



**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Financial Statements

June 30, 2017 and 2016

(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  
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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2017 and 2016, 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 17, 2017

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Statements of Financial Position

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 17,032,171	21,910,280
Receivables, net:		
Student accounts	2,692,360	2,560,952
Student loans	4,736,643	5,158,902
Government	2,934,986	1,807,296
Contributions	1,316,065	1,531,340
Other	972,180	223,172
Prepaid expenses and other assets	1,739,170	1,327,605
Investments	185,938,203	176,873,982
Beneficial interest in trusts	547,914	521,212
Unexpended bond proceeds held by trustee	65,242,980	283,454
Land, buildings, and equipment, net	<u>145,886,675</u>	<u>139,425,273</u>
Total assets	\$ <u>429,039,347</u>	<u>351,623,468</u>
 <b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 11,572,381	7,848,647
Tuition deposits and deferred revenue	12,528,903	11,196,523
Annuity liabilities	160,960	225,891
Other liabilities	184,462	208,107
Refundable government grants and loans	5,317,757	5,427,344
Bonds payable, net	<u>188,015,504</u>	<u>124,746,231</u>
Total liabilities	<u>217,779,967</u>	<u>149,652,743</u>
Unrestricted	147,975,020	139,585,535
Temporarily restricted	14,658,307	14,125,887
Permanently restricted	<u>48,626,053</u>	<u>48,259,303</u>
Total net assets	<u>211,259,380</u>	<u>201,970,725</u>
Total liabilities and net assets	\$ <u>429,039,347</u>	<u>351,623,468</u>

See accompanying notes to financial statements.

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Statement of Activities

Year ended June 30, 2017

(with comparative totals for year ended June 30, 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenue:					
Tuition and fees, gross	\$ 102,501,831	—	—	102,501,831	103,675,662
Less direct grants and allowances	(30,073,587)	—	—	(30,073,587)	(32,599,011)
Tuition and fees, net	72,428,244	—	—	72,428,244	71,076,651
Government grants	782,984	—	—	782,984	1,986,307
Investment income, including endowment payout of \$9,000,000 in both 2017 and 2016	10,080,711	—	—	10,080,711	9,530,519
Educational departments	90,933	—	—	90,933	78,448
Private gifts and grants	4,536,900	—	—	4,536,900	3,524,779
Auxiliary services	8,106,789	—	—	8,106,789	8,712,287
Other	431,530	—	—	431,530	480,179
Total operating revenue	96,458,091	—	—	96,458,091	95,389,170
Operating expenses:					
Instruction	41,343,204	—	—	41,343,204	38,591,398
Research	4,859,266	—	—	4,859,266	4,404,292
Academic support	9,604,136	—	—	9,604,136	9,384,399
Student services	17,978,778	—	—	17,978,778	19,106,806
Institutional support	13,815,802	—	—	13,815,802	12,875,802
Scholarships	167,056	—	—	167,056	399,259
Auxiliary enterprises	5,955,474	—	—	5,955,474	6,792,960
Total operating expenses	93,723,716	—	—	93,723,716	91,554,916
Change in net assets from operating activities	2,734,375	—	—	2,734,375	3,834,254
Nonoperating:					
Contributions restricted for long-term investments	—	—	242,886	242,886	4,108,034
Net gain (loss) on long-term investments after endowment payout of \$9,000,000 in both 2017 and 2016	7,060,492	1,804,157	(59,648)	8,805,001	(14,060,645)
Investment income	—	125,062	119,336	244,398	293,699
Annuity adjustments	—	(14,419)	64,176	49,757	(18,800)
Postretirement benefit related changes other than net periodic postretirement cost	(13,603)	—	—	(13,603)	6,253
Other	(2,774,159)	—	—	(2,774,159)	679,085
Net assets released from restrictions	1,382,380	(1,382,380)	—	—	—
Change in net assets from nonoperating activities	5,655,110	532,420	366,750	6,554,280	(8,992,374)
Total change in net assets	8,389,485	532,420	366,750	9,288,655	(5,158,120)
Net assets – beginning of year	139,585,535	14,125,887	48,259,303	201,970,725	207,128,845
Net assets – end of year	\$ 147,975,020	14,658,307	48,626,053	211,259,380	201,970,725

See accompanying notes to financial statements.

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenue:				
Tuition and fees, gross	\$ 103,675,662	—	—	103,675,662
Less direct grants and allowances	(32,599,011)	—	—	(32,599,011)
Tuition and fees, net	71,076,651	—	—	71,076,651
Government grants	1,986,307	—	—	1,986,307
Investment Income, including endowment payout of \$9,000,000	9,530,519	—	—	9,530,519
Educational departments	78,448	—	—	78,448
Private gifts and grants	3,524,779	—	—	3,524,779
Auxiliary services	8,712,287	—	—	8,712,287
Other	480,179	—	—	480,179
Total operating revenue	95,389,170	—	—	95,389,170
Operating expenses:				
Instruction	38,591,398	—	—	38,591,398
Research	4,404,292	—	—	4,404,292
Academic support	9,384,399	—	—	9,384,399
Student services	19,106,806	—	—	19,106,806
Institutional support	12,875,802	—	—	12,875,802
Scholarships	399,259	—	—	399,259
Auxiliary enterprises	6,792,960	—	—	6,792,960
Total operating expenses	91,554,916	—	—	91,554,916
Change in net assets from operating activities	3,834,254	—	—	3,834,254
Nonoperating:				
Contributions restricted for long-term investments	—	—	4,108,034	4,108,034
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)
Investment income	—	274,744	18,955	293,699
Annuity adjustments	—	(7,947)	(10,853)	(18,800)
Postretirement benefit related changes other than net periodic postretirement cost	6,253	—	—	6,253
Other	679,085	—	—	679,085
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)
Total change in net assets	(6,112,170)	(3,172,939)	4,126,989	(5,158,120)
Net assets – beginning of year	145,697,705	17,298,826	44,132,314	207,128,845
Net assets – end of year	\$ 139,585,535	14,125,887	48,259,303	201,970,725

See accompanying notes to financial statements.

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,288,655	(5,158,120)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,079,899	7,796,291
Contributions and grants restricted for long-term investments	(242,886)	(4,108,034)
Net (gain) loss on long-term investments	(16,247,390)	6,837,338
Net loss on disposal of property and equipment	409,987	—
Cancellations and allowance for student loans	58,899	82,138
Changes in operating assets and liabilities:		
Change in fair value of beneficial interest in trust	(26,702)	13,346
Student accounts receivable	(131,408)	(495,770)
Government receivables	(1,127,690)	1,652,196
Contributions receivable	215,275	241,525
Other receivables	(749,008)	35,222
Accounts payable and accrued liabilities	3,478,048	(2,368,148)
Refundable government grants and loans	(109,587)	96,235
Tuition deposits and deferred revenue	1,332,380	292,675
Prepaid expenses and other current assets	(411,565)	75,721
Annuity liabilities	(64,931)	(14,966)
Other liabilities	(23,645)	1,723
Net cash provided by operating activities	<u>2,728,331</u>	<u>4,979,372</u>
Cash flows from investing activities:		
Proceeds from sale of investments	15,273,779	15,729,183
Purchase of investments	(8,090,610)	(11,002,372)
Disbursements for loans to students	(447,642)	(552,421)
Accrued interest from loans to students	(17,626)	(29,966)
Repayment of loans by students	828,628	869,793
Purchase of property and equipment	<u>(13,622,031)</u>	<u>(14,236,861)</u>
Net cash used in investing activities	<u>(6,075,502)</u>	<u>(9,222,644)</u>
Cash flows from financing activities:		
Contributions and grants restricted for long-term investments	242,886	4,108,034
Proceeds from bond issuance	66,290,261	—
Deposit of (use of) bond proceeds held by trustee	(64,959,526)	700,632
Payment for debt issuance costs	(814,559)	—
Repayment of bonds	<u>(2,290,000)</u>	<u>(965,000)</u>
Net cash (used in) provided by financing activities	<u>(1,530,938)</u>	<u>3,843,666</u>
Net decrease in cash and cash equivalents	(4,878,109)	(399,606)
Cash and cash equivalents – beginning of year	<u>21,910,280</u>	<u>22,309,886</u>
Cash and cash equivalents – end of year	\$ <u>17,032,171</u>	\$ <u>21,910,280</u>
Supplemental disclosures of cash flow information – noncash investing activities:		
Change in accrued purchases of property and equipment	\$ 245,686	458,850
Cash paid for interest	5,266,904	5,867,996

See accompanying notes to financial statements.

# UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

## Notes to Financial Statements

June 30, 2017 and 2016

### (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 sciences, health professions and related disciplines. 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, 2017, the University enrolled 2,541 students, which is equivalent to 2,362 full-time students, or 2,048 undergraduate and first degree students plus 314 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 41% and physical therapy at 12%.

#### (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, 2017 and 2016

**(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, 2017 and 2016. 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.

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Notes to Financial Statements

June 30, 2017 and 2016

**(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 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, 2017 and 2016, the allowance for doubtful accounts was \$4,494,855 and \$4,424,855, respectively. Allowance for doubtful accounts consists of the following:

	<b>2017</b>	<b>2016</b>
Student accounts	\$ 1,744,000	1,718,000
Student loans:		
Federal government programs	889,000	862,000
Institutional programs	1,861,855	1,844,855
Net student loans	2,750,855	2,706,855
Total allowance for doubtful accounts	\$ 4,494,855	4,424,855

**(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 (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.

## UNIVERSITY OF THE SCIENCES IN PHILADELPHIA

### Notes to Financial Statements

June 30, 2017 and 2016

#### **(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.

#### **(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 2017 or 2016.

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, 2017 and 2016, 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

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016, the conditional asset retirement obligation was \$688,001. The liability is recorded as a component of accounts payable and accrued liabilities in the statements of financial position.

**(g) Fundraising**

Institutional support expenses included fundraising costs of \$1,498,247 and \$1,417,870 for the years ended June 30, 2017 and 2016, 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.

**(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, 2017 and 2016, student loans represented 1.1% and 1.5%, respectively, of total assets.

At June 30, student loans consisted of the following:

	<u>2017</u>	<u>2016</u>
Federal government programs, net of cancellations	\$ 4,928,791	5,214,458
Institutional programs	<u>2,558,707</u>	<u>2,651,299</u>
Total programs	<u>7,487,498</u>	<u>7,865,757</u>
Less allowance for doubtful accounts:		
Beginning of year	(2,706,855)	(2,643,855)
Increases	<u>(44,000)</u>	<u>(63,000)</u>
End of year	<u>(2,750,855)</u>	<u>(2,706,855)</u>
Student loans receivable, net	<u>\$ 4,736,643</u>	<u>5,158,902</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.

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Notes to Financial Statements

June 30, 2017 and 2016

At June 30, 2017 and 2016, 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>
2017	\$	1,275	2,489	897,888	901,652
2016	\$	2,315	285	839,078	841,678

**(3) Contributions Receivable**

Contributions receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Contributions receivable in:		
Less than one year	\$ 94,000	369,750
Greater than one year and thereafter	1,694,500	1,693,250
	1,788,500	2,063,000
Less discount to present value	(472,435)	(531,660)
	\$ <u>1,316,065</u>	<u>1,531,340</u>

For the years ended June 30, 2017 and 2016, the University's discount rate was 5%. There was no allowance related to contributions receivable at June 30, 2017 and 2016.

At June 30, 2017 and 2016, 85% and 79% of the contributions receivable were due from one individual.

**(4) Investments**

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

	<u>2017</u>	<u>2016</u>
Money market accounts	\$ 282,206	380,731
Asset class:		
Fixed income	33,644,235	34,290,268
Asset allocation	51,782,018	50,779,905
Domestic equity	24,959,438	25,535,533
International equity	24,155,818	20,992,533
Alternative and limited partnerships	51,114,488	44,895,012
	\$ <u>185,938,203</u>	<u>176,873,982</u>

**UNIVERSITY OF THE SCIENCES IN PHILADELPHIA**

Notes to Financial Statements

June 30, 2017 and 2016

Investment return is summarized as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividend and interest income	\$ 4,229,329	3,915,535
Realized and unrealized losses	16,247,393	(6,837,338)
Investment management fees	<u>(1,346,612)</u>	<u>(1,314,624)</u>
	<u>\$ 19,130,110</u>	<u>(4,236,427)</u>

Investment return is classified in the statement of activities as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operating	\$ 10,080,711	9,530,519
Nonoperating	<u>9,049,399</u>	<u>(13,766,946)</u>
	<u>\$ 19,130,110</u>	<u>(4,236,427)</u>

**(5) Land, Buildings, and Equipment**

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

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 11,328,778	8,517,744
Buildings and improvements	189,632,600	196,752,969
Equipment	18,007,998	25,743,389
Construction in progress	<u>11,344,976</u>	<u>8,502,456</u>
	230,314,352	239,516,558
Less accumulated depreciation	<u>(84,427,677)</u>	<u>(100,091,285)</u>
	<u>\$ 145,886,675</u>	<u>139,425,273</u>

The University recorded depreciation expense of \$6,996,328 and \$8,012,741 for the years ended June 30, 2017 and 2016, respectively.

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**(6) Bonds Payable**

Bonds payable is comprised of the following at June 30:

	<u>2017</u>	<u>2016</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	1,287,312	1,348,613
Series of 2012 net issuance cost	(378,590)	(396,182)
Series of 2015 – 4.0% to 5.0%; maturing 11/1/2033 and 11/1/2036 (b)	87,045,000	89,335,000
Series of 2015 net premium	3,904,168	4,235,724
Series of 2015 net issuance cost	(716,090)	(776,924)
Series of 2017 – 4.0% to 5.0%; maturing 11/1/2048 (c)	62,280,000	—
Series of 2017 net premium	4,408,263	—
Series of 2017 net issuance cost	(814,559)	—
Total bonds payable, net	<u>\$ 188,015,504</u>	<u>124,746,231</u>

- (a) On September 12, 2012, the Pennsylvania Higher Education Facilities Authority, (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 to pay for certain debt issuance costs.
- (c) On April 26, 2017, the Philadelphia Authority for Industrial Development (PAID) issued 2017 tax-exempt bonds totaling \$62,280,000 on behalf of the University. Debt proceeds will be used to fund project expenditures for the construction of a new residence hall and other capital projects, in addition to payments for issuance costs and capitalized interest. Unexpended bond proceeds held by trustee are primarily Construction Funds invested in Level 1 government securities.

All bonds of the University have been issued by PHEFA and PAID. The University is obligated to the PHEFA and PAID. under loan instruments 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, 2017 and 2016.

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

	<u>Maturing</u>	
2018	\$	2,315,000
2019		2,375,000
2020		2,480,000
2021		2,745,000
2022		3,235,000
Thereafter		<u>167,175,000</u>
Total	\$	<u><u>180,325,000</u></u>

**(7) Line of Credit**

As of June 30, 2017 and 2016, 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, 2018. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2017 or 2016.

**(8) Net Assets**

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

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Unallocated	\$ 1,919,825	1,919,875
Designated for:		
Specific purposes, University's and department's	4,082,160	2,943,195
Student loans	2,078,569	3,370,452
Funds functioning as endowment	108,768,164	101,707,623
Future investment in facilities	8,012,151	14,957,073
Net investment in plant	<u>23,114,151</u>	<u>14,687,317</u>
	\$ <u><u>147,975,020</u></u>	<u><u>139,585,535</u></u>

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	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets:		
Purpose restrictions for instruction, scholarships and capital expenditures	\$ 4,064,896	5,322,159
Endowment earnings in excess of spending policy	10,521,093	8,713,884
Annuities	<u>72,318</u>	<u>89,844</u>
	<u>\$ 14,658,307</u>	<u>14,125,887</u>
Permanently restricted net assets:		
Student loans	\$ 201,763	109,106
Endowment for:		
General operations	8,799,153	8,829,521
Research	7,891,972	7,925,769
Student/Academic support	1,614,169	1,573,984
Instruction	8,378,061	8,553,735
Scholarships	21,740,263	21,265,213
Annuities (endowment)	<u>672</u>	<u>1,975</u>
	<u>\$ 48,626,053</u>	<u>48,259,303</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 \$147,435 and \$133,832 at June 30, 2017 and 2016 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 or published 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

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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.

#### **(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).

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*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.

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, and indicates the fair value hierarchy of the valuation techniques utilized by the University to determine such fair value.

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Beneficial interest in trusts	\$ —	—	547,914	—	547,914
Unexpended bond proceeds held by trustee	65,242,980	—	—	—	65,242,980
Investments:					
Money market accounts	282,206	—	—	—	282,206
Asset class:					
Fixed income	33,644,235	—	—	—	33,644,235
Asset allocation	44,548,691	—	—	7,233,327	51,782,018
Domestic equity	24,959,438	—	—	—	24,959,438
International equity	24,155,818	—	—	—	24,155,818
Alternative and limited partnerships:					
Private equity	—	—	—	15,602,604	15,602,604
Hedge	—	—	—	17,951,603	17,951,603
Inflation hedge	—	—	—	8,375,330	8,375,330
Absolute	—	—	—	9,184,951	9,184,951
Total investments	<u>127,590,388</u>	<u>—</u>	<u>—</u>	<u>58,347,815</u>	<u>185,938,203</u>
Total assets	\$ <u>192,833,368</u>	<u>—</u>	<u>547,914</u>	<u>58,347,815</u>	<u>251,729,097</u>

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<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
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>

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, 2017 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)	\$ 7,233,327	—	annually	14 days
Alternative private equity (b)	15,602,604	6,465,987	n/a	n/a
Alternative hedge (c)	8,849,253	—	quarterly	70 days
Alternative hedge (d)	9,102,350	—	annually	90 days
Alternative inflation hedge (e)	8,375,330	—	monthly	8–10 days
Alternative absolute (f)	<u>9,184,951</u>	<u>—</u>	semi – annually	100 days before March 31
	\$ <u>58,347,815</u>	<u>6,465,987</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.

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- (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.
- (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.

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." \$667,842 and \$1,623,119 were underwater as of June 30, 2017 and 2016, respectively. For the year ended June 30, 2017 \$955,277 of the previous charge to unrestricted net assets was recovered.

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#### **(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 5.7% and 5.8%, respectively, for the years ended June 30, 2017 and 2016. 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 5.6% draw for the upcoming June 30, 2018 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.

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**(f) Endowment and Similar Fund Activity**

	<b>June 30, 2017</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Net assets, beginning of year	\$ 101,707,623	8,803,728	48,150,197	158,661,548
Investment return	12,350,518	5,454,479	—	17,804,997
Appropriation of endowment assets for operations (draw)	(6,245,265)	(2,754,735)	—	(9,000,000)
Contributions	—	—	242,886	242,886
Other changes	955,288	(910,061)	31,207	76,434
Net assets, end of year	<u>\$ 108,768,164</u>	<u>10,593,411</u>	<u>48,424,290</u>	<u>167,785,865</u>
June 30, 2017:				
Donor-restricted endowment funds	\$ (667,842)	10,593,411	48,424,290	58,349,859
Board-designated funds	109,436,006	—	—	109,436,006
	<u>\$ 108,768,164</u>	<u>10,593,411</u>	<u>48,424,290</u>	<u>167,785,865</u>
	<b>June 30, 2016</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Net assets, beginning of year	\$ 112,710,354	11,880,526	44,023,209	168,614,089
Investment return	(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	103,330,742	—	—	103,330,742
	<u>\$ 101,707,623</u>	<u>8,803,728</u>	<u>48,150,197</u>	<u>158,661,548</u>

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**(12) Operating Expenses**

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

	<u>2017</u>	<u>2016</u>
Compensation:		
Salaries	\$ 42,946,057	41,125,582
Employee benefits	<u>11,858,575</u>	<u>10,985,702</u>
Total compensation	<u>54,804,632</u>	<u>52,111,284</u>
Other expenses:		
Advertising and marketing	2,454,225	2,423,605
Clinical fees	1,013,548	943,472
Computer equipment and software	324,003	338,182
Consulting	1,522,466	2,102,165
Depreciation of buildings and equipment	6,996,328	8,012,741
Interest on indebtedness	4,990,682	4,884,993
Management contracts	382,523	357,229
Office expenses	1,896,661	1,959,334
Printing	227,627	254,071
Reference materials	935,426	695,099
Rental property and equipment lease	1,579,261	1,860,118
Scholarships	167,056	399,259
Service contracts	5,741,710	4,053,979
Utilities	2,146,330	2,200,587
Other supplies and expenses	<u>8,541,238</u>	<u>8,958,798</u>
Total other expenses	<u>38,919,084</u>	<u>39,443,632</u>
Total operating expenses	<u>\$ 93,723,716</u>	<u>91,554,916</u>

**(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, 2017 and 2016. Pension expense was \$2,763,495 and \$2,612,486 in 2017 and 2016, respectively.

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#### (14) Related Party Transactions

During the year ended June 30, 2017, 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 \$519,067 and \$345,081, including pledge payments for the years ended June 30, 2017 and 2016, respectively.

#### (15) Commitments and Contingencies

The University has noncancelable operating leases ending in 2018 through 2029 for certain facilities and equipment. Rent expense under these agreements totaled \$1,446,068 in 2017 and \$1,668,464 in 2016. Future minimum lease payments are as follows:

2018	\$	1,211,785
2019		951,165
2020		597,119
2021		424,986
2022		422,236
Thereafter		734,541

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, 2017.

As of June 30, 2017, the University has a contractual commitment with a construction company for \$41.9 million to complete the construction of a new student housing building that is being funded from bond proceeds.

#### (16) Subsequent Events

The University evaluated its June 30, 2017 financial statements for subsequent events through November 17, 2017, 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.