



UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position, June 30, 2016 and 2015	2
Statement of Activities, year ended June 30, 2016 (with comparative information for 2015)	3
Statement of Activities, year ended June 30, 2015	4
Statements of Cash Flows, years ended June 30, 2016 and 2015	5
Notes to Financial Statements	6



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Trustees
University of the Sciences in Philadelphia:

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, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
November 28, 2016

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 21,910,280	22,309,886
Receivables, net:		
Student accounts	2,560,952	2,065,182
Student loans	5,158,902	5,528,446
Government	1,807,296	3,459,492
Contributions	1,531,340	1,772,865
Other	223,172	258,394
Prepaid expenses and other assets	1,327,605	1,403,326
Investments	176,873,982	188,538,551
Unexpended bond proceeds held by trustee	283,454	984,086
Beneficial interest in trusts	521,212	534,558
Land, buildings, and equipment, net	<u>139,425,273</u>	<u>132,742,303</u>
Total assets	<u>\$ 351,623,468</u>	<u>359,597,089</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 7,848,647	9,757,945
Tuition deposits and deferred revenue	11,196,523	10,903,848
Annuity liabilities	225,891	240,857
Other liabilities	208,107	206,384
Refundable government grants and loans	5,427,344	5,331,109
Bonds payable, net	<u>124,746,231</u>	<u>126,028,101</u>
Total liabilities	<u>149,652,743</u>	<u>152,468,244</u>
Unrestricted	139,585,535	145,697,705
Temporarily restricted	14,125,887	17,298,826
Permanently restricted	<u>48,259,303</u>	<u>44,132,314</u>
Total net assets	<u>201,970,725</u>	<u>207,128,845</u>
Total liabilities and net assets	<u>\$ 351,623,468</u>	<u>359,597,089</u>

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statement of Activities

Year ended June 30, 2016

(with comparative totals for year ended June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	<u>June 30, 2015 Total</u>
Operating revenue:					
Tuition and fees, gross	\$ 103,675,662	—	—	103,675,662	102,822,107
Less direct grants and allowances	(32,599,011)	—	—	(32,599,011)	(33,894,420)
Tuition and fees, net	71,076,651	—	—	71,076,651	68,927,687
Government grants	1,986,307	—	—	1,986,307	2,059,135
Investment Income, including endowment payout of \$9,000,000 in 2016 and \$6,600,000 in 2015	9,530,519	—	—	9,530,519	9,880,488
Educational departments	78,448	—	—	78,448	76,542
Private gifts and grants	3,524,779	—	—	3,524,779	3,325,509
Auxiliary services	8,712,287	—	—	8,712,287	9,017,034
Other	480,179	—	—	480,179	606,420
Total operating revenue	95,389,170	—	—	95,389,170	93,892,815
Operating expenses:					
Instruction	38,591,398	—	—	38,591,398	38,726,763
Research	4,404,292	—	—	4,404,292	4,617,061
Academic support	9,384,399	—	—	9,384,399	9,164,230
Student services	19,106,806	—	—	19,106,806	18,159,653
Institutional support	12,875,802	—	—	12,875,802	13,939,441
Scholarships	399,259	—	—	399,259	426,946
Auxiliary enterprises	6,792,960	—	—	6,792,960	7,185,653
Total operating expenses	91,554,916	—	—	91,554,916	92,219,747
Change in net assets from operating activities	3,834,254	—	—	3,834,254	1,673,068
Nonoperating:					
Contributions restricted for long-term investments	—	—	4,108,034	4,108,034	539,666
Net (loss) gain on long-term investments after endowment payout of \$9,000,000	(11,002,731)	(3,068,767)	10,853	(14,060,645)	(6,729,843)
Investment income	—	274,744	18,955	293,699	266,215
Annuity adjustments	—	(7,947)	(10,853)	(18,800)	(22,041)
Postretirement benefit related changes other than net periodic postretirement cost	6,253	—	—	6,253	18,500
Loss on refinance of bonds	—	—	—	—	(2,173,924)
Other	679,085	—	—	679,085	(721,913)
Net assets released from restrictions	370,969	(370,969)	—	—	—
Change in net assets from nonoperating activities	(9,946,424)	(3,172,939)	4,126,989	(8,992,374)	(8,823,340)
Total change in net assets	(6,112,170)	(3,172,939)	4,126,989	(5,158,120)	(7,150,272)
Net assets – beginning of year	145,697,705	17,298,826	44,132,314	207,128,845	214,279,117
Net assets – end of year	\$ 139,585,535	14,125,887	48,259,303	201,970,725	207,128,845

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statement of Activities

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, gross	\$ 102,822,107	—	—	102,822,107
Less direct grants and allowances	<u>(33,894,420)</u>	<u>—</u>	<u>—</u>	<u>(33,894,420)</u>
Tuition and fees, net	68,927,687	—	—	68,927,687
Government grants	2,059,135	—	—	2,059,135
Investment income, including endowment payout of \$6,600,000	9,880,488	—	—	9,880,488
Educational departments	76,542	—	—	76,542
Private gifts and grants	3,325,509	—	—	3,325,509
Auxiliary services	9,017,034	—	—	9,017,034
Other	<u>606,420</u>	<u>—</u>	<u>—</u>	<u>606,420</u>
Total operating revenue	<u>93,892,815</u>	<u>—</u>	<u>—</u>	<u>93,892,815</u>
Operating expenses:				
Instruction	38,726,763	—	—	38,726,763
Research	4,617,061	—	—	4,617,061
Academic support	9,164,230	—	—	9,164,230
Student services	18,159,653	—	—	18,159,653
Institutional support	13,939,441	—	—	13,939,441
Scholarships	426,946	—	—	426,946
Auxiliary enterprises	<u>7,185,653</u>	<u>—</u>	<u>—</u>	<u>7,185,653</u>
Total operating expenses	<u>92,219,747</u>	<u>—</u>	<u>—</u>	<u>92,219,747</u>
Change in net assets from operating activities	<u>1,673,068</u>	<u>—</u>	<u>—</u>	<u>1,673,068</u>
Nonoperating:				
Contributions restricted for long-term investments	—	—	539,666	539,666
Net (loss) gain on long-term investments after endowment payout of \$6,600,000	(4,817,427)	(1,924,861)	12,445	(6,729,843)
Investment income	—	—	266,215	266,215
Annuity adjustments	—	(9,596)	(12,445)	(22,041)
Postretirement benefit related changes other than net periodic postretirement cost	18,500	—	—	18,500
Loss on refinance of bonds	(2,173,924)	—	—	(2,173,924)
Other	(721,913)	—	—	(721,913)
Net assets released from restrictions	<u>542,503</u>	<u>(542,503)</u>	<u>—</u>	<u>—</u>
Change in net assets from nonoperating activities	<u>(7,152,261)</u>	<u>(2,476,960)</u>	<u>805,881</u>	<u>(8,823,340)</u>
Total change in net assets	<u>(5,479,193)</u>	<u>(2,476,960)</u>	<u>805,881</u>	<u>(7,150,272)</u>
Net assets – beginning of year	<u>151,176,898</u>	<u>19,775,786</u>	<u>43,326,433</u>	<u>214,279,117</u>
Net assets – end of year	<u>\$ 145,697,705</u>	<u>17,298,826</u>	<u>44,132,314</u>	<u>207,128,845</u>

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (5,158,120)	(7,150,272)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,796,291	7,749,242
Contributions and grants restricted for long-term investments	(4,108,034)	(539,666)
Net loss on long-term investments	6,837,338	97,597
Cancellations and allowance for student loans	82,138	156,733
Loss on bond refinancing	—	2,173,924
Changes in operating assets and liabilities:		
Change in fair value of beneficial interest in trust	13,346	32,246
Student accounts receivable	(495,770)	(156,201)
Government receivables	1,652,196	380,268
Contributions receivable	241,525	384,392
Other receivables	35,222	19,333
Accounts payable and accrued liabilities	(2,368,148)	(909,139)
Refundable government grants and loans	96,235	9,430
Tuition deposits and deferred revenue	292,675	225,584
Prepaid expenses and other current assets	75,721	(173,342)
Annuity liabilities	(14,966)	(10,914)
Other liabilities	1,723	2,027
Net cash provided by operating activities	<u>4,979,372</u>	<u>2,291,242</u>
Cash flows from investing activities:		
Proceeds from sale of investments	16,107,688	25,758,744
Purchase of investments	(11,002,372)	(23,245,178)
Change in cash held in investment portfolio	(378,505)	430,097
Disposal of property and equipment	—	231,248
Disbursements for loans to students	(552,421)	(688,637)
Accrued interest from loans to students	(29,966)	(38,295)
Repayment of loans by students	869,793	884,390
Purchase of property and equipment	<u>(14,236,861)</u>	<u>(7,900,596)</u>
Net cash used in investing activities	<u>(9,222,644)</u>	<u>(4,568,227)</u>
Cash flows from financing activities:		
Contributions and grants restricted for long-term investments	4,108,034	539,666
Proceeds from bond issuance	—	94,984,781
Use of unexpended bond proceeds	700,632	6,394,807
Payment for debt issuance costs	—	(859,240)
Repayment of bonds	<u>(965,000)</u>	<u>(100,751,100)</u>
Net cash provided by financing activities	<u>3,843,666</u>	<u>308,914</u>
Net decrease in cash and cash equivalents	(399,606)	(1,968,071)
Cash and cash equivalents – beginning of year	<u>22,309,886</u>	<u>24,277,957</u>
Cash and cash equivalents – end of year	\$ <u>21,910,280</u>	\$ <u>22,309,886</u>
Supplemental disclosures of cash flow information – noncash investing activities:		
Accrued purchases of property and equipment	\$ 925,548	466,698
Cash paid for interest	5,867,996	5,124,524

See accompanying notes to financial statements.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Organization

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 four colleges:

- Philadelphia College of Pharmacy
- Misher College of Arts and Sciences
- Samson College of Health Sciences
- 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, 2016, the University enrolled 2,664 students, which is equivalent to 2,523 full-time students, or 2,230 undergraduate and first degree students plus 293 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 44% and physical therapy at 13%.

(b) 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 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 that are in excess of the Board of Trustees' 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.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(c) *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, other than cash and cash equivalents held in the University's investment portfolio.

(d) *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 unexpended bond proceeds. 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. 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.

(e) *Unexpended Bond Proceeds Held by Trustee*

Unexpended bond proceeds held by trustees represent funds held for project purposes. These funds are reported at fair value with Level 1 inputs within the fair value hierarchy as described in note 10.

(f) *Investments*

The fair value of investments is based upon quoted market values provided by external investment custodians, when available. Investment sales and purchases are recorded on a trade-date basis.

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 reported by the investment manager, as a practical expedient as of June 30, 2016 and 2015. 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. Certain investments that are measured at fair value using the net asset value per share practical expedient (NAV) have not been recognized in the fair value hierarchy (see note 10).

(g) *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.

(h) *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

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

present value of the future cash flows, net of allowances for doubtful accounts. Conditional promises are recorded when donor stipulations are substantially met. Promises of noncash assets are recorded at their fair value. Contributions restricted for capital purposes are released from restriction when the asset is placed into service.

(i) 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, 2016 and 2015, the allowance for doubtful accounts was \$4,424,855 and \$4,297,855, respectively. Allowance for doubtful accounts consists of the following:

	<u>2016</u>	<u>2015</u>
Student accounts	\$ 1,718,000	1,654,000
Student loans:		
Federal government programs	862,000	843,000
Institutional programs	<u>1,844,855</u>	<u>1,800,855</u>
Net student loans	<u>2,706,855</u>	<u>2,643,855</u>
Total allowance for doubtful accounts	<u>\$ 4,424,855</u>	<u>4,297,855</u>

(j) 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.

(k) 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.

(l) 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.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(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, useful lives of fixed assets, assumptions related to postretirement benefits, and allocation of certain expenses.

(n) Nonoperating Activities

Nonoperating activities reflect transactions of a long-term investment, capital or unusual and nonrecurring nature including contributions to be invested by the University to generate a return that will support future operations, 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 (IRS) 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 2016 or 2015.

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. The University uses a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. As of June 30, 2016 and 2015, the University does not have any uncertain tax position or any unrelated business income tax liability which would have a material impact on its 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, 2016 and 2015, the conditional asset

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

retirement obligation was \$688,001 and \$679,980, respectively. The liability is recorded as a component of accounts payable and accrued liabilities in the statements of financial position.

(q) Fundraising

Institutional support expenses included fundraising costs of \$1,417,870 and \$1,498,000 for the years ended June 30, 2016 and 2015, respectively. Fundraising costs include the salaries and employee benefits of staff that develop proposals for fundraising, solicit contributions, and conduct specific fundraising events. Fundraising costs are expensed as incurred.

(r) Recent Accounting Pronouncements

In June 2015, the Financial Accounting Standards Board issued ASU No. 2015-10, *Technical Corrections and Improvements*, which addresses a variety of matters, including a refinement of the definition of an equity security that has a readily determinable fair value. Paragraph 30 of the ASU amends the master glossary term, *readily determinable fair value*, in part as follows: An equity security has a readily determinable fair value if it meets at least one of several conditions, including (c) the fair value of an equity security that is an investment in mutual fund or in a structure similar to a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis of current transactions.

Paragraph 30 of the ASU became effective upon issuance. This guidance has resulted in the correction in classification of certain investments held by the University at June 30, 2015 from investment funds measured at net asset value (or its equivalent) to Level 1 of the fair value hierarchy. This guidance has been applied retrospectively and is reflected in the fair value hierarchy as of June 30, 2016 and 2015 (see note 10).

During 2016, the University adopted the early application guidance of ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and modified related disclosures to conform to the guidance. ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including exempting all not public business entities from disclosing fair value information for financial instruments measured at amortized cost.

(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 both June 30, 2016 and 2015, student loans represented 1.5% of total assets.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

At June 30, student loans consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal government programs, net of cancellations	\$ 5,214,458	5,475,170
Institutional programs	<u>2,651,299</u>	<u>2,697,131</u>
Total programs	<u>7,865,757</u>	<u>8,172,301</u>
Less allowance for doubtful accounts:		
Beginning of year	(2,643,855)	(2,502,855)
Increases	<u>(63,000)</u>	<u>(141,000)</u>
End of year	<u>(2,706,855)</u>	<u>(2,643,855)</u>
Student loans receivable, net	<u>\$ 5,158,902</u>	<u>5,528,446</u>

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 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 loans.

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.

For substantially all institutional loans, it is not anticipated that repayment will be made and the loans have been fully reserved.

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

<u>June 30</u>	<u>1-60 days past due</u>	<u>60-90 days past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
2016	\$ 2,315	285	839,078	841,678
2015	3,075	859	780,945	784,879

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(3) Contributions Receivable

Contributions receivable consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Contributions receivable in:		
Less than one year	\$ 369,750	347,000
Greater than one year and thereafter	1,693,250	1,980,000
	<u>2,063,000</u>	<u>2,327,000</u>
Less discount to present value	(531,660)	(554,135)
	<u>\$ 1,531,340</u>	<u>1,772,865</u>

For the years ended June 30, 2016 and 2015, the University's discount rate was 5%. There was no allowance related to contributions receivable at June 30, 2016 and 2015.

(4) Investments

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

	<u>2016</u>	<u>2015</u>
Money market accounts	\$ 380,731	2,223
Asset class:		
Fixed income	34,290,268	33,472,170
Asset allocation	50,779,905	57,397,862
Domestic equity	25,535,533	29,063,009
International equity	20,992,533	23,437,418
Alternative and limited partnerships	44,895,012	45,165,869
	<u>\$ 176,873,982</u>	<u>188,538,551</u>

Investment return is summarized as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dividend and interest income	\$ 3,915,535	5,284,227
Realized and unrealized losses	(6,837,338)	(410,253)
Investment management fees	(1,314,624)	(1,457,114)
	<u>\$ (4,236,427)</u>	<u>3,416,860</u>

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

Investment return is classified in the statement of activities as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Operating	\$ 9,530,519	9,880,488
Nonoperating	(13,766,946)	(6,463,628)
	<u>\$ (4,236,427)</u>	<u>3,416,860</u>

(5) Land, Buildings, and Equipment

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

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 8,517,744	8,517,744
Buildings and improvements	196,752,972	192,170,020
Equipment	25,743,389	24,028,346
Construction in progress	8,502,456	637,058
	<u>239,516,561</u>	<u>225,353,168</u>
Less accumulated depreciation	<u>(100,091,285)</u>	<u>(92,610,865)</u>
	<u>\$ 139,425,276</u>	<u>132,742,303</u>

The University recorded depreciation expense of \$8,012,741 and \$7,858,854 for the years ended June 30, 2016 and 2015, respectively.

(6) Bonds Payable

Bonds payable is comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Series of 2012 – 4.0% to 5.0%; maturing 11/1/2039 and 11/1/2042 (a)	\$ 31,000,000	31,000,000
Series of 2012 net premium	1,348,613	1,409,914
Series of 2012 net issuance cost	(396,182)	(413,773)
Series of 2015 – 4.0% to 5.0%; maturing 11/1/2033 and 11/1/2036 (b)	89,335,000	90,300,000
Series of 2015 net premium	4,235,724	4,570,319
Series of 2015 net issuance cost	(776,924)	(838,359)
Total bonds payable, net	<u>\$ 124,746,231</u>	<u>126,028,101</u>

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

- (a) On September 12, 2012, the PHEFA issued 2012 tax-exempt bonds totaling \$31,000,000 on behalf of the University. Debt proceeds were used to fund project expenditures for the construction of a new academic facility in addition to payments for issuance costs and capitalized interest.
- (b) On February 25, 2015, the PHEFA issued 2015 tax-exempt bonds totaling \$90,300,000 on behalf of the University. Debt proceeds were used to redeem the 2005A and the 2008 PHEFA bonds and for certain debt issuance costs.

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. The University was in compliance with its financial debt covenants at June 30, 2016 and 2015.

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

	<u>Maturing</u>
2017	\$ 2,290,000
2018	2,315,000
2019	2,375,000
2020	2,480,000
2021	2,745,000
Thereafter	<u>108,130,000</u>
Total	<u>\$ 120,335,000</u>

(7) Line of Credit

As of June 30, 2016 and 2015, the University had an available line of credit in the amount of \$2,000,000 with interest charged at the bank's prime rate, which is renewable annually and expires on April 10, 2017. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2016 or 2015.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(8) Net Assets

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

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Unallocated	\$ 1,919,875	1,919,871
Designated for:		
Specific purposes, University's and department's	2,943,195	2,572,768
Student loans	3,370,452	3,325,201
Funds functioning as endowment	101,707,623	112,710,354
Future investment in facilities	14,957,073	18,749,514
Net investment in plant	14,687,317	6,419,997
	<u>\$ 139,585,535</u>	<u>145,697,705</u>
	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Purpose restrictions for instruction, scholarships and capital expenditures	\$ 5,322,159	5,418,300
Endowment earnings in excess of spending policy	8,713,884	11,749,791
Annuities	89,844	130,735
	<u>\$ 14,125,887</u>	<u>17,298,826</u>
Permanently restricted net assets:		
Student loans	\$ 109,106	109,105
Endowment for:		
General operations	8,829,521	8,854,043
Research	7,925,769	7,916,752
Student/Academic support	1,573,984	1,500,219
Instruction	8,553,735	4,823,218
Scholarships	21,265,213	20,927,002
Annuities (endowment)	1,975	1,975
	<u>\$ 48,259,303</u>	<u>44,132,314</u>

(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 \$133,832 and \$127,579 at June 30, 2016 and 2015 for its postretirement benefit plans in the statements of financial position.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(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; and
 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.
- NAV Financial assets and liabilities whose values are determined using the net asset value per share as a practical expedient are excluded from the fair value hierarchy and are reported to permit reconciliation of the fair value hierarchy to the amounts in the statement of financial position.

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.

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.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(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.

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.

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.

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.

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).

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.

Funds valued at closing prices reported on an active market or for which net asset value is determined and published and the basis for current transactions are categorized in the fair value hierarchy as Level 1. Funds without readily determinable fair values are valued at net asset value as a practical expedient to fair value and excluded from the fair value hierarchy. They are included in the tables below to reconcile fair value hierarchy to total investments.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2016 and 2015, and indicates the fair value hierarchy of the valuation techniques utilized by the University to determine such fair value.

June 30, 2016	Level 1	Level 2	Level 3	NAV	Total
Beneficial interest in trusts	\$ —	—	521,212	—	521,212
Investments:					
Money market accounts	380,731	—	—	—	380,731
Asset class:					
Fixed income	34,290,268	—	—	—	34,290,268
Asset allocation	43,663,607	—	—	7,116,298	50,779,905
Domestic equity	25,535,533	—	—	—	25,535,533
International equity	20,992,533	—	—	—	20,992,533
Alternative and limited partnerships:					
Private equity	—	—	—	14,411,819	14,411,819
Hedge	—	—	—	16,537,934	16,537,934
Inflation hedge	—	—	—	4,963,246	4,963,246
Absolute	—	—	—	8,982,013	8,982,013
Total investments	<u>124,862,672</u>	<u>—</u>	<u>—</u>	<u>52,011,310</u>	<u>176,873,982</u>
Total assets	<u>\$ 124,862,672</u>	<u>—</u>	<u>521,212</u>	<u>52,011,310</u>	<u>177,395,194</u>
June 30, 2015	Level 1	Level 2	Level 3	NAV	Total
Beneficial interest in trusts	\$ —	—	534,558	—	534,558
Investments:					
Money market accounts	2,223	—	—	—	2,223
Asset class:					
Fixed income	33,472,170	—	—	—	33,472,170
Asset allocation	49,316,658	—	—	8,081,204	57,397,862
Domestic equity	29,063,009	—	—	—	29,063,009
International equity	23,437,418	—	—	—	23,437,418
Alternative and limited partnerships:					
Private equity	—	—	—	12,562,901	12,562,901
Hedge	—	—	—	17,956,298	17,956,298
Inflation hedge	—	—	—	5,374,821	5,374,821
Absolute	—	—	—	9,271,849	9,271,849
Total investments	<u>135,291,478</u>	<u>—</u>	<u>—</u>	<u>53,247,073</u>	<u>188,538,551</u>
Total assets	<u>\$ 135,291,478</u>	<u>—</u>	<u>534,558</u>	<u>53,247,073</u>	<u>189,073,109</u>

In accordance with ASU 2015-10, *Technical Corrections and Improvements*, the University removed \$53,487,046 from investment measured at net asset value per share (or its equivalent) and included these amounts in Level 1 to correct the fair value hierarchy table.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

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, 2016 and the University's ability to redeem these investment funds as follows:

	<u>NAV</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Asset allocation (a)	\$ 7,116,298	—	annually	14 days
Alternative private equity (b)	14,411,819	7,379,792	n/a	n/a
Alternative hedge (c)	8,251,175	—	quarterly	70 days
Alternative hedge (d)	8,286,759	—	annually	90 days
Alternative inflation hedge (e)	4,963,246	—	monthly	8–10 days
Alternative absolute (f)	8,982,013	—	semi – annually	100 days before March 31
	<u>\$ 52,011,310</u>	<u>7,379,792</u>		or September 30

- (a) Invests in a diversified global asset class with active security selection focusing on long-term preservation of purchasing power rather than a focus on short-term returns. These funds provide distributions.
- (b) Comprised of various private equity funds that invest primarily in U.S. media and communications industry and/or life science and health care industries.
- (c) 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.
- (d) Primarily invests in a diversified portfolio of hedge fund managers with an objective to provide returns that exhibit moderate volatility and a low correlation to overall stock and bond markets. As of June 30, 2016, this investment is subject to a 1 year lock-up period.
- (e) 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.
- (f) 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 is 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.

(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.

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

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) 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 is regarded as "net appreciation" and 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." \$1,623,119 and \$330,857 were underwater as of June 30, 2016 and 2015, respectively. For the year ended June 30, 2016 and June 30, 2015, respectively, an additional \$1,292,262 and \$74,495 in deficiencies were recorded.

(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 indices.

(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 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 5.8% and 5.9%, respectively, for the years ended June 30, 2016 and 2015. The University applies the spending rate to an average of the pooled endowment fair value for the 12 trailing quarterly periods

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

ending as of December 31 of the prior fiscal year. The Board expects a 5.7% draw for the upcoming June 30, 2017 fiscal year.

(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 in 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, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	\$ 112,710,354	11,880,526	44,023,209	168,614,089
Net (loss) gain on long-term investments	(4,777,197)	(294,301)	10,853	(5,060,645)
Appropriation of endowment assets for operations (draw)	(6,225,534)	(2,774,466)	—	(9,000,000)
Contributions	—	—	4,108,034	4,108,034
Other changes	—	(8,031)	8,101	70
Net assets, end of year	<u>\$ 101,707,623</u>	<u>8,803,728</u>	<u>48,150,197</u>	<u>158,661,548</u>
June 30, 2016:				
Donor-restricted endowment funds	\$ (1,623,119)	8,803,728	48,150,197	55,330,806
Board-designated funds	<u>103,330,742</u>	<u>—</u>	<u>—</u>	<u>103,330,742</u>
	<u>\$ 101,707,623</u>	<u>8,803,728</u>	<u>48,150,197</u>	<u>158,661,548</u>

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

	June 30, 2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	\$ 117,527,781	13,814,982	43,153,667	174,496,430
Net (loss) gain on long-term investments	(143,610)	1,332	12,445	(129,833)
Appropriation of endowment assets for operations (draw)	(4,673,817)	(1,926,183)	—	(6,600,000)
Contributions	—	—	539,666	539,666
Other changes	—	(9,595)	317,431	307,836
Net assets, end of year	<u>\$ 112,710,354</u>	<u>11,880,536</u>	<u>44,023,209</u>	<u>168,614,099</u>
June 30, 2015:				
Donor-restricted endowment funds	\$ (330,857)	11,880,526	44,023,209	55,572,878
Board-designated funds	<u>113,041,211</u>	—	—	<u>113,041,211</u>
	<u>\$ 112,710,354</u>	<u>11,880,526</u>	<u>44,023,209</u>	<u>168,614,089</u>

(12) Operating Expenses

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

	2016	2015
Compensation:		
Salaries	\$ 41,125,582	42,260,809
Employee benefits	10,985,702	10,957,589
Total compensation	<u>52,111,284</u>	<u>53,218,398</u>
Other expenses:		
Advertising and marketing	2,423,605	2,301,721
Clinical fees	943,472	878,953
Computer equipment and software	338,182	215,367
Consulting	2,102,165	2,044,443
Depreciation of buildings and equipment	8,012,741	7,858,854
Interest on indebtedness	4,884,993	5,687,140
Management contracts	357,229	344,631
Office expenses	1,959,334	1,949,658
Printing	254,071	272,541
Reference materials	695,099	857,346
Rental property and equipment lease	1,860,118	1,630,193
Scholarships	399,259	426,946
Service contracts	4,053,979	3,910,279
Utilities	2,200,587	2,162,022
Other supplies and expenses	8,958,798	8,461,255
Total other expenses	<u>39,443,632</u>	<u>39,001,349</u>
Total operating expenses	<u>\$ 91,554,916</u>	<u>92,219,747</u>

UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

Notes to Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015. Pension expense was \$2,612,486 and \$2,631,046 in 2016 and 2015, respectively.

(14) Related Party Transactions

During the year ended June 30, 2016, the University had several business relationships with related parties. 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 \$345,081 and \$393,724, including pledge payments for the years ended June 30, 2016 and 2015, respectively.

(15) Commitments and Contingencies

The University has noncancelable operating leases ending in 2015 through 2029 for certain facilities and equipment. Rent expense under these agreements totaled \$1,668,464 in 2016 and \$1,658,580 in 2015. Future minimum lease payments are as follows:

2017	\$	1,315,967
2018		1,129,993
2019		882,131
2020		552,109
2021		379,976
Thereafter		888,006

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 therefrom will not materially affect the financial position of the University as of June 30, 2016.

(16) Subsequent Events

The University evaluated its June 30, 2016 financial statements for subsequent events through November 28, 2016, the date the financial statements were issued. The University is not aware of any subsequent event that would require recognition or disclosure in the financial statements.