Drexel University and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2016 and 2015

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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, 2016 and 2015, and the related consolidated statements of activities and of 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.

Auditor's 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.

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 at June 30, 2016 and 2015, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 26, 2016

Drexel University and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2016 and 2015

(in thousands)	2016	2015
Assets		
Cash and cash equivalents		
Operating	$ 116,559	$ 99,457
Restricted	12,277	7,341
Accounts receivable, net		
Tuition	75,181	73,917
Grants, contracts and other	62,666	71,461
Patients	7,848	8,950
Tenet Healthcare Corporation	2,127	1,852
Total accounts receivable, net	147,822	156,180
Contributions receivable, net	117,762	88,888
Other assets	31,667	36,847
Funds held by trustees	1,804	5,845
Student loans receivable, net	31,026	35,482
Malpractice insurance trust	9,398	10,599
Beneficial interests in trusts	48,212	53,507
Investments	663,881	681,073
Land, buildings and equipment, net	932,160	902,329
Total assets	$ 2,112,568	$ 2,077,548
Liabilities		
Accounts payable	$ 59,174	$ 58,379
Accrued expenses	114,481	112,975
Deposits	19,601	22,394
Deferred revenue	140,993	118,993
Capital lease	2,741	2,804
Government advances for student loans	29,360	28,513
Post-retirement and pension benefits	78,539	64,200
Bonds and notes payable	447,193	458,661
Total liabilities	892,082	866,919
Net assets		
Unrestricted	623,656	631,177
Temporarily restricted	236,774	255,432
Permanently restricted	360,056	324,020
Total net assets	1,220,486	1,210,629
Total liabilities and net assets	$ 2,112,568	$ 2,077,548

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 Statement of Activities
For the Year Ended June 30, 2015

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 872,924	$ -	$ -	$ 872,924
Less: Institutional financial aid	(244,991)			(244,991)
Net student revenue	627,933	-	-	627,933
Patient care activities	103,199			103,199
State appropriations	8,064			8,064
Government grants and contracts	87,791			87,791
Private grants and contracts	16,468	20		16,488
Private gifts	6,658	60,341		66,999
Endowment payout under spending formula	11,076	14,294	100	25,470
Investment income	888	2,149		3,037
Sales and services of auxiliary enterprises	89,841			89,841
Other sources	28,315			28,315
Net assets released from restrictions	71,095	(71,211)	116	-
Total operating revenue	1,051,328	5,593	216	1,057,137
Operating expense				
College programs	362,345			362,345
Research and public service	90,675			90,675
Academic support	28,747			28,747
Student services	47,501			47,501
Institutional support	138,080			138,080
Scholarships and fellowships	14,720			14,720
Auxiliary enterprises	43,076			43,076
Total education and general	725,144	-	-	725,144
Patient care activities	132,544			132,544
Other operating expense	61,657			61,657
Interest	15,869			15,869
Depreciation and amortization	43,685			43,685
Total operating expense	978,899	-	-	978,899
Change in net assets from operating activities	72,429	5,593	216	78,238
Non-operating activities				
Endowment and other gifts	-	-	16,578	16,578
Realized/unrealized net loss on investments, net of endowment payout	(4,414)	(11,364)	(3,216)	(18,994)
Other non-operating activities	(12,583)			(12,583)
Change in net assets from non-operating activities	(16,997)	(11,364)	13,362	(14,999)
Change in net assets	55,432	(5,771)	13,578	63,239
Net assets				
Beginning of year	575,745	261,203	310,442	1,147,390
End of year	$ 631,177	$ 255,432	$ 324,020	$ 1,210,629

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, 2016 and 2015

(in thousands)	**2016**	**2015**
Cash flow from operating activities		
Increase in net assets	$ 9,857	$ 63,239
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	44,956	43,685
Provision for uncollectible accounts	6,645	13,024
Loss on disposal of equipment	2,319	517
Change in market value in beneficial interests in trusts	5,295	2,931
Contributions restricted for long-term investment	(17,926)	(16,578)
Non-cash contributions received	(1,480)	(13,663)
Proceeds from sale of donated securities	1,254	5,607
Actuarial change on annuity liabilities	1,859	7
Realized/unrealized loss/(gain) on investments	19,373	4,281
Changes in operating assets and liabilities		
Accounts receivable	1,855	(46,834)
Contributions receivable	(28,874)	(17,073)
Other assets	5,180	(2,849)
Accounts payable and accrued expenses	5,758	20,305
Post-retirement and pension benefits	14,339	8,455
Deposits	(2,793)	(16,668)
Deferred revenue	22,000	14,312
Net cash provided by operating activities	89,617	62,698
Cash flow from investing activities		
Purchase of investments	(58,886)	(554,636)
Proceeds from sales and maturities of investments	56,775	545,984
Change in malpractice insurance trust	1,201	(10,599)
Change in restricted cash	(4,936)	(324)
Proceeds from student loan collections	6,549	7,214
Student loans issued	(2,547)	(7,992)
Purchase of land, buildings and equipment	(82,231)	(54,667)
Change in funds held by trustees	4,041	14,989
Net cash used in investing activities	(80,034)	(60,031)
Cash flow from financing activities		
Contributions restricted for endowments	17,926	16,578
Proceeds from sales of donated securities	313	2,112
Payments on annuity obligations	(572)	(333)
Government advances for student loans	847	328
Proceeds from short-term debt	-	20,000
Repayment of short-term debt	-	(20,000)
Repayment of long-term debt	(10,995)	(10,036)
Net cash provided by financing activities	7,519	8,649
Net increase in cash and cash equivalents	17,102	11,316
Cash and cash equivalents		
Beginning of year	99,457	88,141
End of year	$ 116,559	$ 99,457
Supplemental information		
Gifts-in-kind	$ 154	$ 5,911
Cash paid for interest	16,682	16,796
Amounts accrued for purchase of land, buildings and equipment	14,267	9,525
Donated securities	1,637	7,752

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
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 13, 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 of 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 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 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.

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 as a result 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, 2016 and 2015, 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 self-insurance trust escrow accounts.

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 such time as 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 considered to be 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)	**2016**	**2015**
Endowment and other gifts	$ 42,547	$ 16,578
Realized/unrealized net (loss) on investments, net of endowment payout	(50,273)	(18,994)
Post-retirement and pension plan adjustments	(9,669)	(5,820)
Restructuring costs	(2,217)	(5,430)
US Bank distribution to 3509 Spring Garden entities	1,147	-
DeL/DUO merger-related expenses	(316)	(742)
Other consolidation adjustments and expenses	28	(591)
Change in net assets from non-operating activities	$ (18,753)	$ (14,999)

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. No provision for income taxes is required in the University financial statements. The University files U.S. federal, state and local information 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") 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 losses of $1,534,000 in 2016 and $247,000 in 2015. The fair value of the interest rate swap agreement was a liability of $6,101,000 and $4,567,000, respectively, at June 30, 2016 and 2015.

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, 2016 or 2015. 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.

New Accounting Pronoucements
In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). ASU 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 2015-07 are effective for fiscal years beginning after December 15, 2016, and require retrospective application to all periods presented. The University will adopt this standard in the next fiscal year. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updated (“ASU”) No. 2015-14, Revenue from Contracts with Customers (Topic 606). The core principle of Topic 606 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 University is currently evaluating the standard to determine the impact it 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, 2019. 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 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for-profit financial reporting model. ASU 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 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.

2. Reclassification of Prior Year Presentation

The malpractice insurance trust asset category has been introduced on the Statement of Financial Position to clearly delinate these assets. The prior year amounts have been reclassified from Investments on the Statement of Financial Position to Purchase of investments in the Statement of

Cash Flows to conform with June 30, 2016 presentation. These reclassifications had no impact on the change in net assets.

3. Net Assets

Net assets included the following:

(in thousands)	2016	2015
Unrestricted		
Undesignated	$ (350,763)	$ (282,639)
Designated for colleges, departments and student loans	134,298	128,958
Physical plant	612,718	535,752
Quasi-endowment funds	236,256	251,551
Reclassification for endowments with deficiencies	(8,853)	(2,445)
Total unrestricted	623,656	631,177
Temporarily restricted		
Funds for instruction, scholarships and capital expenditures	128,715	148,088
Endowment realized and unrealized gain	99,811	102,052
Reclassification for endowments with deficiencies	6,981	1,733
Life income and term endowment funds	1,267	3,559
Total temporarily restricted	236,774	255,432
Permanently restricted		
Endowment principal	315,208	277,859
Reclassification for endowments with deficiencies	1,871	712
Beneficial interests in trusts	35,313	38,081
Student loans and others	7,664	7,368
Total permanently restricted	360,056	324,020
Total net assets	$ 1,220,486	$ 1,210,629

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)	**2016**	**2015**
Tuition	$ 101,206	$ 96,832
Grants, contracts, and other	65,771	73,674
Patient, net of contractual allowance	12,835	15,155
Tenet Healthcare Corporation	2,127	1,852
	181,939	187,513
Allowance for doubtful accounts:		
Tuition	(26,025)	(22,915)
Grants, contracts, and other	(3,105)	(2,213)
Patient	(4,987)	(6,205)
Accounts receivable, net	$ 147,822	$ 156,180

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 $29,360,000 and $28,513,000 at June 30, 2016 and 2015, 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, 2016 and 2015, student loans consisted of the following:

(in thousands)	**2016**	**2015**
Federal government loan programs		
Perkins loan program	$ 20,138	$ 22,988
Health professions student loans and loans for disadvantaged students	3,590	4,039
Nursing student loans	34	28
Federal government loan programs	23,762	27,055
Institutional loan programs	9,979	11,101
	33,741	38,156
Less: Allowance for doubtful accounts	(2,715)	(2,674)
Student loans receivable, net	$ 31,026	$ 35,482

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, 2016 and June 30, 2015 that range between 0.07% to 1.49% and 0.07%to 2.35%, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC 820-10 (Note 7).

Net contributions receivable at June 30 were as follows:

(in thousands)	**2016**	**2015**
Amounts due in		
Less than one year	$ 10,605	$ 30,412
One to five years	58,646	35,400
Greater than five years	69,567	45,522
Gross contributions receivable	138,818	111,334
Less:		
Allowance for uncollectibles	(336)	(648)
Discounts to present value	(20,720)	(21,798)
Total contributions receivable, net	$ 117,762	$ 88,888

Outstanding conditional promises to give amounted to $22,549,000 and $30,852,000 at June 30, 2016 and 2015, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, not included in the consolidated financial statements.

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

(in thousands)	**2016**	**2015**
Net contributions receivable at beginning of year	$ 88,888	$ 72,334
New pledges	55,223	36,213
Collections and adjustments	(27,737)	(11,611)
Decrease in allowance for uncollectibles	312	171
Net (increase)/decrease in present value discounts	1,076	(8,219)
Net contributions receivable at end of year	$ 117,762	$ 88,888

6. Investments and Investment Return

At June 30, 2016 and 2015, the fair value of the malpractice insurance trust and investments included the following:

	Fair value	
(in thousands)	**2016**	**2015**
Equity securities	$ 284,591	$ 294,955
Fixed income securities and bond funds	55,558	61,062
Alternative investments	78,067	83,819
Real estate and real assets funds	65,738	57,311
Directly-held real estate	124,460	122,755
Money market funds	11,629	17,994
Total endowment investments	620,043	637,896
Self-insurance escrow funds (Note 14)	53,236	53,776
Total investments	$ 673,279	$ 691,672

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2016 and 2015:

(in thousands)	2016 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income and realized/unrealized gains and (losses)	$ (14,453)	$ (4,801)	$ (5,414)	$ (24,668)
Endowment payout under spending formula	(10,570)	(14,866)	(169)	(25,605)
Realized/unrealized net 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)

(in thousands)	2015 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income and realized/unrealized gains and (losses)	$ 6,662	$ 2,930	$ (3,116)	$ 6,476
Endowment payout under spending formula	(11,076)	(14,294)	(100)	(25,470)
Realized/unrealized net loss on investments, net of endowment payout	(4,414)	(11,364)	(3,216)	(18,994)
Operating investment income	888	2,149		3,037
Total return on investments	$ (3,526)	$ (9,215)	$ (3,216)	$ (15,957)

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.

As of June 30, 2016, the assets and liabilities measured at fair value for each hierarchy level were as follows:

	2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Funds held by trustees	$ 1,804	$ -	$ -	$ 1,804
Beneficial interests in trusts	-	-	48,212	48,212
Investments				
Equity securities	241,496	43,096	-	284,592
Fixed income securities and bond funds	10,933	44,625	-	55,558
Alternative investments	-	-	78,067	78,067
Real estate and real assets funds	647	30,859	34,231	65,737
Directly-held real estate	-	-	124,460	124,460
Money market funds	11,629	-	-	11,629
Investments held in endowment	264,705	118,580	236,758	620,043
Self-insurance escrow funds (Note 14)	53,236	-	-	53,236
Total investments	317,941	118,580	236,758	673,279
Total assets at fair value	$ 319,745	$ 118,580	$ 284,970	$ 723,295
Liabilities				
Interest rate swaps (Note 1)	$ -	$ 6,101	$ -	$ 6,101
Annuities	-	-	8,295	8,295
Total liabilities at fair value	$ -	$ 6,101	$ 8,295	$ 14,396

	2015			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Funds held by trustees	$ 5,845	$ -	$ -	$ 5,845
Beneficial interests in trusts	-	-	53,507	53,507
Investments				
Equity securities	261,243	33,712	-	294,955
Fixed income securities and bond funds	11,520	49,542	-	61,062
Alternative investments	-	-	83,819	83,819
Real estate and real assets funds	749	14,395	42,167	57,311
Directly-held real estate	-	-	122,755	122,755
Money market funds	17,994	-	-	17,994
Investments held in endowment	291,506	97,649	248,741	637,896
Self-insurance escrow funds (Note 14)	53,776	-	-	53,776
Total investments	345,282	97,649	248,741	691,672
Total assets at fair value	$ 351,127	$ 97,649	$ 302,248	$ 751,024
Liabilities				
Interest rate swaps (Note 1)	$ -	$ 4,567	$ -	$ 4,567
Annuities	-	-	6,440	6,440
Total liabilities at fair value	$ -	$ 4,567	$ 6,440	$ 11,007

Detail 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:

	2016			
(in thousands)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Applicable)**
Multi-Strategy Hedge Funds (a)	$ 15,531		Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	2,889		Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	20,068		Quarterly	45 days
Private Capital Funds-Secondaries (d)	9,768	4,651		
Private Capital Funds-Venture Capital (e)	2,342	2,497		
Private Capital Funds - Distressed Assets (f)	4,390	721		
Private Capital Funds-Buy-out (g)	7,565	29,189		
Real Asset Funds (h)	14,957	6,474		
Real Estate Funds (i)	9,328	13,796		
Long/Short Equity Hedge Funds (j)	1,792	-	Annual	95 days
Private Capital Funds-Hedge Fund Seeder (k)	4,609	222		
Private Capital Funds-Mezzanine Debt (l)	9,113	1,879		
	$ 102,352	$ 59,429		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2016 and 2015, respectively, the composite portfolio includes approximately 48% and 49% in distressed investments with a liquidation period of 1 to 3 years, 25% and 32% arbitrage opportunities, 14% and 6% in cash, 11% and 11% long/short equity and 2% 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.

b. 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.

c. 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.

d. 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, 2016, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 56% in 1 to 4 years; 44% in 5 to 7 years; and 0% in 8 to 10 years. At June 30, 2015, the liquidation periods were expected to be: 2% in 1 to 4 years; 64% in 5 to 7 years; and 34% 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 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, 2016, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 40% in 1 to 4 years; and 60% in 5 to 7 years (with the inclusion of a new investment in FY2015). At June 30, 2015, the liquidation periods were expected to be: 74% in 1 to 4 years; 26% 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.

f. 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, 2016, it is estimated that the underlying assets of the fund would be liquidated over 1 to 4 years, versus 5 to 7 years at June 30, 2015. 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 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, 2016, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 23% over 1 to 4 years; 0% in 5 to 7 years; and 77% over 8 to 10 years. At June 30, 2015, the liquidation periods were expected to be: 63% in 1 to 4 years; 0% in 5 to 7 years; and 37% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

h. 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, 2016, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 66% in 1 to 4 years; 29% in 5 to 7 years; and 5% in 8 to 10 years. At June 30, 2015, the liquidation periods were expected to be: 25% in 1 to 4 years; 49% in 5 to 7 years; and 26% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real asset fund.

i. 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, 2016, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 91% in 1 to 4 years; 0% in 5 to 7 years; and 9% in 8 to 10 years. At June 30, 2015, the liquidation periods were expected to be: 73% in 1 to 4 years; 26% in 5 to 7 years; and 1% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real estate fund.

j. 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 has the ability to 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.

k. 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, 2016 and 2015, respectively, the fund's underlying investments were 46% and 48% long/short global equity, 12% and 7% in macro and commodity trading, 30% and 22% in diversified credit, 2% and 7% in arbitrage opportunities, and 10% and 16% 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 5 years at June 30, 2016 and 2 to 6 years at June 30, 2015. The fair value has been estimated using the reported net asset value per share of the private capital fund.

l. 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. It is estimated that the underlying assets of the fund would be liquidated over 5 to 7 years at June 30, 2016 and 2015. 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 $9,946,000 net of $14,224,000 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.

The change in the University's Level 3 assets and liabilities as of June 30 included the following:

(in thousands)	**2016**	**2015**
Assets at beginning of year	$ 302,248	$ 305,992
Net realized/unrealized gains/(losses)	(4,363)	4,864
Purchases of investments	18,305	57,135
Sales of investments	(31,220)	(65,743)
Transfers to other levels	-	-
Transfers from other levels	-	-
Assets at end of year	$ 284,970	$ 302,248

(in thousands)	**2016**	**2015**
Annuities at beginning of year	$ 6,440	$ 6,430
Actuarial change on annuity liabilities	2,427	704
Payments on annuity liabilities	(572)	(694)
Annuities at end of year	$ 8,295	$ 6,440

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, 2016 and 2015, 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, with the exception of ANS. For the years ended June 30, 2016 and 2015, 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. As a result 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:

	2016			
(in thousands)	**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

	2015			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 23,281	$ 131,093	$ 277,308	$ 431,682
Board-designated endowment funds	210,276	-	-	210,276
Total assets	$ 233,557	$ 131,093	$ 277,308	$ 641,958

Changes in the University's endowment assets for the years ended June 30, 2016 and 2015 were as follows:

	2016			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment at beginning of year	$ 233,557	$ 131,093	$ 277,308	$ 641,958
Investment return on endowment assets	(4,173)	(9,767)	(1,405)	(15,345)
Reclassification 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

	2015			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment at beginning of year	$ 231,774	$ 143,460	$ 263,405	$ 638,639
Investment return on endowment assets	11,203	3,078	27	14,308
Reclassification for funds with deficiencies	(839)	564	275	-
Total endowment return	10,364	3,642	302	14,308
Contributions	-	(962)	15,682	14,720
Use of endowment assets				
Endowment payout used in operations	(11,076)	(14,294)	(100)	(25,470)
Other	2,495	(753)	(1,981)	(239)
Total uses	(8,581)	(15,047)	(2,081)	(25,709)
Endowment at end of year	$ 233,557	$ 131,093	$ 277,308	$ 641,958

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 $8,824,000 and $2,445,000 as of June 30, 2016 and 2015, 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 50 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 $3,061,000 and $5,836,000 at June 30, 2016 and $3,122,000 and $5,487,000 at June 30, 2015, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. In 2016 and 2015, depreciation and accretion expense amounted to $29,000 and $43,000, respectively, and $259,000 and $132,000, respectively.

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)	2016	2015
Works of art	$ 11,030	$ 10,918
Land and improvements	133,094	132,808
Buildings and improvements	970,196	914,955
Equipment, software and library books	209,138	208,328
Construction in progress	72,155	63,869
	1,395,613	1,330,878
Less: Accumulated depreciation	(463,453)	(428,549)
Total land, buildings and equipment	$ 932,160	$ 902,329

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,	
2017	$ 18,492
2018	17,246
2019	16,457
2020	15,335
2021	14,870
Thereafter	22,383
Total minimum lease payments	$ 104,783

Total rent expense for operating leases amounted to $19,360,000 and $21,182,000 for the years ended June 30, 2016 and 2015, respectively.

The University leases educational, research, and medical office space from 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, 2016 and 2015.

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 $371,000 and $62,000, respectively, capitalized for improvements in fiscal years 2016 and 2015. Estimated costs for the required improvements amounted to $2,741,000 and $2,804,000 at June 30, 2016 and 2015, 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 into 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 will pay 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, 2016, and 2015 of $11,150,000 and $11,450,000, respectively. The University recognized $300,000 of ground lease income related to this agreement during fiscal years 2016 and 2015.

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 will pay 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, tenyear 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 will feature 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. In consideration for the right to develop, own, and operate the property, SPHLLC will pay the University annual ground rent ranging from $150,000 to $167,000 over the fifty year term of the lease. 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.

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. Construction began in March 2016 and substantial completion is estimated by August 2017. 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. In consideration for the right to develop, own and operate the property, RPG will pay the University annual ground round ranging from $160,000 to $312,000 over the initial term of the lease.

11. Bonds and Notes Payable

(in thousands)	Project	Maturity	Interest Rate	2016	2015
Description					
Dormitory Bonds of 1969	Calhoun Hall	2014-2019	3.00%	220	290
Pennsylvania Higher Educational Facilities Authority Revenue Bonds					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	22,500	22,500
Series B of 2002	Matheson Hall improvements, new research center, other improvements	2015-2032	Variable	41,505	41,825
Series A of 2005	Capital improvements and equipment	2014-2034	3.20-5.00%	24,999	26,162
Series B of 2005	Advance refunding	2019-2030	Variable	29,625	29,625
Series A of 2007	New laboratory	2030-2037	4.50-5.00%	95,242	95,382
Series B of 2007	Dormitory & Wellness Center; capital improvements and equipment	2014-2037	Variable	25,635	26,345
Series of 2007	Refund mortgage, capital improvements and equipment	2014-2037	3.75-5.00%	19,353	19,903
Series A of 2011	Partial cost of buildings for the Colleges of Business and Media Arts & Design, Department of Biology; Stratton Hall renovations; refunding	2014-2041	2.00-5.25%	145,660	150,784
Series of 2012	Refunding	2014-2032	1.00-5.00%	22,914	26,305
11th Street Family Health Services Inc.					
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	2,717	2,717
		2043	1.297%	6,783	6,783
3509 Spring Garden, LP					
Philadelphia Industrial Development Corp.	New Market Tax Credit Program	2044	1.517%	1,964	1,964
		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
		2044	1.00%	2,205	2,205
Total bonds and notes payable				$ 447,193	$ 458,661

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 total market value of the $427,443,000 bonds was $445,543,000 at June 30, 2016, based on a comparison to current interest rates. The bonds are considered to be a Level 2 liability. Included in the bonds and notes payable balance are premiums totaling $10,203,000 and $10,717,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

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.

The 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**
June 30,			
2017	11,438	1,070	12,508
2018	11,913	1,115	13,028
2019	8,568	5,130	13,698
2020	10,163	4,005	14,168
2021	9,078	5,730	14,808
Thereafter	276,768	102,215	378,983
			$ 447,193

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. In the event that 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,	
2017	14,973
2018	36,308
2019	34,799
2020	27,260
2021	5,925
Thereafter	-
	$ 119,265

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, 2016 and 2015.

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 mutual agreement of the University and the bank maintaining the Facilities. At June 30, 2016, 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 January 1, 2015, to (i) reflect the merger of the Philadelphia Health & Education Corporation Defined Contribution Retirement Plan ("PHEC DC") with the DU DC and the transfer of its assets and liabilities to the DU DC; (ii) reflect the merger of the Drexel University Tax-Deferred Annuity ("DU TDA") Plan with the DU DC and the transfer of its assets and liabilities to the DU DC; (iii) incorporate prior amendments to the DU DC; and (iv) make certain other desirable changes. 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, are able to 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 $42,141,525 and $39,263,000 in 2016 and 2015, respectively.

ANS maintained a separate defined contribution plan ("ANS DC") that provides for discretionary employee contributions. On December 31, 2015, the ANS DC plan was amended, to cease participation in and all contributions to the ANS DC. Instead, employees of ANS will participate in the DU DC plan. ANS also has merged into the DU DC plan effective as of March 1, 2016. The ANS DC plan was a calendar year plan, with declared employer contributions made at the conclusion of the plan year. Matching contributions were based on a participant's compensation and allocated to employee accounts annually. Only participants who made 403(b) contributions, who completed 1,000 hours of service, unless their employment ended due to retirement, disability, or death and who were actively employed on the last day of the allocation period were eligible to share in the matching contribution for such allocation period. Employees could receive a grandfathered match of three percent (3%) of their salary if they had either reached the age of 49 and completed at least 10 years of service, or reached the age of 45 and completed at least 15 years of service as of December 31, 2009. The grandfathered match ended effective December 31, 2014. The Academy approved and made contributions totaling $61,934 and $84,864 in 2016 and 2015, 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)	2016	2015
Weighted average assumptions as of June 30		
Discount rate	3.90 %	4.60 %
Expected return on plan assets	6.25 %	6.50 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 19,908	$ 17,562
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 17,562	$ 16,193
Service costs	130	115
Interest costs	790	697
Actuarial loss	2,163	1,310
Gross benefits paid	(737)	(753)
Net benefit obligation at June 30	$ 19,908	$ 17,562

(in thousands)	2016	2015
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,430	$ 10,269
Actual return on plan assets	231	80
Employer contributions	659	834
Gross benefits paid	(738)	(753)
Fair value of plan assets at June 30	$ 10,582	$ 10,430
Fair value of plan assets	$ 10,582	$ 10,430
Benefit Obligation	19,908	17,562
Net amount recognized at June 30*	$ (9,326)	$ (7,132)

* 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)	2016	2015
Weighted average assumptions used to determine net periodic benefit costs		
Discount rate	4.60 %	4.60 %
Expected return on plan assets	6.50 %	6.50 %
Components of net periodic benefit costs		
Service costs	$ 130	$ 115
Interest costs	790	697
Expected return on assets	(678)	(678)
Amortization of actuarial loss	2,610	1,908
Net periodic benefit cost	$ 2,852	$ 2,042

As of June 30, 2016 and 2015, 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 $19,908,000 and $17,562,000 at June 30, 2016 and 2015, respectively. The fair value of the plan assets was $10,582,000 and $10,430,000 as of June 30, 2016 and 2015, respectively.

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

Expected benefit payments
(in thousands)

June 30,	
2017	$ 879
2018	1,011
2019	1,059
2020	1,098
2021	1,130
2022-2026	5,971

Plan Assets

The ANS pension plan weighted-average asset allocations at June 30, 2016 and 2015 by asset category are as follows:

(in thousands)	2016	2015
Asset category		
Equity securities	37.7 %	20.5 %
Fixed income securities	37.4 %	64.6 %
Hedge fund and alternative investments	20.7 %	11.1 %
Cash	4.2 %	3.8 %
	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 table sets forth by level, within the fair value hierarchy, the ANS pension plan assets at fair value at June 30, 2016 and 2015:

	2016			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Cash equivalents	$ 443	$ -	$ -	$ 443
Mutual funds	8,442	-	-	8,442
Alternative investments	-	648	1,049	1,697
	$ 8,885	$ 648	$ 1,049	$ 10,582

	2015			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Cash equivalents	$ 400	$ -	$ -	$ 400
Mutual funds	8,277	-	-	8,277
Alternative investments	-	602	1,151	1,753
	$ 8,677	$ 602	$ 1,151	$ 10,430

The following table sets forth a summary of changes in the fair value of ANS plan's Level 3 assets for the years ended June 30, 2016 and 2015:

(in thousands)	**2016**	**2015**
Assets at beginning of year	$ 1,151	$ 1,221
Dividends and interest	-	-
Net realized gain	-	-
Net unrealized gain	31	3
Transfers out	(133)	(73)
Assets at end of year	$ 1,049	$ 1,151

Defined Contribution Plan Merger and Asset Transfers
Effective January 1, 2015, the Drexel University Tax-Deferred Annuity Retirement Plan ("DU TDA") and the Philadelphia Health and Education Corporation Defined Contribution Retirement Plan ("PHEC DC") were merged into the Drexel University Defined Contribution Retirement Plan (the "Plan"). DU TDA's transfer into the Plan included participant-directed investments at fair value of $205,020,000 and receivables from participant contributions of $981,000 resulting in $206,001,00 of net assets transferred. PHEC DC's transfer into the Plan included 12/31/14 participant-directed investments at fair value of $210,951,000, receivables from participant contributions of $353,000, receivables from employer contributions of $630,000, and excess contributions payable of $521,000 resulting in $211,413,000 of net assets transferred.

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. The University pays up to 50% of the gross cost of the medical plan costs, capped at $400 per month for retirees and their spouses who retired prior to September 1, 2014 and at $300 per month for retirees and their spouses who retired on or after September 1, 2014. 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 $6,817,000 and $3,778,000 respectively, for the years ended 2016 and 2015 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)	**2016**	**2015**
Change in benefit obligation		
Benefit obligation, beginning of year	$ 56,942	$ 49,726
Service cost	3,059	2,666
Interest cost	2,651	2,052
Plan amendments	10,145	(7,608)
Actuarial (loss)/gain	(1,835)	11,716
Plan participant contributions	183	163
Actual benefits paid	(1,947)	(1,773)
Benefit obligation, end of year	69,198	56,942
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	1,765	1,610
Plan participant contributions	182	163
Actual benefits paid	(1,947)	(1,773)
Fair value of plan assets, end of year	-	-
Unfunded status of the plan	$ 69,198	$ 56,942

Weighted average assumptions to determine benefit obligations and net cost as of June 30		
Discount rate	4.30%	4.10%
Ultimate retiree health care cost trend	5.00%	5.00%
Year ultimate trend rate is achieved	2023	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 6.75% and a 7.5% 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 2016 grading down to ultimate rates of 5.0% in the year 2023 and thereafter:

Net Periodic Benefit Cost

(in thousands)	June 30, 2016	June 30, 2015
Components of net periodic benefit cost		
Service cost	$ 3,059	$ 2,666
Interest cost	2,651	2,052
Amortization of:		
Prior service credit	125	(1,396)
Net loss	1,368	1,727
Net periodic benefit cost	$ 7,203	$ 5,049
Other changes recognized in unrestricted net assets		
Net actuarial (gain) loss	$ (1,835)	$ 11,716
Prior service credit	$ 10,145	$ (7,607)
Amortization of:		
Prior service cost	(125)	1,396
Net gain	(1,368)	(1,727)
Total recognized in unrestricted net assets	$ 6,817	$ 3,778
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets		
Prior service credit	$ 3,808	$ (6,212)
Actuarial loss	25,289	28,492
Amounts in unrestricted net assets, end of year	$ 29,097	$ 22,280
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in fiscal 2017		
Prior service credit	$ 125	
Actuarial loss	$ 1,408	

For the fiscal years ended June 30, 2016 and 2015, the effect of a 1% change in the health care cost trend rate is as follows:

(in thousands)	2016		2015	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on net periodic benefit cost	$ 47	$ (43)	$ 61	$ (54)
Effect on postretirement benefit obligation	302	(293)	324	(306)

Contributions

Expected contributions for the 2017 fiscal year are $2,454,000.

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,	
2017	2,454
2018	2,722
2019	2,913
2020	3,109
2021	3,265
Thereafter	19,293

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, 2016 and 2015, the University and its subsidiaries recorded gross combined reserves of $36,054,000 and $36,140,000, respectively and related recoveries from third party insurers of $6,668,000 and $6,256,000 at June 30, 2016 and 2015, respectively. For fiscal years 2016 and 2015, 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 2016 and 2015 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, 2016 and 2015, escrow funds of $22,580,000 and $24,573,000, respectively and balanced index funds of $31,096,000 and $29,894,000, 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

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

Prior to July 1, 2014, PHEC maintained 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. Effective July 1, 2014, The University has assumed responsibility for the letter of credit which is renewed annually. There were no amounts outstanding as of June 30, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

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, 2017 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, 2016.

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, 2016 and 2015, the University recorded $906,000 and $1,440,000 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, 2016 and 2015 were $11,999,000 and $12,420,000, 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 $23,138,000 and $23,275,000 for the years ended June 30, 2016 and 2015, 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. BRT, as master developer, is provided for the rights and obligations, for a multi-phase, multi-component development on approximately 10.11 acres of land (the “Development Site”) owned by the University and adjacent to the University’s main campus in the University City section of Philadelphia. The overall development, including the Development Site and four adjacent acres comprising the master planned area, as the “Schuylkill Yards Project.”

The Schuylkill Yards Project is contemplated to be developed in six phases over an approximately 20-year period, excluding extension options, and to consist of an aggregate of approximately 5.0 million of floor area ratio, or FAR, of commercial, office, educational, research, residential, and other facilities, as well as accessory green spaces. Overall, approximately 50% of the FAR would consist of office, educational and research space, and the balance would consist of residential, retail, hospitality and parking.

The University currently anticipates that BRT will commence the construction of the initial phase on or about the first half of 2018 and completion on or about the fourth quarter of 2019. Actual timing and scope of subsequent phases of development will depend on timing and scope of prior phases, third party approvals and design and development-related determinations by the University and BRT. The business structure will be to enter into a 99-year ground lease with BRT for each parcel as it is taken down with the development site.

BRT intends to fund costs to develop each development phase of the Schuylkill Yards Project through a combination of cash on hand, capital raised through one or more joint venture formations, and proceeds from the sale of other assets or debt financing, including project-specific 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)	June 30, 2016	June 30, 2015
College programs	$ 41,371	$ 39,783
Research and public service	11,694	21,804
Academic support	2,294	6,684
Student services	14,557	15,086
Institutional support	9,024	11,047
Auxiliary enterprises	41,226	23,756
Patient care activities	4,612	3,051
	$ 124,778	$ 121,211

During fiscal year 2016, the University implemented a new space management system and inventoried all of its space. The allocation of operating expenses at June 30, 2016 reflects the new inventory which includes all space at the Academy of Natural Sciences, Center City, and Queen Lane Campuses. The allocation at June 30, 2016 is based on a total 5,362,000 net usable square feet. The allocation used as of June 30, 2015 is based upon the 2014 space survey and a total of 3,492,000 usable square feet.

18. Subsequent Events

The University evaluated events subsequent from June 30, 2016 through October 26, 2016.

University Revenue Refunding Bonds – Series of 2016
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 current refunding of all of the outstanding Series of 2005A bonds, the advance refunding of all the outstanding Series of 2007A bonds and the advance refunding of all the outstanding College of Medicine, Series of 2007 bonds. The 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.

Termination of SodexoMAGIC Food Services Contract

On September 19, 2016, the University gave notice of termination of its contractual agreement dated May 21, 2015 for dining services with SodexoMAGIC. The agreement became effective August 25, 2014 and was scheduled to terminate on June 30, 2025. As a result of the termination, SodexoMAGIC will transition its food services operations off-campus by December 10, 2016. The University has recognized deferred revenues totaling $10,930,000, including $8,215,000 related to the new dining facility in The Summit property (see Note 10). All of the deferred revenues recorded on the University's Statement of Financial Position related to the current agreement were being amortized over the life of the contract. As a result of the termination, the University is required to refund any unamortized balances as of the stipulated date of November 29, 2016. There is pending litigation between SodexoMAGIC and the University in relation to this agreement. The University is currently negotiating with a new dining services vendor and expects a similar contract to be put in place by December 10, 2016. The new vendor is also anticipated to reimburse the University for the amount of the unamortized capital balances refunded to SodexoMAGIC.