Financial Statements and Report of
Independent Certified Public Accountants

University of the Sciences in Philadelphia

June 30, 2018 and 2017

Contents

Grant Thornton LLP
Two Commerce Square
2001 Market St., Suite 700
Philadelphia, PA 19103

T 215.561.4200
F 215.561.1066
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

The Board of Trustees
University of the Sciences in Philadelphia

Report on the financial statements

We have audited the accompanying financial statements of the University of the Sciences in Philadelphia (the University), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University'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 University'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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter
The accompanying summarized comparative information as of and for the year ended June 30, 2017 was derived from financial statements audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 financial statements in their report dated November 17, 2017. We do not express an opinion or any other form of assurance on the accompanying summarized comparative information.

Grant Thornton LLP

Philadelphia, Pennsylvania

November 19, 2018

University of the Sciences in Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

	2018	2017
ASSETS		
Cash and cash equivalents	$ 8,289,448	$ 17,032,171
Receivables, net		
Student accounts	3,147,955	2,692,360
Student loans	4,537,032	4,736,643
Government	1,730,576	2,934,986
Contributions	1,366,168	1,316,065
Other	496,213	972,180
Prepaid expenses and other current assets	1,572,097	1,739,170
Investments	191,651,753	185,938,203
Beneficial interest in trusts	551,055	547,914
Unexpended bond proceeds held by trustee	43,468,686	65,242,980
Land, buildings, and equipment, net	175,694,795	145,886,675
TOTAL ASSETS	$ 432,505,778	$ 429,039,347
LIABILITIES		
Accounts payable and accrued liabilities	$ 15,591,503	$ 11,572,381
Tuition deposits and deferred revenue	10,128,223	12,528,903
Annuity liabilities	162,824	160,960
Other liabilities	199,736	184,462
Refundable government grants and loans	3,642,063	5,317,757
Bonds payable, net	185,306,574	188,015,504
TOTAL LIABILITIES	215,030,923	217,779,967
NET ASSETS		
Unrestricted	152,673,655	147,975,020
Temporarily restricted	15,856,986	14,658,307
Permanently restricted	48,944,214	48,626,053
TOTAL NET ASSETS	217,474,855	211,259,380
TOTAL LIABILITIES AND NET ASSETS	$ 432,505,778	$ 429,039,347

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

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES

For the year ended June 30, 2018
(with comparative totals for year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2017 Total
OPERATING REVENUE					
Tuition and fees - gross	$ 98,449,338	$ -	$ -	$ 98,449,338	$ 102,501,831
Less direct grants and allowances	(30,717,156)	-	-	(30,717,156)	(30,073,587)
Tuition and fees, net	67,732,182	-	-	67,732,182	72,428,244
Government grants	2,061,046	-	-	2,061,046	1,894,186
Investment income including endowments payout of $9,000,000 in both 2018 and 2017	10,984,721	-	-	10,984,721	10,080,711
Educational departments	215,307	-	-	215,307	90,933
Private gifts and grants	3,144,443	-	-	3,144,443	3,425,698
Auxiliary services	8,155,995	-	-	8,155,995	8,106,789
Other	478,950	-	-	478,950	431,530
Total operating revenue	92,772,644	-	-	92,772,644	96,458,091
OPERATING EXPENSES					
Instruction	38,815,003	-	-	38,815,003	41,343,204
Research	4,891,368	-	-	4,891,368	4,859,266
Academic support	9,394,549	-	-	9,394,549	9,604,136
Student services	17,846,719	-	-	17,846,719	17,978,778
Institutional support	14,060,433	-	-	14,060,433	13,815,802
Scholarships	279,693	-	-	279,693	167,056
Auxiliary enterprises	5,780,232	-	-	5,780,232	5,955,474
Total operating expenses	91,067,997	-	-	91,067,997	93,723,716
Change in net assets from operating activities	1,704,647	-	-	1,704,647	2,734,375
NON-OPERATING					
Contributions restricted for long-term investments	-	511,995	292,027	804,022	242,886
Net gain on long-term investments after endowment payout of $9,000,000 in both 2018 and 2017	2,552,367	1,152,864	-	3,705,231	8,805,001
Investment income	-	-	26,806	26,806	244,398
Annuity adjustment	-	(22,969)	(2,262)	(25,231)	49,757
Postretirement benefit related changes other than net periodic postretirement cost	-	-	-	-	(13,603)
Other	391,667	(393,257)	1,590	-	(2,774,159)
Net assets released from restrictions	49,954	(49,954)	-	-	-
Total non-operating	2,993,988	1,198,679	318,161	4,510,828	6,554,280
CHANGE IN NET ASSETS	4,698,635	1,198,679	318,161	6,215,475	9,288,655
NET ASSETS - beginning of year	147,975,020	14,658,307	48,626,053	211,259,380	201,970,725
NET ASSETS - end of year	$ 152,673,655	$ 15,856,986	$ 48,944,214	$ 217,474,855	$ 211,259,380

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

University of the Sciences in Philadelphia

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees - gross	$ 102,501,831	$ -	$ -	$ 102,501,831
Less direct grants and allowances	(30,073,587)	-	-	(30,073,587)
Tuition and fees, net	72,428,244	-	-	72,428,244
Government grants	1,894,186	-	-	1,894,186
Investment income including endowments payout of $9,000,000	10,080,711	-	-	10,080,711
Educational departments	90,933	-	-	90,933
Private gifts and grants	3,425,698	-	-	3,425,698
Auxiliary services	8,106,789	-	-	8,106,789
Other	431,530	-	-	431,530
Total operating revenue	96,458,091	-	-	96,458,091
OPERATING EXPENSES				
Instruction	41,343,204	-	-	41,343,204
Research	4,859,266	-	-	4,859,266
Academic support	9,604,136	-	-	9,604,136
Student services	17,978,778	-	-	17,978,778
Institutional support	13,815,802	-	-	13,815,802
Scholarships	167,056	-	-	167,056
Auxiliary enterprises	5,955,474	-	-	5,955,474
Total operating expenses	93,723,716	-	-	93,723,716
Change in net assets from operating activities	2,734,375	-	-	2,734,375
NON-OPERATING				
Contributions restricted for long-term investments	-	-	242,886	242,886
Net gain (loss) on long-term investments after endowment payout of $9,000,000	7,060,492	1,804,157	(59,648)	8,805,001
Investment income	-	125,062	119,336	244,398
Annuity adjustment	-	(14,419)	64,176	49,757
Postretirement benefit related changes other than net periodic postretirement cost	(13,603)	-	-	(13,603)
Other	(2,774,159)	-	-	(2,774,159)
Net assets released from restrictions	1,382,380	(1,382,380)	-	-
Total non-operating	5,655,110	532,420	366,750	6,554,280
CHANGE IN NET ASSETS	8,389,485	532,420	366,750	9,288,655
NET ASSETS - beginning of year	139,585,535	14,125,887	48,259,303	201,970,725
NET ASSETS - end of year	$ 147,975,020	$ 14,658,307	$ 48,626,053	$ 211,259,380

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

University of the Sciences in Philadelphia

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,215,475	$ 9,288,655
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	7,367,174	7,079,899
Contributions restricted for long-term investments	(804,022)	(242,886)
Net gain on long-term investments	(9,885,346)	(16,247,390)
Net loss on disposal of property and equipment	-	409,987
Cancellations and allowance for student loans	5,148	58,899
Amortization of bond premium	(553,980)	-
Changes in operating assets and liabilities:		
Change in fair value of beneficial interest in trust	(3,141)	(26,702)
Student accounts receivable	(455,595)	(131,408)
Government receivables	1,204,410	(1,127,690)
Contributions receivable	(50,103)	215,275
Other receivables	475,967	(749,008)
Accounts payable and accrued liabilities	(439,140)	3,478,048
Tuition deposits and deferred revenue	(2,400,680)	1,332,380
Prepaid expenses and other current assets	167,073	(411,565)
Annuity liabilities	1,864	(64,931)
Other liabilities	15,274	(23,645)
Net cash provided by operating activities	860,378	2,837,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	23,536,062	15,273,779
Purchase of investments	(19,364,266)	(8,090,610)
Disbursements for loans to students	(623,684)	(447,642)
Accrued interest from loans to students	(12,638)	(17,626)
Repayment of loans by students	830,785	828,628
Purchase of property and equipment	(32,556,982)	(13,622,031)
Net cash used in investing activities	(28,190,723)	(6,075,502)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investments	804,022	242,886
Proceeds from bond issuance	-	66,290,261
Deposit of (use of) bond proceeds held by trustee	21,774,294	(64,959,526)
Payment for debt issuance costs	-	(814,559)
Refundable government grants and loans	(1,675,694)	(109,587)
Repayment of bonds	(2,315,000)	(2,290,000)
Net cash provided by (used in) financing activities	18,587,622	(1,640,525)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,742,723)	(4,878,109)
CASH AND CASH EQUIVALENTS - beginning of year	17,032,171	21,910,280
CASH AND CASH EQUIVALENTS - end of year	$ 8,289,448	$ 17,032,171
Supplemental disclosure of cash flow information - non-cash investing activities		
Accrued purchases of property and equipment	$ 4,457,263	$ 245,686
Cash paid for interest	$ 8,285,435	$ 5,266,904

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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

Effective July 1, 2018, after an extensive review and as approved by the Board of Trustees, the Mayes College of Healthcare Business and Policy was discontinued and the deans of the other colleges have responsibility for oversight of their related degree programs, in conjunction with the Office of the Provost.

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, 2018, the University enrolled 2,359 students, which is equivalent to 2,231 full-time students, or 1,263 undergraduate and first degree students plus 968 graduates and other program majors. The undergraduate classes' primary areas of study are doctor of pharmacy at 35% and physical therapy at 15%.

2. Basis of Presentation

The financial statements of the University, which are presented on the accrual basis of accounting, 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 investment return 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 investment return on permanently restricted endowments 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. 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.

4. 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.

5. Unexpended Bond Proceeds Held by Trustee

Unexpended bond proceeds held by trustee 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 J.

6. 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 funds, private equity, real estate, and other investments, are based on the reported net asset value (NAV) per share as reported by the investment manager, as a practical expedient as of June 30, 2018 and 2017. 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 have not been recognized in the fair value hierarchy as described in Note J.

7. 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 J 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Contributions

Contributions received, including unconditional promises, are recognized as revenues when the donor's commitment has been received. Unconditional contributions to be received after one year are discounted at an appropriate discount rate commensurate with market rates at the time of the contributed pledge. Amortization of discounts is recorded as additional contribution revenue. 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.

9. 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, 2018 and 2017, the allowance for doubtful accounts was $4,633,855 ($1,894,000 for student accounts and $2,739,855 for student loans) and $4,494,855 ($1,744,000 for student accounts and $2,750,855 for student loans), respectively.

10. 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.

11. 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.

12. Allocation of Certain Expenses

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

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

14. Non-operating Activities

Non-operating 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 non-operating revenue or expense.

15. 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 the years ended June 30, 2018 and 2017.

Management evaluates tax positions taken by the University and recognizes 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. As of June 30, 2018 and 2017, 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. The statute of limitations on the University's U.S. federal information returns remains open for three years following the year they are filed.

16. 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, 2018 and 2017, 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.

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Fundraising

Institutional support expenses included fundraising costs of $1,092,339 and $1,498,247 for the years ended June 30, 2018 and 2017, 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.

18. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. The University is currently evaluating the impact that the standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The University is currently assessing the impact of this guidance on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The University is currently assessing the impact of this guidance on its financial statements.

19. Reclassifications

Certain prior year amounts have been reclassified in the accompanying financial statements to conform to the current year presentation.

NOTE B - 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.

(Continued)

NOTE B - STUDENT LOANS RECEIVABLE - Continued

At June 30, student loans consisted of the following:

	2018	2017
Federal government programs	$ 4,890,709	$ 4,928,791
Institutional programs	2,386,178	2,558,707
Total programs	7,276,887	7,487,498
Beginning of year, allowance for doubtful accounts	(2,750,855)	(2,706,855)
Increases (decreases)	11,000	(44,000)
End of year, allowance for doubtful accounts	(2,739,855)	(2,750,855)
Student loans receivable, net	$ 4,537,032	$ 4,736,643

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, 2018 and 2017, the following amounts were past due under federal student loan programs:

	1–60 days past due	60–90 days past due	90+ days past due	Total past due
2018	$ 1,298	$ 1,940	$ 943,621	$ 946,859
2017	1,275	2,489	897,888	901,652

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	2018	2017
Contributions receivable in:		
Less than one year	$ 152,880	$ 94,000
Greater than one year and thereafter	1,708,000	1,694,500
	1,860,880	1,788,500
Less discount to present value	(494,712)	(472,435)
	$ 1,366,168	$ 1,316,065

For the years ended June 30, 2018 and 2017, the University's discount rate was 3%. There was no allowance related to contributions receivable at June 30, 2018 and 2017. At both June 30, 2018 and 2017, 85% of the contributions receivable were due from one individual.

NOTE D - INVESTMENTS

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

	2018	2017
Money market accounts	$ 8,925,478	$ 282,206
Asset class:		
Fixed income	29,937,793	33,644,235
Asset allocation	48,566,333	51,782,018
Domestic equity	26,027,555	24,959,438
International equity	22,060,619	24,155,818
Alternative investments and limited partnerships	56,133,975	51,114,488
	$ 191,651,753	$ 185,938,203

Investment return is summarized as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Dividend and interest income	$ 6,205,244	$ 4,229,329
Realized and unrealized gains	9,885,346	16,247,393
Investment management fees	(1,373,832)	(1,346,612)
	$ 14,716,758	$ 19,130,110

(Continued)

NOTE D - INVESTMENTS - Continued

Investment return is classified in the statements of activities as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Operating	$ 10,984,721	$ 10,080,711
Non-operating	3,732,037	9,049,399
	$ 14,716,758	$ 19,130,110

NOTE E - LAND, BUILDINGS, AND EQUIPMENT

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

	2018	2017
Land and improvements	$ 8,839,653	$ 11,328,778
Buildings and improvements	182,245,145	189,632,600
Equipment	17,909,480	18,007,998
Construction in progress	38,096,347	11,344,976
	247,090,625	230,314,352
Less accumulated depreciation	(71,395,830)	(84,427,677)
	$ 175,694,795	$ 145,886,675

The University recorded depreciation expense of $7,207,125 and $6,996,328 for the years ended June 30, 2018 and 2017, respectively.

NOTE F - BONDS PAYABLE

Bonds payable is comprised of the following at June 30:

	2018	2017
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	1,226,011	1,287,312
Series of 2012 net issuance cost	(360,999)	(378,590)
Series of 2015 - 4.0% to 5.0%; maturing 11/1/2033 and 11/1/2036 (b)	84,730,000	87,045,000
Series of 2015 net premium	3,575,271	3,904,168
Series of 2015 net issuance cost	(655,771)	(716,090)
Series of 2017 - 4.0% to 5.0%; maturing 11/1/2048 (c)	62,280,000	62,280,000
Series of 2017 net premium	4,244,482	4,408,263
Series of 2017 net issuance cost	(732,420)	(814,559)
Total bonds payable, net	$ 185,306,574	$ 188,015,504

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.

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, 2018 and 2017.

(Continued)

NOTE F - BONDS PAYABLE - Continued

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

Year ending June 30,	
2019	$ 2,375,000
2020	2,480,000
2021	2,745,000
2022	3,235,000
2023	3,395,000
Thereafter	163,780,000
	$ 178,010,000

NOTE G - LINE OF CREDIT

As of June 30, 2018 and 2017, 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, 2019. There is no specific amount required for compensating balance and no outstanding liability as of June 30, 2018 or 2017.

NOTE H - NET ASSETS

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

	2018	2017
Unrestricted net assets:		
Unallocated	$ 1,919,825	$ 1,919,825
Designated for:		
Specific purposes, University's and department's	4,240,812	4,082,160
Student loans	2,185,519	2,078,569
Funds functioning as endowment	111,712,197	108,768,164
Future investment in facilities	3,215,659	8,012,151
Net investment in plant	29,399,643	23,114,151
	$ 152,673,655	$ 147,975,020

(Continued)

NOTE H - NET ASSETS - Continued

	2018	2017
Temporarily restricted net assets:		
Purpose restrictions for instruction, scholarships and capital expenditures	$ 4,526,938	$ 4,064,896
Endowment earnings in excess of spending policy	11,255,518	10,521,093
Annuities	74,530	72,318
	$ 15,856,986	$ 14,658,307
Permanently restricted net assets:		
Student loans	$ 204,192	$ 201,763
Endowment for:		
General operations	8,766,625	8,799,153
Research	7,967,978	7,891,972
Student/Academic support	1,658,247	1,614,169
Instruction	8,629,402	8,378,061
Scholarships	21,717,770	21,740,263
Annuities (endowment)	-	672
	$ 48,944,214	$ 48,626,053

NOTE I - 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 at both June 30, 2018 and 2017 for its postretirement benefit plans in the statements of financial position. Since their primary assumption and underlying structure remain stable, the University evaluates this every three years. The last evaluation was completed in 2017.

NOTE J - 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.

(Continued)

NOTE J - FAIR VALUE MEASUREMENTS - Continued

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

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.

1. 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.

2. 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.

(Continued)

NOTE J - FAIR VALUE MEASUREMENTS - Continued

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.

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2018 and 2017, and indicate the fair value hierarchy of the valuation techniques utilized by the University to determine such fair value.

June 30, 2018	Level 1	Level 2	Level 3	NAV	Total
Beneficial interest in trusts	$ -	$ -	$ 551,055	$ -	$ 551,055
Unexpended bond proceeds held by trustee	43,468,686	-	-	-	43,468,686
Investments:					
Money market accounts	8,925,478	-	-	-	8,925,478
Asset class:					
Fixed income	29,937,793	-	-	-	29,937,793
Asset allocation	-	-	-	48,566,333	48,566,333
Domestic equity	26,027,555	-	-	-	26,027,555
International equity	22,060,619	-	-	-	22,060,619
Alternative and limited partnerships:					
Private equity	-	-	-	18,204,121	18,204,121
Hedge	-	-	-	19,616,432	19,616,432
Inflation hedge	-	-	-	8,925,283	8,925,283
Absolute	-	-	-	9,388,139	9,388,139
Total investments	86,951,445	-	-	104,700,308	191,651,753
Total assets	$ 130,420,131	$ -	$ 551,055	$ 104,700,308	$ 235,671,494

(Continued)

NOTE J - FAIR VALUE MEASUREMENTS - Continued

June 30, 2017	Level 1	Level 2	Level 3	NAV	Total
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	-	-	-	51,782,018	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	83,041,697	-	-	102,896,506	185,938,203
Total assets	$ 148,284,677	$ -	$ 547,914	$ 102,896,506	$ 251,729,097

The following table represents the fair value measurements of investments in certain entities that calculate NAV per share (or its equivalent) as of June 30, 2018 and the University's ability to redeem these investment funds as follows:

	NAV	Unfunded commitments	Redemption frequency	Redemption notice period
Asset allocation (a)	$ 25,196,558	$ -	monthly	14 days
Asset allocation (a)	23,369,775	-	n/a	n/a
Alternative private equity (b)	18,204,121	5,791,524	n/a	n/a
Alternative hedge (c)	9,484,092	-	quarterly	70 days
Alternative hedge (d)	10,132,340	-	annually	90 days
Alternative inflation hedge (e)	8,925,283	-	monthly	8–10 days
Alternative absolute (f)	9,388,139	-	semi-annually	100 days before March 31
	$ 104,700,308	$ 5,791,524		

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.

NOTE J - FAIR VALUE MEASUREMENTS - Continued

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.

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.

NOTE K - 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.

1. <u>Interpretation of Relevant Law</u>

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, 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.

(Continued)

NOTE K - ENDOWMENTS - Continued

2. 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." $276,176 and $667,842 were underwater as of June 30, 2018 and 2017, respectively. For the year ended June 30, 2018, $391,666 of the previous charge to unrestricted net assets was recovered.

3. 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.

4. 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 5.6% and 5.7%, respectively, for the years ended June 30, 2018 and 2017. 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 5.5% draw for the upcoming June 30, 2019 fiscal year.

5. 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.

(Continued)

NOTE K - ENDOWMENTS - Continued

6. Endowment and Similar Fund Activity

	June 30, 2018			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, beginning of year	$ 108,768,164	$ 10,593,411	$ 48,424,290	$ 167,785,865
Investment return	8,757,326	3,947,905	-	12,705,231
Appropriation of endowment assets for operations (draw)	(6,204,958)	(2,795,042)	-	(9,000,000)
Contributions	-	-	292,027	292,027
Other changes	391,668	(416,226)	23,704	(854)
Net assets, end of year	$ 111,712,200	$ 11,330,048	$ 48,740,021	$ 171,782,269
June 30, 2018				
Donor-restricted endowment funds	$ (276,176)	$ 11,330,048	$ 48,740,021	$ 59,793,893
Board-designated funds	111,988,376	-	-	111,988,376
	$ 111,712,200	$ 11,330,048	$ 48,740,021	$ 171,782,269

	June 30, 2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	$ 108,768,164	$ 10,593,411	$ 48,424,290	$ 167,785,865
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
	$ 108,768,164	$ 10,593,411	$ 48,424,290	$ 167,785,865

NOTE L - OPERATING EXPENSES

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

	2018	2017
Compensation:		
Salaries	$ 39,038,477	$ 42,946,057
Employee benefits	10,305,139	11,858,575
Total compensation	49,343,616	54,804,632
Other expenses:		
Advertising and marketing	2,550,287	2,454,225
Clinical fees	959,255	1,013,548
Computer equipment and software	304,445	324,003
Consulting	1,568,199	1,522,466
Depreciation of buildings and equipment	7,207,125	6,996,328
Interest on indebtedness	4,961,795	4,990,682
Management contracts	362,169	382,523
Office expenses	1,868,541	1,896,661
Printing	252,369	227,627
Reference materials	1,054,538	935,426
Rental property and equipment lease	1,375,969	1,579,261
Scholarships	277,693	167,056
Service contracts	7,911,480	5,741,710
Utilities	2,281,342	2,146,330
Other supplies and expenses	8,789,174	8,541,238
Total other expenses	41,724,381	38,919,084
Total operating expenses	$ 91,067,997	$ 93,723,716

NOTE M - 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, 2018 and 2017. Pension expense was $2,541,410 and $2,763,495 in 2018 and 2017, respectively.

NOTE N - 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 $596,217 and $519,067, including pledge payments for the years ended June 30, 2018 and 2017, respectively.

NOTE O - COMMITMENTS AND CONTINGENCIES

The University has non-cancelable operating leases ending in 2018 through 2029 for certain facilities and equipment. Rent expense under these agreements totaled $1,216,105 in 2018 and $1,446,068 in 2017. Future minimum lease payments are as follows:

Year ending June 30,	
2019	$ 686,041
2020	351,157
2021	177,907
2022	131,428
2023	57,447
Thereafter	190,676
	$ 1,594,656

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, 2018.

As of June 30, 2018, the University has a contractual commitment with a construction company for approximately $28 million to complete the construction of a new student housing building that is being funded from bond proceeds.

NOTE P - SUBSEQUENT EVENTS

The University evaluated its June 30, 2018 financial statements for subsequent events through November 19, 2018, 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.