusted returns, with a low volatility and low correlation to global fixed income and equity markets. The fair values of these funds are estimated using the NAV per share of the investments.

(e) Primarily invests in a diversified portfolio of hedge fund managers with a lock up period of three years. Initial lock up period ends December 31, 2013. The fair values of these funds are estimated using the NAV per share of the investments.

(f) Primarily invests in markets that perform the strongest in inflationary environments, and in U.S. equity and diversifying global equity and fixed income. The funds provide distributions upon liquidation of the underlying assets. The fair values of this fund have been estimated using the NAV per share of the investments.

(g) Pooled fund that invests primarily in limited partnerships, limited liability companies, or non-U.S. corporations. Valuation of interests in underlying investment funds is based on an amount equal to the pool’s pro-rata interest in net assets, which are calculated at the close of business on each offering date (last business day of the month) by dividing the assets of each series less its liabilities by the number of outstanding shares of each series. Redemption is permitted on December 31 with an initial lock-up period of three years. If the fund is not redeemed, a new lock-up period will begin.

The following provides a brief description of the types of financial instruments the University holds, the methodology for estimating fair value, and the level within the hierarchy of the estimate for recurring financial instruments.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

(a) Beneficial Interest in Trusts

Donors have established and funded trusts that are controlled by outside organizations. These funds are valued based on the estimated fair value of the underlying assets or the present value of future cash flows, which are Level 3 inputs to fair value.

(b) Investments

Money market accounts: Funds designed to earn competitive yields on short-term investments. These are valued using Level 1 inputs.

Fixed income: Funds designed to add value above the return of the broad U.S. bond market over a full market cycle and reduce the risk in comparison to that of investing in the index. Valued at closing prices reported on an active market, which are Level 1 inputs.

Asset allocation: Funds designed to improve the net investment returns by making available a series of investment vehicles, each with its own investment objective and thus attaining a growth stream of current income and appreciation of principal to at least offset inflation. Publicly traded funds are valued at the closing price reported on an active market which are Level 1 inputs; funds that are not publicly traded are valued using Level 2 or Level 3 inputs depending on their redemption provisions as described above.

Domestic equity: Funds designed to provide net investment returns that correspond to the total return of publicly traded common stocks in the aggregate, as represented by the S&P 500 Composite Stock Price index. Valued at the closing prices reported on an active market, which are Level 1 inputs.

International equity: Funds designed to provide long-term returns by investing primarily in a diversified portfolio that corresponds to the performance of securities held in the Morgan Stanley Country Index – Europe, Asia, Far East (MSCI EAFE) and Morgan Stanley Country Index – All Country World Index (MSCI – ACWIEX US). These investments are valued at closing prices reported on an active market, which are Level 1 inputs.

Alternative and limited partnerships: Alternative and hedge funds are funds designed to outperform the S&P index over a full market cycle, while also providing some protection during down markets. Limited partnerships are funds used to protect against inflation and have a primary objective of creating income and capital preservation over the long term. Valued at net asset value as a practical expedient to fair value, these funds are valued using Level 2 or 3 inputs depending on their redemption provisions as described above.

(11) Endowments

Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University’s endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds, annuities, and funds designated by the Board of Trustees to function as quasi-endowments.

(a) Interpretation of Relevant Law

The Board of Trustees of the University has interpreted relevant law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the University's spending policy.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to unrestricted net assets and a corresponding increase to temporarily restricted net assets. Approximately $1,400,000 and $3,000,000 were underwater for the years ended June 30, 2013 and 2012, respectively. In the year ended June 30, 2012, $1,421,528 in deficiencies was recorded. In the year ended June 30, 2013, $1,622,454 of the previous charge to unrestricted net assets due to unfavorable market conditions was recovered.

(c) Endowment Investment Policy

The endowment's assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. Under this approach, as approved by the Investment Committee of the Board of Trustees, the endowment assets are invested in a manner that is intended to achieve a positive rate of return over the long term that would contribute to the cash flow needs of the organization for ongoing operations, special initiatives and capital projects in support of the University; plus, the endowment assets are to provide for asset growth at a rate in excess of the rate of inflation using the Higher Education Price Index (HEPI index) net of expenses to achieve investment results over the long term that compare favorably with those of other similar-sized endowments and foundations, professionally managed portfolios and appropriate market indexes.

(d) Endowment Spending Policy

The University has a spending rule policy for the majority of the endowment fund's asset pool, whereby each participating fund earns investment income on the basis of subscribed units. These units are acquired and disposed at fair market value as determined on a quarterly basis.

In order to balance the current needs with preserving the spending power of the endowment, the Board of Trustees set a spending rate of the fair value of the endowment to be available for operations. This rate was 6.5% and 5.5%, respectively, for the years ended June 30, 2013 and 2012. The University applies the spending rate to an average of the pooled endowment fair value for the 12 trailing quarterly periods ending as of December 31 of the prior fiscal year. The Board expects a 6.0% draw for the upcoming June 30, 2014 fiscal year.

(Continued)

(e) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The rationale for including alternative strategy managers for the University's portfolio is to reduce overall volatility while providing equity-like returns. Alternative asset classes have historically demonstrated lower volatility on a stand-alone basis compared to traditional asset classes. Additionally, they have had low correlations to traditional asset classes, thus providing diversification benefits at the total fund level.

(f) Endowment and Similar Fund Activity

	June 30, 2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 97,736,490	$ 8,301,708	$ 41,843,063	$ 147,881,261
Investment return (net of fees):				
Net realized gains	2,968,629	1,431,791	—	4,400,420
Net unrealized gains	7,570,495	3,691,755	—	11,262,250
Net investment gain	10,539,124	5,123,546	—	15,662,670
Appropriation of endowment assets for operations (draw)	(4,250,132)	(2,049,868)	—	(6,300,000)
Contributions	—	—	714,557	714,557
Transfer of net assets released from restrictions – income purpose satisfied	—	(4,207)	(20,172)	(24,379)
Other changes:				
Other adjustments	—	(6,518)	36,903	30,385
Deficiencies in historical values	1,622,454	(1,634,213)	11,759	—
Total other changes	1,622,454	(1,640,731)	48,662	30,385
Net assets, end of year	$ 105,647,936	$ 9,730,448	$ 42,586,110	$ 157,964,494
June 30, 2013:				
Donor-restricted endowment funds	$ (1,407,790)	$ 9,730,448	$ 42,586,110	$ 50,908,768
Board-designated funds	107,055,726	—	—	107,055,726
	$ 105,647,936	$ 9,730,448	$ 42,586,110	$ 157,964,494

	Unrestricted	restricted	restricted	Total
Net assets, beginning of year	$ 103,838,344	$ 9,171,720	$ 41,141,833	$ 154,151,897
Investment return (net of fees):				
Net realized gains	1,614,052	773,706	—	2,387,758
Net unrealized losses	(2,306,157)	(1,126,451)	—	(3,432,608)
Net investment loss	(692,105)	(352,745)	—	(1,044,850)
Appropriation of endowment assets for operations (draw)	(3,988,221)	(1,911,779)	—	(5,900,000)
Contributions	—	2,128	700,484	702,612
Other changes:				
Other adjustments	—	(15,099)	(13,299)	(28,398)
Deficiencies in historical values	(1,421,528)	1,407,483	14,045	—
Total other changes	(1,421,528)	1,392,384	746	(28,398)
Net assets, end of year	$ 97,736,490	$ 8,301,708	$ 41,843,063	$ 147,881,261
June 30, 2012:				
Donor-restricted endowment funds	$ (3,030,244)	$ 8,301,708	$ 41,843,063	$ 47,114,527
Board-designated funds	100,766,734	—	—	100,766,734
	$ 97,736,490	$ 8,301,708	$ 41,843,063	$ 147,881,261

(Continued)

(12) Operating Expenses

Expenses by natural classifications for the years ended June 30 were as follows:

	2013	2012
Compensation:		
Salaries	$ 43,533,539	$ 40,504,676
Employee benefits	10,951,059	10,769,693
Total compensation	54,484,598	51,274,369
Other expenses:		
Advertising and marketing	1,156,128	1,630,924
Clinical fees	1,099,158	1,119,887
Computer equipment and software	413,314	473,329
Consulting	1,043,171	1,842,310
Depreciation of buildings and equipment	6,574,450	6,249,546
Interest on indebtedness	4,697,116	4,779,867
Management contracts	287,783	349,320
Office expenses	1,720,983	1,672,447
Printing	365,724	525,318
Reference materials	763,342	758,926
Rental property and equipment lease	1,897,350	1,911,759
Scholarships	499,235	539,270
Service contracts	3,543,652	3,563,991
Utilities	2,339,515	2,244,585
Other supplies and expenses	8,017,017	8,688,751
Total other expenses	34,417,938	36,350,230
Total operating expenses	$ 88,902,536	$ 87,624,599

(13) Defined Contribution Plan

The University of the Sciences in Philadelphia Basic Retirement Plan is a defined contribution pension plan covering substantially all employees. The plan is designed to provide for investments in annuities and in shares of regulated investment companies (mutual funds). The University contributed 8% of each participant's annual compensation for the years ended June 30, 2013 and 2012. Pension expense was $2,667,612 and $2,578,243 in 2013 and 2012, respectively.

(14) Related Party Transactions

During the year ended June 30, 2013, the University had several business relationships with related parties, including pledge receivables recorded for $2,554,000. Certain members of the Board of Trustees are senior members for the related parties referenced. Gifts from various members of the University's Board of Trustees totaled $309,602 and $331,819 for the years ended June 30, 2013 and 2012, respectively.

(15) Commitments and Contingencies

The University has noncancelable operating leases ending in 2014 through 2029 for certain facilities and equipment. Rental expense under these agreements equaled $1,917,991 in 2013 and $1,836,926 in 2012. Future minimum lease payments are as follows:

2014	$	1,901,967
2015		1,133,529
2016		844,140
2017		639,810
2018		644,610
Thereafter		2,818,123

In the ordinary course of the University's educational activities, various lawsuits, claims and other contingencies arise. While the ultimate disposition of the aforementioned contingencies is not determinable at this time, management believes that any liability resulting there from will not materially affect the financial position of the University as of June 30, 2013.

(16) Subsequent Events

The University evaluated its June 30, 2013 financial statements for subsequent events through November 14, 2013, the date the financial statements were available to be issued. The University is not aware of any subsequent event which would require recognition or disclosure in the financial statements.