



MASSACHUSETTS COLLEGE *of* PHARMACY
and HEALTH SCIENCES

MCPHS UNIVERSITY

**CONTINUING DISCLOSURES AND
AUDITED FINANCIAL STATEMENTS**

JUNE 30, 2019

MCPHS UNIVERSITY

CONTINUING DISCLOSURES

Financial Matters

The University operates on a fiscal year ending June 30 and accounts for and reports its financial condition in accordance with Financial Accounting Standards Board (FASB) Accounting Standards through the use of donor-restricted and unrestricted net asset classifications. The financial statement of the University has been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America for educational institutions.

Management's Discussion of Recent Financial Performance

Operating Results

The University has experienced increasing operating revenues in recent years due to stable enrollment growth. This growth is attributable to strong demand for the University's academic programs and the successful introduction of new degree offerings, particularly in the health science disciplines. Over the last five years, total University enrollment has grown 2% per annum. New programs have led to increased program revenue diversification. The University continues to experience growth in non-pharmacy enrollments and revenues. Non-pharmacy tuition as a percentage of total tuition was 53% in fiscal 2019 versus 51% in fiscal 2018. The University's tuition discount rate has averaged 13% for the last five years and was 15% for fiscal 2019.

Management has maintained close monitoring of programs and strong budgetary controls. Academic programs are carefully evaluated with respect to student demand and financial viability. For fiscal year ending June 30, 2019, total operating revenues were \$258 million, exceeding fiscal 2018 by 2%.

Liquidity

Management's focus on budgeting and operating performance has substantially improved the University's liquidity. Improvements in business operations pertaining to revenue collection and expenditure controls have enabled the University to maintain strong debt service coverage and liquidity ratios. Over the last five years, net revenues available for debt service has averaged \$105 million and was \$93 million in fiscal 2019. Unrestricted cash and investments have increased 11% from \$1,016 million at June 30, 2018 to \$1,128 million at June 30, 2019. Total cash and investments have increased 10% from \$1,049 million at June 30, 2018 to \$1,161 million at June 30, 2019.

MCPHS UNIVERSITY

CONTINUING DISCLOSURES

Total Fall Enrollments

Academic Year	2015-16	2016-17	2017-18	2018-19	2019-20
Students	7,241	7,109	7,228	7,071	7,387
FTE	6,902	6,761	6,826	6,506	6,826

Pharmacy Programs

Academic Year	2015-16	2016-17	2017-18	2018-19	2019-20
Students	3,405	3,298	3,269	3,033	2,988
FTE	3,333	3,224	3,171	2,875	2,822

Other Programs

Academic Year	2015-16	2016-17	2017-18	2018-19	2019-20
Students	3,836	3,811	3,959	4,038	4,399
FTE	3,569	3,537	3,655	3,631	4,004

Total Fall Enrollments by Campus

Academic Year	2015-16	2016-17	2017-18	2018-19	2019-20
Boston					
Students	4,845	4,611	4,486	4,311	4,353
FTE	4,748	4,504	4,385	4,145	4,281
Worcester					
Students	1,506	1,572	1,679	1,585	1,527
FTE	1,484	1,552	1,650	1,546	1,516
Manchester					
Students	444	458	512	512	488
FTE	437	452	506	504	483
Online					
Students	446	468	551	663	1,019
FTE	233	253	285	311	546



Financial Statements

MCPHS University

June 30, 2020 and 2019



MCPHS UNIVERSITY

Financial Statements

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Mayer Hoffman McCann P.C.
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Independent Auditors' Report

The Board of Trustees
MCPHS University
Boston, Massachusetts

We have audited the accompanying financial statements of MCPHS University (the "University"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 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 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 audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCPHS University as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

September 30, 2020
Boston, Massachusetts

MCPHS UNIVERSITY
Statements of Financial Position

	<i>June 30,</i>	
	2020	2019
Assets		
Cash and cash equivalents	\$ 35,128,450	\$ 28,659,296
Contributions receivable	315,454	464,544
Student and other receivables	7,738,642	5,764,829
Prepaid expenses and other assets	6,608,668	4,509,708
Student loans receivable	9,924,331	9,469,415
Deposits with bond trustees	5,287,439	5,206,258
Funds held in trust	1,576,161	1,585,736
Investments	1,214,213,118	1,131,297,702
Property and equipment, net	<u>205,688,224</u>	<u>214,409,805</u>
Total assets	<u>\$ 1,486,480,487</u>	<u>\$ 1,401,367,293</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 17,050,876	\$ 15,443,688
Deferred revenues	21,582,096	21,611,661
Bonds and other obligations payable	69,706,696	76,809,685
Advances from federal government for student loans	<u>10,487,944</u>	<u>10,446,564</u>
Total liabilities	<u>118,827,612</u>	<u>124,311,598</u>
Net assets:		
Unrestricted:		
Funds held for long-term investment	1,182,699,955	1,099,840,220
Net investment in plant	125,292,678	128,585,865
Other funds	<u>23,594,535</u>	<u>12,739,366</u>
Total unrestricted	<u>1,331,587,168</u>	<u>1,241,165,451</u>
Donor-restricted:		
Endowment funds	33,796,876	33,721,127
Other funds	<u>2,268,831</u>	<u>2,169,117</u>
Total donor-restricted	<u>36,065,707</u>	<u>35,890,244</u>
Total net assets	<u>1,367,652,875</u>	<u>1,277,055,695</u>
Total liabilities and net assets	<u>\$ 1,486,480,487</u>	<u>\$ 1,401,367,293</u>

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

MCPHS UNIVERSITY
Statements of Activities

	Years Ended June 30,	
	2020	2019
Changes in unrestricted net assets:		
Operating:		
Revenues and other support:		
Tuition and fees (net of scholarship aid to students of \$50,102,894 and \$39,452,060, respectively)	\$ 229,547,180	\$ 228,133,686
Auxiliary enterprises	14,536,441	16,363,725
Contributions	246,948	494,734
Contracts and other exchange transactions	12,460,294	8,311,848
Other income	3,438,468	4,087,021
Net assets released from restrictions	489,609	840,919
	<hr/>	<hr/>
Total revenues and other support	260,718,940	258,231,933
	<hr/>	<hr/>
Expenses:		
Instruction	102,570,793	98,736,664
Academic support	18,495,856	18,472,337
Student services	26,333,126	22,703,580
Auxiliary enterprises	14,105,514	14,649,835
Total program services	161,505,289	154,562,416
Institutional support	25,841,680	24,990,993
	<hr/>	<hr/>
Total operating expenses	187,346,969	179,553,409
	<hr/>	<hr/>
Increase in unrestricted net assets from operating activities	73,371,971	78,678,524
	<hr/>	<hr/>
Non-operating:		
Investment return	17,446,493	41,058,854
Contributions	23,842	35,970
Other	(420,589)	412,863
	<hr/>	<hr/>
Increase in unrestricted net assets from non-operating activities	17,049,746	41,507,687
	<hr/>	<hr/>
Increase in unrestricted net assets	90,421,717	120,186,211
	<hr/>	<hr/>
Changes in donor-restricted net assets:		
Contributions	396,721	436,594
Investment return	260,377	1,170,761
Change in value of funds held in trust	7,974	(107,207)
Net assets released from restrictions	(489,609)	(840,919)
	<hr/>	<hr/>
Increase in donor-restricted net assets	175,463	659,229
	<hr/>	<hr/>
Increase in net assets	90,597,180	120,845,440
	<hr/>	<hr/>
Net assets at beginning of year	1,277,055,695	1,156,210,255
	<hr/>	<hr/>
Net assets at end of year	\$ 1,367,652,875	\$ 1,277,055,695
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The accompanying notes are an integral part of these financial statements.

MCPHS UNIVERSITY

Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 90,597,180	\$ 120,845,440
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,665,531	13,469,051
Contributions restricted for capital investment	(360,286)	(574,687)
Contributions of marketable securities	(6,938)	(15,208)
Net realized and unrealized loss (gain) on investments	12,116,929	(24,495,110)
(Increase) decrease in assets:		
Funds held in trust	9,575	150,398
Contributions receivable	149,090	257,998
Student and other receivables	(5,025,813)	960,998
Prepaid expenses and other assets	(2,098,960)	(231,765)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	1,647,750	607,631
Deferred revenues	(29,565)	(1,562,547)
Net cash provided by operating activities	110,664,493	109,412,199
Cash flows from investing activities:		
Proceeds from sales of investments	75,412,391	176,009,917
Purchases of investments	(170,437,798)	(262,662,857)
Purchases of property and equipment	(5,285,501)	(18,286,722)
Contributions restricted for capital investment	175,000	295,000
Disbursements of loans to students	(1,961,946)	(1,350,390)
Repayment of student loans	1,507,030	1,319,268
Net cash used for investing activities	(100,590,824)	(104,675,784)
Cash flows from financing activities:		
Increase in deposits with bond trustees	(81,181)	(99,652)
Repayment of principal on indebtedness	(3,750,000)	(3,635,000)
Cash collected on endowment gifts	185,286	279,687
Increase in government advances for student loans	41,380	1,926,847
Net cash used for financing activities	(3,604,515)	(1,528,118)
Net increase in cash and cash equivalents	6,469,154	3,208,297
Cash and cash equivalents at beginning of year	28,659,296	25,450,999
Cash and cash equivalents at end of year	\$ 35,128,450	\$ 28,659,296

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

MCPHS UNIVERSITY

Notes to Financial Statements

Note 1 - Organization

MCPHS University (the “University”) is a private, tax-exempt co-educational institution of higher education enrolling over 7,000 students in professional, undergraduate and graduate degree programs in pharmacy and health sciences. The University is accredited by the New England Commission of Higher Education. In addition, over 20 of the University’s programs are accredited by 15 independent professional accreditation bodies overseeing educational programs in their respective health professions. The University has three campuses: Boston, Massachusetts; Worcester, Massachusetts and Manchester, New Hampshire. The University has over one hundred programs of study and draws its student population from throughout the United States and over seventy foreign countries.

The University participates in student financial aid programs sponsored by the United States Department of Education “Department of Education”, the Commonwealth of Massachusetts, and other states within the United States of America. These programs facilitate the payment of tuition and other expenses for eligible students, and are subject to review or audit by funding agencies.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America which requires that information regarding its financial position and activities are reported based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes herein are classified and reported as follows:

Unrestricted: net assets available for general use and not subject to donor restrictions. Members of the Board of Trustees have designated a portion of unrestricted net assets for long-term investment, functioning as endowment. Unrestricted net assets also include property and equipment, net of related accumulated depreciation and bond obligations.

Donor-restricted: include net assets with restrictions that are temporary in nature, and may or will be met by events specified by the donor, or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources be maintained in perpetuity.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of ninety days or less when purchased, along with routine bank deposits. Cash restricted for grants and loans is included in cash and cash equivalents in the statements of financial position and amounted to \$3,358,750 and \$3,771,363 for the years ended June 30, 2020 and 2019, respectively. Cash and cash equivalents are reported at cost plus accrued interest. Cash and cash equivalents held by investment managers are classified as investments, being subject to near term reinvestment and other restrictions imposed by managers.

The University maintains cash accounts with various investment and banking institutions, which periodically may exceed federally insured limits. The University has not experienced losses associated with these accounts.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Student and Other Receivables

Student receivables are stated net of an allowance for doubtful accounts, which is estimated by management based on prior experience. Other receivables include amounts due under a long-term lease agreement where the University is the lessor (see Note 12). Rental income is recognized on a straight-line basis over the lease term, and amounts receivable have been accrued to reflect rents earned to date.

Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. The Health Professions Student Loan ("HPSL"), the Nursing Student Loan ("NSL") and the Perkins Loan programs are sponsored by the Department of Education and operated by the University, subject to eligibility requirements. The programs have been funded over multiple years with federal funds along with a modest match from the University. As loans are repaid, funds collected are re-loaned to other students, except for the Perkins program which no longer grants new loans. Undisbursed program funds are held in a restricted cash account which is included in cash and cash equivalents. Advances of federal funds are required to be returned should the program cease or the University elect to no longer participate in the program. Accordingly, such advances are classified as liabilities in the statements of financial position. The University utilizes the services of a third party for billing, collection, and other requirements associated with these programs.

Non-performing (delinquent) loans under the Perkins, HPSL and NSL programs may be returned to the Department of Education, thus reducing the University's cumulative federal advance which migrates credit risk. Accordingly, no reserves have been provided for in connection with these loans. The University also has a small pool of institutional loans.

Deposits with Bond Trustees

Deposits with bond trustees are invested in cash and fixed income, and are carried at fair market value in accordance with fair value policies described in these footnotes. Such amounts are held by bond trustees pursuant to sinking fund requirements of the University's debt service agreements.

Funds Held in Trust

Funds held in trust are beneficial interests in the form of income or residual amounts and are carried at fair market value in accordance with fair value policies described in these footnotes. Assets are recognized as donor-restricted gifts when the University is notified of such an instrument and are subject to periodic adjustment.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair market value in accordance with standards discussed in this footnote. Net investment return (loss) is primarily derived from the University's pooled investment portfolio, and is reported in the statements of activities. The investment pool is unitized for purposes of accounting and allocation of investment returns such that donor-restricted endowment funds and other funds are allocated a ratable share of investment returns. The net investment return (loss) consists of interest, dividends, capital gains and losses, net of all investment expenses including management fees.

Fair Values

The University reports financial instruments in accordance with fair value standards. Fair value is defined as the price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the University reports certain investments using the net asset value ("NAV") per share as determined by investment managers under the so-called "practical expedient" for such investments. The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange.

Level 2 – pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 estimates.

Property and Equipment

Property and equipment assets are recorded at acquisition cost when asset useful lives are estimated to exceed one year and when amounts exceed a management established capitalization threshold. Property and equipment is reported net of accumulated depreciation. Maintenance and repairs are expensed as incurred, and improvements are capitalized. For assets placed in service, depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings	30 years
Furniture, equipment and vehicles	7 years
Software and computer equipment	3 years

Deferred Revenue

Deferred revenue represents the amount of net tuition, fees, and dormitory revenue not yet earned. Deferred revenue is recognized ratably over time as services are provided during the academic period. Deferred revenue is short-term in nature with amounts being recognized as revenue in the subsequent fiscal year. Student deposits and advance payments are considered part of deferred revenue.

Bonds and Other Obligations Payable

Bonds and other obligations payable are reported net of unamortized premiums, discounts and issuance costs, all of which are amortized over the term of the underlying debt agreement.

Revenue Recognition

Revenue is recognized using a principles based set of standards which applies when there is a contract with a customer. Performance obligations under each contract are required to be identified, the transaction needs to be determined, and the transaction price then needs to be allocated to performance obligations with revenue being recorded at a point in time or over time depending on the nature of each performance obligation.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The University derives revenues primarily from tuition, fees and auxiliary services (room and board) all of which are under arrangements aligned with academic periods less than one year in length. Revenue is recognized over time for each of these revenue sources. Given that many students fund the payment of tuition through financial aid programs sponsored by the Department of Education, cash flows are impacted by those regulations which regulate the timing of such funds being made available.

Revenue and cash flows are also impacted by tuition and fee refunds resulting from student withdrawals. University withdrawal policy allows for up to a 100% refund of tuition and fees following the start of classes, subject to time limits. Given the University's schedule of academic terms, exposure to refunds is limited at year-end, and no related liability has been estimated or recorded at June 30, 2020.

Financial aid payments made by third parties to the University (including student loans and grants from the Department of Education) are a mechanism to facilitate payment on behalf of students, and accordingly, such funding does not represent revenue of the University. Management does not view there to be other qualitative factors that have a significant impact on the nature and amount of revenue and cash flow.

Tuition, fees and auxiliary service revenues are recorded at established rates, net of institutional financial aid provided directly to students. Revenue amounts are fixed and determinable, and are recorded as revenue when educational services are rendered and performance obligations satisfied. Management believes that recognizing revenue over time is the best measure of services rendered, and has not made any changes in the timing of satisfying performance obligations or amounts allocated to those obligations. Management does not consider there to be significant judgment involved in the measurement of earned revenue, as the satisfaction of performance obligations is directly linked to the calendar of academic and supporting activities.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated purpose has been fulfilled or the stipulated time period has elapsed, are reported as "net assets released from restrictions" between the classes of net assets.

Unconditional contributions are recorded as revenue based on the amount received or at fair value when verifiably committed in the case of promises. Fair value of promises are determined at the original date of record as described in this section using Level 2 fair value inputs. Conditional contributions are recorded as revenue only when conditions have been met. Intentions to give are not recorded as revenue or assets.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

During fiscal 2020, as a result of the effects of the COVID-19 pandemic, the University migrated to a remote platform for student instruction. As a result of the move to remote learning in 2020, the University refunded a ratable share of room and board fees in the amount of \$2,182,134. Also during fiscal 2020, the University was awarded certain grant funds to assist students and the University with COVID-19 related effects. The University decided to directly award all of these funds to students which resulted in a one-time increase in revenue and student services expenses of \$3,774,640.

Functional Allocation of Expenses

The costs of providing programs, activities and supporting services have been summarized on a functional basis which requires that certain costs be allocated among programs and supporting services benefited. Depreciation of fixed assets and the expenses of operating and maintaining facilities have been allocated to functional classifications based on square footage of facilities. Interest expense has been allocated to each debt-financed facility, and by functional classification based on facility use.

Operating and Non-Operating Activity

The statements of activities report changes in unrestricted net assets from operating and non-operating activities. Unrestricted operating revenues consist of those items attributable to the University's primary mission of providing education. Investment returns, certain contributions and other amounts not directly related to educational activities are classified as non-operating.

Income Tax Status

The University is recognized as an organization exempt from federal income tax on its related activities under Section 501(c)(3) of the Internal Revenue Code. The University is also generally exempt from state income taxes on such related activities. Certain activities of exempt organizations unrelated to their mission may generate income that is subject to federal and state taxation as unrelated business income. As the University's unrelated business income is de minimis, management has concluded that disclosures related to tax provisions are not necessary.

The University accounts for uncertain tax positions based on the likelihood of positions being sustained on their technical merits while under scrutiny by the applicable taxing authority. If tax positions are deemed to carry significant uncertainty, unrecognized tax liabilities are estimated for disclosure based on a cumulative probability assessment that aggregates the estimated liability for all uncertain tax positions. The University has identified its tax status as an exempt organization and the determination of business income as being related or unrelated to its exempt purposes as its only significant tax positions. The University has determined that such positions do not constitute an uncertainty requiring recognition. The University is not currently under examination by any taxing jurisdiction. The University's federal and state informational filings are generally open to examination for three years following the date filed.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases*, which requires certain changes in lease accounting. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal year 2021 for the University. The University is evaluating the impact of the new guidance on its financial statements.

Management does not believe that other pending accounting pronouncements will have a notable impact.

Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events through September 30, 2020, the date these financial statements were issued.

Note 3 - Liquidity

The University regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize investment of available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, short-term investments and marketable securities. For evaluating resources available to meet general expenditures over future 12-month periods, the University considers all expenditures related to its ongoing academic, administrative and supporting activities. Student loans receivable are not included in the analysis as principal and interest collected on these loans are not available to meet current operating cash flow requirements.

The University anticipates collecting sufficient revenue over the next twelve months to cover general expenditures not covered by donor-restricted resources. Refer to the statements of cash flows which identifies the sources and uses of the University's cash and shows positive cash generated by operations for the years ended June 30, 2020 and 2019. The following table shows financial assets held by the University available within one year of the balance sheet date to meet general expenditure obligations as of June 30:

	2020	2019
Cash and cash equivalents	\$ 31,769,700	\$ 24,887,933
Student and other receivables due in one year or less	6,967,352	3,506,302
Unrestricted investments	<u>1,147,650,400</u>	<u>1,076,976,174</u>
Total liquidity	\$ <u>1,186,387,452</u>	\$ <u>1,105,370,409</u>

MCPHS UNIVERSITY

Notes to Financial Statements

Note 4 - Student and Other Receivables

Student and other receivables consisted of the following at June 30:

	2020	2019
Student accounts receivable	\$ 4,345,287	\$ 2,220,549
Allowance for doubtful student accounts	<u>(1,011,911)</u>	<u>(694,719)</u>
Net student accounts receivable	3,333,376	1,525,830
Long-term lease receivable	771,290	2,258,527
Other receivables	<u>3,633,976</u>	<u>1,980,472</u>
	<u>\$ 7,738,642</u>	<u>\$ 5,764,829</u>

The University had no contract assets at June 30, 2020 and 2019.

Note 5 - Prepaid Expenses and Other Assets

Prepaid expenses and other assets consisted of the following at June 30:

	2020	2019
Prepaid expenses	\$ 3,720,199	\$ 1,641,897
Security deposit - lease	604,756	604,166
Life insurance cash surrender value	<u>2,283,713</u>	<u>2,263,645</u>
	<u>\$ 6,608,668</u>	<u>\$ 4,509,708</u>

Life insurance is maintained on certain key employees for the benefit of the University.

Note 6 - Student Loans Receivable

Student loans receivable consisted of the following at June 30:

	2020	2019
Health Professions Student Loans	\$ 6,570,939	\$ 5,983,730
Perkins Loans	2,710,853	3,213,851
Nursing Student Loans	529,690	176,890
Institutional Loans	<u>221,124</u>	<u>165,447</u>
	10,032,606	9,539,918
Less: allowance for doubtful accounts	<u>(108,275)</u>	<u>(70,503)</u>
	<u>\$ 9,924,331</u>	<u>\$ 9,469,415</u>

MCPHS UNIVERSITY

Notes to Financial Statements

Note 6 - Student Loans Receivable (Continued)

Management considers the amount past due to be immaterial and, accordingly, has not presented detailed disclosures regarding the aging of accounts.

Note 7 - Investments and Financial Instruments

The fair value of investments and financial instruments were as follows at June 30:

		2020			
		<i>Total Fair Value</i>	<i>Measured at NAV</i>	<i>Active Markets (Level 1)</i>	<i>Limited Markets (Level 3)</i>
Investments:					
Short-term investments	\$	1,624,757	\$ -	\$ 1,624,757	\$ -
Fixed income		150,876,451	82,029,902	68,846,549	-
Domestic equity		327,687,240	-	327,687,240	-
International equity		352,700,878	73,732,535	278,968,343	-
Real estate		49,361,109	19,933,895	29,427,214	-
Asset allocation		84,559,909	84,559,909	-	-
Inflation protection		37,895,020	37,895,020	-	-
Alternatives		209,507,754	209,507,754	-	-
Total investments		1,214,213,118	507,659,015	706,554,103	-
Deposits with bond trustees		5,287,439	-	5,287,439	-
Funds held in trust		1,576,161	-	-	1,576,161
Total	\$	<u>1,221,076,718</u>	\$ <u>507,659,015</u>	\$ <u>711,841,542</u>	\$ <u>1,576,161</u>

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Notes to Financial Statements

Note 7 - Investments and Financial Instruments (Continued)

		2019			
		<i>Total Fair Value</i>	<i>Measured at NAV</i>	<i>Active Markets (Level 1)</i>	<i>Limited Markets (Level 3)</i>
Investments:					
Short-term investments	\$	5,146,179	\$ -	\$ 5,146,179	\$ -
Fixed income		140,545,783	72,022,142	68,523,641	-
Domestic equity		302,255,674	-	302,255,674	-
International equity		336,789,142	71,237,619	265,551,523	-
Real estate		51,965,187	18,758,000	33,207,187	-
Asset allocation		90,526,275	90,526,275	-	-
Inflation protection		42,723,328	42,723,328	-	-
Alternatives		161,346,134	161,346,134	-	-
Total investments		1,131,297,702	456,613,498	674,684,204	-
Deposits with bond trustees		5,206,258	-	5,206,258	-
Funds held in trust		1,585,736	-	-	1,585,736
Total	\$	<u>1,138,089,696</u>	\$ <u>456,613,498</u>	\$ <u>679,890,462</u>	\$ <u>1,585,736</u>

There were no transfers between levels during the years ended June 30, 2020 and 2019. In addition, management has no plans to redeem investments at other than the NAV per share. Of the NAV investments, \$414.2 million allow for a redemption within 90 days notice, while \$93.5 million require longer notice or are illiquid. Total unfunded commitments under investment agreements amounted to \$67.9 million and \$41.4 million at June 30, 2020 and 2019, respectively.

Investments by net asset class consisted of the following at June 30:

	2020	2019
Unrestricted net assets	\$ 1,180,416,242	\$ 1,097,576,575
Donor-restricted net assets	<u>33,796,876</u>	<u>33,721,127</u>
Total investments	\$ <u>1,214,213,118</u>	\$ <u>1,131,297,702</u>

MCPHS UNIVERSITY

Notes to Financial Statements

Note 7 - Investments and Financial Instruments (Continued)

Total investment return was as follows for the years ended June 30:

	2020	2019
Investment income:		
From pooled investments	\$ 29,751,810	\$ 17,623,253
From deposits with trustees and other	<u>71,989</u>	<u>111,252</u>
	29,823,799	17,734,505
Net realized and unrealized (losses) gains on pooled investments	<u>(12,116,929)</u>	<u>24,495,110</u>
Total investment return	\$ <u>17,706,870</u>	\$ <u>42,229,615</u>

Note 8 - Endowment and Other Restricted Funds

The University's endowment consists of approximately 200 individually named funds which are invested and administered in accordance with donor stipulation or board designation. The University interprets the Massachusetts Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the tracking of original gifts as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the University classifies as donor-restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Amounts in excess of the corpus of donor-restricted funds are considered accumulated unspent gains and are subject to appropriation by the board under its spending policies. Unrestricted endowments consist of board-designated funds.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds and unspent gains, as applicable:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

Amounts released to operations annually consist of interest and dividend earnings designated by donors for scholarship expenditure or the general purposes of the University. No other amounts have been drawn from the University's endowment funds.

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Notes to Financial Statements

Note 8 - Endowment and Other Restricted Funds (Continued)

The University's investments are managed in accordance with sound practices emphasizing long-term fundamentals to achieve long-term rates of return exceeding any spending policy plus the effects of inflation. Investments are diversified to reduce volatility and risk associated with concentrated positions, and returns sought are those comparing favorably to other endowments, foundations and appropriate benchmarks. Portfolio volatility is intended to approximate the weighted composite of market indices correlating with the policy target portfolio, periodically adjusted for market conditions.

To satisfy investing 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). A diversified target asset allocation places emphasis on equities, fixed income, real estate and managers employing multi-asset and absolute return strategies.

Changes in endowment net assets were as follows for the years ended June 30:

	<i>Unrestricted</i>	<i>Donor- Restricted</i>	<i>Total</i>
Net assets at July 1, 2018	\$ 11,325,648	\$ 32,679,537	\$ 44,005,185
Investment income	189,119	544,011	733,130
Investment gain	241,340	694,231	935,571
Total investment return	430,459	1,238,242	1,668,701
Contributions	-	279,687	279,687
Transferred from (to) operations	(324,611)	(476,339)	(800,950)
Net assets at June 30, 2019	11,431,496	33,721,127	45,152,623
Investment income	293,600	864,020	1,157,620
Investment loss	(119,739)	(352,373)	(472,112)
Total investment return	173,861	511,647	685,508
Contributions	-	185,285	185,285
Transferred from (to) operations	(367,354)	(621,183)	(988,537)
Net assets at June 30, 2020	\$ 11,238,003	\$ 33,796,876	\$ 45,034,879

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Notes to Financial Statements

Note 8 - Endowment and Other Restricted Funds (Continued)

Total funds with donor restrictions were as follows at June 30:

	2020	2019
Accumulated unspent gains:		
For scholarships	\$ 4,893,067	\$ 4,979,094
For general purposes	<u>8,752,832</u>	<u>8,960,515</u>
Total accumulated unspent gains	<u>13,645,899</u>	<u>13,939,609</u>
Endowment corpus:		
For scholarships	9,115,601	8,914,415
For general purposes	<u>11,035,376</u>	<u>10,867,103</u>
Total endowment corpus	<u>20,150,977</u>	<u>19,781,518</u>
Total endowment funds	<u>33,796,876</u>	<u>33,721,127</u>
Other funds	<u>2,268,831</u>	<u>2,169,117</u>
Total donor-restricted funds	<u>\$ 36,065,707</u>	<u>\$ 35,890,244</u>

Net assets released from restrictions by incurring expenses that satisfy restricted purposes or by occurrence of events specified by donors were as follows for the years ended June 30:

	2020	2019
For scholarships	\$ 483,680	\$ 549,526
For program service costs	<u>5,929</u>	<u>291,393</u>
Total net assets released	<u>\$ 489,609</u>	<u>\$ 840,919</u>

Note 9 - Employee Benefit Plans

Eligible University employees are participants in a qualified defined contribution retirement plan offering investment choices through certain third parties. The University contributes 10% of eligible compensation to this plan for the benefit of participants each plan year. Total contributions amounted to \$6,426,622 and \$6,081,401 for the years ended June 30, 2020 and 2019, respectively.

The University also sponsors qualified and non-qualified tax-deferred retirement plans as permitted by Internal Revenue Code Sections 403(b) and 457(b) which allow employees to make elective deferrals to contribute compensation on a pre-tax basis to these plans, subject to annual statutory limitations. The University also allows post-tax contributions to the 403(b) plan by way of Roth contributions.

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Notes to Financial Statements

Note 10 - Property and Equipment

Property and equipment consisted of the following at June 30:

	2020	2019
Used in University operations:		
Land and buildings	\$ 298,343,861	\$ 294,061,648
Furniture and equipment	18,621,878	19,827,982
Construction in progress	3,538,469	5,794,272
	<u>320,504,208</u>	<u>319,683,902</u>
Less: Accumulated depreciation	<u>(131,588,433)</u>	<u>(122,895,320)</u>
Net used in operations	<u>188,915,775</u>	<u>196,788,582</u>
Rental property:		
Research space (see Note 12)	38,558,663	38,558,663
Other rental property	11,705,507	10,723,632
	<u>50,264,170</u>	<u>49,282,295</u>
Less: Accumulated depreciation	<u>(33,491,721)</u>	<u>(31,661,072)</u>
Net rental property	<u>16,772,449</u>	<u>17,621,223</u>
Property and equipment, net	\$ <u>205,688,224</u>	\$ <u>214,409,805</u>

Depreciation expense for the years ended June 30 was as follows:

	2020	2019
Used in University operations	\$ 12,140,539	\$ 12,013,424
Rental properties	<u>1,830,649</u>	<u>1,814,284</u>
Total depreciation	\$ <u>13,971,188</u>	\$ <u>13,827,708</u>

MCPHS UNIVERSITY

Notes to Financial Statements

Note 11 - Bonds and Other Obligations Payable

Revenue bonds issued through Massachusetts Development Finance Agency and commercial paper outstanding consisted of the following at June 30:

	2020	2019
Bonds Payable:		
Revenue Bonds, 2013 Series F: \$11.37 million are due under annual serial maturities from 2020 to 2028. \$5.895 million term bonds are due July 1, 2029 and July 1, 2035. Serial bonds bear fixed interest from 3% to 5% and term bonds bear fixed interest at 4%.	\$ 17,265,000	\$ 18,450,000
Revenue Bonds, 2013 Series G: \$4.31 million are due under annual serial maturities from 2020 to 2024. \$6.315 million term bonds are due July 1, 2027 and July 1, 2030. Serial bonds bear fixed interest from 2.69% to 3.740% and term bonds bear fixed interest at 4% and 4.524%.	10,625,000	11,420,000
Revenue Bonds, 2015 Series H: \$11.415 million are due under annual serial maturities from 2020 to 2032. \$6.235 million term bonds are due July 1, 2035 and July 1, 2037. Serial bonds bear fixed interest from 3.125% to 5% and term bonds bear fixed interest at 3.5% and 5%.	17,650,000	18,290,000
Revenue Bonds, 2015 Series I: \$7.405 million are due under annual serial maturities from 2020 to 2025. \$12.650 million term bonds are due July 1, 2029 and July 1, 2033. Serial bonds bear fixed interest from 2.416% to 3.357% and term bonds bear fixed interest at 3.907% and 4.305%.	20,055,000	21,185,000
Notes Payable:		
Commercial paper due July 22, 2020, discounted at 0.30%	<u>3,332,000</u>	<u>6,384,000</u>
Total outstanding debt	68,927,000	75,729,000
Net unamortized premiums, discounts and issue costs	<u>779,696</u>	<u>1,080,685</u>
Total bonds and other obligations payable	\$ <u>69,706,696</u>	\$ <u>76,809,685</u>

Bond obligations include a pledge of gross receipts, and financing agreements contain debt service coverage and liquidity covenants.

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Notes to Financial Statements

Note 11 - Bonds and Other Obligations Payable (Continued)

The University has commercial paper outstanding associated with laboratory space leased to a long-term tenant. The commercial paper is backed by mortgage security. The University has a letter of credit as a liquidity facility in support of the commercial paper that expires on July 1, 2021, coincident with final payment of the balances on the commercial paper outstanding.

Payments associated with the lease will provide for reductions in commercial paper outstanding in accordance with the following schedule for the years ended June 30: 2021 - \$3,142,000 and 2022 - \$190,000.

The aggregate amount of principal maturities for all commercial paper and bonds, and the aggregate amount of sinking fund requirements for servicing interest and principal on the University's bonds are as follows:

<i>Years Ending June 30,</i>	<i>Paper and Bond Maturities</i>	<i>Sinking Fund Requirements</i>
2021	\$ 7,207,000	\$ 6,464,000
2022	4,010,000	6,459,000
2023	4,150,000	6,448,000
2024	4,300,000	6,441,000
2025	4,470,000	6,431,000
Thereafter	44,790,000	54,714,000
Total	\$ 68,927,000	\$ 86,957,000

Note 12 - Commitments and Contingencies

Self-Insured Medical Plan

Effective January 1, 2019, the University adopted an employer-sponsored, self-insured medical care plan. The plan provides eligible enrolled employees, COBRA participants, and dependents with coverage for certain medical care costs and procedures as defined in the plan. The University contracts with Blue Cross Blue Shield of Massachusetts ("BCBSMA") to provide administrative services, access to hospital and physician networks and stop loss insurance. Administrative fees are fixed and paid monthly. Estimated claim reserves are funded monthly by the University, and actual claims are paid by BCBSMA. On a quarterly basis, funding and claim activity is reconciled and any deficit is funded by the University. The University accounts for medical claims and administrative costs on the accrual basis. Claims outstanding but not yet paid amounted to \$641,052 and \$692,274 at June 30, 2020 and 2019, respectively.

MCPHS UNIVERSITY

Notes to Financial Statements

Note 12 - Commitments and Contingencies (Continued)

Litigation

From time to time, the University is subject to various claims in the ordinary course of business. Management believes that none of the current claims of which it has knowledge will result in a material adverse impact on the University.

Lease as Lessor

The University rents owned research facilities abutting the Boston campus to Brigham and Women's Hospital ("tenant") under a long-term lease arrangement. Rent is payable for a period of 25 years from the rent commencement date of October 1, 1996. Under the lease, the tenant is responsible for servicing the University's commercial paper indebtedness. Annual rents consist of interest payments and required principal reductions in commercial paper outstanding, and vary depending on the repayment schedule and market interest rates for the short-term paper. The lease will fully discharge the University's commercial paper indebtedness incurred to construct the leased premises.

Rent revenue under the lease is recognized over time on a straight-line basis over the 25-year rental period. Rent in excess of current cash invoiced is accrued annually and recorded in a long-term lease receivable account, which is reported with student and other receivables in the statements of financial position. Commercial paper principal reductions funded by the tenant are also posted to the long-term lease receivable, reducing its balance. Rental income from the arrangement is reported net of interest and depreciation expense in non-operating other in the statements of activities.

On June 8, 2020, the tenant exercised the first of three successive 5-year renewal options at a rental rate commensurate with market rates for similar space at the time the option was exercised. The renewal period is October 1, 2021 through September 30, 2026. Future rental income is as follows:

Years Ending June 30,	
2021	\$ 3,142,000
2022	5,297,200
2023	6,962,800
2024	7,171,700
2025	7,386,900
Thereafter	<u>9,524,600</u>
Total	\$ <u>39,485,200</u>

Under the terms of the lease, the tenant has the right to use the premises for medical research and other lawful purposes subject to certain restrictions relating to the safety and welfare of the University's students and employees. The tenant is obligated for its allocable share of repair, maintenance and operating costs of the facility. The tenant has provided a security deposit of \$250,000 to be maintained until the end of the lease, with earnings reinvested. Such deposit is currently included as prepaid expenses and other assets in the statements of financial position with a value of \$604,756 and \$604,166 at June 30, 2020 and 2019, respectively.

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Notes to Financial Statements

Note 12 - Commitments and Contingencies (Continued)

Leases as Lessee

The University has non-cancelable operating leases for dining, residence hall and academic space, which expire at various dates through June 30, 2030. Lease expense is recognized on a straight-line basis over the respective lease terms. Such leases generally provide for the pass through of increases in operating costs associated with the leased space. Total rent expense under these leases was \$7,238,076 and \$7,397,226 for the years ended June 30, 2020 and 2019, respectively. Minimum annual rental commitments under these agreements are as follows:

Years Ending June 30,	
2021	\$ 6,854,365
2022	7,052,904
2023	4,290,300
2024	4,411,582
2025	4,537,133
Thereafter	<u>24,248,629</u>
Total	\$ <u>51,394,913</u>

Other Matters

Management is currently unable to accurately forecast the future impact on attendance patterns resulting from the Coronavirus (COVID-19) pandemic which could impact the quantity of students, the course loads taken by students, the mode of delivery, price level trends and the utilization of residence halls and other facilities of the University in future periods, all of which could affect results from operations. Based on information available through the date of this report, management has noted stable student enrollments and price level trends. Management expects the Coronavirus pandemic to have no adverse effects on the financial strength of the University.

Note 13 - Supplemental Cash Flows Information

Non-cash Transactions

Commercial paper maturing and redeemed under the terms of the lease agreement described in Note 11 amounted to \$3,052,000 and \$2,944,000 for the years ended June 30, 2020 and 2019, respectively.

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Notes to Financial Statements

Note 13 - Supplemental Cash Flows Information (Continued)

Cash Paid for Interest

Cash paid for interest was \$2,716,786 and \$2,832,965 for the years ended June 30, 2020 and 2019, respectively.

Net amortized bond premium was \$305,657 and \$358,657 for the years ended June 30, 2020 and 2019, respectively.

Note 14 - Functional Expenses

Operating expenses by function were as follows for the years ended June 30:

		2020				
		Institutional Support			Total	
Program Services		Management & General	Fundraising	Total		Operating Expenses
Salaries & wages	\$ 86,178,111	\$ 13,016,817	\$ 465,222	\$ 13,482,039	\$	99,660,150
Employee benefits	16,723,638	1,861,490	96,452	1,957,942		18,681,580
Payroll taxes	5,873,277	873,000	36,839	909,839		6,783,116
CARES Act grants	3,774,640	-	-	-		3,774,640
Fees for services	1,334,200	1,125,458	67,670	1,193,128		2,527,328
Advertising and promotion	1,391,725	1,550	-	1,550		1,393,275
Information technology	3,081,467	103,421	600	104,021		3,185,488
Occupancy	17,278,777	1,288,774	21,112	1,309,886		18,588,663
Conferences and travel	2,896,574	412,162	31,453	443,615		3,340,189
Interest	1,990,666	340,681	18,361	359,042		2,349,708
Depreciation charged to operations	10,286,934	1,758,229	95,376	1,853,605		12,140,539
Insurance	429	898,531	-	898,531		898,960
Clinical stipends	4,602,102	-	-	-		4,602,102
Student meal plans	1,340,482	-	-	-		1,340,482
Bank and credit card fees	1,752	524,142	-	524,142		525,894
Classroom and office supplies	1,651,418	42,019	28,281	70,300		1,721,718
Other expenses	3,099,097	2,658,870	75,170	2,734,040		5,833,137
Total functional expenses	\$ 161,505,289	\$ 24,905,144	\$ 936,536	\$ 25,841,680	\$	187,346,969

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Notes to Financial Statements

Note 14 - Functional Expenses (Continued)

	2019				
	Program Services	Institutional Support			Total Operating Expenses
		Management & General	Fundraising	Total	
Salaries & wages	\$ 81,297,661	\$ 9,426,423	\$ 465,331	\$ 9,891,754	\$ 91,189,415
Employee benefits	16,676,613	2,220,451	100,580	2,321,031	18,997,644
Payroll taxes	5,349,128	751,818	33,451	785,269	6,134,397
Fees for services	1,011,065	934,329	73,727	1,008,056	2,019,121
Advertising and promotion	1,284,397	-	-	-	1,284,397
Information technology	2,890,815	157,661	11,788	169,449	3,060,264
Occupancy	17,243,486	1,851,617	20,702	1,872,319	19,115,805
Conferences and travel	4,078,887	678,770	27,540	706,310	4,785,197
Interest	2,054,834	351,888	17,263	369,151	2,423,985
Depreciation charged to operations	10,148,951	1,776,748	87,725	1,864,473	12,013,424
Insurance	-	799,173	-	799,173	799,173
Clinical stipends	5,569,300	-	-	-	5,569,300
Student meal plans	1,847,236	-	-	-	1,847,236
Bank and credit card fees	-	1,814,257	-	1,814,257	1,814,257
Classroom and office supplies	1,743,059	89,829	51,456	141,285	1,884,344
Other expenses	3,366,984	3,171,475	76,991	3,248,466	6,615,450
Total functional expenses	\$ 154,562,416	\$ 24,024,439	\$ 966,554	\$ 24,990,993	\$ 179,553,409