NEW YORK MEDICAL COLLEGE

Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
New York Medical College:

We have audited the accompanying financial statements of New York Medical College, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 New York Medical College as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 14, 2016

NEW YORK MEDICAL COLLEGE

Statement of Financial Position

June 30, 2016

(Dollars in thousands)

Assets

Cash and cash equivalents	$	9,637
Receivables (note 3):		
Student tuition and fees, net		633
Student loans, net		10,292
Other, net		18,264
Investments (notes 4, 5, and 11)		70,723
Deposits with bond trustee (notes 5 and 8)		24,248
Property and equipment, net (note 9)		175,666
Intangible and other assets, net (note 10)		11,598
Beneficial interest in perpetual trusts (notes 2(j) and 5)		11,007
Total assets	$	332,068

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses (note 16)	$	16,459
Accrued payroll and related benefits payable (note 14)		12,332
Deferred revenue		12,420
Short-term debt (note 11)		20,750
Long-term debt (note 12)		83,217
Refundable federal student loans		9,716
Other liabilities		2,813
Total liabilities		157,707
Contingencies and commitments (notes 11, 12, 13, 14, and 16)		
Net assets (notes 6 and 7):		
Unrestricted		118,114
Temporarily restricted		19,024
Permanently restricted		37,223
Total net assets		174,361
Total liabilities and net assets	$	332,068

See accompanying notes to financial statements.

NEW YORK MEDICAL COLLEGE

Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Changes in unrestricted net assets:				
Operating revenue:				
Tuition and fees	$ 58,327	—	—	58,327
Less scholarships and grants	(3,447)	—	—	(3,447)
Net tuition and fees	54,880	—	—	54,880
Affiliation contracts and faculty practice	31,142	—	—	31,142
Government grants for research and sponsored projects	18,276	—	—	18,276
Contributions and private grants	2,547	365	489	3,401
Investment return (note 4)	4,060	—	—	4,060
Auxiliary enterprises	5,023	—	—	5,023
Other	5,531	—	81	5,612
Total operating revenue	121,459	365	570	122,394
Operating expenses:				
Instruction and research	52,324	—	—	52,324
Academic support	9,601	—	—	9,601
Affiliation contracts and faculty practice	29,192	—	—	29,192
Student services	7,873	—	—	7,873
Institutional support	25,975	—	—	25,975
Auxiliary enterprises	3,034	—	—	3,034
Total operating expenses	127,999	—	—	127,999
Change in net assets from operating activities	(6,540)	365	570	(5,605)
Nonoperating activities:				
Investment return (less) greater than amounts appropriated for operations (note 4)	(3,170)	(2,282)	13	(5,439)
Postretirement-related changes other than net periodic benefit cost (note 14)	(1,521)	—	—	(1,521)
Change in fair value of beneficial interest in perpetual trust (note 5)	—	—	(1,115)	(1,115)
Other	(1,202)	—	702	(500)
Total nonoperating activities	(5,893)	(2,282)	(400)	(8,575)
Change in net assets	(12,433)	(1,917)	170	(14,180)
Net assets at beginning of year	130,547	20,941	37,053	188,541
Net assets at end of year	$ 118,114	19,024	37,223	174,361

See accompanying notes to financial statements.

NEW YORK MEDICAL COLLEGE

Statement of Cash Flows

Year ended June 30, 2016

(Dollars in thousands)

Cash flows from operating activities:		
Change in net assets	$	(14,180)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		8,767
Amortization of bond premium, net		(90)
Provision for doubtful receivables		960
Postretirement-related changes other than net periodic benefit cost		1,521
Accretion of imputed interest		154
Net change in fair value of investments		1,608
Permanently restricted contributions		(489)
Depreciation in fair value of beneficial interest in perpetual trusts		1,115
Changes in operating assets and liabilities:		
Student tuition and fees, net		(486)
Other receivables		(6,746)
Other assets		279
Accounts payable and accrued expenses		4,678
Accrued payroll and related benefits payable		512
Deferred revenue		6,843
Other liabilities, net		97
Other		(14)
Net provided by operating activities		4,529
Cash flows from investing activities:		
Purchases of property and equipment		(10,352)
Disbursement of student loans		(1,980)
Collection of student loans		3,049
Sales of investments		30,857
Purchases of investments		(22,359)
Net cash used in investing activities		(785)
Cash flows from financing activities:		
Short-term debt, net		(450)
Decrease in deposits with bond trustee		7,566
Repayment of long-term debt		(2,488)
Increase in deferred financing costs		108
Repayment refundable federal student loans		69
Permanently restricted contributions		489
Net cash provided by financing activities		5,294
Net increase in cash and cash equivalents		9,038
Cash and cash equivalents, beginning of year		599
Cash and cash equivalents, end of year	$	9,637
Supplemental disclosures:		
Interest paid	$	4,467

See accompanying notes to financial statements.

(1) Description of Organization

New York Medical College (the College), a member of the Touro College and University System, is a health sciences university whose enrollment approximates 1400 students. The College is committed to educating individuals for careers in the medical, science, and health professions. The College is a not-for-profit organization exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code.

The College is a membership, not-for-profit corporation in the State of New York. On May 13, 2011, NYMC, LLC, a wholly controlled subsidiary of Touro College (Touro), a New York-based institution of higher and professional education, acquired 100% of the membership interest in the College from the then current members and thereby the right to exercise the reserved powers and authority as the sole member of the College.

There are three schools within the College – a School of Medicine, conferring the MD degree; and two graduate schools, the Graduate School of Basic Medical Sciences and the School of Health Sciences and Practice, which offer Master of Science (MS), Master of Public Health (MPH), and doctoral (PhD, Dr. PH, DPT) degrees in 26 program areas and 7 certification programs.

The College is the only academic biomedical research institution in the Hudson Valley region. Nearly 200 scientists at the College conduct research ranging from fundamental investigations in molecular biology to investigations of potential new drugs used in the treatment of patients. Support for the College's research programs, from both government and private sources, is significant.

The College's healthcare network extends south into New York City and its metropolitan area, north into Westchester County and the mid-Hudson Valley in New York State, east into Connecticut, and west into New Jersey. Educational resources are provided to the College by 20 affiliated facilities that include large urban medical centers, small suburban hospitals, and technologically advanced, regional tertiary care facilities. This network enables the College to offer its medical students diverse patient care experiences. The College has a national reputation for a strong educational program in primary care. The College has a contractual relationship with Westchester Medical Center (WMC), an academic medical center in Valhalla, New York, responsible for advancing the quality of the nation's health through its teaching and research activities. The College has other affiliation contracts with other healthcare organizations to provide physician services under these arrangements.

(2) Summary of Significant Accounting Policies

(a) Financial Statement Presentation

The accompanying financial statements of the College have been prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board for external financial reporting by not-for-profit organizations. Those standards require the classification of activities and net assets into one of three classes as follows:

- Unrestricted: Net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted: Net assets subject to donor-imposed restrictions that will be met by either actions of the College or the passage of time.

- Permanently restricted: Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by the College, but permit the College to expend all or part of the income derived therefrom.

Revenue and gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Contributions and investment return subject to donor-imposed restrictions that are met in the same reporting period as received are reported as unrestricted revenue. Expiration of temporary restrictions on prior year net asset balances is reported as net assets released from restrictions.

(b) Cash and Cash Equivalents

The College considers all highly liquid debt instruments with original maturities of three months or less to be cash and cash equivalents, except those cash and cash equivalents that are held for investment as part of the College's long-term investment strategy.

(c) Student Tuition and Fees and Other Receivables

Student tuition and fees and scholarships are recognized as earned over the respective academic terms. Receivables balances are reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is management's best estimate of the probable loss based on historical collection experience. Management regularly assesses the collectibility of student tuition and fees receivable. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. Revisions in the allowance for doubtful accounts estimate are recorded as adjustments to the provision for bad debts.

Collection of a significant portion of tuition and fees is reliant on government-sponsored student financial assistance programs.

(d) Student Loans Receivable

The College makes uncollateralized loans to students based on financial need. Student loans are funded mainly through federal government loan programs. The College's student loan receivables represent the amounts due from current and former students under the Federal Perkins, Primary Care, and College-sponsored loan programs. Loans disbursed under the Federal Perkins and Primary Care loan programs are able to be assigned to the federal government in certain nonrepayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including consideration of economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, the aging of loans, loan default rate, and where applicable, the existence of any guarantees or indemnifications. The amount of the allowance is adjusted based on the results of management's analysis.

(e) Refundable Federal Student Loans

Funds provided by the federal government under federal loan programs are loaned to qualified students and may be loaned again after cash collections. These funds are ultimately refundable to the government and are recognized as a liability in the accompanying statement of financial position.

(f) Pledges Receivable

Unconditional promises to give (pledges) are recorded as revenue at fair value in the period pledged. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Amortization of the discount is recorded as additional contribution revenue. Conditional pledges and pledges subject to a substantial risk of forfeiture are not recorded until the conditions are substantially met or the risks eliminated.

(g) Operating Measure

The operating activities of the College include all revenue and expenses related to carrying out its mission of education and research. The operating measure also includes amounts related to the spending rate policy and any additional budgeted investment returns on endowment funds as approved by the Board of Trustees of the College to protect the inflation-adjusted value of the endowment. The operating activities exclude investment return in excess of (less than) the spending rate, postretirement-related changes other than net periodic benefit cost, change in fair value of beneficial interest in perpetual trusts, and other nonrecurring items.

(h) Investments

Investments with readily determinable fair values are reported at fair value based upon quoted market prices or published net asset value for alternative investments in funds similar to mutual funds. Alternative investments, including equity and fixed income funds, which are not deemed to have a readily determinable fair value are reported at estimated fair value based on, as a practical expedient, net asset values provided by investment managers. These values are reviewed and evaluated by College management for reasonableness. The reported values may differ from the values that would have been reported had a ready market for these investments existed.

Purchases and sales are reflected on a trade-date basis. Realized gains and losses are determined on the basis of average cost of securities sold and are reflected on the statement of activities. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

Investments are exposed to various risks, such as interest rate, market, credit, and other risks. Due to such risks and the level of uncertainty related to changes in the value of investment securities, it is at least possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

(i) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The College employs the three-tiered fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, defined as follows

- Level 1 inputs are quoted prices or published net asset values (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than Level 1 that are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, the College excludes from the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient.

(j) Beneficial Interest in Perpetual Trusts

The College is the recipient of beneficial interests whereby donors have established and funded perpetual trusts administered and held by financial institutions. The College is entitled to the income earned on the trust assets in perpetuity; therefore, they are recorded as permanently restricted net assets. The College has no control over investment decisions regarding these assets. The beneficial interests in perpetual trusts are categorized as Level 3 in the fair value hierarchy due to the lack of control of the permanently restricted trust assets. The fair value of the assets of perpetual trusts is based upon quoted market prices at year-end. As of June 30, 2016, the fair value of the perpetual trusts is $11,007.

(k) Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or fair value as of the date of acquisition or receipt from a donor. Additions and improvements or betterments having a useful life of more than one year are capitalized. Maintenance and repair costs are expensed when incurred. Upon retirement or sale, the cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reported on the statement of activities.

Depreciation and amortization is provided on a straight-line basis over the estimated useful lives, or the terms of the lease for the applicable plant assets, if shorter, as follows: buildings and building improvements, 25–43 years; library holdings, 10–20 years; equipment and computer software, 3–15 years; leasehold improvements, 25–30 years; and interest in leased properties, 20–30 years.

(l) Long-Lived Assets

Long-lived assets and identifiable intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The College measures the recoverability of assets to be held and used by a comparison of the carrying amount of the assets to the expected net future cash flows to be generated by the asset, or, for identifiable intangible assets with finite useful lives by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future cash flows. If such assets are deemed to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment loss for the year ended June 30, 2016.

(m) Affiliation Contracts and Faculty Practice

Revenue and expenses from affiliation contracts primarily reflect the contractual relationship with Westchester Medical Center (WMC) for the provision of salaries and fringe benefits and allowable overhead for physicians providing services under the arrangement. For the year ended June 30, 2016, revenue from WMC totaled $21,134. Additionally, faculty practice revenue totaled $8,798.

(n) Intangible Assets

Intangible assets consist of trade name and accreditation status which is indefinite lived and evaluated for impairment on an annual basis.

(o) Grants and Contributions

The College receives grants and contributions from a number of sources including the federal government, private foundations, and individuals. The contracts or gift instruments are evaluated as to whether the transaction qualifies as exchange transactions or a contribution. Grants and contributions that are treated as exchange transactions are reported as unrestricted revenue when expenses are incurred in accordance with contractual terms. The excess of amounts received in exchange transactions over the amount of expenditures incurred are reported as deferred revenue on the statement of financial position.

Receipts qualifying as contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

(p) Fundraising

Institutional support expenses included total fundraising expenses of $861 for the year ended June 30, 2016. Fundraising activities of the College include the salaries and employee benefits of program staff that develop proposals for fundraising, solicit contributions, and conduct specific fundraising events. Fundraising costs are expensed as incurred.

(q) Functional Reporting of Expenses

The costs of the College's activities have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the activities benefited. The College allocates operation and maintenance of plant, depreciation, and interest expense based on proportional expenditures using estimates of building square footage and the functional use of each facility financed by debt.

(r) Accounting for Uncertainty in Income Taxes

The College prescribes to a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. As of June 30, 2016, the College does not have any uncertain tax positions or any unrelated business income tax liability, which would have a material impact upon its financial statements.

(s) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue, expenses, gains, and losses during the reporting period. The most significant estimates are the allowance for doubtful accounts, fair value of investments, postretirement benefit obligation, and the allocation of expenses to their functional categories. Actual results may differ from those estimates.

(t) Adoption of Recently Issued Accounting Pronouncements

In fiscal year 2016, the College early adopted the provisions of ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that deferred financing costs be presented on the statement of financial position as a direct deduction from the debt liability.

In fiscal year 2016, the College early adopted the provisions of ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the guidance on the classification and measurement of financial instruments. The guidance amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018. Entities that are not public business entities may early adopt the provisions of the standard that eliminate certain previously required disclosures. The College chose to early adopt this standard to simplify the reporting for financial instruments and as such is no longer required to provide the disclosures related to the fair value of financial instruments carried at amortized cost.

(Dollars in thousands)

(3) Receivables

Receivables at June 30, 2016 consist of the following:

		Accounts receivable	Allowance for doubtful accounts	Net receivable
Student tuition and fees	$	779	(146)	633
Student loans		10,806	(514)	10,292
Other:				
Government and other grants	$	6,414	—	6,414
Affiliation contracts		3,719	(1,139)	2,580
Faculty practice plans		5,303	(3,820)	1,483
Pledges and bequests receivable		5,678	—	5,678
Miscellaneous		3,281	(1,172)	2,109
Total other	$	24,395	(6,131)	18,264

The following table provides an analysis of the aging of certain receivables as of June 30, 2016:

		1–30 days past due	30–60 days past due	Greater than 60 days past due	Total past due	Current	Total
Student loans	$	162	60	1,519	1,741	9,065	10,806
Affiliation contracts		40	40	2,223	2,303	1,416	3,719
Faculty practice plans		326	192	4,636	5,154	149	5,303
Pledges and bequests		—	—	589	589	5,089	5,678
Miscellaneous		216	266	1,140	1,622	1,659	3,281

Pledges and bequests receivable as of June 30 consist of the following:

Amounts due in less than one year	$	1,304
Amounts due in one to five years		4,762
		6,066
Less discount to net present value		(388)
	$	5,678

(Dollars in thousands)

(4) Investments

Investments, at fair value, as of June 30, 2016 consist of the following:

Cash and cash equivalents	$	786
Equity securities		33
Mutual funds		42,064
Alternative investments:		
Equity and fixed income funds:		
Global equity funds (a)		7,260
Global large/mid cap funds (b)		2,462
High quality bond fund (c)		1,091
Global bond fund (d)		1,153
Hedge fund strategies:		
Diversifying funds (e)		2,652
Global hedged equity funds (f)		5,462
Relative value and event driven (g)		3,986
Real assets (h)		716
Real estate partnership (i)		2,177
Other		881
Total alternative investments		27,840
Total investments	$	70,723

(a) Consists of securities in emerging and developed markets diversified across growth and value styles.

(b) Consists of investments in large and mid cap equity securities using an indexing investment approach.

(c) Consists of high quality, investment grade only, fixed income securities.

(d) Consists of securities issued by U.S. and foreign governments, their agencies and instrumentalities, U.S. and foreign corporations, and asset-backed and mortgage-backed securities.

(e) Includes investments designed to identify opportunities through mathematical, algorithmic and technical models, including international and domestic investments within equity indices, currencies, interest rates, and commodities.

(f) Funds that invest in long and short positions on equity securities primarily issued by international companies.

(g) Investments in three strategies; credit, event driven, and multi-strategy. Credit funds consist of investments in assets such as distressed and current pay bonds and bank debt, mortgage-backed securities, both residential and commercial, as well as post re-organization equity liquidations. Event driven funds consist of investments in common and preferred equities and various types of debt, often based on the assessment that a particular event will occur. Multi-strategy funds consist of investments in multiple investment strategies including but not limited to hedged equity, event driven, and diversified hedge.

(Dollars in thousands)

(h) Investments across a broad range of commodity oriented asset categories and pursues a multi-strategy approach to investing in commodities markets. At least 80% of the net assets of the fund will have investment exposure to commodities with the remaining portion allocated to noncommodity investments.

(i) Investments in real estate funds invested in office, multifamily, industrial, and other commercial real estate properties or other commercial real estate investments located primarily in the United States. The objective of the partnership is to achieve long-term gross returns while focusing on the preservation of capital. The partnerships do not permit redemptions.

Equity and fixed income and hedge fund strategies may be redeemed once a month with approximately two weeks' notice required.

Certain investments have been pledged as security for its outstanding debt obligations (notes 11 and 12).

The following schedule summarizes the investment return for the year ended June 30, 2016:

Dividends and interest, net of investment management fees of $144	$	229
Net depreciation in fair value of investments		(1,608)
Total investment return		(1,379)
Investment return appropriated for operations		4,060
Investment return less than amounts appropriated for operations	$	(5,439)

(Dollars in thousands)

(5) Fair Value Measurements

The fair value of financial assets that are measured at fair value at June 30, 2016 is as follows:

		Total	Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$	786	786	—	—
Equity securities		33	33	—	—
Mutual funds		42,064	42,064	—	—
Alternative investments:					
Equity and fixed income funds:					
Global equity funds		7,260	7,260	—	—
Global large/mid cap funds		2,462	2,462	—	—
High quality bond fund		1,096	1,096	—	—
Global bond fund		1,148	1,148	—	—
Hedge fund strategies:					
Real assets		716	716	—	—
Alternative investments measured at net asset value as a practical expedient for fair value:					
Diversifying funds		2,652	—	—	—
Global hedged equity funds		5,462	—	—	—
Relative value and event driven		3,986	—	—	—
Real estate partnership		2,177	—	—	—
Other		881	—	—	—
Total Investments	$	70,723	55,565	—	—
Beneficial interest in perpetual trusts	$	11,007	—	—	11,007
Deposits with bond trustee:					
U.S. government obligations		24,248	24,248	—	—

The activity with respect to the College's beneficial interest in perpetual trusts, which are Level 3 is as follows:

Balance at beginning of year	$	12,122
Net depreciation in fair value of investments		(1,115)
Balance at end of year	$	11,007

There were no transfers between Level 1 and Level 2 securities for the year ended June 30, 2016.

(Dollars in thousands)

(6) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist principally of pledges receivable and appreciation on donor-restricted endowment funds and are available for the following purposes:

Student support	$	3,307
Departmental support		5,291
General operating support		6,183
Research		4,071
Educational programs		172
Total	$	19,024

Permanently restricted net assets, including beneficial interest in perpetual trusts of $11,007, at June 30, 2016 are restricted to investment in perpetuity, with investment return available to support the following activities:

Student support	$	4,027
Departmental support		23,045
General operating support		995
Research		1,903
Revolving loan funds		6,931
Educational programs		322
Total	$	37,223

(7) Endowments

The College's endowment consists of approximately 108 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments.

The Board has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment as the College determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of income to the permanent endowment made in accordance with the direction of the applicable donor gift instruments. Donor-restricted endowment funds that are not classified as permanently restricted are classified as temporarily restricted net assets until appropriated for expenditure.

(Dollars in thousands)

In accordance with NYPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

(a) The duration and preservation of the endowment fund;

(b) The purposes of the College and the endowment fund;

(c) General economic conditions;

(d) The possible effect of inflation and deflation;

(e) The expected total return from income and the appreciation of investments;

(f) Other resources of the College;

(g) Alternatives to expenditure of the endowment fund; and

(h) The investment policies of the College.

Endowment net assets, excluding beneficial interest in perpetual trusts and donor-restricted revolving loan funds, consist of the following at June 30:

		Unrestricted	Temporary restricted	Permanently restricted	Total
Donor restricted	$	—	16,272	19,285	35,557
Quasi (board designated)		27,214	—	—	27,214
Total funds	$	27,214	16,272	19,285	62,771

Expenditures from a donor-restricted fund are limited to the uses and purposes for which the endowment fund was established. The College has limited the use of realized and unrealized gains unless the fair value of a donor-restricted fund exceeds 105% of its historic dollar value.

The College’s spending policy rate is designed to stabilize annual spending levels and to preserve the real value of endowment investments over time. To meet these objectives, the Board of Trustees has authorized a spending rate of 5% of the moving average of the fair value of endowment investments for the previous twenty quarters.

(Dollars in thousands)

Changes in the College's endowment net assets were as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds, June 30, 2015	$	28,784	18,566	18,995	66,345
Investment return:					
Investment income		136	174	—	310
Net (depreciation) appreciation		(656)	(792)	13	(1,435)
Total investment return		(520)	(618)	13	(1,125)
Contributions and transfers		11	—	277	288
Appropriation for expenditure		(1,061)	(1,676)	—	(2,737)
Endowment funds, June 30, 2016	$	27,214	16,272	19,285	62,771

(8) Deposits with Trustee

Under loan agreements related to bonds issued by the Dormitory Authority of the State of New York (DASNY), a portion of the bond proceeds were deposited with the trustee for capital expenditures related to construction, renovations, and improvements to campus buildings, for debt service reserve funds and for capitalized interest. Monthly payments are deposited with the trustee for servicing the debt. Deposits with bond trustee as of June 30 consist of the following:

Construction fund	$	14,984
Debt service		2,066
Debt service reserve fund		6,222
Capitalized interest fund		976
	$	24,248

(Dollars in thousands)

(9) Property and Equipment, Net

At June 30, 2016, the College's property and equipment consists of the following:

Land and land improvements	$	22,531
Buildings and improvements		124,772
Interest in leased properties		30,660
Equipment and computer software		18,857
Library holdings		16,602
Leasehold improvements		390
Construction in progress		1,166
		214,978
Less accumulated depreciation and amortization		(39,312)
Property and equipment, net	$	175,666

Interest in leased properties represents the fair value of the College's long-term leases under which the rental commitment is one dollar per annum.

(10) Intangible and Other Assets

Intangible and other assets as of June 30 consist of the following:

Intangible assets	$	10,200
Restricted cash		288
Prepaid expenses		920
Other		190
Total	$	11,598

(11) Short-Term Debt

NYMC had a short-term note of $2,250, and a line of credit with $18,500 available and outstanding at June 30, 2016. Both the note and line of credit bear interest at London Interbank Offered Rate (LIBOR) plus 1.00% (1.63% as of June 30, 2016). NYMC pays an annual fee of 0.30% of the unused portion of the credit line which expires December 31, 2016. NYMC has pledged investment accounts with an aggregate value of $42,368 as of June 30, 2016, as collateral for the note payable, line of credit and a letter of credit in the amount of $3,625 at June 30, 2016, that secures a note payable in the amount of $2,860 as of June 30, 2016, net of imputed interest of $515.

Interest expense on short-term debt for the year ended June 30, 2016 totaled $207.

(Dollars in thousands)

(12) Long-Term Debt

Long-term debt outstanding at June 30 is as follows:

Description	Maturity date	Interest rate		Outstanding balance
Long-term debt				
Dormitory Authority of the State of New York, Revenue Bonds, Series 2014A Bonds (a)	January 2044	4.65%	$	45,155
Deferred financing costs				(993)
Net premium				2,971
Total				47,133
Dormitory Authority of the State of New York, Revenue Bonds, Series 2014B Bonds (a)	January 2029	5.75%		34,375
Deferred financing costs				(940)
Net discount				(211)
Total				33,224
Note payable (b)	April 2023	5.00% imputed		2,860
Long-term debt			$	83,217

(a) Pursuant to a Master Trust Indenture (MTI) by and among the College, Touro College, Touro University Nevada, and Touro University (collectively, the Obligated Group) and the Bank of New York Mellon as Master Trustee, on June 26, 2014, 30 year tax-exempt serial and term bonds with an aggregate principal amount of $45,155 (Series 2014A Bonds) and 15 year federally taxable serial and term bonds with an aggregate principal amount of $38,325 (Series 2014B Bonds) were issued on behalf of the College by the Dormitory Authority of the State of New York (DASNY) (the Series 20 14A Bonds and Series 2014B Bonds together, the DASNY Bonds). The Series 2014A Bonds were issued with a net premium of $3,183, and the Series 2014B Bonds were issued at a discount of $243. The College has granted a mortgage on its properties located at 19 Skyline Drive, 7 Dana Road, and 30 Sunshine Cottage Road. The net book value of the properties was approximately $88,397 at June 30, 2016. Deposits with bond trustee (note 8) represent additional collateral until utilized for their designated purposes.

In addition to the DASNY Bonds listed in the table above, bonds with an aggregate principal amount of $64,620 ($62,200 outstanding as of June 30, 2016), were issued on behalf of other members of the Obligated Group all of whose members are jointly and severally liable for the bond obligations described herein. In addition, a security interest is pledged for substantially all revenue of the Obligated Group, provided that this revenue pledge for Touro College is limited to its healthcare related programs, and excludes donations restricted by the donors for uses other than debt service.

(Dollars in thousands)

In addition to the aforementioned mortgaged properties, the other members of the Obligated Group have granted mortgages on other properties with an aggregate book value of approximately $70,000 as of June 30, 2016, to secure all of the bonds described herein. In connection with the MTI, the Obligated Group is required to maintain certain financial and nonfinancial covenants. As of June 30, 2016, these covenants have been met.

(b) In connection with the 2013 acquisition of an office building at 19 Skyline Drive, Hawthorne, New York, the seller of the property provided a $5,000 interest free 10-year note, which was discounted to net present value. The note is secured by a letter of credit, which is secured by a portion of the College's investment portfolio and a guarantee of Touro. The note requires monthly installments of $42.

Aggregate long-term debt matures in the fiscal years as follows:

		Principal	Interest
2017	$	2,404	4,154
2018		2,627	4,083
2019		2,707	3,995
2020		2,803	4,043
2021		2,914	3,778
Thereafter		68,935	44,827
		82,390	64,880
Deferred financing costs		(1,933)	—
Net premium		2,760	—
	$	83,217	64,880

Accrued interest expense of $976 at June 30, 2016 will be funded from capitalized interest held by the Bond Trustee during the year ending June 30, 2017.

Interest expense on long-term debt for the year ended June 30, 2016 totaled $4,260, including $976 funded from capital interest.

(13) Retirement Plans

The College has a defined contribution retirement plan, which covers substantially all its nonunion employees, and which is funded through direct payments to qualified carriers. For each eligible employee, the College contributes an average of 7% of the employee's salary. The employee's contribution is discretionary, up to 15% of their salary in accordance with all legal regulations. During the year ended June 30, 2016, the College contributed $4,789 to its defined contribution retirement plans.

In addition, $451 was contributed during the year ended June 30, 2016, to a union administered plan for employees belonging to a collective bargaining unit. The College would be responsible for any withdrawal liability under the agreement with the union.

(Dollars in thousands)

The College's participation in the union administered plan is outlined below. Unless otherwise noted, the Pension Protection Act (PPS) zone status below is for the plan years beginning January 1, 2016, 2015, and 2014, respectively. The zone status is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plan is subject.

Pension fund	EIN/pension plan number	PPA zone status 2016	FIP/RP status pending/ implemented	Surcharge imposed	Expiration date of collective-bargaining agreement
1199 SEIU Health Care Employee Pension Fund	13-3604862/001	Green	*RP Implemented	No	September 30, 2018

* The 1199 Health Care Employee Pension Fund has implemented a rehabilitation plan for the period January 1, 2012 through December 31, 2024.

(14) Postretirement Benefits Other Than Pensions

The College provides medical and life insurance benefits under its Postretirement Life and Health Insurance Plan for Eligible Employees (the Plan). The College's obligation is limited and requires participants to contribute to premiums as determined by the Plan's administrator. The College reserves the right to amend or terminate the Plan at its discretion. These benefits are partially funded through a voluntary employees' beneficiary association (VEBA) trust.

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was signed into law. The Act allows employers who offer actuarially equivalent prescription drug benefits to retirees to receive a federal subsidy starting in 2006. Actuarial equivalence of the program's prescription drug benefit is determined based on a two-prong test. The actuarial values of the prescription drug coverage are based on national statistics and then adjusted to reflect drug utilization for the Plan. Based on these values, it is assumed that the prescription drug benefit for the unfunded plan will be actuarially equivalent in 2006 and for all years thereafter.

For those employees who had already retired at the time the VEBA was established, the College pays actual benefits from its general assets. For subsequent retirees, the College's funding policy is to contribute an amount up to the annual expense in years when the Present Value of Future Benefits (PVFB) exceeds assets. Since assets are less than PVFB, the College may elect to make a contribution in fiscal year 2016.

Under the accounting guidance for postretirement benefits, the College recognizes on the statement of financial position the difference between the benefit obligations and any related plan assets. In addition, the accounting guidance requires the unrecognized amount (e.g., net actuarial gains or losses and prior service costs or credits) to be recognized as changes to unrestricted net assets and that these amounts be adjusted as they are subsequently recognized as components of the net periodic benefit cost.

NEW YORK MEDICAL COLLEGE

Notes to Financial Statements

June 30, 2016

(Dollars in thousands)

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets for the year ended June 30, 2016:

Change in benefit obligation:		
Benefit obligation at beginning of year	$	7,729
Service cost		52
Interest cost		330
Plan participants' contributions		745
Actuarial loss		895
Benefits paid		(1,651)
Medicare Part D program reimbursement		308
Benefit obligation at end of year		8,408
Change in plan assets:		
Fair value of plan assets at beginning of year		4,119
Actual return on plan assets		(82)
Employer contributions		298
Plan participants' contributions		745
Benefits paid		(1,651)
Medicare Part D program reimbursement		308
Fair value of plan assets at end of year		3,737
Unfunded status at end of year, included in accrued payroll and related benefits payable	$	4,671

Components of net periodic benefit credit:		
Service cost	$	52
Interest cost		330
Expected return on plan assets		(330)
Amortization of prior service credit		(301)
Amortization of net actuarial loss		87
Net periodic benefit credit	$	(162)

(Dollars in thousands)

Postretirement-related changes other than net periodic benefit cost		
Amortization of prior service credit	$	301
Amortization of net actuarial loss		(87)
Net loss		1,307
	$	1,521
Amounts not yet recognized in net periodic benefit cost:		
Net actuarial loss	$	1,821
Prior service credit		(553)
	$	1,268

Weighted average assumptions used to determine benefit obligations as of June 30, 2016:	
Discount rate – funded portion	3.75%
Discount rate – unfunded portion	2.75
Rate of compensation increase	4.00
Weighted average assumptions used to net periodic benefit cost for the year ended June 30, 2016:	
Discount rate:	
Discount rate – funded portion	4.75%
Discount rate – unfunded portion	3.50
Healthcare cost trend:	
Increase from current to next fiscal year	7.00%
Ultimate rate of increase	4.50
Year that the ultimate rate is attained	2022

(Dollars in thousands)

The healthcare cost trend assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of and for the year ended June 30, 2016:

		One percentage-point increase	One percentage-point decrease
Effect on total service and interest cost component	$	31	(26)
Effect on postretirement benefit obligation		693	(581)

The College is expected to contribute $459 to the Plan in 2017.

The estimated actuarial net loss and prior service credit that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2016 are as follows:

Net actuarial loss	$	193
Prior service credit		(301)
	$	(108)

Expected benefit payments are the total amount expected to be paid from the Plan's or the College's assets. The expected benefit payments, net of plan participant contributions, are as follows:

		Estimated benefits payments
Fiscal year(s):		
2017	$	525
2018		529
2019		528
2020		527
2021		520
2022–2025		2,459

(Dollars in thousands)

The investment policy statement of the College, established by the Board of Trustees, has as its investment objective, the long-term appreciation of assets, and the consistency of total portfolio returns with reasonable efforts to control risk and preserve capital. The policy establishes a goal of an annual return of eight percent. The Plan's target and actual asset allocations as of June 30, 2016 are as follows:

Plan assets	Target allocation	Percentage of plan assets
Asset category:		
Equity securities	61.0%	73.9%
Debt securities	31.0	22.2
Other	8.0	3.9

The Plan's investments at fair value, all of which are Level 1 in the fair value hierarchy at June 30, 2016 are as follows:

	Total
Cash and cash equivalents	$ 144
Alternative investments	
Equity and fixed income funds	
Global equity	1,907
Global fixed income	830
Hedge fund strategies	
Diversifying funds	642
Commodities	50
Real Estate Investment Trusts	103
Public natural resources	61
Total assets	$ 3,737

(Dollars in thousands)

(15) Functional Reporting of Expenses

The costs of the College's activities have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the activities benefited as follows:

		Operations and maintenance	Depreciation	Interest expense	Direct expenses	Total per statement of activities
Instruction and research	$	5,137	5,762	2,345	39,080	52,324
Academic support		343	199	—	9,059	9,601
Affiliation contracts and faculty practice		—	—	—	29,192	29,192
Student services		1,055	489	1,683	4,646	7,873
Institutional support		3,318	1,913	439	20,305	25,975
Auxiliary enterprises		—	718	—	2,316	3,034
	$	9,853	9,081	4,467	104,598	127,999

(16) Other Contingencies and Commitments

The College is involved in various legal actions, arising in the normal course of operations. The College is of the opinion that the resolution of these matters will not have a significant effect upon the financial condition of the College.

Certain potential compliance matters have been identified as part of the review of the College's 403(b) plan that are being researched and discussed with the Internal Revenue Service. Plan management does not believe the matters and potential amounts involved are material to the College's financial statements.

Certain funding that the College receives from governmental agencies are subject to audit.

(17) Subsequent Events

The College performed an evaluation of subsequent events that occurred after June 30, 2016 through November 14, 2016, the date the financial statements were issued. Events identified that are required to be disclosed are included in applicable notes above.