

Audited  
Financial  
Statements

June 30,  
2016



HARRISBURG  
UNIVERSITY  
OF SCIENCE AND TECHNOLOGY

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Harrisburg University of Science and Technology  
Harrisburg, Pennsylvania

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of Harrisburg University of Science and Technology, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

### ***Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 Harrisburg University of Science and Technology as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of Harrisburg University of Science and Technology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrisburg University of Science and Technology's internal control over financial reporting and compliance.

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
November 10, 2016

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Statements of Financial Position**  
**June 30, June 30, 2016 and 2015**

	2016	2015
<b>ASSETS</b>		
Cash - operating	\$ 12,545,433	\$ 3,346,985
Tuition and fees receivable, less allowance of \$ 531,816 for 2016 and \$ 240,000 for 2015	3,659,980	2,147,848
Student loans receivable, less allowance of \$ 15,594 for 2016 and \$ 17,409 for 2015	10,395	11,606
Contributions receivable, net	500,356	192,463
Grants receivable	1,226,078	188,019
Other receivables	242,564	105,044
Prepaid expenses	411,357	285,161
Security deposits	2,850	21,666
Debt issue costs, net of accumulated amortization of \$ 160,136 for 2016 and \$ 143,206 for 2015	341,436	358,366
Deferred financing cost, net of accumulated amortization of \$ 15,438 for 2016 and \$ 11,658 for 2015	3,466	7,246
Bond reserve funds	8,059,333	5,220,993
Property and equipment, net	<u>57,403,436</u>	<u>58,770,463</u>
 Total Assets	 <u>\$ 84,406,684</u>	 <u>\$ 70,655,860</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 282,903	\$ 361,565
Accounts payable related to property and equipment	199,950	56,896
Accrued interest	1,398,282	1,354,382
Other accrued expenses	643,520	530,476
Deposits and deferred revenue	10,108,814	5,451,247
Notes payable	5,455,000	6,859,475
Bonds payable	<u>58,360,044</u>	<u>59,579,551</u>
 Total liabilities	 <u>76,448,513</u>	 <u>74,193,592</u>
Net Assets (Deficit)		
Unrestricted		
Investment in property and equipment	3,669,492	4,355,009
Other	<u>3,788,323</u>	<u>(8,269,394)</u>
	7,457,815	(3,914,385)
Temporarily restricted	<u>500,356</u>	<u>376,653</u>
 Total net assets (deficit)	 <u>7,958,171</u>	 <u>(3,537,732)</u>
 Total liabilities and net assets (deficit)	 <u>\$ 84,406,684</u>	 <u>\$ 70,655,860</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Statements of Activities**  
**Years Ended June 30, June 30, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Educational and general						
Tuition and fees	\$ 39,907,720	\$ -	\$ 39,907,720	\$ 21,055,747	\$ -	\$ 21,055,747
Less student aid	<u>(3,919,763)</u>	<u>-</u>	<u>(3,919,763)</u>	<u>(2,693,763)</u>	<u>-</u>	<u>(2,693,763)</u>
Tuition and fees, net	35,987,957	-	35,987,957	18,361,984	-	18,361,984
Private gifts, grants, and contributions	917,608	555,985	1,473,593	940,613	468,895	1,409,508
Governmental grants	-	2,891,750	2,891,750	-	4,130,246	4,130,246
Interest and dividends	21,031	-	21,031	7,476	-	7,476
Other sources	<u>449,145</u>	<u>-</u>	<u>449,145</u>	<u>490,481</u>	<u>-</u>	<u>490,481</u>
Total educational and general	37,375,741	3,447,735	40,823,476	19,800,554	4,599,141	24,399,695
Net assets released from restrictions	<u>3,324,032</u>	<u>(3,324,032)</u>	<u>-</u>	<u>4,538,461</u>	<u>(4,538,461)</u>	<u>-</u>
Total revenues, gains, and other support	<u>40,699,773</u>	<u>123,703</u>	<u>40,823,476</u>	<u>24,339,015</u>	<u>60,680</u>	<u>24,399,695</u>
<b>EXPENSES</b>						
Educational and general						
Instructional	10,351,350	-	10,351,350	6,707,802	-	6,707,802
Research	584,281	-	584,281	1,526,370	-	1,526,370
Academic support	1,689,461	-	1,689,461	996,497	-	996,497
Student services	10,027,784	-	10,027,784	6,977,947	-	6,977,947
Institutional support	<u>6,674,697</u>	<u>-</u>	<u>6,674,697</u>	<u>6,582,150</u>	<u>-</u>	<u>6,582,150</u>
Total expenses	<u>29,327,573</u>	<u>-</u>	<u>29,327,573</u>	<u>22,790,766</u>	<u>-</u>	<u>22,790,766</u>
Change in net assets	11,372,200	123,703	11,495,903	1,548,249	60,680	1,608,929
Net assets at beginning of year	<u>(3,914,385)</u>	<u>376,653</u>	<u>(3,537,732)</u>	<u>(5,462,634)</u>	<u>315,973</u>	<u>(5,146,661)</u>
Net assets (deficit) at end of year	<u>\$ 7,457,815</u>	<u>\$ 500,356</u>	<u>\$ 7,958,171</u>	<u>\$ (3,914,385)</u>	<u>\$ 376,653</u>	<u>\$ (3,537,732)</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Statements of Cash Flows**  
**Years Ended June 30, June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 11,495,903	\$ 1,608,929
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,861,637	1,959,258
Bond discount amortization	30,493	30,494
(Income) from forgiveness of debt	(435,000)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Tuition, fees, and student loans receivable	(1,510,921)	(1,336,594)
Contributions receivable	(307,893)	21,662
Grants receivable	(1,038,059)	(86,171)
Other receivables	(137,520)	(34,321)
Prepaid expenses	(126,196)	(158,719)
Security deposits	18,816	(750)
Increase (decrease) in:		
Accounts payable	(78,662)	(1,062,009)
Accrued interest	43,900	19,258
Accrued expenses	113,044	(29,742)
Deposits and deferred revenue	4,657,567	4,214,710
Net cash provided by operating activities	<u>14,587,109</u>	<u>5,146,005</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(473,900)	(159,992)
Increase (decrease) in accounts payable related to property and equipment	<u>143,054</u>	<u>(25,000)</u>
Net cash (used in) investing activities	<u>(330,846)</u>	<u>(184,992)</u>
<b>Cash flows from financing activities</b>		
Repayments of debt principal	<u>(2,219,475)</u>	<u>(719,638)</u>
Net cash (used in) financing activities	<u>(2,219,475)</u>	<u>(719,638)</u>
Increase (decrease) in cash and cash equivalents	12,036,788	4,241,375
Cash and cash equivalents, beginning of year	<u>8,567,978</u>	<u>4,326,603</u>
Cash and cash equivalents, end of year	<u>\$ 20,604,766</u>	<u>\$ 8,567,978</u>
<b>Summary of cash and cash equivalents</b>		
Cash - operating	\$ 12,545,433	\$ 3,346,985
Bond reserve funds	<u>8,059,333</u>	<u>5,220,993</u>
	<u>\$ 20,604,766</u>	<u>\$ 8,567,978</u>
<b>Supplemental disclosures of cash flows information</b>		
Cash paid for interest	\$ 3,697,373	\$ 3,750,317
<b>Non cash investing and financing activities</b>		
Income from forgiveness of debt	\$ 435,000	\$ -
Long term debt assumed in exchange for accounts payable	\$ -	\$ 550,000
Reduction in accounts payable in exchange for property and equipment	\$ -	\$ 360,488

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***Nature of Operations***

Harrisburg University of Science and Technology (the "University" or "HU") is an independent not-for-profit institution located in Harrisburg, Pennsylvania. The University is the nation's only comprehensive university that integrates an affiliated college preparatory high school and a business accelerator. The University's academic and research programs in mathematics, science and technology are designed to meet the needs of the region's youth, workforce, and businesses, and to expand, attract, and create economic opportunities in the region.

The University admitted its first class of students for the Fall 2005 term. In June 2009, the University was accredited by the Middle States Commission on Higher Education. The Middle States Commission on Higher Education is an institutional agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

***Basis of Accounting***

These financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

***Financial Statement Presentation***

The University reports information regarding its financial position and activities according to three classes of net assets depending on the existence or nature of any donor restrictions as follows:

**Permanently restricted** – Net assets subject to donor-imposed restrictions that are to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income from these assets. The University had no permanently restricted net assets at June 30, 2016 or 2015.

**Temporarily restricted** – Net assets whose use by the University is subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by passage of time.

**Unrestricted** – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.



**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Contributions***

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Contributions, including unconditional promises to give, are recorded as revenues in the period the promise is made. Conditional promises to give are not recognized until the conditions are met or the pledge payments are received. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year (including those under the terms of gift annuities and charitable remainder trusts) are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. The allowance for uncollectible promises to give was \$ 105,937 and \$ 101,937 at June 30, 2016 and 2015, respectively.

Contributions with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction. Contributions restricted for the acquisition of property and equipment are reported as temporarily restricted revenue. Those contributions are reclassified to unrestricted net assets when restrictions have been met. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

***Cash and Cash Equivalents***

Cash and cash equivalents represent demand deposits and other investments (including overnight repurchase agreements) with original maturities of three months or less, that are not held for endowment or other long-term purposes. The University maintains its cash accounts in various financial institutions. A portion of the University's cash balance may exceed FDIC insurance coverage at times throughout the year. Management considers this to be a normal business risk.

***Bond Reserve Funds***

This represents funds originated from bond proceeds that are set aside for payment of interest and principal on the University Revenue Bonds Series B of 2007 as described in Note 4. These monies are invested by the Trustee in the Federated Institutional Prime Obligations Fund, a money market account valued at \$ 1 per share. This Fund invests primarily in short-term, high quality, fixed income securities issued by banks, corporations and the U.S. Government. The terms of the bond agreement require a minimum balance of \$ 4,826,050 at June 30, 2016 and 2015. The University maintained funds in excess of the required balance at June 30, 2016 due to making required deposits before June 30 for bond debt service payable on September 1.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Tuition and Fees Receivable***

It is the University's policy to provide an allowance for future losses on uncollectible tuition and fees receivable based on an evaluation of the underlying account balances, the historical collection experience of the University on such balances, the past due status, and other factors which, in management's judgment, require consideration in estimating doubtful accounts. Actual write-offs of uncollectible accounts are done periodically after collection efforts have been unsuccessful.

***Property and Equipment***

Property and equipment values represent cost at date of acquisition, or fair value at date of donation in the case of gifts. The University uses a capitalization threshold of \$ 2,500. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	40 years
Furnishings and equipment	5 - 7 years
Leasehold improvements	2 - 10 years
Computer software	3 years
Library contents	10 years

The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is recorded in the period of disposal.

***Deposits and Deferred Revenue***

Deposits and deferred revenue relates to summer session tuition for the portion of the session occurring after June 30 and all fall session tuition received prior to June 30.

***Debt Issue Costs***

Costs incurred in obtaining financing are capitalized and amortized using the straight-line method over the lives of the debt.

***Advertising Expense***

The University expenses advertising costs as incurred. This expense amounted to \$ 686,923 and \$ 157,788 for the years ended June 30, 2016 and 2015, respectively.

***Use of Estimates***

Management of the University has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Accordingly, actual results could differ from those estimates. Significant estimates that could ultimately result in changes to amounts reflected in these financial statements include allowances for uncollectible tuition and fees receivable and contributions receivable, and depreciation of property and equipment. It is at least reasonably possible that a change in estimates could occur in the near term.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Concentrations***

The University received approximately 11% and 23% of its revenues in the form of private gifts, grants, and contributions and governmental grants during the years ended June 30, 2016 and 2015, respectively. Decreases in this funding could have a significant impact on the University.

***Tax Status***

Under provisions of the Internal Revenue Code, Section 501 (c)(3), and the applicable tax regulations of Pennsylvania, the University is exempt from taxes on income other than unrelated business income. Since the University had no net unrelated business income during the years ended June 30, 2016 and 2015, no provision for income taxes has been made. The University files Form 990, "Return of Organization Exempt from Income Tax". The Forms 990 are generally subject to examination for a period of three years after the returns are filed.

***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements to be consistent with 2016 reporting. Such reclassifications had no impact on the change in net assets.

***Deferred Contribution Pension Plan***

The University sponsors a 403(b) pension plan covering substantially all employees. The University may make discretionary contributions to the plan annually. Through January 2016, the plan was funded solely by employee contributions. In February 2016, the University began providing matching contributions up to a 3% match. Contributions by the University to the plan were \$ 79,000 for the year ended June 30, 2016. Since the plan is a defined contribution plan, the University has no financial obligations to the plan other than making any matching requirements it approves.

**NOTE 2 CONTRIBUTIONS RECEIVABLE**

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Contributions receivable, representing donor promises to give, have been discounted to present value assuming their respective terms and a discount rate of 1.41% and 1.60% at June 30, 2016 and 2015, respectively. The pledges are scheduled to be collected as follows, net of the allowance for uncollectible promises to give and the present value discount:

	<b>2016</b>	<b>2015</b>
Unconditional promises expected to be collected in:		
Less than one year	\$ 270,485	\$ 225,551
One year to five years	345,000	71,000
Over five years	-	-
Total unconditional promises to give	615,485	296,551
Allowance for uncollectible promises to give	(105,937)	(101,937)
Discount for present value of cash flows	(9,193)	(2,151)
Net unconditional promises to give	<u>\$ 500,355</u>	<u>\$ 192,463</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

**NOTE 3 PROPERTY AND EQUIPMENT**

A summary of property and equipment of the University as of June 30 is as follows:

	Cost	Accumulated Depreciation	Depreciated Cost
<b>2016</b>			
Land	\$ 4,062,768	\$ -	\$ 4,062,768
Buildings and improvements	64,767,593	12,110,555	52,657,038
Leasehold improvements	17,363	1,815	15,548
Furnishings and equipment	2,643,423	2,252,908	390,515
Library contents	160,341	105,884	54,457
Computer software	103,088	102,237	851
Equipment deposit (A)	3,495	-	3,495
Construction in process (B)	218,764	-	218,764
	<u>\$ 71,976,835</u>	<u>\$ 14,573,399</u>	<u>\$ 57,403,436</u>
<b>2015</b>			
Land	\$ 4,062,768	\$ -	\$ 4,062,768
Buildings and improvements	64,741,593	10,491,474	54,250,119
Furnishings and equipment	2,415,637	2,051,655	363,982
Library contents	156,317	90,044	66,273
Computer software	103,088	99,300	3,788
Equipment deposit (C)	23,533	-	23,533
	<u>\$ 71,502,936</u>	<u>\$ 12,732,473</u>	<u>\$ 58,770,463</u>

(A) - Prior to June 30, 2016, the University made a deposit to purchase a new phone system for the 10<sup>th</sup> and 11<sup>th</sup> floors.

(B) - Prior to June 30, 2016, the University incurred architect expenses related to the fit out of the 10<sup>th</sup> and 11<sup>th</sup> floors.

(C) - Prior to June 30, 2015, the University placed a deposit on a new telephone system with a total cost of approximately \$ 75,000. The system was completed and placed in service in August 2015.

Depreciation expense (including amortization expense of assets under capital lease) for the years ended June 30, 2016 and 2015 was \$ 1,840,926 and \$ 1,938,545, respectively.

During the year ended June 30, 2009, the University completed the construction of a 371,000 square foot Academic Center at 326 Market Street. The total cost of the project, including architect fees, feasibility studies, construction costs, furnishings and equipment, capitalized interest, and other related costs, was \$ 80.3 million. This cost included \$ 14,764,527 for the parking facility that was transferred to the Harrisburg Parking Authority (HAP) on December 22, 2013.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 4 BONDS AND NOTES PAYABLE**

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***Bonds Payable***

On January 1, 2007, the University obtained financing in the form of two construction loans in the amounts of \$ 27,690,000 (University Revenue Bond Series A of 2007) and \$ 60,225,000 (University Revenue Bond Series B of 2007) with the Harrisburg Authority (Authority), with Commerce Bank N.A. originally functioning as Trustee (subsequently changed to UMB Bank effective May 15, 2012) under the Trust Indenture dated January 1, 2007. The proceeds were used to refinance various outstanding loans; to fund the acquisition and construction of the new academic center at 326 Market Street; and to establish certain bond reserve funds.

Final redemption of the Series A bonds occurred on September 1, 2009.

As to the Series B Bonds only, the University arranged for the issuance of a standby letter of credit (the "SLOC") by First National Bank (formerly Metro Bank) pursuant to a Reimbursement Agreement dated as of January 1, 2007 (the "Reimbursement Agreement") between the University and First National Bank. On the date of execution and delivery of the Series B Bonds, First National Bank issued in favor of the Trustee the SLOC in the amount of \$ 3,300,000, which was able to be drawn to pay the debt service on the Series B Bonds as described in the Indenture, as such amounts may from time to time be reduced and reinstated as provided in the SLOC. The SLOC expired on September 1, 2011 and was not renewed. See the "Notes Payable" section of this footnote for amounts outstanding on this debt.

The Series B Bonds mature in 2036, but are subject to scheduled mandatory redemption by the Authority annually beginning on September 1, 2015 and continuing through final redemption on September 1, 2036.

Section 4.2 of the Loan Agreement provides that the University is required to make, as Loan Payments, payments which correspond as to amounts and due dates of the Bonds debt service, at least seventy-five (75) business days (or earlier if required by the Indenture) prior to the date when such principal, premium, if any, and interest is due and payable. By Notice of Default dated June 2, 2014, the Trustee notified the University of its failure to make a required Loan Payment of \$ 1,806,750, in anticipation of the Bonds Debt Service payment due on September 1, 2014. In its Notice of Default, the Trustee asserted that such failure constitutes an Event of Default under the Loan Agreement and the Indenture. As of June 30, 2015, the University has repaid all outstanding obligations to the Bond Trustee.

The County of Dauphin, Pennsylvania has also issued a limited guaranty of up to \$ 1.5 million per year for a period of 10 years to be provided for the payment of a portion of debt service on the Series B Bonds (maximum guaranty of \$ 15 million). The period for which the guaranty is in effect began January 1, 2010 and ends December 31, 2019 (the "Guarantee Period"), unless terminated earlier due to a Termination Event of the County Guaranty. Under the Guaranty Agreement, the County will make payment of not more than \$ 1.5 million toward the amount of annual principal and interest due to the holders of the Series B Bonds if the Authority or the Trustee shall fail to pay, in full, for any year during the Guarantee Period, the principal of and interest on the Series B Bonds when the same becomes due and payable. See the Notes Payable Section for details on County payments on this guaranty.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 4 BONDS AND NOTES PAYABLE (CONTINUED)**

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***Bonds Payable (Continued)***

The University Revenue Bonds bear interest at a rate of 6.0% for Series B and are secured by all the assets of the University. Upon a default of payment due on the Series B bonds, funds available from the County Guarantee would be used first, followed by the bond reserve funds.

Under the terms of the bond agreement and Dauphin County Guarantee Agreement, the University is required to maintain various financial covenants. The University was not in compliance with the liquidity covenant for either of the years ended June 30, 2016 or 2015. As a result, the University could only use Expendable Funds (as defined) in excess of \$ 10 million to acquire or construct Capital Additions in either year, and the same restriction applies in the 2016-2017 year. The University was in compliance in 2016 and 2015 with the rate covenant which became effective on June 30, 2011. The University believes it has complied with the limitation on capital additions in both years.

The balance outstanding for the bonds described above at June 30 is as follows:

	<b>2016</b>	<b>2015</b>
University Revenue Bond Series B	\$ 58,975,000	\$ 60,225,000
Less: Underwriter's bond discount	<u>(614,956)</u>	<u>(645,449)</u>
	<u>\$ 58,360,044</u>	<u>\$ 59,579,551</u>

Amortization expense of debt issue costs related to the above debt for each of the years ended June 30, 2016 and 2015 was \$ 16,931. Amortization of the underwriter's bond discount to interest expense for each of the years ended June 30, 2016 and 2015 was \$ 30,494.

Bond principal payments due for the next five years and thereafter are as follows for the years ended June 30:

2017	\$ 1,325,000
2018	1,405,000
2019	1,495,000
2020	1,585,000
2021	1,685,000
Thereafter (2022 - 2037)	<u>51,480,000</u>
	<u>\$ 58,975,000</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

**NOTE 4 BONDS AND NOTES PAYABLE (CONTINUED)**

**Notes Payable**

**First National Bank (Formerly Metro Bank)**

The balance of the First National Bank SLOC described above was \$ 1,500,695 at June 30, 2012. The University has no further ability to borrow on this SLOC. Under the amended terms of this loan agreement, effective April 2013, the University will make payment of interest only through September 1, 2015. Beginning on October 1, 2015, the University is scheduled to begin monthly payments of principal and interest in the amount of \$ 67,661. A final payment equal to all outstanding principal, interest, and other unpaid amounts shall be made on or before June 1, 2017. The outstanding balance is \$ 1,100,000 and \$ 1,345,641 at June 30, 2016 and 2015, respectively, and the interest rate is fixed at 6%.

**County of Dauphin**

During the years ended June 30, 2010 and 2011, the University borrowed \$ 1,000,000 and \$ 1,200,000, respectively, from the County of Dauphin, Pennsylvania. On February 29, 2012, the University borrowed \$ 1.5 million from the County of Dauphin under the County Guarantee described above under "bonds payable". At that time, the University and the County of Dauphin entered into a promissory note for the entire \$ 3.7 million at an interest rate of 0.5% and due date of December 29, 2019. On February 28, 2013, the University borrowed an additional \$ 1.5 from the County of Dauphin under the County Guarantee. At that time, the University and the County of Dauphin entered into a promissory note for the entire \$ 5.2 million at an interest rate of 0.5%. During the year ended June 30, 2014, the County forgave the \$ 1.5 million borrowed on February 28, 2013, reducing the outstanding loan balance to \$ 3.7 million at June 30, 2014. A \$ 45,000 principal payment was made during 2015. The balance payable is \$ 3,655,000 at June 30, 2016 and 2015.

On February 26, 2016, the County advanced \$ 994,755 to the University under the guarantee agreement. The County considers the 2014 debt forgiveness and the 2014-2016 advances to be grants to HU and therefore does not expect repayment (see Note 7).

The schedule below summarizes the activity with the County of Dauphin under the guarantee agreement and other borrowings:

<b>Year Ended June 30</b>	<b>Guarantee Loan</b>	<b>Guarantee Grant</b>	<b>Other Loan</b>	<b>Description</b>
2010	\$ -	\$ -	\$ 1,000,000	Borrowing
2011	-	-	1,200,000	Borrowing
2012	1,500,000	-	-	Borrowing
2013	1,500,000	-	-	Borrowing
2014	(1,500,000)	1,500,000	-	Debt Forgiveness
2014	-	1,500,000	-	Grant
2015	-	1,500,000	-	Grant
2015	(45,000)	-	-	Principal Payment
2016	-	994,755	-	Grant
Cumulative Amount	<u>\$ 1,455,000</u>	<u>\$ 5,494,755</u>	<u>\$ 2,200,000</u>	(A)

(A) Under the terms of a promissory note dated February 28, 2013, the \$ 3,655,000 owed to Dauphin County at June 30, 2016 and 2015 is at an interest rate of 0.5%, with repayment of both principal and interest due on December 29, 2019.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 4 BONDS AND NOTES PAYABLE (CONTINUED)**

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***Notes Payable (Continued)***

**Fulton Bank**

The University has a \$ 500,000 line of credit with Fulton Bank, N.A. The terms have been amended and restated at various times, with the most recent amendment on July 31, 2015 setting the terms of the Promissory Note at an interest rate equal to the Fulton Bank Prime Rate plus 1.5%, with a floor of no less than 6.00%. This note functions as a revolving line of credit in the maximum amount of \$ 500,000. Interest payments shall be due monthly and the outstanding principal, together with any interest due, shall be payable on December 31, 2015. This note had an outstanding balance of \$ 449,834 at June 30, 2015 and was paid in full as of June 30, 2016. On April 15, 2014, the University borrowed an additional \$ 200,000 on a separate time note due July 15, 2014 at an interest rate equal to Fulton Bank Prime plus 1.5%, with a floor of no less than 5.50%. This \$ 200,000 note was paid in full during the year ended June 30, 2015.

**Individuals**

The University has entered into several promissory notes with University donors. Interest on these notes accrues at 4.25%, and principal and interest is payable on demand each year on December 31, provided that the lender notifies the University prior to November 1 of its election to call the outstanding note. The balance remaining on these notes at June 30, 2016 and 2015, respectively, was \$ 200,000 and \$ 635,000. Individual loans forgiven during the years ended June 30, 2016 and 2015 amounted to \$ 435,000 (\$ 385,000 from a related party) and \$ 0, respectively, and are reflected as contribution income.

On August 27, 2014, the University entered into an agreement with the building owner of the student housing units leased by the University to transfer furniture and building improvements owned by the University and to agree to pay \$ 550,000 in the form of a non-interest bearing promissory note over a period of 24 monthly payments to the building owner beginning on September 10, 2014, in exchange for accounts payable. The outstanding balance on this note at June 30, 2015 was \$ 274,000. The loan was paid in full at June 30, 2016.

**Harrisburg Parking Authority**

As part of the sales agreement to transfer the parking facility to HPA (Note 3), the University entered into a promissory note with HPA dated December 23, 2013 for \$ 500,000. The note bears interest at 6% and principal and interest are not due until all debt to the bondholders, First National Bank, and the County of Dauphin are repaid.



**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 4 BONDS AND NOTES PAYABLE (CONTINUED)**

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***Notes Payable (Continued)***

Note principal payments due for the next five (5) years and thereafter are as follows at June 30, 2016:

	<b>First National Bank</b>	<b>County of Dauphin</b>	<b>Individuals</b>	<b>Harrisburg Parking Authority</b>	<b>Total</b>
2017	\$ 1,100,000	\$ -	\$ 200,000	\$ -	\$ 1,300,000
2018	-	-	-	-	-
2019	-	-	-	-	-
2020	-	3,655,000	-	-	3,655,000
2021	-	-	-	-	-
Thereafter	-	-	-	500,000	500,000
	<u>\$ 1,100,000</u>	<u>\$ 3,655,000</u>	<u>\$ 200,000</u>	<u>\$ 500,000</u>	<u>\$ 5,455,000</u>

Outstanding notes payable at June 30, 2015 was as follows:

First National Bank	\$ 1,345,641
County of Dauphin	3,655,000
Fulton Bank	449,834
Individuals	909,000
Harrisburg Parking Authority	<u>500,000</u>
	<u>\$ 6,859,475</u>

Total interest expense on all debt was \$ 3,771,767 and \$ 3,800,069 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 5 RESTRICTED NET ASSETS**

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The nature of temporarily restricted net assets at June 30 was as follows:

	<b>2016</b>	<b>2015</b>
Contributions receivable to be used for:		
Various operating expenses	\$ 500,356	\$ 192,463
Grants receivable to be used for:		
Various operating expenses	-	184,190
	<u>\$ 500,356</u>	<u>\$ 376,653</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 6 ASSETS RELEASED FROM RESTRICTIONS**

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Net assets released from restrictions consist of the following for the years ended June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Time and Purpose restrictions accomplished		
National Science Foundation - grant related expenses	\$ 505,878	\$ 1,299,306
State Grant - IAG	106,396	77,536
County of Dauphin grant	994,755	1,500,000
Other state and federal grants	1,468,910	1,171,063
Collections of outstanding pledges and contributions utilized for donor purpose	248,093	490,556
	<u>\$ 3,324,032</u>	<u>\$ 4,538,461</u>

**NOTE 7 GOVERNMENT GRANTS**

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In 2008, the University was approved for a \$ 25 million Redevelopment Assistance Capital Program (RACP) reimbursement grant funded through the Commonwealth of Pennsylvania Office of Budget. In 2010, the University received approval for an additional \$1.25 million grant. These funds, along with \$ 1.4 million remaining from a prior \$ 12 million RACP grant, a \$ 5.0 million RACP grant approved in July 2011, and a \$ 6.0 million RACP grant approved in September 2011 brought the total RACP funding for the combined Harrisburg University and Harrisburg Sci-Tech High project to \$ 49.25 million.

There was no revenue from this grant in the years ended June 30, 2016 and 2015. Cumulative revenue recognized from the RACP grants applicable to this project was \$ 46,133,988, leaving a balance of \$ 2,807,262 in RACP grant funding available to be recognized in future periods, contingent upon meeting various matching requirements.

On February 26, 2016, the County advanced \$ 994,755 to HU under the County Guarantee agreement as described in the "Notes Payable" section of Note 4. On February 26, 2015, the County also advanced \$ 1.5 million to HU under the terms of the same agreement. The County considers these advances to be grants to the University.

The University is the recipient of multi-year grants from the National Science Foundation that provide funding for the Science Education for New Civic Engagements and Responsibilities (SENCER) Project. Revenue of \$ 425,536 at June 30, 2016 was recognized under this grant for the year ended June 30, 2016. Revenue of \$ 1,285,156, including a \$ 55,983 grant receivable at June 30, 2015, was recognized under this grant for the year ended June 30, 2015. This grant was significantly reduced during 2016.

For both fiscal years 2016 and 2015, the University was awarded a \$ 1,000,000 Job Training and Education Programs Grant from the Commonwealth of Pennsylvania. A grant receivable of \$ 1,000,000 was recognized at June 30, 2016 since the proceeds were not received until July 2016. The fiscal year 2015 grant was received before year end.

The University is the recipient of various other federal and state government grants. Revenue from these grants in the amounts of \$ 471,459, including \$ 226,078 in grants receivable at June 30, 2016, was recognized for the year ended June 30, 2016. Revenue of \$ 345,090, including grants receivable of \$ 132,036 at June 30, 2015, was recognized for the year ended June 30, 2015.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 8 SUMMARY OF EXPENSES**

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

	<b>2016</b>	<b>2015</b>
Salaries and wages	\$ 9,525,251	\$ 6,174,342
Payroll taxes	582,815	415,506
Employee benefits	946,275	716,490
Travel	244,777	546,496
Supplies and other	468,951	879,077
Technology	499,089	379,790
Marketing	1,055,963	340,693
Facility management	995,546	836,698
Administration	9,375,501	6,742,348
Interest	3,771,767	3,800,069
Depreciation and amortization	<u>1,861,638</u>	<u>1,959,257</u>
	<u>\$ 29,327,573</u>	<u>\$ 22,790,766</u>

Fundraising expenses totaled approximately \$ 1,004,908 and \$ 452,624 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 9 OPERATING LEASES**

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Total rents paid under operating leases for facilities and equipment were \$ 92,501 and \$ 52,938 for the years ended June 30, 2016 and 2015, respectively. See Note 10 for related party rent expense.

The University has several long-term leases with a related party for office space at June 30, 2016. The leases run for five (5) years and have one (1) year renewal options. The University also has a 39 month lease agreement for the use of copiers. Future lease commitments under these leases are as follows at June 30, 2016:

<b>Year ended June 30,</b>	
2017	\$ 87,958
2018	89,681
2019	81,288
2020	62,781
2021	<u>23,973</u>
	<u>\$ 345,681</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 10 RELATED PARTY TRANSACTIONS**

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The University received private gifts and contributions from members of its Board of Directors totaling \$ 592,778 and \$ 336,739 during 2016 and 2015, respectively. Total net contributions receivable from members of the Board at June 30, 2016 and 2015 were \$ 31,126 and \$ 89,192, respectively.

A board member is President and CEO of the company that provides health insurance to University employees beginning in fiscal year 2016. The University paid \$ 290,464 to this company for health insurance during 2016.

A board member owns a firm that contracts with the University to provide government relations services. The University paid \$ 48,000 and \$ 26,000 to this firm during 2016 and 2015, respectively.

A board member owns a building in which the University has a five year lease for two floors of office space, which began in fiscal year 2016. The University paid \$ 32,100 in rental payments under the terms of this lease during 2016.

A board member is the President and CEO of a non-profit organization that provide janitorial and security services to the University. The University paid \$ 42,832 and \$ 42,829 for these services during 2016 and 2015, respectively.

**NOTE 11 FAIR VALUE MEASUREMENTS**

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Generally accepted accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

**Level 1** – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities and mutual funds.

**Level 2** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate, asset backed securities, swap agreements, and life insurance contracts, as well as money market funds and mutual funds quoted at net asset value of the underlying securities.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

**NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Level 3** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity’s own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and those with internally developed values. Contributions receivable are carried at fair value due to discounting to present value and classified as Level 3 based on the unobservable inputs related to the allowance for uncollectible contributions.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on the University's statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Federated Institutional Prime Obligation Fund (Bond Reserve Fund)***

This fund is a money market account that invests primarily in short-term, high quality, fixed income securities issued by banks, corporations and the U.S. Government. It pursues current income consistent with stability of principle. This fund is classified within Level 2 of the valuation hierarchy.

***Contributions Receivable***

Contributions receivable are valued at the initial pledge amount committed by the donor discounted to their present value less any allowance for uncollectible contributions as determined by management based upon management’s analysis of specific promises made and prior collection history. Such receivables are classified within Level 3 of the valuation hierarchy. The most significant unobservable input used in the measurement of fair value for contributions receivable is the determination of the allowance for uncollectible contributions.

The following table sets forth by level within the fair value hierarchy, the University's financial assets that were accounted for at fair value on a recurring basis as of June 30, 2016 and 2015:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2016</b>				
Contributions receivable	\$ 500,356	\$ -	\$ -	\$ 500,356
Money Market Fund	8,059,333	-	8,059,333	-
Total	<u>\$ 8,559,689</u>	<u>\$ -</u>	<u>\$ 8,059,333</u>	<u>\$ 500,356</u>
<b>2015</b>				
Contributions receivable	\$ 192,463	\$ -	\$ -	\$ 192,463
Money Market Fund	5,220,993	-	5,220,993	-
Total	<u>\$ 5,413,456</u>	<u>\$ -</u>	<u>\$ 5,220,993</u>	<u>\$ 192,463</u>

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)**

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***Contributions Receivable (Continued)***

The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the years ended June 30:

	<b>2016</b>	<b>2015</b>
<b>Fair Value as of July 1</b>	\$ 192,463	\$ 214,125
Total gains or losses included in change in net assets		
Contribution revenue from pledges	510,000	110,000
Change in discount on unconditional promises to give	(7,041)	(1,217)
Bad debts from promises to give and change in allowance	(4,000)	(68,937)
Contributions collected	(191,066)	(61,508)
<b>Fair Value as of June 30</b>	<u>\$ 500,356</u>	<u>\$ 192,463</u>

The University had no liabilities subject to fair value reporting requirements at June 30, 2016 and 2015.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

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***Memorandum of Understanding***

A memorandum of understanding (MOU) with the Harrisburg School District was executed on October 12, 2006 under which the University agrees to provide fully funded scholarships to each graduate of the SciTech High program attending the University, as long as the graduates agree to remain Harrisburg residents for five years after graduation from the University and attain sufficient academic grades as identified in the agreement.

***Contractual Commitment***

The University has a Marketing and Recruiting Agreement with a management company under which the University pays a fee to assist in marketing and recruiting international graduate students. The liability is not fixed until the "Census Date" of the term enrolled. As a result, the University incurred a liability in the amount of \$ 1,731,240 on July 5, 2016. Since there was no liability to the University until the "Census Date", this expense will be recorded in the year ended June 30, 2017.

***Construction Contracts***

As of June 30, 2016, the University had a commitment for professional services related to the fit-out of the 10<sup>th</sup> and 11<sup>th</sup> floors as follows (See Note 12 for subsequent event):

	<b>Total Estimated Costs</b>	<b>Total Costs Incurred</b>	<b>Total Costs to be Incurred</b>
10th & 11th floor fit-out			
Professional services	\$ 426,502	\$ 218,764	\$ 207,738

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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***Financial Responsibility***

34 CFR §668 addresses the requirements for the University to be considered "financially responsible" in order to continue to participate in Title IV Federal Student Aid.

Based on communication to the University from the Department of Education dated July 31, 2013 and the University's response to that communication dated August 12, 2013, the University began operating under the "Provisional Certification Alternative" option of the Financial Responsibility regulations as defined at 34 CFR §668.175(f). By agreeing to this option, the University acknowledged that it had not met the Department's standard of financial responsibility for the fiscal year ended June 30, 2012. As a condition of the Provisional Certification Alternative, the University obtained a letter of credit in the amount of \$ 282,500 payable to the U.S. Department of Education issued on October 11, 2013 and expiring on October 11, 2014.

Based on subsequent communications to the University from the Department of Education and the University's responses to those communications, the University continues to operate under the "Provisional Certification Alternative" option of the Financial Responsibility regulations as defined at 34 CFR §668.175(f). By agreeing to this option, the University acknowledged that it had not met the Department's standard of financial responsibility for the fiscal years ended June 30, 2013, June 30, 2014, or June 30, 2015. As a condition of the Provisional Certification Alternative, the University obtained annual amendments to the letter of credit. The most recent amendment was issued on June 30, 2016 in the amount of \$ 387,000 payable to the U.S. Department of Education and expiring on June 30, 2017.

An institution may be provisionally certified for a period up to three complete award years. Continued participation in Title IV Federal Student Aid is subject to ongoing approval by the U. S. Department of Education. The University was notified in July 2016 that its certification was extended for an additional three year period ending June 30, 2019.

***Accreditation***

The University is accredited by the Middle States Commission on Higher Education. The University was notified by letter from the Commission dated June 27, 2014 that the University has been placed on probation by the Commission because of insufficient evidence that the University is currently in compliance with its "Institutional Resources" and "Assessment of Student Learning" standards. The University submitted a monitoring report addressing the issues described in the letter to the Commission on March 27, 2015. The institution remained accredited while on probation. Probation ended March 3, 2016.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Financial Statements**  
**Years Ended June 30, June 30, 2016 and 2015**

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**NOTE 13 SUBSEQUENT EVENTS**

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The University has evaluated events and transactions subsequent to June 30, 2016 through November 10, 2016, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified several events that have occurred subsequent to June 30, 2016 and through November 10, 2016 which require recognition or disclosure in the financial statements.

On July 12, 2016, the University entered into a contract with Reynolds Construction, LLC for the fit-out of the 10<sup>th</sup> and 11<sup>th</sup> floors of the Academic Center located at 326 Market Street in Harrisburg, Pennsylvania. This contract has a guaranteed maximum price of \$ 3,721,334. The University estimates that an additional \$ 770,000 will be incurred related to audio visual components and furniture and fixtures. This space will include over 30 offices, classrooms, a computer lab, a science lab, maker space, a studio, and a large assembly hall. Construction is planned to be substantially complete by December 23, 2016.

On October 13, 2016, the University transferred \$1,775,000 to the Bond Trustee to completely fund the March 1, 2017 bond interest payment.



**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, June 30, 2016**

	<b>Federal CFDA</b>	<b>Grant Period</b>	<b>Revenue/ Expenditures</b>	<b>Total Passed- Through to Subrecipients</b>
<b>U.S. Department of Education</b>				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants	84.007	07/01/15 - 06/30/16	\$ 14,975	\$ -
Federal Work Study	84.033	07/01/15 - 06/30/16	13,749	-
Pell Grant Program	84.063	07/01/15 - 06/30/16	930,629	-
Federal Direct Student Loans	84.268	07/01/15 - 06/30/16	<u>3,107,636</u>	<u>-</u>
Total Student Financial Assistance Cluster			<u>4,066,989</u>	<u>-</u>
Supporting Effective Instruction State Grant (subrecipient from Drexel University - subcontract #238114)	84.367	10/1/15 - 9/30/16	<u>9,680</u>	<u>-</u>
Total Department of Education			<u>4,076,669</u>	<u>-</u>
<b>National Science Foundation</b>				
Engaging Mathematics	47.076	09/01/13 - 11/30/15	47,397	-
Informal Science Education Program	47.076	09/01/15 - 11/30/15	112,307	8,692
Innovative Corps	47.076	06/01/15 - 05/31/16	24,359	-
Course Curriculum and Laboratory Improvement Program	47.076	07/01/15 - 11/30/15	<u>265,832</u>	<u>7,743</u>
Total National Science Foundation			<u>449,895</u>	<u>16,435</u>
Total Federal Assistance			<u>\$ 4,526,564</u>	<u>\$ 16,435</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, June 30, 2016**

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**NOTE 1 GENERAL**

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The accompanying schedule of federal awards presents the expenditures of federal awards programs of Harrisburg University of Science and Technology (the University). The University is described in Note 1 to the University's financial statements.

**NOTE 2 BASIS OF ACCOUNTING/INDIRECT COST RATE**

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The accompanying schedule of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the University's financial statements. The University has elected to use the 10% de minimus indirect cost rate for its federal programs.

**NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS**

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Amounts reported in the accompanying schedule agree with amounts included in the University's financial statements in all material respects.

**NOTE 4 FEDERAL DIRECT STUDENT LOANS**

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The University is only responsible for the performance of certain administrative duties and is not considered the lender with respect to the student loan programs, and accordingly, these loans are not included in its financial statements and it is not practical to determine the balance of loans outstanding to students and former students of the University under these programs. The amount reported on the Schedule of Expenditures of Federal Awards represents new loan advances during the year.

**NOTE 5 FINANCIAL RESPONSIBILITY**

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The University's Equity, Primary Reserve, and Net Income ratios for the year ended June 30, 2016 yield a composite score of 1.9 out of a possible 3.0 as described in 34 C.F.R. §668.172, Financial Ratios. Accordingly, the University achieved the minimum score of 1.5 and meets the requirement of the financial standards for this period. As a result of composite scores less than 1.5 for the three most recent prior fiscal years, the University has been subject to "zone alternative" disbursement requirements. The "zone alternative" is only available if the composite score is in the range from 1.0 to 1.4. As noted in Note 11 to the financial statements, the University is operating under the "Provisional Certification Alternative" option under the Financial Responsibility Regulations as defined at 34 CFR §668.175(f).

In addition, as noted in Note 4 to the financial statements, the University was not in compliance with the "liquidity" debt covenant at June 30, 2016 or June 30, 2015. 34 CFR §668.171 indicates that "an institution is not current in its debt payments if it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements".

The University is required to notify the School Participation Division of the U.S. Department of Education upon the occurrence of any predetermined oversight or financial events. This notification must include details of the circumstances surrounding the event(s) and the steps taken or planned to resolve the issue. The University has made the required notifications to the Department regarding its covenant noncompliance, and continues to work with the Department to assure that the University continues to be eligible to participate in the Title IV Student Assistance Program.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Harrisburg University of Science and Technology  
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harrisburg University of Science and Technology, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2016.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered Harrisburg University of Science and Technology's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrisburg University of Science and Technology's internal control. Accordingly, we do not express an opinion on the effectiveness of Harrisburg University of Science and Technology's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether Harrisburg University of Science and Technology's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harrisburg University of Science and Technology's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrisburg University of Science and Technology's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
November 10, 2016



## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Harrisburg University of Science and Technology  
Harrisburg, Pennsylvania

### ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited Harrisburg University of Science and Technology's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Harrisburg University of Science and Technology's major federal programs for the year ended June 30, 2016. Harrisburg University of Science and Technology's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Harrisburg University of Science and Technology's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrisburg University of Science and Technology's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harrisburg University of Science and Technology's compliance.



### ***Basis for Qualified Opinion on Title IV Student Financial Assistance Programs***

As described in item 2016-001 in the accompanying schedule of findings and questioned costs, Harrisburg University of Science and Technology did not comply with requirements regarding financial responsibility that are applicable to its Title IV Student Financial Assistance Programs. Compliance with such requirements is necessary, in our opinion, for Harrisburg University of Science and Technology to comply with the requirements applicable to that program.

### ***Qualified Opinion on Title IV Student Financial Assistance Programs***

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, Harrisburg University of Science and Technology complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Title IV Student Financial Assistance Programs for the year ended June 30, 2016.

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of Harrisburg University of Science and Technology is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrisburg University of Science and Technology’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Harrisburg University of Science and Technology’s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrisburg University of Science and Technology’s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Smith Elliott Kearns & Company, LLC  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
November 10, 2016

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Schedule of Findings and Questioned Costs**  
**June 30, June 30, 2016**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified:  Yes  No
- Significant deficiencies identified that are not considered to be material weakness(es)?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness identified?  Yes  No
- Significant deficiencies identified that are not considered to be a material weakness(es)?  Yes  None Reported

Type of auditor's report issued on compliance for the major programs: Qualified

- Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?  Yes  No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
84.007	Title IV Student Financial Assistance Cluster
84.033	FSEOG Program
84.063	Federal Work Study Program
84.268	Pell Grant Program
	Federal Direct Student Loans

Dollar threshold used to distinguish between type A and type B programs \$ 750,000

Auditee qualified as low-risk auditee?  Yes  No



## Section II - Financial Statement Findings

### A. Material Weakness in Internal Control

There were no findings relating to internal control over financial reporting.

### B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

## Section III – Federal Award Findings and Questioned Costs

### A. Material Weakness in Internal Control Over Compliance

None Noted

### B. Compliance Finding

#### Finding 2016-001:

**CFDA No.:** 84.007, 84.033, 84.063, 84.268  
**Federal Award No.:** 039483; G39483; 008968  
**Name of Federal Agency:** U. S. Department of Education  
**Program Title:** Student Financial Assistance Cluster  
**Federal Award Year:** 7/1/15 - 6/30/16

**Criteria:** A general standard under Section 668.171 of the Code of Federal Regulations (CFR) is that the institution must remain current in its debt payments. Section 668.171(b)(3)(i) states that an “institution is not current in its debt payments if it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements”.

**Condition:** As disclosed in Note 4 to the financial statements, the University is not in compliance with the Liquidity Covenant for Bonds Payable for the year ended June 30, 2016. As a result, the University is not considered to be current in its debt payments.

**Cause:** The University had significant decreases in its net assets from inception through June 30, 2014, resulting in a negative balance of net assets of \$ 5.1 million at June 30, 2014. Consequently, despite increases in net assets of \$ 1.6 million in fiscal year 2015 and \$ 11.5 million in fiscal year 2016, the University has not been able to meet its liquidity covenant.

**Effect:** The University has been in contact with the Department of Education to make the Department aware of this issue and will need to continue to work with the Department to assure that the University remains eligible to participate in the Title IV Student Assistance Program.

**Section III – Federal Award Findings and Questioned Costs (Continued)**

<b><i>Effect (Continued):</i></b>	The University was notified in July 2013 that it would be provisionally certified for a period up to three complete years, requiring the University to comply with the requirements of the Provisional Certification Alternative as described in 34 CFR §668.175(d). This certification was extended in July 2016 for an additional three year period expiring June 30, 2019. This includes posting a letter of credit payable to the U.S. Department of Education in the amount of \$ 282,500, which was done on October 11, 2013. On March 25, 2015 the letter of credit was amended to \$ 333,000. The most recent amendment was issued on June 30, 2016 in the amount of \$ 387,000 payable to the U.S. Department of Education and expiring on June 30, 2017.
<b><i>Questioned Costs:</i></b>	There are no questioned costs as a result of this finding.
<b><i>Perspective Information:</i></b>	The noncompliance with the liquidity covenant has been an issue for over five (5) years and will not be resolved until net assets increase to a level that "expendable funds" are 25% of outstanding debt. At June 30, 2016, this was only 7.2% based on the debt covenants from Harrisburg Authority.
<b><i>Repeat Finding:</i></b>	This is a repeat finding initiated in the year ended June 30, 2011 as Finding 2011-1.
<b><i>Views of Responsible Officials:</i></b>	The University's composite score and bond related debt covenant ratios continue to improve. Based on the results for fiscal year 2015-2016, the University met the composite score requirement. The University will continue to work with the bond holders to satisfy the bond related covenants. The audited financial statements will be submitted to the Department of Education as soon as they are available. Once reviewed, the Department of Education will provide HU with guidance relating to the University's participation in the Title IV program. Harrisburg University understands the rules surrounding the regulation and will comply with the Department's determination.

**HARRISBURG UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**Summary Schedule of Prior Audit Findings**  
**June 30, June 30, 2016**

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**Finding 2015-001**

***Condition:***

The University did not comply with minimum standards of financial responsibility as defined in CFR 668.171 to maintain a minimum composite score of at least 1.5 out of a possible 3.0 for the combination of Equity, Primary Reserve, and Net Income ratios. The University's score for the year ended June 30, 2015 was 0.1.

In addition, the University did not comply with the general standard under Section 668.171 that the institution remains current in its debt payments due to noncompliance with the Liquidity Covenant for its Bonds Payable. All debt payments were current as of June 30, 2015, however the University was out of compliance with the Liquidity Covenant for its Bonds Payable.

***Status:***

For the year ended June 30, 2016, the composite score index was 1.9. All debt payments are current as of June 30, 2016. However, the University remains out of compliance with the Liquidity Covenant for its Bonds Payable (see Finding 2016-001). This finding has been repeated every year since it was initially reported as Finding 2011-1.