Drexel University and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2017 and 2016

Drexel University and Subsidiaries
Index
June 30, 2017 and 2016

Report of Independent Auditors

To the Board of Trustees
Drexel University

We have audited the accompanying consolidated financial statements of Drexel University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103-7045
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drexel University and its subsidiaries as of June 30, 2017 and 2016, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 25, 2017

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

Drexel University and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2017 and 2016

(in thousands)	**2017**	**2016**
Assets		
Cash and cash equivalents		
Operating	$ 51,459	$ 116,559
Restricted	12,263	12,277
Accounts receivable, net		
Tuition	67,540	75,181
Grants, contracts and other	68,769	62,666
Patients	7,753	7,848
Tenet Healthcare Corporation	1,335	2,127
Total accounts receivable, net	145,397	147,822
Contributions receivable, net	100,003	117,762
Other assets	30,334	26,174
Funds held by trustees	313	1,804
Student loans receivable, net	30,484	31,026
Malpractice insurance trust	8,991	9,398
Beneficial interests in trusts	48,727	48,212
Investments	726,315	663,881
Land, buildings and equipment, net	951,318	932,160
Total assets	$ 2,105,604	$ 2,107,075
Liabilities		
Accounts payable	$ 67,289	$ 59,174
Accrued expenses	112,691	114,481
Deposits and deferred revenue	156,973	160,594
Capital lease	2,677	2,741
Government advances for student loans	29,625	29,360
Post-retirement and pension benefits	53,464	78,539
Bonds and notes payable	427,554	441,700
Total liabilities	850,273	886,589
Net assets		
Unrestricted	635,729	623,656
Temporarily restricted	244,750	236,774
Permanently restricted	374,852	360,056
Total net assets	1,255,331	1,220,486
Total liabilities and net assets	$ 2,105,604	$ 2,107,075

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

Drexel University and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2017

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 878,879	$ -	$ -	$ 878,879
Less: Institutional financial aid	(278,962)			(278,962)
Net student revenue	599,917	-	-	599,917
Patient care activities	99,102			99,102
State appropriations	8,113			8,113
Government grants and contracts	96,808			96,808
Private grants and contracts	20,766	842		21,608
Private gifts	4,580	16,521		21,101
Endowment payout under spending formula	8,754	17,839		26,593
Investment income	2,697	598		3,295
Sales and services of auxiliary enterprises	78,059			78,059
Other sources	29,862	855		30,717
Net assets released from restrictions	46,984	(53,083)	6,099	-
Total operating revenue	995,642	(16,428)	6,099	985,313
Operating expense				
College programs	361,408			361,408
Research and public service	121,494			121,494
Academic support	31,875			31,875
Student services	64,659			64,659
Institutional support	142,334			142,334
Scholarships and fellowships	13,185			13,185
Auxiliary enterprises	39,405			39,405
Total education and general	774,360	-	-	774,360
Patient care activities	118,778			118,778
Other operating expense	63,185			63,185
Interest	14,737			14,737
Depreciation and amortization	47,867			47,867
Total operating expense	1,018,927	-	-	1,018,927
Change in net assets from operating activities	(23,285)	(16,428)	6,099	(33,614)
Non-operating activities				
Endowment and other gifts			2,696	2,696
Realized/unrealized net gain on investments, net of endowment payout	23,959	24,404	6,001	54,364
Other non-operating activities	11,399	-	-	11,399
Change in net assets from non-operating activities	35,358	24,404	8,697	68,459
Change in net assets	12,073	7,976	14,796	34,845
Net assets				
Beginning of year	623,656	236,774	360,056	1,220,486
End of year	$ 635,729	$ 244,750	$ 374,852	$ 1,255,331

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

Drexel University and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2016

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 888,564	$ -	$ -	$ 888,564
Less: Institutional financial aid	(269,583)			(269,583)
Net student revenue	618,981	-	-	618,981
Patient care activities	99,789			99,789
State appropriations	8,074			8,074
Government grants and contracts	94,077			94,077
Private grants and contracts	24,107	92		24,199
Private gifts	2,155	40,233		42,388
Endowment payout under spending formula	10,570	14,866	169	25,605
Investment income	2,068	668		2,736
Sales and services of auxiliary enterprises	86,872			86,872
Other sources	31,849	844		32,693
Net assets released from restrictions	55,214	(55,694)	480	-
Total operating revenue	1,033,756	1,009	649	1,035,414
Operating expense				
College programs	369,432			369,432
Research and public service	117,292			117,292
Academic support	27,926			27,926
Student services	49,628			49,628
Institutional support	143,243			143,243
Scholarships and fellowships	17,804			17,804
Auxiliary enterprises	39,100			39,100
Total education and general	764,425	-	-	764,425
Patient care activities	117,601			117,601
Other operating expense	64,894			64,894
Interest	16,278			16,278
Depreciation and amortization	43,606			43,606
Total operating expense	1,006,804	-	-	1,006,804
Change in net assets from operating activities	26,952	1,009	649	28,610
Non-operating activities				
Endowment and other gifts	1,577		40,970	42,547
Realized/unrealized net loss on investments, net of endowment payout	(25,023)	(19,667)	(5,583)	(50,273)
Other non-operating activities	(11,027)			(11,027)
Change in net assets from non-operating activities	(34,473)	(19,667)	35,387	(18,753)
Change in net assets	(7,521)	(18,658)	36,036	9,857
Net assets				
Beginning of year	631,177	255,432	324,020	1,210,629
End of year	$ 623,656	$ 236,774	$ 360,056	$ 1,220,486

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

Drexel University and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

(in thousands)	2017	2016
Cash flow from operating activities		
Increase in net assets	$ 34,845	$ 9,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	46,853	44,956
Loss on extinguishment of debt	4,484	-
Provision for uncollectible accounts	5,497	6,645
Loss on disposal of equipment	922	2,319
Change in market value in beneficial interests in trusts	(515)	5,295
Contributions restricted for long-term investment	(6,675)	(17,926)
Non-cash contributions received	(952)	(1,480)
Proceeds from sale of donated securities	908	1,254
Actuarial change on annuity liabilities	(73)	1,859
Realized/unrealized (gain) / loss on investments	(80,442)	19,373
Changes in operating assets and liabilities		
Accounts receivable	(2,615)	1,855
Contributions receivable	17,340	(28,874)
Other assets	(4,160)	5,180
Accounts payable and accrued expenses	5,085	5,758
Post-retirement and pension benefits	(25,075)	14,339
Deposits and deferred revenue	(3,621)	19,207
Net cash (used) / provided by operating activities	(8,194)	89,617
Cash flow from investing activities		
Purchase of investments	(155,481)	(58,886)
Proceeds from sales and maturities of investments	173,506	56,775
Change in malpractice insurance trust	407	1,201
Change in restricted cash	14	(4,936)
Proceeds from student loan collections	6,437	6,549
Student loans issued	(6,353)	(2,547)
Purchase of land, buildings and equipment	(64,349)	(82,231)
Change in funds held by trustees	29	4,041
Net cash used in investing activities	(45,790)	(80,034)
Cash flow from financing activities		
Contributions restricted for endowments	6,675	17,926
Proceeds from sales of donated securities	414	313
Payments on annuity obligations	(526)	(572)
Government advances for student loans	265	847
Repayment of long-term debt	(17,944)	(10,995)
Net cash (used) / provided by financing activities	(11,116)	7,519
Net (decrease) / increase in cash and cash equivalents	(65,100)	17,102
Cash and cash equivalents		
Beginning of year	116,559	99,457
End of year	$ 51,459	$ 116,559
Supplemental information		
Gifts-in-kind	$ 33	$ 154
Cash paid for interest	16,128	16,682
Amounts accrued for purchase of land, buildings and equipment	10,767	14,267
Donated securities	1,338	1,637

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

1. Nature of Organization and Summary of Significant Accounting Policies

Basis of Consolidated Financial Statements
Drexel University (the "University") is a private comprehensive global research university located in Philadelphia, Pennsylvania. The University is a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The consolidated financial statements include the University, the Academy of Natural Sciences of Philadelphia, Drexel University Online, LLC, Academic Properties, Inc., and the University's other subsidiaries which are described in detail in these notes. All University subsidiaries have a fiscal year ending June 30, unless otherwise indicated in this footnote. All subsidiary financial information included within the financial statements has been consolidated utilizing the University's fiscal year.

Basis of Accounting and Financial Statement Presentation
The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All revenues received and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and prepaid expenses, respectively.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into the categories as shown below.

Permanently Restricted
Net assets explicitly required by the donor to be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets are included in the University's permanent endowment funds.

Temporarily Restricted
Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the University in accordance with those stipulations or by the passage of time. Endowment income and contributions with donor-imposed restrictions are reported as temporarily restricted and are reclassified to unrestricted net assets when the donor-imposed restrictions have been met.

Unrestricted
Net assets not subject to donor-imposed stipulations that may be designated for specific purposes by action of the Board of Trustees. Expenses are shown as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

Academy of Natural Sciences of Philadelphia
Pursuant to an affiliation agreement dated September 30, 2011, the University owns 100% of the Academy of Natural Sciences of Philadelphia, doing business as the Academy of Natural Sciences of Drexel University ("ANS"). ANS, founded in 1812, is a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. ANS is dedicated to encouraging and cultivating the sciences and advancing learning. ANS operates a public museum in Philadelphia and conducts systematic research and research in aquatic ecosystems, including integrating such research with education regarding biodiversity and environmental science in collaboration with the University and its students.

Academic Properties, Inc.
The University owns 100% of Academic Properties, Inc. ("API"), an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. API manages properties used by the University, as well as other strategically located properties contiguous to its campus.

Drexel University Online, LLC
The University previously owned 100% of the issued and outstanding stock of Drexel e-Learning, Inc. ("DeL"), a for-profit entity. DeL was created to provide educational products and services through distance learning. On July 1, 2015, DeL merged with and into Drexel University Online, LLC ("DUO"), a non-profit, Delaware, single-member, limited liability company whose sole member is Drexel University. On that date, DUO became the surviving entity and will carry on all the operations previously performed by DeL. Accordingly, as of July 1, 2015, the DeL legal entity ceased to exist.

Dragon Risk Limited, Co.
Dragon Risk Limited, Co. ("DRLC") is a single member, limited liability company, formed and domiciled in the State of Vermont, of which Drexel University is the sole member. DRLC received its Articles of Organization on May 23, 2014 from the Vermont Secretary of State, its Certificate of Authority from the Vermont Department of Financial Regulation on June 11, 2014 and commenced business on July 1, 2014. Dragon Risk Limited, Co. provides excess liability coverage to Drexel University.

11th Street Family Health Services, Inc.
11th Street Family Health Services, Inc. ("11th Street"), a Pennsylvania non-profit corporation, was formed on December 12, 2013. 11th Street is a non-profit real estate holding company of Drexel University, organized to operate in furtherance of the activities of Drexel University and to facilitate the use of new market tax credits in rehabilitating and expanding the structures located at 850 North 11th Street, Philadelphia (the "Property") which was donated from Drexel University on December 23, 2013. The Property is in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a qualified active low-income community business (a "QALICB") as defined by Section 45D of the Internal Revenue Code of 1986, as amended, and Section 1.45D-1(d)(4) of the Code of Federal Regulations. The project is funded by a qualified low-income community investment loan.

1200 Chestnut Street I, Limited Partnership
1200 Chestnut Street I, Limited Partnership (the "Partnership") a Pennsylvania limited partnership, was formed on November 28, 2016 to acquire, own, rehabilitate and lease, manage and operate Partnership property in a manner that will qualify such rehabilitation for historic rehabilitation tax credits allowable pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The Partnership property is comprised of the land and historic building located at 1200-1202 Chestnut Street, Philadelphia, Pennsylvania 19107. The general partner is 1200 Chestnut Street General Partner Inc., a Pennsylvania corporation (General Partner). Drexel University is the 100% shareholder of the General Partner. 1200 Chestnut I LP follows a calendar based fiscal year.

1200 Chestnut Street General Partner, Inc.
1200 Chestnut Street General Partner, Inc. ("1200 Chestnut GP") is the sole general partner in 1200 Chestnut Street I, Limited Partnership. 1200 Chestnut GP is a wholly owned subsidiary of the University. The officers of 1200 Chestnut GP are also the officers and senior leadership of Drexel University. As part of the Historic Tax Credit transactions, a separate, for-profit, single purpose entity was established to own the 1200-1202 Chestnut Street property with 1200 Chestnut GP holding a 1% interest. 1200 Chestnut GP follows a calendar based fiscal year.

Drexel Global Initiatives LLC

Drexel Global Initiatives, LLC (the "Drexel Global") is a Pennsylvania single member limited liability company established February 1, 2014. The Company's purpose is to operate exclusively for educational purposes within the meaning of Section 501 (c) (3) of the Internal Revenue Code, and it has been established to assist Drexel University in its international operations. The business and affairs of the Company are managed by a board of managers established by Drexel University.

3509 Spring Garden, Limited Partnership

3509 Spring Garden, Limited Partnership ("3509 LP"), a Pennsylvania limited partnership, was formed on February 25, 2013 to acquire, own, rehabilitate, lease, manage and operate the 3509 Spring Garden property (the "Dornsife Center") in a manner that will qualify such rehabilitation for historic rehabilitation tax credits allowable pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The Dornsife Center is also located in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a QALICB. 3509 LP follows a calendar based fiscal year.

3509 Spring Garden, General Partner, Inc.

3509 Spring Garden, General Partner, Inc., ("3509 GP") a Pennsylvania corporation, is the sole general partner in 3509 LP. 3509 GP is a wholly owned subsidiary of the University. The officers of 3509 GP are also the officers and senior leadership of Drexel University. As part of the New Market Tax Credit and Historic Tax Credit transactions, a for-profit single purpose entity was needed to own the property and to own the 3509 LP QALICB. The 3509 LP QALICB was established, with 3509 GP acting as the general partner and holding a 90% interest. 3509 GP follows a calendar based fiscal year.

3509 Spring Garden, Master Tenant, Limited Partnership

3509 Spring Garden, Master Tenant, Limited Partnership ("3509 MTLP") a Pennsylvania limited partnership, was formed on August 21, 2013 to lease, manage and operate property owned by 3509 LP. 3509 MTLP has made an equity investment in 3509 LP and is also a partner with a 10% interest. 3509 MTLP consists of a general partner with 0.01% interest and a limited partner with a 99.99% interest. 3509 MTLP and 3509 LP have executed a historic tax credit pass-through agreement pursuant to which 3509 LP will elect under Section 50 of the Internal Revenue Code to pass through to the Partnership the federal tax credits to which it is entitled because of the historic buildings rehabilitation project. 3509 MTLP follows a calendar based fiscal year.

3509 Spring Garden, Master Tenant Manager, Inc.

3509 Spring Garden, Master Tenant Manager, Inc., ("3509 MTM") a Pennsylvania corporation, is the sole general partner in 3509 MTLP. 3509 MTM is a wholly owned subsidiary of the University. The officers of 3509 MTM are also the officers and senior leadership of Drexel University. As part of the New Market Tax Credit and Historic Tax Credit transactions, a separate, for-profit, single purpose entity was established to operate the sublease of the Dornsife Center to meet the QALICB requirements. 3509 MTM is the non-member manager of the property and the general partner and holding a 0.01% interest in 3509 MTLP. 3509 MTM follows a calendar based fiscal year.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2017 and 2016, the University had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value. Restricted cash includes funds related to the Perkins Loan program and uninvested restricted gifts.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows. Unconditional pledges that are expected to be collected within one year are recorded at their estimated net realizable value. Conditional pledges are not included as revenue until the conditions are substantially met. Contributions are reported as an increase in the appropriate net asset category.

Beneficial Interests in Trusts

The University is the beneficiary of the income of certain trusts, but has neither possession nor control of the investments. Beneficial interests in trusts are classified as Level 3. (See Note 7 for investment level definitions). The trusts are valued based on the underlying securities held by the trusts and are primarily composed of equity and fixed income securities that have readily determinable values. The primary unobservable inputs used in the fair value measurement of the trusts are the present value of expected future cash flows. Significant fluctuation in the securities held in the trusts could result in a material change in fair value. Liabilities to beneficiaries are revalued annually based on the current interest rate tables from the Society of Actuaries, and are categorized as Level 3.

Fair Value of Financial Instruments

The University applies fair value measurements to contributions receivable in the year of receipt, beneficial interests in trusts, investments, self-insurance escrow funds, internally held real estate of the endowment, funds held by trustees, interest rate swaps, and annuities. A reasonable estimate of the fair value of student loans receivable under government loan programs and refundable federal student loans cannot be made because the loans cannot be sold and can only be assigned to the U.S. Government or its designees. These loans are recorded at cost, less an allowance for doubtful accounts and the carrying value of the loans receivable from students under Drexel's loan programs approximate fair value. (Notes 6, 7, 8, and 12 for additional fair value disclosures).

Patient Care Activities

Faculty physicians participate in several physician practice plans that are managed by the University. Revenue and expenses related to these practice plans are recorded by the University as patient care activities. Patient care activities include patient service revenue and other physician service activities.

Patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered. The University provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide payment for covered services at agreed-upon rates under certain fee schedules and various discounts. Provisions have been made in the consolidated financial statements to estimate contractual adjustments, representing the difference between the customary charges for services rendered and agreed upon rates.

Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted. Contributions having restrictions that are general purpose in nature are released in the year of the donation.

Contributed property and equipment are recorded at fair value as of the date of the donation. If the donor restricts how long the asset must be used or how the asset is used, the contributions are recorded as restricted. In the absence of stipulations, these contributions are recorded as unrestricted.

Non-operating Activities

Non-operating activities include permanently restricted contributions, realized and unrealized gains and losses on investments, net of payouts under the endowment spending policies, post-retirement benefit plan and defined benefit pension plan adjustments, restructuring costs, distributions to special purpose tax credit entities and costs related to the dissolution of DeL and the formation of DUO.

Non-operating activities are detailed as follows:

(in thousands)	**2017**	**2016**
Endowment and other gifts	$ 2,696	$ 42,547
Realized/unrealized net gain (loss) on investments, net of endowment payout	54,364	(50,273)
Post-retirement and pension plan adjustments	27,519	(9,669)
Restructuring costs	(12,569)	(2,217)
US Bank contribution to 1200 Chestnut I, LP	1,321	-
US Bank contribution to 3509 Spring Garden entities	-	1,147
Loss on extinguishment of debt	(4,484)	-
Other expenses	(388)	(288)
Change in net assets from non-operating activities	$ 68,459	$ (18,753)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The University has been granted tax-exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code and, accordingly, files Federal Tax Form 990 (Return of Organization Exempt from Income Tax), annually. The University files U.S. federal, state and local informational returns. The statute of limitations on the University's U.S. federal information returns remains open for three years following the year they are filed.

The University and its affiliates engage in activities that are subject to unrelated business income taxes for which appropriate income tax returns are filed (Note 15).

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") No. 740-10, *Accounting for Uncertainty in Income Taxes*, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. The University does not believe there are any uncertain tax positions that require recognition in the financial statements.

Accounting for Derivative Instruments and Hedging Activities

The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in a gain of $2,105,000 in 2017 and a loss of $1,534,000 in 2016. The fair value of the interest rate swap agreement was a liability of $3,996,000 and $6,101,000, respectively, at June 30, 2017 and 2016.

The swap agreement is used by the University to reduce exposure to the volatility in variable interest rates on long-term debt (Note 11). There were no other swap agreements in effect as of June 30, 2017 or 2016. The fair value of the swap agreements is reported within accrued expenses in the consolidated statements of financial position. The change in the estimated fair value of terminating the interest rate swap agreement is included in realized and unrealized net loss / gain on investments in the non-operating section (Note 1) of the consolidated statements of activities.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying value of the debt. The amortization of these costs will remain under the interest method and continue to be recorded as interest expense. The provisions of ASU No. 2015-03 became effective for fiscal years beginning after December 15, 2016, and requires retrospective application to all periods presented. Effective June 30, 2017, the University has adopted ASU No. 2015-03. The adoption of ASU No. 2015-03 resulted in $3,511,000 and $5,493,000 of unamortized bond issuance costs at June 30, 2017 and 2016, respectively, that was previously recorded as other assets, to be presented as a direct deduction from the carrying value of the debt. At June 30, 2017 and 2016, the University did not have any unamortized debt issuance costs related to line of credit arrangements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize all investments measured at fair value using the net asset value per share practical expedient within the fair value hierarchy. The provisions of ASU No. 2015-07 became effective for fiscal years beginning after December 15, 2016, and requires retrospective application to all periods presented. The University has adopted ASU No. 2015-07 as of June 30, 2017. Note 7 provides details on the changes to the leveling resulting from utilizing the net asset value per share practical expedient within the fair value hierarchy at June 30, 2017 and 2016.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* , which is meant to enhance the reporting model for financial instruments and provide more useful information to users of financial statements. The guidance is effective for annual fiscal periods beginning after December 15, 2018. The University has adopted ASU No. 2016-01 permitting the omission of fair value disclosures for financial instruments reported at amortized cost.

Recently Issued Accounting Pronouncements

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU No. 2015-14 is that revenue be recognized in manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be compensated in exchange for those goods or services. The guidance is effective for annual fiscal periods beginning after December 15, 2017. The standard permits the use of either retrospective or cumulative effect transition method. The University has not yet selected a transition method and is currently evaluating the standard and is in the process of assessing the impact the standing will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842*), which is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for annual fiscal periods beginning after December 15, 2018. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on unrestricted net assets and donor restricted net assets, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 aims to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if the retrospective application would be impracticable. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

2. Reclassification of Prior Year Presentation

The deposits and deferred revenue categories on the Statement of Financial Position have been consolidated due to their similar characteristics and to provide consistency with presentation in the higher education industry.

The University has reclassified its bond issuance costs from the other assets category to the bonds and notes payable category on the Statement of Financial Position in accordance with ASU No. 2015-03 which requires retrospective application and is considered a change in accounting principle.

The University has reclassified its investment leveling using the net asset value as a practical expedient in Note 7 in accordance with ASU No. 2015-07.

3. Net Assets

Net assets included the following:

(in thousands)	**2017**	**2016**
Unrestricted		
Undesignated	$ (384,772)	$ (350,763)
Designated for colleges, departments and student loans	138,092	134,298
Physical plant	633,419	612,718
Quasi-endowment funds	252,458	236,256
Reclassification for endowments with deficiencies	(3,468)	(8,853)
Total unrestricted	635,729	623,656
Temporarily restricted		
Funds for instruction, scholarships and capital expenditures	112,986	128,715
Endowment realized and unrealized gain	127,574	99,811
Reclassification for endowments with deficiencies	2,601	6,981
Life income and term endowment funds	1,589	1,267
Total temporarily restricted	244,750	236,774
Permanently restricted		
Endowment principal	328,846	315,208
Reclassification for endowments with deficiencies	866	1,871
Beneficial interests in trusts	37,622	35,313
Student loans and others	7,518	7,664
Total permanently restricted	374,852	360,056
Total net assets	$ 1,255,331	$ 1,220,486

4. Accounts Receivable

Accounts receivable are reported at their net realizable value. Accounts are credited in the allowance for doubtful accounts when they are determined to be uncollectible based upon management's assessment of the individual accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of the accounts.

Accounts receivable, net of allowances, as of June 30, were as follows:

(in thousands)	**2017**	**2016**
Tuition	$ 83,404	$ 101,206
Grants, contracts, and other	72,651	65,771
Patient, net of contractual allowance	12,048	12,835
Tenet Healthcare Corporation	1,335	2,127
	169,438	181,939
Allowance for doubtful accounts:		
Tuition	(15,864)	(26,025)
Grants, contracts, and other	(3,882)	(3,105)
Patient	(4,295)	(4,987)
Accounts receivable, net	$ 145,397	$ 147,822

Student loans are disbursed based on financial need and include loans granted by the University from institutional resources and under Federal government loan programs. Students have a grace period until repayment is required based upon the earlier of graduation or no longer maintaining full-time status. The grace period varies depending on the type of loan. Loans accrue interest after the grace period and are repaid directly to the University. Student loans are uncollateralized and carry default risk.

The availability of funds for loans under Federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of $29,625,000 and $29,360,000 at June 30, 2017 and 2016, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the government.

At June 30, 2017 and 2016, student loans consisted of the following:

(in thousands)	**2017**	**2016**
Federal government loan programs		
Perkins loan program	$ 21,369	$ 20,138
Health professions student loans and loans for disadvantaged students	2,982	3,590
Nursing student loans	24	34
Federal government loan programs	24,375	23,762
Institutional loan programs	9,027	9,979
	33,402	33,741
Less: Allowance for doubtful accounts	(2,918)	(2,715)
Student loans receivable, net	$ 30,484	$ 31,026

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts according to the terms of the loan. Student loans are considered past due when payment is not received within 30 days of the due date, and interest continues to accrue until the loan is paid in full or written off. When student loans receivable are deemed uncollectible, an allowance for doubtful accounts is established.

5. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment more than a year from the pledge date are recorded net of a discount using rates as of June 30, 2017 and June 30, 2016 that range between 0.07% to 2.31% and 0.07% to 1.49%, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC No. 820-10 (Note 7).

Net contributions receivable at June 30 were as follows:

(in thousands)	**2017**	**2016**
Amounts due in		
Less than one year	$ 12,785	$ 10,605
One to five years	47,511	58,646
Greater than five years	60,203	69,567
Gross contributions receivable	120,499	138,818
Less:		
Allowance for uncollectibles	(336)	(336)
Discounts to present value	(20,160)	(20,720)
Total contributions receivable, net	$ 100,003	$ 117,762

The following table summarizes the change in net contributions receivable as of June 30:

(in thousands)	**2017**	**2016**
Net contributions receivable at beginning of year	$ 117,762	$ 88,888
New pledges	9,796	51,042
Collections and adjustments	(28,115)	(23,557)
Decrease in allowance for uncollectibles	-	312
Net increase/(decrease) in present value discounts	560	1,077
Net contributions receivable at end of year	$ 100,003	$ 117,762

6. Investments and Investment Return

At June 30, 2017 and 2016, the fair value of the malpractice insurance trust and investments included the following:

(in thousands)	Fair value 2017	Fair value 2016
U.S. equity	$ 148,327	$ 139,175
Global equity	159,189	137,801
Fixed income securities and bond funds	54,670	45,417
Hedge funds	26,040	40,280
Private equity	71,279	62,072
Real estate and real assets funds	66,571	59,209
Directly-held real estate	130,555	124,460
Money market funds	20,763	11,629
Total endowment investments	677,394	620,043
Self-insurance escrow funds (Note 14)	48,921	43,838
Total investments	726,315	663,881
Malpractice insurance trust	8,991	9,398
Total investments and malpractice insurance trust	$ 735,306	$ 673,279

Self-insurance escrow funds are comprised of money market funds, mutual funds, and fixed income securities and bond funds that trade on active markets with readily observable prices. Malpractice insurance trust funds are comprised of domestic US treasuries with readily observable prices.

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2017 and 2016:

(in thousands)	2017 Unrestricted	2017 Temporarily Restricted	2017 Permanently Restricted	2017 Total
Investment income,net of expenses	$ 2,050	$ 4,076	$ 626	$ 6,752
Realized/unrealized gains and (losses)	30,663	38,167	5,375	74,205
Endowment payout under spending formula	(8,754)	(17,839)	-	(26,593)
Realized/unrealized gain on investments, net of endowment payout	23,959	24,404	6,001	54,364
Operating investment income	2,697	598	-	3,295
Total return on investments	$ 26,656	$ 25,002	$ 6,001	$ 57,659

(in thousands)	2016 Unrestricted	2016 Temporarily Restricted	2016 Permanently Restricted	2016 Total
Investment income,net of expenses	$ 2,343	$ 4,387	$ 466	$ 7,196
Realized/unrealized gains and (losses)	(16,796)	(9,188)	(5,880)	(31,864)
Endowment payout under spending formula	(10,570)	(14,866)	(169)	(25,605)
Realized/unrealized loss on investments, net of endowment payout	(25,023)	(19,667)	(5,583)	(50,273)
Operating investment income	2,068	668		2,736
Total return on investments	$ (22,955)	$ (18,999)	$ (5,583)	$ (47,537)

7. Fair Value of Financial Instruments

The three-level hierarchy for fair value measurements is based on observable and unobservable inputs to the valuation of an asset or liability at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants ("exit price") at the measurement date.

The University maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. When available, fair value is based on actively-quoted market prices. In the absence of actively-quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, prices are estimated based on available historical financial data or comparable investment vehicles that reflect widely accepted market valuation practices.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In those cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset. Fair value measurements are categorized as Level 3 when a significant number of price or other inputs, considered to be unobservable, are used in their valuations. The fair value hierarchy and inputs to valuation techniques are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly-traded range of equity and debt securities.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include nonexchange traded fixed income securities, certain bond investments, mutual funds, structured products, and interest rate swaps.

Level 3 Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of partnership investments in hedge funds, alternative and private equities, contributions receivable and annuities, directly held real estate, and real estate fund investments.

As a practical expedient, the University estimates the fair value of an investment in an investment company fund at the measurement date using the reported net asset value (NAV). The fair values of alternative investments represent the University's ownership interest in the net asset value (NAV) of the respective fund. Investments held by the funds consist of marketable securities, as well as, securities that do not have readily determinable fair values. The fair values of the securities held that do not have readily determinable fair values are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issue, and subsequent developments concerning the companies to which the securities relate.

New FASB Guidance on Investments Using NAV as a Practical Expedient

Accounting standard ASU No. 2015-07, *Fair Value Measurement (Topic 820),* allows reporting entities to exclude investments using Net Asset Value as the existing practical expedient from the fair value hierarchy.

Investments using NAV as fair value, and not a practical expedient for fair value, will still be listed in the fair value hierarchy. For example, investments where NAV per share is determined and published and the basis for current transactions is fair value. These are shown in the hierarchy below under Investments, Level 1.

The investments that fit under the new guidance are Level 2 and 3 investments previously listed in the fair value hierarchy. These include: Equity, Fixed Income, Alternative Investments, and Real Estate and Real Assets Funds. Because investments measured at NAV as a practical expedient will no longer be included in the fair value hierarchy, they will no longer appear in the associated disclosures, including the roll forward of Level 3 investments.

As of June 30, 2017, assets at fair value were as follows:

	2017				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets					
Funds held by trustees	$ 313	$ -	$ -	$ -	$ 313
Beneficial interest in trusts	-	-	48,727	-	48,727
Malpractice insurance trust	8,991	-	-	-	8,991
Investments					
U.S. Equity	148,327	-	-	-	148,327
Global Equity	108,733	-	-	49,440	158,173
Fixed Income securities and bond funds	29,347	1,179	-	25,160	55,686
Hedge funds	-	-	-	26,040	26,040
Private Equity	-	-	-	71,279	71,279
Real estate and real assets funds	-	-	7,179	59,392	66,571
Directly-held real estate	-	-	130,555	-	130,555
Money market funds	20,763	-	-	-	20,763
Investments held in endowment	307,170	1,179	137,734	231,311	677,394
Self-insurance escrow funds (Note 14)	48,921	-	-	-	48,921
Total investments	356,091	1,179	137,734	231,311	726,315
Total assets at fair value	$ 365,395	$ 1,179	$ 186,461	$ 231,311	$ 784,346
Liabilities					
Interest rate swaps (Note 1)	$ -	$ 3,996	$ -	$ -	$ 3,996
Split-interest agreements	-	-	1,790	-	1,790
Annuities	-	-	6,432	-	6,432
Total liabilities at fair value	$ -	$ 3,996	$ 8,222	$ -	$ 12,218

	2016				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets					
Funds held by trustees	$ 1,804	$ -	$ -	$ -	$ 1,804
Beneficial interest in trusts	-	-	48,212	-	48,212
Malpractice insurance trust	9,398	-	-	-	9,398
Investments					
U.S. Equity	139,175	-	-		139,175
Global Equity	102,320	-	-	35,481	137,801
Fixed Income securities and bond funds	10,933	-	-	34,484	45,417
Hedge funds	-	-	-	40,280	40,280
Private Equity	-	-	-	62,072	62,072
Real estate and real assets funds	647	-	9,946	48,615	59,209
Directly-held real estate	-	-	124,460	-	124,460
Money market funds	11,629	-	-	-	11,629
Investments held in endowment	264,705	-	134,406	220,932	620,043
Self-insurance escrow funds (Note 14)	43,838	-	-	-	43,838
Total investments	308,543	-	134,406	220,932	663,881
Total assets at fair value	$ 319,745	$ -	$ 182,618	$ 220,932	$ 723,295
Liabilities					
Interest rate swaps (Note 1)	$ -	$ 6,101	$ -	$ -	$ 6,101
Split-interest agreements	-	-	1,584	-	1,584
Annuities	-	-	6,711	-	6,711
Total liabilities at fair value	$ -	$ 6,101	$ 8,295	$ -	$ 14,396

Details related to the fair value of investments that have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable) were as follows:

	2017			
(in thousands)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Applicable)**
Multi-Strategy Hedge Funds (a)	$ 2,303		Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	2,283		Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	21,260		Quarterly	45 days
Private Capital Funds-Secondaries (d)	10,139	3,401		
Private Capital Funds-Venture Capital (e)	1,891	1,720		
Private Capital Funds - Distressed Assets (f)	4,901	737		
Private Capital Funds-Buy-out (g)	17,195	39,820		
Real Asset Funds (h)	16,830	10,703		
Real Estate Funds (i)	8,108	19,484		
Long/Short Equity Hedge Funds (j)	193	-	Annual	95 days
Private Capital Funds-Hedge Fund Seeder (k)	3,597	222		
Private Capital Funds-Mezzanine Debt (l)	8,620	7,942		
	$ 97,320	$ 84,029		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2017, and 2016, respectively, the composite portfolio includes approximately 67% and 48% in distressed investments with a liquidation period of 1 to 3 years, 4% and 25% arbitrage opportunities, 20% and 14% in cash, 0% and 11% long/short equity and 9% and 2% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund. This category includes investments in hedge funds that invest in debt of companies in or facing bankruptcy. The investment managers seek to liquidate these investments in 1 to 3 years. The fair value has been estimated using the reported net asset value per share of the hedge fund.

b. This category includes investment in hedge funds that invest in U.S. mortgage backed securities. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

c. This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 46% in 1 to 4 years; 54% in 5 to 7 years; and 0% in 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 56% in 1 to 4 years; 44% in 5 to 7 years; and 0% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

d. This category includes investments in private equity funds that invest primarily in technology and healthcare companies in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 9% in 1 to 4 years; and 0% in 5 to 7 years, and 91% in 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 40% in 1 to 4 years; 60% in 5 to 7 years; and 0% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

e. This category includes investments in private equity funds that invest in the distressed asset and middle market corporate distressed markets. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017, it is estimated that the underlying assets of the fund would be liquidated over 1 to 4 years, unchanged from June 30, 2016. The fair value has been estimated using the reported net asset value per share of the private capital fund.

f. This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation's shares or product line or some business. These investments are diversified across industries and primarily in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 8% over 1 to 4 years; 31% in 5 to 7 years; and 61% over 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 23% in 1 to 4 years; 0% in 5 to 7 years; and 77% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

g. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2017, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 55% in 1 to 4 years; 45% in 5 to 7 years; and 0% in 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 66% in 1 to 4 years; 29% in 5 to 7 years; and 5% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real asset fund.

h. This category includes investments in private equity funds that invest in U.S. commercial real estate. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2017, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 75% in 1 to 4 years; 25% in 5 to 7 years; and 0% in 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 91% in 1 to 4 years; 0% in 5 to 7 years; and 9% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real estate fund.

i. This category includes investments in hedge funds that invest primarily in U.S. common stocks with both long and short strategies. Management of the hedge funds can shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

j. This category includes investments in private equity funds that invest in newly-started hedge funds that pursue multiple strategies. The fund provides start-up funding to hedge funds of various strategies with the potential to share in the appreciation of the investment, as well as to share in the management fees gathered by the underlying start-up hedge funds. As of June 30, 2017, and 2016, respectively, the fund's underlying investments were 30% and 46% long/short global equity, 11% and 12% in macro and commodity trading, 59% and 30% in diversified credit, 0% and 2% in arbitrage opportunities, and 0% and 10% in global event-driven opportunities. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets would be liquidated in 1 to 4 years at June 30, 2017 and 5 to 7 years at June 30, 2016. The fair value has been estimated using the reported net asset value per share of the private capital fund.

k. This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2017, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 63% in 1 to 4 years; 37% in 5 to 7 years; and 0% in 8 to 10 years. At June 30, 2016, the liquidation periods were expected to be: 0% in 1 to 4 years; 100% in 5 to 7 years; and 0% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

Investment in real estate and real estate funds reflect the fair value of the specific assets or the underlying ventures' net assets. The valuations of real estate investments are updated periodically through valuation estimates prepared by an independent valuation expert or by estimates prepared by the underlying real estate holding entity's General Partner for real estate funds.

The University owns partnership interests in a real estate portfolio classified real estate and real estate funds as a Level 3 asset. The interests have a fair market value of $7,179,000 net of $1,791,000 in outstanding debt. The valuation of these investment properties is prepared annually by an independent appraiser.

The significant unobservable inputs used in the fair value measurements of the University's investments in real estate are the selection of certain investment rates (discount rate, terminal capitalization rate, and overall capitalization rate). Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement, respectively.

8. Endowment Funds

The University has an investment policy for endowment assets designed to maximize the total return within an acceptable level of risk consistent with long-term preservation of the real value of the funds. The goal is to manage the portfolio for risk as well as total return, consistent with fiduciary standards of the prudent investor rule.

To satisfy its rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Endowment assets are invested in several asset classes and subclasses thereof to moderate the volatility of the returns for the entire portfolio.

For the years ended June 30, 2017 and 2016, the University had an endowment spending rule that limited the spending of endowment resources to 4.75% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years, except for ANS. For the years ended June 30, 2017 and 2016, ANS had an endowment spending rule that limited the spending of endowment resources to 6.5% of the fair market value of the pooled endowment assets for the prior seven fiscal years. This rule was applied except in cases where the spending rate had been stipulated by the donor agreement (typically 5.0%).

The University's endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments (quasi endowments). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The earnings on these funds are utilized by the University in a manner consistent with specific donor restrictions on the original contributions.

Interpretation of Relevant Law

The Board of Trustees has interpreted Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. Because of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) earnings of the endowment made in accordance with the direction of the applicable donor designation. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by PA Act 141.

Endowment composition by type of fund as of June 30 was as follows:

(in thousands)	2017 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 22,875	$ 135,076	$ 327,811	$ 485,762
Board-designated endowment funds	213,804	-	-	213,804
Total assets	$ 236,679	$ 135,076	$ 327,811	$ 699,566

(in thousands)	2016 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 24,021	$ 111,900	$ 317,198	$ 453,119
Board-designated endowment funds	191,020	-	-	191,020
Total assets	$ 215,041	$ 111,900	$ 317,198	$ 644,139

Changes in the University's endowment assets for the years ended June 30, 2017 and 2016 were as follows:

(in thousands)	2017 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ 215,041	$ 111,900	$ 317,198	$ 644,139
Investment income, net of fees	2,050	4,076	610	6,736
Net realized gain	6,880	13,094	1,572	21,546
Net unrealized gain	15,573	28,023	4,227	47,823
Transfer for funds with deficiencies	5,386	(4,381)	(1,005)	-
Total endowment return	29,889	40,812	5,404	76,105
Contributions	-	-	2,696	2,696
Use of endowment assets:				
Endowment payout used in operations	(8,197)	(15,709)	(2,687)	(26,593)
Other	(54)	(1,927)	5,200	3,219
Total uses	(8,251)	(17,636)	2,513	(23,374)
Endowment at end of year	$ 236,679	$ 135,076	$ 327,811	$ 699,566

(in thousands)	2016 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ 233,557	$ 131,093	$ 277,308	$ 641,958
Investment income, net of fees	2,343	4,386	409	7,138
Net realized gain	1,251	2,347	530	4,128
Net unrealized (loss)	(7,767)	(16,500)	(2,344)	(26,611)
Transfer for funds with deficiencies	(6,396)	5,237	1,159	-
Total endowment return	(10,569)	(4,530)	(246)	(15,345)
Contributions	-	73	42,633	42,706
Use of endowment assets				
Endowment payout used in operations	(10,570)	(14,866)	(169)	(25,605)
Other	2,623	130	(2,328)	425
Total uses	(7,947)	(14,736)	(2,497)	(25,180)
Endowment at end of year	$ 215,041	$ 111,900	$ 317,198	$ 644,139

Endowment Funds with Deficiencies
From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund. The aggregate amount of funds with deficiencies is reported in unrestricted net assets in the consolidated statement of activities. Subsequent investment gains will be used to restore the balance to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies were $3,439,000 and $8,824,000 as of June 30, 2017 and 2016, respectively.

9. Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if acquired by gift, at the appraised value on the date of acquisition. Amortization and depreciation are computed on a straight-line basis over the lesser of the estimated useful lives of the assets ranging from 3 to 30 years for equipment and software and 5 to 60 years for buildings and improvements or the shorter of the term of the lease.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $1,427,000 and $3,578,000 at June 30, 2017 and $3,061,000 and $5,836,000 at June 30, 2016, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. In 2017 and 2016, depreciation and accretion expense amounted to ($671,000) and $29,000, respectively, and $402,000 and $259,000, respectively. The demolition of the University City High School and removal of its hazardous substances significantly reduced the University's asset retirement obligation resulting in a significant credit to the depreciation expenses to recognize the elimination of this obligation.

The University maintains ownership of a parcel of property located at 1200 Chestnut Street, Philadelphia, PA. The use of the building is restricted for use by the Thomas R. Kline School of Law’s Trial Advocacy Program.

Land, buildings and equipment at June 30 included the following:

(in thousands)	**2017**	**2016**
Works of art	$ 10,441	$ 11,030
Land and improvements	147,211	133,094
Buildings and improvements	1,020,995	970,196
Equipment, software and library books	218,035	209,138
Construction in progress	63,067	72,155
	1,459,749	1,395,613
Less: Accumulated depreciation	(508,431)	(463,453)
Total land, buildings and equipment	$ 951,318	$ 932,160

10. Leases

Future minimum payments by year and in the aggregate under non-cancelable operating leases, with initial or remaining terms of one year or more, are as follows:

(in thousands)

June 30,	
2018	$ 18,298
2019	16,819
2020	15,698
2021	15,230
2022	15,171
Thereafter	7,772
Total minimum lease payments	$ 88,988

Total rent expense for operating leases amounted to $19,338,000 and $19,360,000 for the years ended June 30, 2017 and 2016, respectively.

The University leases educational, research, and medical office space from Tenet Healthcare Corporation ("Tenet") under an operating lease expiring June 30, 2022. The future minimum payments are included in the table above. Total rent expense for the Tenet operating lease was $7,991,000 for each of the years ended June 30, 2017 and 2016.

The University entered into an agreement with the Commonwealth of Pennsylvania (the "Commonwealth") on August 1, 2002 to lease space in the Armory Building (the "Armory") at no cost for an initial period of fifty years during which time the University agreed to complete certain improvements to the Armory at the University's expense. Thereafter, the lease may be renewed for two, additional twenty-year periods at fair value. In the event the Commonwealth should desire to sell the property during the initial or additional lease periods, the University has the option to purchase the Armory for $1,700,000, adjusted for inflation. There were $5,032,000 and $371,000, respectively, capitalized for improvements in fiscal years 2017 and 2016. Estimated costs for the required improvements amounted to $2,678,000 and $2,741,000 at June 30, 2017 and 2016, respectively. These costs have been capitalized and a comparable capital lease liability recorded.

On January 23, 2012, the University and ACC OP (Chestnut PA), LLC, an affiliate of American Campus Communities ("ACC"), entered a triple net ground lease structure governing the conveyance of the land area located on 3200 Chestnut Street with a base lease term of forty years and three, ten-year option periods. In consideration for the right to develop, own, and operate the proposed project referred to as "Chestnut Square" on the University's campus, ACC pays the University annual ground rent of $254,000. Chestnut Square includes 360,000 square feet of residential space, housing approximately 863 students. The facility also includes 36,000 square feet of retail and office space along the Chestnut Street frontage. The structures consist of two eight story low-rise buildings and a nineteen story high-rise residential tower at the corner of 32nd and Chestnut Streets. A 101,500-square foot parking structure containing 267 spaces is also included for the south side of the existing Creese Student Center. The University bears no cost of the Chestnut Square project. At the end of the lease (40-70 years), the asset reverts to the University.

On August 30, 2013, the University entered into a land purchase agreement with 3175 JFK Associates, LP and L-A 31, LP, both affiliates of ACC, whereby ACC contributed land, air rights and a subsurface parcel it owned contiguous to Drexel's campus (i.e. 3175 JFK Boulevard) to the University as a gift, without any purchase consideration, but retained the ownership of the "University Crossings" building and improvements erected on this land. The University Crossings property consists of 1.15 acres of land and a 17-story, 452,483 square foot building with 261 units and a total bed capacity of 1,016. As a condition of the land purchase agreement, Drexel and ACC also entered into a ground lease agreement whereby Drexel leased the land back to ACC for no consideration other than reimbursement of property tax that Drexel would be required to pay as the land owner. The term of the lease is forty years with an option to renew for three consecutive ten-year terms. Payments to the University from ACC are recorded as a cost recovery of property taxes. Within five years from the effective date, ACC is required to complete no less than $22,327,000 in capital improvements. The University's financial statements include a ground lease liability for the sub-parcel and air rights at June 30, 2017, and 2016 of $10,850,000 and $11,150,000 respectively. The University recognized $300,000 of ground lease income related to this agreement during fiscal years 2017 and 2016.

The University entered into ground lease agreement with ACC OP (Lancaster PA), LLC ("ACC Lancaster"), an affiliate of ACC, on August 30, 2013 for property located at 3400 Lancaster Avenue to undertake "The Summit" project on the University's campus. The Summit project features a tiered eight story and five story mid-and low-rise building along Lancaster Avenue which includes 19,120 square feet of ground floor retail that faces Lancaster Avenue and 34th Street, a 23-story residential tower that sits on a one-story student amenity plinth and a one story dining venue. The initial term of the lease is forty years, with an option to renew for three consecutive ten-year terms. In consideration for the right to develop, own, and operate The Summit, ACC pays the University annual ground rent of $725,000.

In tandem with the execution of the ground lease agreement, the University entered into a sublease agreement with ACC Lancaster, for the dining facility at The Summit property at 3400 Lancaster Avenue. The sublease calls for annual rent payments of $741,395 for the first thirty years of the sublease. The sublease is, in all respects, subject to and subordinate to the ground lease between the University and ACC established on August 30, 2013, to develop the 3400 Lancaster Avenue property. The term of the sublease follows the term of the ground lease, commencing September 2015. The initial term is 40 years with three, ten-year renewal options. At the expiration or sooner termination of the ground lease, title shall vest with the University and belong exclusively to the University without any interest on the part of ACC. The sublease provides a rent prepayment option, which allows the full 30 years of rent for the dining facility to be satisfied with an upfront payment of $9,200,000. The University executed the option in September 2015. The amount will be capitalized and amortized over the term of the lease.

In June 2014, the University entered into ground lease agreements with Wexford 3750 Lancaster Avenue, LLC, Wexford 115 North 38th Street, LLC, Wexford 225 North 38th Street, LLC, and Wexford 3701 Filbert Street, LLC (all to be referred to as "Wexford") for property located at 3601 Filbert Street. Wexford has prepaid the University $17,616,000, the full amount of the lease. The prepayment has been recorded as deferred rental income and will be amortized over the 99-year term of the lease. In addition, Drexel is obligated to fund an amount not to exceed $13,200,000 for the development of the property.

On December 17, 2014, the University entered into a ground lease agreement with Study Philadelphia Holding, LLC (“SPHLLC”) to build an upscale hotel, “The Study”, on University property located at 3301 Chestnut Street and 20-40 South 33rd Street. The hotel features a ground floor restaurant and retail space, a conference center, approximately 212 hotel rooms, and accessory hotel amenities, with a main entrance on 33rd Street. The hotel includes a ten-story building, totaling 145,000 square feet of space. The base term of the lease is fifty years with two, ten-year renewal options. The commencement date is twenty-four months from the date of the lease or the opening date whichever is earlier. Upon the expiration of the lease, the leased premises will become the property of the University. The University recognized $154,000 of ground lease income related to this agreement during fiscal years 2017 and 2016.

On October 2, 2015, the University entered into a ground lease agreement with RPG 32 Race, LP (“RPG”) for University property located at 3201 Race Street. RPG intends to lease the property and develop a 178,00-square foot multi-storied, mixed-use facility, consisting of 164 “Class A” rental apartment units, 13,800 square foot childcare center, ancillary amenities and improvements including a café and rooftop sundeck, 27 on-site parking spaces, accommodation for customer curbside drop-off for use in connection with the childcare center. Nobel Learning Communities, Inc. is the approved childcare operator. The annual rent commencement date is defined as twelve months following the substantial completion of the project. The initial term of the lease is seventy-five years with the option to extend the lease for one additional term of twenty-four years. The University recognized ground lease income of $215,000 and $161,000 related to this agreement during fiscal years 2017 and 2016.

11. Bonds and Notes Payable

(in thousands)	Project	Final Maturity	Effective Interest Rate at June 30, 2017	2017	2016
Fixed rate debt obligations					
Drexel University					
Dormitory Bonds of 1969	Calhoun Hall	2014-2019	3.00%	$ 150	$ 220
Pennsylvania Higher Education Facilities Authority (PHEFA)					
Series A of 2005	Capital improvements and equipment	2014-2034	3.20-5.00%	-	24,490
Series A of 2007	Capital improvements and equipment	2030-2037	4.50-5.00%	-	92,335
Series of 2007	Capital improvements and equipment	2014-2037	3.75-5.00%	-	18,730
Series A of 2011	Capital improvements and equipment	2014-2041	2.00-5.25%	136,455	142,620
Series of 2012	Refunding	2014-2032	1.00-5.00%	15,635	19,790
Series of 2016	Refunding	2022-2037	2.00-5.00%	117,130	-
11th Street Family Health Services Inc.					
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	2,717	2,717
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	6,783	6,783
3509 Spring Garden, LP					
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	1,964	1,964
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	4,826	4,826
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	1,045	1,045
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	2,205	2,205
Variable rate debt obligations					
Drexel Unversity					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	22,500	22,500
Series B of 2002	Capital improvements and equipment	2015-2032	Variable	41,180	41,505
Series B of 2005	Advance refunding	2019-2030	Variable	29,625	29,625
Series B of 2007	Capital improvements and equipment	2014-2037	Variable	24,890	25,635
Total outstanding bonds and notes payable				407,105	436,990
Unamortized original issue premiums/discounts and cost of issuance, net				20,449	4,710
Total bonds and notes payable				$ 427,554	$ 441,700

The variable rates of interest on the Pennsylvania Higher Educational Facilities Authority Revenue Bonds are based on the weekly rate determined by the remarketing or auction agent, not to exceed 16% per annum.

The Dormitory bonds of 1969 are collateralized by first mortgages on the associated buildings and first liens on, and pledges of, the net revenues derived from the building operations.

In August 2016, the University issued Pennsylvania Higher Educational Facilities Authority, Drexel University Revenue Refunding Bonds, Series of 2016 in the amount of $117,130,000. The primary purpose of this issue was the refunding of all the outstanding Series of 2005A, 2007A, and the College of Medicine 2007 bonds. The 2016 bonds will be maturing between May 1, 2022 through May 1, 2037. The bonds were issued on a parity basis with the University's other outstanding Authority bonds and on a parity basis with the interest rate swap agreement in connection with the Series of 2005B bonds.

The Second Series of 2000, 2002, 2005, 2007, 2011, and 2012 bonds are secured by a security interest in unrestricted gross revenues.

Debt maturities for the fiscal years ending are as follows:

(in thousands)	**Maturities**	**Remarketed Debt**	**Total Debt**
2018	10,864	1,105	11,969
2019	7,180	1,150	8,330
2020	8,695	5,170	13,865
2021	7,505	4,045	11,550
2022	9,070	5,770	14,840
Thereafter	269,556	100,955	370,511
			$ 431,065
Cost of issuance			(3,511)
			427,554

The Second Series of 2000 and Series B of 2002, Series B of 2005 and Series B of 2007 bonds have remarketing terms and related standby letters of credit which could change the maturity dates. These issues have been included in the above table based on the current terms of the loans. If the remarketing efforts were to fail, the maturities would reflect the terms of the letters of credit as follows:

(in thousands)	**Remarketed Debt**
June 30,	
2018	20,983
2019	50,560
2020	39,246
2021	7,406
2022	-
Thereafter	-
	$ 118,195

Lines of Credit
Only July 1, 2014, the University assumed a line of credit previously held by the Pennsylvania Health and Education Corporation (PHEC) as part of the merger of PHEC into Drexel on that date. The line of credit is a term note for a total of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available with equal payments of principal and interest due sixty months thereafter. The line of credit is secured by a lien and security interest in deposits or other sums held by the lender or its affiliates. There were no amounts outstanding at June 30, 2017 and 2016.

Total unsecured Revolving Credit Facilities (“Facilities”) of $55,000,000 matures on December 31, 2017, and accrues interest based on Intercontinental Exchange Benchmark Administration “ICE” (subject to a floor of 0.75%) for the University. It can be extended annually based upon the agreement of the University and the bank maintaining the Facilities. At June 30, 2017, the interest rate was 0.75% and there were no amounts outstanding.

12. Retirement Plans

Defined Benefit and Defined Contribution Plans
The University established the Drexel University Defined Contribution Retirement Plan (“DU DC”) effective April 1, 1972. The DU DC was most recently amended and restated, effective March 1, 2016, to (i) reflect the merger of the Academy of Natural Sciences Defined Contribution Retirement Plan (“ANS DC”) with the DU DC and the transfer of its assets and liabilities to the DU DC. Drexel University is the DU DC administrator. The trustees of the DU DC are Teachers Insurance and Annuity Association - College Retirement Equities Fund, as agent for JP Morgan Chase Bank, N.A. (“TIAA-CREF”), Vanguard Fiduciary Trust Company (“Vanguard”) and Fidelity Management Trust Company (“Fidelity”).

The DU DC is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Institution’s Investment Committee determines the appropriateness of the plan’s investment offerings, monitors investment performance, and reports to the Institution’s Board, who is responsible for the oversight of the Plan.

All eligible employees, defined as a full-time staff or faculty member, or a part-time employee who earns 1,000 hours of service or more during the 12-consecutive calendar month period beginning with his or her date of hire, can contribute their own deferrals on a pre-tax basis. Effective, January 1, 2015, all full-time faculty and professional staff who do not enroll in the DU DC within 31 days of their date of hire will be automatically enrolled at a rate of two percent (2%) to the default vendor, TIAA-CREF, with the next available payroll. Contribution changes, including stopping participation can be done at any time. Provided that an eligible employee contributes at least one percent (1%) of compensation, the University contributes a “Basic Contribution” to the DU DC equal to three percent (3%) for an eligible employee under the age of 50, and five percent (5%) for those 50 or older. The University contributes matching contributions to DU DC that are equal to one hundred percent (100%) of an eligible employee’s contributions up to six percent (6%). All basic and matching contributions are subject to certain Internal Revenue Code limitations.

The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was $43,211,125 and $42,141,525 in 2017 and 2016, respectively.

ANS also maintains a defined benefit pension plan. This plan was frozen by the ANS Board of Trustees effective December 31, 2009, prior to the affiliation agreement with Drexel University on September 30, 2011. The assumptions for the pension liabilities, the accumulated benefit obligation, change in projected benefit obligation, and change in plan assets are as follows:

(in thousands)	**2017**	**2016**
Weighted average assumptions as of June 30		
Discount rate	3.90 %	3.90 %
Expected return on plan assets	6.25 %	6.25 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 20,037	$ 19,908
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 19,908	$ 17,562
Service costs	160	130
Interest costs	759	790
Actuarial loss	495	2,163
Gross benefits paid	(1,285)	(737)
Net benefit obligation at June 30	$ 20,037	$ 19,908

(in thousands)	**2017**	**2016**
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,582	$ 10,430
Actual return on plan assets	510	231
Employer contributions	832	658
Gross benefits paid	(1,285)	(737)
Fair value of plan assets at June 30	$ 10,639	$ 10,582
Fair value of plan assets	$ 10,639	$ 10,582
Benefit obligation	20,037	19,908
Net amount recognized at June 30*	$ (9,398)	$ (9,326)

* These amounts are recognized in the financial statements including the statement of financial position in the “Post-retirement and pension benefits” classification.

The components of net periodic benefit cost are noted below:

(in thousands)	**2017**	**2016**
Weighted average assumptions used to determine net periodic benefit costs		
Discount rate	3.90 %	4.60 %
Expected return on plan assets	6.25 %	6.50 %
Components of net periodic benefit costs		
Service costs	$ 160	$ 130
Interest costs	759	790
Expected return on assets	(664)	(678)
Amortization of actuarial loss	649	2,610
Net periodic benefit cost	$ 904	$ 2,852

As of June 30, 2017, and 2016, the pension plan had a projected benefit obligation and an accumulated benefit obligation in excess of plan assets. Both the projected and accumulated benefit obligations were $20,037,000 and $19,908,000 at June 30, 2017 and 2016, respectively. The fair value of the plan assets was $10,639,000 and $10,582,000 as of June 30, 2017 and 2016, respectively.

Information about the expected cash flows for the pension plan is as follows:

Expected benefit payments *(in thousands)*	
June 30,	
2018	$ 996
2019	1,082
2020	1,120
2021	1,152
2022	1,174
2023-2027	6,158

Plan Assets

The ANS pension plan weighted-average asset allocations at June 30, 2017 and 2016 by asset category are as follows:

	2017	**2016**
Asset category		
Equity securities	49.0 %	37.7 %
Fixed income securities	30.8 %	37.4 %
Hedge fund and alternative investments	19.2 %	20.7 %
Cash	1.0 %	4.2 %
	100.0 %	100.0 %

The ANS investment policy and strategy is to shift investments to the target allocation to control the volatility of investment returns for the portfolio. As the investment horizon is expected to be long-term, the portfolio needs to provide long-term capital growth while also being protected from incurring major losses due to the poor performance of one sector of the market and must be invested to reduce the overall investment risk and volatility of investment returns.

The target composition of the plans assets is characterized as a 34%, 37%, 27%, and 2% allocation between equity, fixed income investments, alternative investments, and cash. The strategy currently utilizes indexed equity funds and fixed income funds, and a number of alternative investment vehicles. The alternative investments are allocated among various classes, including but not limited to: equities, hedge funds, fixed income, natural resources, and real estate. The strategy allows to invest in a diversified manner with a mix of assets that are set not to be highly correlated. The expected rate of return on assets was based on the current interest rate environment and historical market premiums of equity and other asset classes relative to fixed income rates.

The following tables present the ANS pension plan assets at fair value as of June 30, 2017 and 2016 according to the valuation hierarchy reflecting the updated accounting guidance outlined in ASU 2015-07:

	2017				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets at fair value					
Cash equivalents	$ 112	$ -	$ -	$ -	$ 112
Mutual funds	9,784	-	-	-	9,784
Alternative investments	-	-	-	743	743
	$ 9,896	$ -	$ -	$ 743	$ 10,639

	2016				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets at fair value					
Cash equivalents	$ 443	$ -	$ -	$ -	$ 443
Mutual funds	8,442	-	-	-	8,442
Alternative investments	-	-	-	1,697	1,697
	$ 8,885	$ -	$ -	$ 1,697	$ 10,582

Defined Contribution Plan Merger and Asset Transfers

Effective March 1, 2016, the ANS DC plan was merged into the DU DC plan. ANS DC's transfer into the DU DC plan included participant-directed investments at fair value of $2,564,804.

13. Other Post-Retirement Benefits

In addition to retirement plan benefits, the University also provides post-retirement benefits to retirees in the form of group life insurance, major medical insurance and tuition remission. All eligible faculty and professional staff members who have completed ten (10) years of full-time consecutive service with the University and are age 55 or older, if hired before September 1, 2013, or who have completed fifteen years of full-time consecutive service with the University and are age 60 or older if hired on or after September 1, 2013, excluding any professional staff member who is affiliated with a collective bargaining unit. Full-time consecutive service (10 or 15 years) is strictly services with Drexel University and does not include any subsidiaries.

Effective June 30, 2017, except for eligible tenured faculty who made a valid election under the University Retirement Incentive Plan for Tenured Faculty prior to January 1, 2017 to retire from service on August 31, 2017 under the University's One-time Early Retirement Incentive Window Plan, the plan was amended to provide the cost of coverage for eligible retirees who retire from employment prior to July 1, 2017. The University shares the cost of coverage for medical plan options under this Plan with eligible retirees. Retirees must pay the difference between the monthly cost for the health plan in which they are enrolled and the University's retiree allowance. For eligible retirees who retired from employment prior to September 1, 2014, the retiree allowance is $400 per month for an eligible retiree and up to an additional $400 per month for his or her spouse or same-sex domestic partner. For eligible retirees who retire from employment on or after September 1, 2014 but before July 1, 2017, the retiree allowance is $300 per month for an eligible retiree and up to an additional $300 per month for his or her spouse or same-sex domestic partner. The University reserves the right to change the level of the retiree allowance at any time. For eligible retirees who retire from employment after June 30, 2017, there is no retiree allowance and eligible retirees must pay the entire cost of medical coverage under this Plan. The retirees have a choice of various providers. The post-retirement health care plan is contributory, and the life insurance plan is noncontributory. On January 1, 2015, the plan was amended to include actively employed College of Medicine faculty and professional staff who had 15 years of consecutive full-time service (since 1998), and were at least 60 years of age.

The net periodic post-retirement benefit costs and related funded status as of June 30 are shown below. Adjustments to the unfunded status amounted to ($28,423,000) and $6,817,000 respectively, for the years ended 2017 and 2016 and are reflected in the consolidated statements of activities and included in post-retirement benefits in the consolidated statements of financial position.

The following tables provide information with respect to the other post-retirement plans for the years ended June 30:

Plans Funded Status

(in thousands)	2017	2016
Change in benefit obligation		
Benefit obligation, beginning of year	$ 69,198	$ 56,942
Service cost	2,443	3,059
Interest cost	2,469	2,651
Plan amendments	(25,414)	10,145
Actuarial (loss)/gain	(1,950)	(1,835)
Plan participant contributions	272	183
Actual benefits paid	(2,952)	(1,947)
Benefit obligation, end of year	44,066	69,198
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	2,680	1,765
Plan participant contributions	272	182
Actual benefits paid	(2,952)	(1,947)
Fair value of plan assets, end of year	-	-
Unfunded status of the plan	$ 44,066	$ 69,198

Weighted average assumptions to determine benefit obligations and net cost as of June 30		
Discount rate	4.03%	4.30%
Ultimate retiree health care cost trend	4.50%	5.00%
Year ultimate trend rate is achieved	2026	2023

The liabilities and post-retirement benefit expenditures associated with the 2016 plan activity include the January 1, 2015 plan amendment. This amendment resulted in an additional $10,145,000 prior service cost associated with the addition of these employees. The 2015 liabilities and post-retirement expenditures reflects a reduction of $6,900,000 related to plan amendments enacted on September 1, 2013 related to plan eligibility and benefit amounts.

For measurement purposes, a 7.5% and an 8.5% annual rate of increase in the per capita cost of covered health care benefits for those over 65 and under 65, respectively, was assumed for 2017 grading down to ultimate rates of 4.5% in the year 2026 and thereafter:

Net Periodic Benefit Cost

(in thousands)	2017	2016
Components of net periodic benefit cost		
Service cost	$ 2,443	$ 3,059
Interest cost	2,469	2,651
Amortization of:		
Prior service credit	(288)	125
Net loss	1,347	1,368
Net periodic benefit cost	$ 5,971	$ 7,203
Other changes recognized in unrestricted net assets		
Net actuarial (gain) loss	$ (1,950)	$ (1,835)
Prior service credit	(25,414)	10,145
Amortization of:		
Prior service cost	288	(125)
Net gain	(1,347)	(1,368)
Total recognized in unrestricted net assets	$ (28,423)	$ 6,817
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets		
Prior service credit	$ (21,318)	$ 3,808
Actuarial loss	21,992	25,289
Amounts in unrestricted net assets, end of year	$ 674	$ 29,097
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in fiscal 2017		
Prior service credit	$ (1,536)	
Actuarial loss	$ 1,306	

For the fiscal years ended June 30, 2017 and 2016, the effect of a 1% change in the health care cost trend rate is as follows:

(in thousands)	2017		2016	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on net periodic benefit cost	$ 50	$ (45)	$ 47	$ (43)
Effect on postretirement benefit obligation	339	(318)	302	(293)

Contributions

Expected contributions for the 2018 fiscal year are $3,753,000.

Estimated future benefit payments:
The following benefit payments (net of retiree contributions), which reflect the effects of the Medicare Act and expected future service, as appropriate, are expected to be paid in:

(in thousands)	
June 30,	
2018	3,753
2019	3,740
2020	3,752
2021	3,621
2022	3,493
Thereafter	15,608

14. Professional Liability Insurance

Starting July 1, 2014, Drexel established a Self-Insurance Trust ("SIT") to provide primary coverage for known claims medical professional liability coverage. The SIT provides primary coverage of $500,000 for physicians and midwives and up to $1,000,000 for other health professions and entity coverage. Physicians and midwives also participate in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare") that covers from $500,000 to $1,000,000. In addition, Drexel self-insures a layer of excess of up to $2,000,000 above the Mcare Fund.

The Dragon Risk Limited, Co. provides excess coverage above the self-insured layer of an additional $17,000,000.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2017 and 2016, the University and its subsidiaries recorded gross combined reserves of $39,284,000 and $36,054,000, respectively and related recoveries from third party insurers of $9,567,000 and $6,668,000 at June 30, 2017 and 2016, respectively. For fiscal years 2017 and 2016, the reserves were discounted at 2% for the layers retained by the University and excess carriers. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying 2017 and 2016 consolidated statements of financial position. Under the self-insurance program, the University is required by the Commonwealth of Pennsylvania to maintain a malpractice trust fund. At June 30, 2017 and 2016, escrow funds of $23,524,000 and $22,580,00, respectively and balanced index funds of $34,390,000 and $31,096,000, respectively, were available to fund incurred but not reported liabilities (Note 7).

15. Commitments and Contingencies

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements and reimbursement for patient services. Federal government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by healthcare providers. Violations of these regulations could result in the imposition of significant fines and penalties and have a significant effect on reported activities or cash flow.

The University believes it is in compliance with applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Litigation

There is pending litigation between SodexoMAGIC and the University in relation to the former food services agreement.

The nature of the educational and healthcare industries is such that, from time to time, claims will be presented on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and healthcare services at a large institution. In the opinion of the University, after consultation with legal counsel, the ultimate disposition of these matters will not have a materially adverse effect on the financial condition or results of operations.

Other Commitments and Contingencies

The University maintains a letter of credit in the amount of $225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste and is renewed annually. There were no amounts outstanding as of June 30, 2017 and 2016.

The University maintains three letters of credit totaling $2,055,000 associated with workers' compensation insurance. The agreements are renewable annually. There were no amounts outstanding as of June 30, 2017 and 2016.

The University has the following letters of credit for bonds having remarketing terms:

- The Second Series of 2000 bond has a letter of credit in an amount not to exceed $22,500,000, plus required interest coverage, which will expire June 1, 2018.
- The Series B of 2002 bond has a letter of credit in an amount not to exceed $42,140,000, plus required interest coverage, which will expire June 1, 2018.
- The Series B of 2005 bond has a letter of credit in an amount not to exceed $30,047,055 which will expire September 30, 2019.
- The Series B of 2007 bond has a letter of credit in an amount not to exceed $29,879,704, plus required accrued interest, which will expire October 30, 2018.

There were no amounts outstanding on these bond-related letters of credit as of June 30, 2017 and 2016.

The University also maintains a letter of credit in an amount not to exceed $287,253 as required by the U.S. Department of Education in connection with Federal student loans. It will expire on May 1, 2018 and is automatically renewed annually unless notified by the University of an election not to renew. There was no amount outstanding as of June 30, 2017.

Business Income Taxes

As referenced in Note 1 - Income Taxes, the University is a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The University and its non-profit affiliates are not subject to taxation for activities and income related to its exempt purpose. Unrelated business income (UBI) is defined by the Internal Revenue Service (IRS) as income generated in a trade or business that is regularly carried on and is not substantially related to further the exempt purpose of the organization. The University is subject to federal UBI tax related to the net income generated from consulting, conference services and investment income held in the endowment fund for which the investment manager has reported unrelated business income on an IRS Schedule K-1 for which it files an IRS Form 990-T, Exempt Organization Business Tax Return, annually. The University makes quarterly estimated tax payments to the IRS and submits any additional tax payment with the final submission of its return in the subsequent fiscal year.

The University is also subject to the City of Philadelphia Business Income and Receipts Tax. The University files an annual Business Income and Receipts Tax return and submits estimated tax payments for the subsequent fiscal year at the time of filing its return to the City of Philadelphia.

For the fiscal years ended June 30, 2017 and 2016, the University recorded $949,000 and $906,000 as income tax expenses and assigned a functional expense category of institutional support for these expenditures.

16. Related Party Transactions

Prior to July 1, 2014, PHEC had various operating agreements with Tenet which have continued with the University as a result of the merger. Under these agreements, the University acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2017 and 2016 were $12,259,000 and $11,999,000, respectively. These services include charges for various personnel, administrative and support services related to operating the College of Medicine and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs and services and support provided by physicians to support hospital operations. Total charges to Tenet for these services amounted to $22,534,000 and $23,138,000 for the years ended June 30, 2017 and 2016, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

Schuylkill Yards

On May 9, 2016, the University entered into a master development agreement (the “Development Agreement”) with Brandywine Realty Trust (“BRT”), the sole general partner of Brandywine Operating Partnership, LP. As the master developer, BRT is provided certain rights and obligations, for a multi-phase, multi-component development on approximately 10.11 acres of University owned land (the “Drexel Site”) adjacent to the University’s main campus in the University City section of Philadelphia. The project’s master planned area includes the Drexel Site and up to four additional adjacent acres owned separately by the University and BRT, to be branded as “Schuylkill Yards.”

Schuylkill Yards is contemplated to be developed in six phases over approximately 20 years, excluding extension options, and will consist of approximately 5.0 million square feet of floor area ratio (FAR) of commercial, office, educational, research, residential, and related facilities, as well as accessory green space uses. Approximately 50% of the total FAR value will consist of office, educational and research space, and the balance in residential, retail, hospitality and parking uses.

Two initial parcels in Phase 1 were conveyed on October 13, 2017 and BRT will immediately commence construction of a large public realm area on one parcel with completion on or about the second quarter of fiscal year 2019, and the repositioning and re-tenanting of an existing building on the second parcel, immediately afterwards. (Note 18) The development timing for the remaining two parcels in Phase 1 and subsequent phases will depend on market conditions, timing of conveyances, FAR values of buildings to be constructed, and municipal approvals. The business structure for each transaction will be either a discounted prepaid 99-year ground lease with BRT, an equity position in the BRT entity developing the structure or a combination of both structures.

BRT intends to fund costs to develop each phase of Schuylkill Yards through a combination of cash on hand, capital raised through one or more joint venture formations, proceeds from the sale of other assets or debt financing, including project-specific leasehold mortgage financing. Terms of the Development Agreement were determined through arm's-length negotiation between the University and BRT.

Drexel University/Ben Franklin Technology Partners Seed Fund
On November 15, 2015, the University and Ben Franklin Technology Partners of Southeastern Pennsylvania ("Ben Franklin") signed a ten year agreement ending November 15, 2025, to establish a jointly funded initiative "the Fund", managed by Ben Franklin in conjunction with the University that establishes four program areas: 1) seed investments from a jointly capitalized pool into University spin-outs and other agreed upon Drexel-based ventures, 2) post-investment portfolio management services, 3) appropriate counseling and support for all invested companies and access to all Ben Franklin services and programs, and 4) joint efforts to place Drexel talent with invested enterprises. The University has authorized an amount up to $5,000,000 to be raised from donors and used for the program elements. Ben Franklin has also authorized up to $5,000,000 to be allocated over the life of the initiative from available investment resources. All loans and/or investments made by the Fund will be made with equal participation between the University and Ben Franklin. All loans and/or investment administration will be handled by Ben Franklin. The University and Ben Franklin will share equally in the revenue, income and/or other forms of return from each loan/investment. Upon termination of the agreement, any uncommitted University funds, net of costs associated with any outstanding loan or investment will be returned to the University by Ben Franklin within 45 days of termination.

17. Operating Expenses

Expenses for the operation and maintenance of plant, depreciation and interest are not included in the University's patient care and education and general expense categories in the consolidated statements of activities. The allocation of those expenses, based on the space assigned to each, is as follows:

(in thousands)	**2017**	**2016**
College programs	$ 38,908	$ 41,371
Research and public service	13,492	11,694
Academic support	3,544	2,294
Student services	15,305	14,557
Institutional support	8,011	9,024
Auxiliary enterprises	41,702	41,226
Patient care activities	4,827	4,612
	$ 125,789	$ 124,778

The allocation of operating expenses at June 30, 2017 and 2016, reflects annual space inventory data using the University space management system. The space inventory includes all space at the Academy of Natural Sciences, Center City, and Queen Lane Campuses, and University City campuses. The allocation at June 30, 2017 and 2016 is based on a total 5,427,000 and 5,362,000 net usable square feet, respectively.

18. Subsequent Events

The University evaluated events subsequent from June 30, 2017 through October 25, 2017.

Tenet Affiliation
On September 1, 2017, Tenet announced that they have signed a definitive agreement to sell its two Philadelphia medical centers — Hahnemann University Hospital, St. Christopher's Hospital for Children — to American Academic Health System ("AAHS"), a newly formed affiliate of Paladin Healthcare, for $170,000,000. The transaction is expected to be completed early next year, subject to regulatory approvals and other closing conditions. Drexel University's current affiliation agreement will be assigned to the new owner and runs through June 30, 2022 unless the new owner or Drexel give notice of termination in June 2019, in which event agreement will terminate on June 30, 2021. Drexel and AAHS intend to work closely together after closing to develop a vision for the academic medical programs, with the goal of entering into a new long-term affiliation agreement.

Schuylkill Yards
On October 13, 2017, the University completed the initial conveyance for the Schuylkill Yards project involving the transfer of 3001 and 3025 Market Street to Brandywine Realty Trust ("BRT"), the sole general partner of Brandywine Operating Partnership, LP. The total fair value of these properties included in the endowment as of June 30, 2017 is $52,000,000. The University anticipates two additional parcels will be conveyed during fiscal year 2018 which will result in a favorable net outcome to the endowment for the first conveyances of the project. BRT will commence construction of a large public realm area on the 3001 Market Street parking lot with completion on or about the second quarter of fiscal year 2019 to be followed immediately by the commencement of remodeling and re-tenanting of the 3025 Market Street building. The surface rights for 3001 Market were conveyed through a ground lease in consideration for $100, as the University agreed to provide the land for a park to define and significantly enhance the value of the entire project. The 3025 Market Street parcel was conveyed through a 99-year prepaid ground lease combined with the conveyance of the vertical improvements and the subterranean rights of 3001 Market Street for $35,000,000. The proceeds from both parcels will be invested in the University's endowment portfolio replacing the real estate values for the 3001 and 3025 Market Street parcels. In addition to the conveyance transactions BRT provided $370,000 for access to the property management staff at Academic Proprieties Inc., a Drexel subsidiary, to assist with the repositioning and re-tenanting of the 3025 Market Street property.