

**NOTES TO FINANCIAL STATEMENTS  
UNIVERSITY OF THE SCIENCES IN PHILADELPHIA  
JUNE 30, 2001**

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Founded in 1821, the University of the Sciences in Philadelphia (the "University"), (formerly know as Philadelphia College of Pharmacy & Science) is a non-profit independent institution of higher education with a commitment to excellence in teaching, research and service. In 1997 the Commonwealth of Pennsylvania granted university status and in recognition of this event the name changed to the University of the Sciences in Philadelphia on July 1, 1998. As the University of the Sciences in Philadelphia, the institution consists of the following four colleges:

- Philadelphia College of Pharmacy
- College of Health Sciences
- Misher College of Arts and Science
- College of Graduate Studies

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

The University has enrolled approximately 2,262 students, which is equivalent to 2,117 full-time students or 2,019 undergraduates and first-degree students plus 98 graduates and other program majors. The undergraduate class's primary areas of study are doctor of pharmacy at 63%, and physical therapy at 12%.

**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 asset categories reflected in the accompanying financial statements are as follows:

**Unrestricted:** Net assets, which are free of donor-imposed restrictions. This includes all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets. This category includes realized and unrealized gains on quasi-endowment investments.

**Temporarily Restricted:** Net assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. This category includes realized and unrealized gains on permanently restricted endowment and other long-term investments that are in excess of the Board of Trustee's approved spending rule. Temporarily restricted net assets, which are received and used within the same year, are reported as unrestricted.

**Permanently Restricted:** Net assets whose use by the University is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University.

**Non-operating activities** reflect transactions of a long-term investment or capital nature including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future, contributions to be used for facilities and equipment and unrealized investment gains or losses. Realized gains in excess of the University's spending policy for operations are recorded as non-operating revenue.

## **NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)**

### **Tuition and Fees**

The University maintains a policy of offering qualified applicants admission without regard to financial circumstance. 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 and other merit-based direct grants.

### **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. Conditional promises whose restrictions are met in the same year as the contributions have been recorded as unconditional promises. Promises of non-cash assets are recorded at their fair value. Conditional promises are recorded when donor stipulations are substantially met.

### **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.

### **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, while short-term investments reflect liquid investments with a maturity date in excess of 90 days.

### **Concentration of Credit Risk**

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

### **Financial Instruments**

The University records investments at market value. The fair value of cash and cash equivalents, short-term investments, investments, and long-term debt in the aggregate approximate their respective carrying amounts. The fair value of short-term investments and investments are based on the quoted market price of the underlying securities; the fair value of long-term debt is estimated based primarily on quoted market prices of similar bonds and currently offered mortgage interest rates.

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with the U.S. government mandated interest rates and repayment terms and subject to significant transfer of disposition restrictions, could not be made without incurring excessive costs.

### **Funds Held in Trust by Others**

Funds held in trust by others represent resources neither in the possession nor under the control of the University, but paid and administered by outside trustees, with the University deriving income or a residual interest from the assets of such funds. Funds held in trust by others are recognized at the estimated

## NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

### Land, Buildings and Equipment

Plant assets are stated at cost. Contributed assets, which are used for operations, are stated at fair market value as of the date acquired. The University also maintains a museum dedicated to pharmacy and health sciences. The value of the items contributed to the museum collection has not been capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the buildings (40-60 years), equipment (15-25 years) and library books and periodicals (10 years).

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

### Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 University had provided allowances for doubtful accounts for student accounts receivable and student loans, of \$1,101,000 and \$1,097,000 as of June 30, 2001 and 2000 respectively.

### Reclassification

Certain amounts in the prior year have been reclassified to be consistent with current year financial statement presentation.

## NOTE 2--NET ASSETS

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

	<u>2001</u>	<u>2000</u>
Unrestricted net assets:		
Unallocated	\$1,919,825	\$1,919,825
Designated for:		
Specific purposes, University's and department's	564,264	242,421
Student loans	1,738,250	1,703,204
Funds functioning as endowment	66,732,717	73,550,585
Future investment in facilities	12,324,175	11,787,460
Long-term investment in facilities	<u>12,877,627</u>	<u>12,172,627</u>
	<u>\$96,156,858</u>	<u>\$101,376,122</u>
Temporarily restricted net assets:		
Unexpended income for instruction, scholarships and		
Capital expenditures	\$1,296,931	\$1,278,009
Endowment	5,664,615	7,723,550
Annuities and unitrust	171,008	186,156
Long-term investment in facilities	<u>139,396</u>	<u>96,539</u>
	<u>\$7,271,950</u>	<u>\$9,284,254</u>
Permanently restricted net assets:		
Student loans	\$265,634	\$267,978
Endowment	12,819,933	11,924,035
Annuities	<u>149,569</u>	<u>134,564</u>
	<u>\$13,235,136</u>	<u>\$12,336,577</u>

### NOTE 3--CONTRIBUTIONS RECEIVABLE

Contribution receivable consisted of the following at June 30:

	<u>2001</u>	<u>2000</u>
Contributions receivable in:		
Less than one year	\$ 55,000	\$ 62,775
One to five years	<u>110,000</u>	<u>149,230</u>
	165,000	212,005
Less discount to present value (5%)	<u>(8,085)</u>	<u>(14,226)</u>
	<u>\$156,915</u>	<u>\$197,779</u>

### NOTE 4--INVESTMENTS

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

	<u>2001</u>		<u>2000</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Money market accounts	\$1,686,295	\$1,686,295	\$2,666,517	\$2,666,517
US Government and Agencies	-	-	1,370,238	1,370,902
Corporate and other bonds	582,932	597,451	561,503	636,098
Fixed income mutual fund	31,700,143	32,037,813	29,257,704	30,622,182
Common stocks	42,669,066	35,888,679	47,520,629	38,989,746
International mutual fund	9,252,990	8,693,549	11,775,912	7,619,160
Real estate limited partnership	<u>453,600</u>	<u>453,600</u>	-	-
	<u>\$86,345,026</u>	<u>\$79,357,406</u>	<u>\$93,152,503</u>	<u>\$81,904,605</u>

The University's investment in the real estate limited partnership is carried at cost.

For the fiscal years ended June 30, 2001 and 2000, the University incurred \$265,086 and \$196,892 respectively in advisory and custodial fees for these investments. These fees have been netted against investment income in the Statement of Activities.

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. For fiscal years ending June 30, 2001 and 2000 the income was based on a spending rate of 5.50% of the three year trailing average market value of the related assets.

### NOTE 5--LAND, BUILDINGS AND EQUIPMENT

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

	<u>2001</u>	<u>2000</u>
Land and improvements	\$4,254,836	\$4,081,130
Buildings and improvements	59,737,507	56,518,021
Construction in progress	1,423,444	1,393,578
Equipment	9,410,837	8,773,823
Library books	<u>4,062,740</u>	<u>4,062,740</u>
	78,889,364	74,829,292
Less-accumulated depreciation	<u>(37,756,715)</u>	<u>( 34,843,312)</u>
	<u>\$41,132,649</u>	<u>\$39,985,980</u>

## NOTE 6--PENSION 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 contributes 10% of each participant's annual compensation. Pension expense was \$1,629,054 and \$1,475,890 in 2001 and 2000, respectively.

## NOTE 7--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. In 1998, the University adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," (SFAS No. 132) which revises and standardizes employers' disclosures about pension and other postretirement benefit plans but does not change the measurement or recognition of those plans. The adoption of SFAS No. 132 did not affect the University's financial condition or results of operations.

### A. Reconciliation of Benefit Obligation and Plan Assets

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>
Change in benefit obligation		
Benefit obligation at June 30 of the prior year	\$787,000	\$827,000
Service Cost	48,000	41,000
Interest cost	63,000	57,000
Plan participants' contributions	10,000	43,000
Actuarial (gain) loss	56,000	(100,000)
Benefit paid	<u>(43,000)</u>	<u>(81,000)</u>
Benefit obligation at end of year	<u>\$921,000</u>	<u>\$787,000</u>
Change in plan assets		
Employer contribution	\$30,000	\$38,000
Plan participants' contribution	10,000	43,000
Benefits paid	<u>(43,000)</u>	<u>(81,000)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>

### B. Funded Status Reconciliation and Key Assumptions

Reconciliation of funded status		
Funded Status	\$(921,000)	\$(787,000)
Unrecognized net actuarial loss	<u>148,000</u>	<u>93,000</u>
Accrued benefit cost	<u>\$(773,000)</u>	<u>\$(694,000)</u>
Weighted-average assumptions as of end of year		
Discount rate	7.5%	8.0%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

**NOTE 7--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - (continued)**

The assumed health care cost trend rate of the 2001 fiscal year is 9%. This rate was assumed to decrease gradually to 5.5% over the next six years and remain at that level thereafter.

C. SFAS No. 87/106 Net Periodic Benefit Expense (Income)

	<u>Fiscal 2001</u>	<u>Fiscal 2000</u>
Service cost	\$48,000	\$41,000
Interest cost	63,000	57,000
Expected return on plan assets	-	-
Amortization of prior service cost and of transition obligation	-	-
Amortization of net actuarial loss	<u>1,000</u>	<u>5,000</u>
Net periodic benefit cost	<u>\$112,000</u>	<u>\$103,000</u>

D. Sensitivity Analysis, Postretirement Benefits

The sensitivity to +1% and -1% of the health care trend rate is minimal because the medical plan includes a cap limit set by the University on post-65 benefits.

**NOTE 8--BONDS PAYABLE**

On September 1, 1989 the Pennsylvania Higher Educational Facilities Authority ("PHEFA") issued two Series (A and B) of insured tax-exempt bonds totaling \$14,570,000 on behalf of the University. Insured by the Municipal Bond Insurance Association, the bonds are a general obligation of the University.

The Series A Bonds totaling \$10,820,000 provided for the current refunding of the PHEFA issued University Revenue Variable Rate Notes, First Series B of 1985 (Notes) and construct and equip a student union/dormitory building and renovate another facility. The Series A Bonds were refunded with proceeds from the Series of 1995 Bonds.

The Series B Bonds totaling \$3,750,000 were issued to provide for the advance refunding of the PHEFA issued University Revenue Bonds, 1985 Series. The Series B Bonds were refunded with proceeds from the Series of 1998 Bonds.

On December 17, 1993 PHEFA issued Series N tax-exempt bonds totaling \$3,000,000 on behalf of the University while on November 17, 1994 PHEFA issued Series Q tax-exempt bonds totaling \$3,000,000 on behalf of the University. Both series were refunded with proceeds from the Series of 1995 Bonds.

On November 1, 1995, the PHEFA issued insured tax-exempt bonds totaling \$26,000,000 on behalf of the University. Proceeds were used for the advance refunding of Series A of 1989 and Series N and Q Bonds, for the purchase of the remaining interest in PCPS Associates, Ltd., with whom the University had leased a dormitory and for the refinancing of the partnership's debt on the facility. The remaining funds were used to finance certain capital projects and pay certain debt issuance expenses. These bonds include both serial and term bonds and mature through November 1, 2015, with interest rates ranging from 4.45% for bonds maturing on November 1, 2001 to 5.4% for bonds due November 1, 2015. The bonds are insured by the Municipal Bond Insurance Association and are a general obligation of the University.

On January 29, 1998, the University borrowed \$700,000 under a term loan agreement to acquire a commercial property that was on land contiguous to the campus. This unsecured loan was repaid during the fiscal year ending June 30, 2000.

**NOTE 8--BONDS PAYABLE- (continued)**

On December 15, 1998, the PHEFA issued insured tax-exempt bonds totaling \$9,430,000 on behalf of the University. Proceeds were used for the demolition of various University facilities and their conversion to other University purposes and the renovation of various University facilities and the acquisition of equipment. The remaining funds were used for the refunding of PHEFA Revenue Bonds, Series 1989B that were noted previously and to pay certain debt issuance expenses. These bonds include both serial and term bonds and mature through November 1, 2025, with interest rates ranging from 3.6% for bonds maturing on November 1, 2001 to 5.25% for bonds due November 1, 2025. The bonds are insured by the Municipal Bond Insurance Association and are a general obligation of the University.

The maturities of all bonds and term loan for the next five years ending June 30 are:

<u>Year</u>	<u>Maturing</u>
2002	\$1,600,000
2003	1,670,000
2004	1,745,000
2005	1,825,000
2006	1,835,000
& Thereafter	20,985,000

The total market value of the \$29,660,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was \$30,450,303 at June 30, 2001, based on a comparison to current interest rates.

The total interest paid during the fiscal years ending June 30, 2001 and 2000 was \$1,495,253 and \$1,566,526, respectively.

The University has an available line of credit in the amount of \$1.5 million with no specific amount required for compensating balance and no outstanding liability as of June 30, 2001.

Statements of Financial Accounting Standards Nos. 140 and 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", permit the extinguishment of liabilities only through payment of the creditor and relief of the obligation for the liability or if the debtor is legally released from the obligation. Statement 140 replaced statement 125 for extinguishments of liabilities occurring after March 31, 2001. Because no debt obligations were defeased by the University during the 2001 or 2000 fiscal years, the provisions of this statement were not applicable to the University. The University has adopted the statement and will adhere to its provisions prospectively. The University's outstanding debt that had been refunded prior to 1998 and was not required to be disclosed on the Statement of Financial Position totaled \$2,515,000 and \$3,140,000 at June 30, 2001 and 2000. Funds held by a trustee to repay these obligations totaled \$2,777,737 and \$3,372,773 at June 30, 2001 and 2000, respectively.

**NOTE 9--COMMITMENTS AND CONTINGENCIES**

The University has non-cancelable operating leases ending in 2015 through 2030 for certain facilities. Rental expense under these agreements equaled \$138,896 in 2001 and \$84,780 in 2000. Future minimum lease payments are as follows: 2002--\$143,716; 2003--\$148,704; 2004--\$153,866; 2005--\$159,210; 2006--\$164,740 thereafter--\$1,897,172.

In the ordinary course of the University's educational activities, various lawsuits, claims and other contingencies arise. While the ultimate disposition of the aforementioned contingencies is not determinable at this time, management believes that any liability resulting there from will not materially affect the financial position of the University as of June 20, 2001.

**NOTE 10--OPERATING EXPENSES**

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

	<u>2001</u>	<u>2000</u>
Compensation		
Salaries	\$20,878,003	\$19,372,063
Employee benefits	<u>6,074,257</u>	<u>5,333,187</u>
Total compensation	<u>\$26,952,260</u>	<u>\$24,705,250</u>
Other expenses		
Depreciation of buildings and equipment	\$3,092,706	\$2,934,103
Interest on indebtedness	1,484,573	1,567,210
Utilities	1,214,782	1,106,511
Printing	838,029	604,795
Food	638,320	525,149
Advertising	616,018	465,372
Other supplies and expenses	<u>11,276,642</u>	<u>11,142,840</u>
Total other expenses	<u>19,161,070</u>	<u>18,345,980</u>
Total expenses	<u>\$46,113,330</u>	<u>\$43,051,230</u>

**NOTE 11--INTERNAL REVENUE CODE STATUS**

The University has been granted tax-exempt status as a non-profit organization under Section 501 (c) (3) of the Internal Revenue Code and, accordingly, files federal tax form 990 (Return of Organization Exempt from Income Tax) annually.