Drexel University and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Drexel University and Subsidiaries
Index
June 30, 2019 and 2018

pwc

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, 2019 and 2018, 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.

Auditors' Responsibility

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drexel University and its subsidiaries as of June 30, 2019 and 2018, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2019

Drexel University and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2019 and 2018 ($'s in thousands)

	2019	2018
Assets:		
Cash, cash equivalents, and restricted cash		
Operating	$ 45,087	$ 45,666
Restricted	12,668	12,611
Accounts receivable	118,332	173,419
Contributions receivable, net	87,393	100,653
Loans receivable	23,402	28,714
Prepaid expenses and other assets	32,000	33,529
Malpractice insurance trust	13,208	8,972
Beneficial interests in trusts	43,595	45,473
Investments	812,120	778,369
Land, buildings and equipment, net	972,039	952,536
Total assets	$ 2,159,844	$ 2,179,942
Liabilities:		
Accounts payable	$ 69,253	$ 60,660
Accrued liabilities	124,082	105,437
Deposits and deferred revenue	153,897	170,958
Capital lease obligations	6,846	2,613
Government advances for student loans	29,199	29,096
Accrued retirement obligations	45,948	48,568
Bonds and notes payable	445,527	424,521
Total liabilities	874,752	841,853
Net Assets:		
Without donor restrictions	590,213	655,993
With donor restrictions	694,879	682,096
Total net assets	1,285,092	1,338,089
Total liabilities and net assets	$ 2,159,844	$ 2,179,942

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, 2019 ($'s in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues and releases:			
Tuition and fees, room and board	$ 665,764	$ -	$ 665,764
Grants and contracts	111,794	14,009	125,803
Physician services	90,682		90,682
Auxilliary enterprises	20,792		20,792
Commonwealth appropriations	9,165		9,165
Contributions	4,566	7,072	11,638
Allocation of endowment spending from financial capital	9,893	19,676	29,569
Investment income, net	2,594	414	3,008
Other income	28,019	393	28,412
Total revenues	943,269	41,564	984,833
Net assets released from restrictions	52,734	(52,734)	-
Total revenues and releases	996,003	(11,170)	984,833
Expenses:			
Salaries and wages	497,645		497,645
Employee benefits	129,076		129,076
Depreciation and amortization	50,396		50,396
Interest	15,402		15,402
Other operating expenses	373,814		373,814
Total expenses	1,066,333	-	1,066,333
(Decrease) in net assets from operating activities	(70,330)	(11,170)	(81,500)
Non-operating			
Contributions - Endowment and other gifts	1,362	14,922	16,284
Realized / unrealized net gain on investments, net of endowment payout and expenses	3,819	9,031	12,850
Change in funding status of post-retirement and defined benefit plans	(1,697)		(1,697)
Other increases	1,066		1,066
Increase in net assets from non-operating activities	4,550	23,953	28,503
Total (decrease) / increase in net assets	(65,780)	12,783	(52,997)
Net assets, beginning of year	655,993	682,096	1,338,089
Net assets, end of year	$ 590,213	$ 694,879	$ 1,285,092

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, 2018 ($'s in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating			
Revenues and releases:			
Tuition and fees, room and board	$ 664,324	$ -	$ 664,324
Grants and contracts	126,377	2,917	129,294
Physician services	92,034		92,034
Auxilliary enterprises	20,054		20,054
Commonwealth appropriations	8,217		8,217
Contributions	4,265	38,632	42,897
Allocation of endowment spending from financial capital	11,503	18,524	30,027
Investment income, net	2,909	1,737	4,646
Other income	32,079	718	32,797
Total revenues	961,762	62,528	1,024,290
Net assets released from restrictions	52,420	(52,420)	-
Total revenues and releases	1,014,182	10,108	1,024,290
Expenses:			
Salaries and wages	475,034		475,034
Employee benefits	124,723		124,723
Depreciation and amortization	52,108		52,108
Interest	14,859		14,859
Other operating expenses	338,195		338,195
Total expenses	1,004,919	-	1,004,919
Increase in net assets from operating activities	9,263	10,108	19,371
Non-operating			
Contributions - Endowment and other gifts		17,965	17,965
Realized/unrealized net gain on investments, net of endowment payout and expenses	16,963	25,544	42,507
Gain on conveyance of Schuylkill Yards parcels	4,508	8,877	13,385
Loss on extinguishment of debt	(10,663)		(10,663)
Change in funding status of post-retirement and defined benefit plans	1,207		1,207
Other (decreases)	(1,014)		(1,014)
Increase in net assets from non-operating activities	11,001	52,386	63,387
Total increase in net assets	20,264	62,494	82,758
Net assets, beginning of year	635,729	619,602	1,255,331
Net assets, end of year	$ 655,993	$ 682,096	$ 1,338,089

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, 2019 and 2018 ($'s in thousands)

	2019	2018
Operating activities:		
(Decrease) / increase in net assets	$ (52,997)	$ 82,758
Adjustments to reconcile change in net assets to net cash		
(used in) / provided by operating activities:		
Depreciation and amortization	48,469	50,899
Loss on extinguishment of debt	-	10,663
Loss on disposal of equipment	1,904	3,682
Change in market value in beneficial interests in trusts	1,878	3,254
Contributions restricted for long-term investment	(15,793)	(16,840)
Non-cash contributions received	(1,076)	(3,718)
Proceeds from the sale of donated securities	906	3,557
Actuarial change on annuity liabilities	(543)	(627)
Realized/unrealized (gain) on investments	(50,229)	(87,160)
Changes in assets and liabilities that provide / (use) cash:		
Accounts receivable	34,542	(7,186)
Contributions receivable	10,913	(1,864)
Other assets	1,529	(3,195)
Accounts payable and accrued liabilities	32,193	(15,445)
Accrued retirement obligations	(2,620)	(4,896)
Deposits and deferred revenue	(17,061)	13,985
Net cash (used in) / provided by operating activities	(7,985)	27,867
Investing activities:		
Purchase of investments	(69,090)	(140,657)
Proceeds from sales and maturities of investments	106,202	155,204
Change in malpractice insurance trust	(4,236)	19
Student loans repaid	5,608	5,790
Student loans issued	(296)	(4,311)
Purchases of land, buildings and equipment	(70,953)	(53,842)
Net cash (used in) investment activities	(32,765)	(37,797)
Financing activities:		
Proceeds from restricted contributions	15,793	16,840
Proceeds from sale of contributed securities restricted for endowment	2,266	1,027
Payments on annuity obligations	(619)	(551)
Proceeds/(repayment) of federal student loan funds	103	(529)
Proceeds from short-term debt	30,000	-
Repayments of long-term debt	(7,315)	(12,615)
Net cash provided by financing activities	40,228	4,172
Net (decrease) in cash and cash equivalents, and restricted cash	(522)	(5,758)
Cash and cash equivalents, and restricted cash, beginning of year	58,277	64,035
Cash and cash equivalents, and restricted cash, end of year	$ 57,755	$ 58,277
Supplemental information		
Gifts-in-kind	$ 81	$ 181
Cash paid for interest	16,600	16,147
Amounts accrued for purchase of land, buildings and equipment	11,820	8,027
Donated securities	3,261	4,570

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

1. Nature of Organization and Operations

Drexel University (the "University") is one of the largest private universities in the United States of America. The University has the distinction of having one of the nation's oldest, largest and best-known cooperative education programs. Founded in 1891 by founder and philanthropist Anthony Joseph Drexel, the University is a private comprehensive global research university with three campuses located in Philadelphia, Pennsylvania, as well as other regional sites. With over 24,000 enrolled undergraduate, graduate and professional students, the University is dedicated to advancing knowledge and society and to providing every student with a valuable, rigorous, experiential, technology-infused education. The University offers over 200-degree programs in its 15 colleges and schools in arts and sciences, biomedical engineering and sciences, business, computing and informatics, economics, education, engineering, entrepreneurship, food and hospitality management, law, media arts and design, medicine, nursing and health professions, and public health.

Academy of Natural Sciences of Philadelphia

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

Academic Properties, Inc.

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

Drexel University Online, LLC

Drexel University Online, LLC ("DUO") is a non-profit, Delaware, single-member, limited liability company, wholly owned subsidiary of the University that specializes in marketing, recruiting, instructional design, and supporting innovative internet-based distance education programs for working professionals and corporations in the U.S. and abroad. DUO also provides training, performs industry comparison research, and support for grants. DUO was created on July 1, 2015 as the successor entity to the former for-profit operations of Drexel eLearning, Inc., which was merged with and into DUO on that date.

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 the 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. DRLC provides excess liability coverage to the University.

Drexel Global Initiatives, LLC
Drexel Global Initiatives, LLC ("Drexel Global") is a Pennsylvania, single member limited liability company established February 1, 2014, of which the University is the sole member. Drexel Global's purpose is to operate exclusively for educational purposes within the meaning of Section 501 (c)(3) of the Internal Revenue Code, and it has been established to assist the University in its international operations. The business and affairs of Drexel Global are managed by a board of managers established by the 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, wholly owned by the University, organized to operate in furtherance of the activities of the 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 the University on December 23, 2013. The Property is in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a qualified active low-income community business (a "QALICB"), as defined by Section 45D of the Internal Revenue Code of 1986, as amended, and Section 1.45D-1(d)(4) of the Code of Federal Regulations. The project is funded by a qualified low-income community investment loan.

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

1200 Chestnut Street I, Limited Partnership
1200 Chestnut LP, a Pennsylvania limited partnership, was formed on November 28, 2016 to acquire, own, rehabilitate and lease, manage and operate Partnership property in a manner that will qualify such rehabilitation for historic rehabilitation tax credits allowable pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. 1200 Chestnut LP property is comprised of the land and historic building located at 1200-1202 Chestnut Street, Philadelphia, Pennsylvania 19107. The general partner is 1200 Chestnut Street GP, which holds a 1% interest in 1200 Chestnut LP. The University meets the requirements for consolidation of 1200 Chestnut LP through its ownership of 1200 Chestnut GP and control of 1200 Chestnut LP. 1200 Chestnut 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 Spring Garden, Limited Partnership ("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 the 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 Spring Garden, Limited Partnership Qualified Active Low-Income Community Business ("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, 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. Through its ownership of 3509 GP, Drexel University holds a 90% interest in 3509 LP. 3509 LP 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 Spring Garden, Master Tenant, Limited Partnership ("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 the 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, holding a 0.01% interest in 3509 MTLP. 3509 MTM follows a calendar based fiscal year.

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

2. Summary of Significant Accounting Policies

General

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 Note 1. All subsidiary financial information included within the financial statements has been consolidated utilizing the University's fiscal year.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the provision of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the university to classify its net assets into two categories according to donor-imposed restrictions; net assets without donor imposed restrictions and net assets with donor imposed restrictions. All material transactions between the University and its subsidiaries have been eliminated.

Net Assets without Donor Restrictions – Net assets derived from tuition and other University resources that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions include board designated funds functioning as endowment funds.

Net Assets with Donor Restrictions - Net assets which are subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets, net assets from endowments not yet appropriated for spending by the University and student loan funds. In some cases, donor restrictions can be fulfilled by actions of the University in accordance with those stipulations or by the passage of time. In other cases, some restrictions, such as endowed funds, are permanent, and typically, the donors of these assets permit the University to use all or part of the income earned on these assets for operations. Restrictions include support of specific schools, colleges and departments of the University, professorships, research, faculty support, scholarships and fellowships, building construction and other purposes. When time and purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Measure of Operations

The University's measure of operations as presented in the Consolidated Statements of Activities includes revenue from tuition and fees, room and board, grants and contracts, physician services, contributions for operating programs, the allocation of endowment spending for operations and other revenues. Operating expenses are reported on the Consolidated Statements of Activities by natural classification.

Liquidity and Availability

The University's financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2019 and 2018 are as follows:

(in thousands)	**2019**	**2018**
Total assets at year-end	$ 2,159,844	$ 2,179,942
Less: non-financial and financial assets not available within one year		
Restricted cash	(12,668)	(12,611)
Tuition receivable due in more than one year	(7,776)	(11,642)
Contributions receivable with donor restrictions	(87,393)	(100,653)
Loans receivable due in more than one year	(21,241)	(26,270)
Prepaid expenses and other assets	(32,000)	(33,529)
Malpractice insurance trust	(13,208)	(8,972)
Beneficial Interests in trusts	(43,595)	(45,473)
Investments	(812,120)	(778,369)
Land, buildings and equipment, net	(972,039)	(952,536)
Financial assets available at year-end for current use	$ 157,804	$ 209,887

As of June 30, 2019, the University has $157,804,000 of financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditure. In addition to these available financial assets, a significant portion of the University's annual expenditures will be funded by current year operating revenues including tuition and fees, room and board, grant and contract income and auxiliary enterprise income. The University structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

The University's endowment funds consist of donor-restricted and board-designated endowment funds. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. As described in Note 7, for fiscal year 2019 and 2018 the Board of Trustees approved a current distribution to the range of 4.75% to 6.00% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years, except for ANS in which the Board of Trustees approved a distribution to 5.50% of the fair market value of the pooled endowment assets for the prior seven years. Under the approved spending rules, the University received an allocation of $29,569,000 and $30,027,000 in fiscal years 2019 and 2018, respectively. The endowment portfolio structures cash to be available for the endowment spend and to fulfill capital calls for alternative investments.

To help manage unanticipated liquidity needs, the University has committed lines of credit in the amount of $70 million, which it could draw upon. Additionally, the University has a board-designated endowment of $252,558,000 as of June 30, 2019. Although the University does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary. However, the board-designated endowment funds contain investments with lock-up provisions that reduce the total investments that could be made available.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2019 and 2018, 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. All money market funds that are held in endowment are considered investments by the University.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows. Unconditional pledges that are expected to be collected within one year are recorded at their estimated net realizable value. Conditional pledges are not included as revenue until the conditions, which represent barriers that must be overcome before the University is entitled to the assets transferred, are fulfilled. Contributions are reported as an increase in the appropriate net asset category.

Beneficial Interests in Trusts and Split-Interest Agreements

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 6 for investment level definitions). The trusts are recorded at fair value based on the interest in the trust as determined by the trustee based on the value of 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. The University is also party to certain split-interest agreements. The related liabilities to these arrangements 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 in the year of receipt to contributions receivable, 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 on an annual basis. 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 loan receivable from students under Drexel's loan programs approximate fair value. (Notes 5, 6, 7, and 10 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. Price concessions to estimate the difference between gross rates and contracted rates with payers have been included in the determination of net revenue.

Contributions

All contributions received are available for unrestricted use unless specifically restricted by the donor. Amounts to be received in the future or that are designated for future periods or restricted by the donor for specific purposes are classified as such. 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 without restrictions.

Non-operating Activities

Non-operating activities include contributions to the University's endowment, investment returns and other activities related to endowment, post-retirement benefit plan and defined benefit pension plan adjustments, restructuring costs, and losses on extinguishment of debt.

Use of Estimates

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

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

The University and its affiliates engage in activities that are subject to unrelated business income taxes for which appropriate income tax returns are filed (Note 17).

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

Accounting for Derivative Instruments and Hedging Activities
The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The changes in fair value of the agreement resulted in a loss of $807,000 and a gain of $1,380,000 in 2019 and 2018, respectively. The fair value of the interest rate swap agreement was a liability of $3,423,000 and $2,616,000, respectively, at June 30, 2019 and 2018.

The swap agreement is used by the University to reduce exposure to the volatility in variable interest rates on long-term debt (Note 12). There were no other swap agreements in effect as of June 30, 2019 or 2018. 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 of the Consolidated Statements of Activities.

Recently Adopted Accounting Pronouncements
Beginning in May 2014, the FASB issued several Accounting Standard Updates which established a new framework for *Revenue from Contracts with Customers (Topic 606)*. The core principle is that revenue is 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 has adopted the standard by applying the retrospective transition method, and the impact is reflected in the Consolidated Statements of Activities and Note 14 for both periods presented.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on net assets without donor restrictions and net assets with donor restrictions, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The University has adopted this new guidance retrospectively, and grouped the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the University has included expanded disclosures relating to: (1) the liquidity of financial assets, (2) expenses by both their natural and functional classification in the financial statements, and (3) disclosing a single net measure of investment return. As a result of adopting this standard, the underwater endowment deficiencies of $2,355,000 were adjusted in the beginning net asset fund balances for the period ending June 30, 2018. Also, certain prior year amounts were reclassified to conform to the presentation requirements (Notes 2, 7, 13 and 15).

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 aims to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if the retrospective application would be impracticable. The University has adopted ASU No. 2016-15 by applying the retrospective transition method which is reflected in the Consolidated Statements of Cash Flow for both periods presented. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715):* ASU No. 2017-07 requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented as part of fringe benefit expense in the Consolidated Statements of Activities. The other components of net periodic benefit cost will be reported as non-operating activity in the Consolidated Statements of Activities. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented. The University has adopted ASU No. 2017-07 and the impacts of these changes are reflected in the Consolidated Statements of Activities for both periods presented.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is meant to provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. ASU No. 2018-08 is effective for annual periods beginning after June 15, 2018, with early adoption permitted. Entities can apply the guidance on a modified prospective basis or retrospective basis. The University has adopted ASU No. 2018-08 by applying the modified prospective transition method in its consolidated financial statements and the relevant footnotes (Note 14). The adoption did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842*), which is meant to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for annual fiscal periods beginning after December 15, 2018. In July 2018, FASB issued ASU No. 2018-11 which amends the transition methods contained in ASU No. 2016-02. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. This ASU represents a significant change in the allowance for credit losses accounting model by requiring immediate recognition of management's estimates of current expected credit losses. Under the current model, losses are recognized only as they are incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. ASU No. 2016-13 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which aims to improve the usefulness of the disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU No. 2018-013 is effective for annual periods beginning after December 15, 2019, with early adoption permitted. Changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively to all periods presented. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to Disclosure Requirements for Defined Benefit Plans* which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU No. 2018-014 is effective for public business entities for annual periods beginning after December 15, 2021, with early adoption permitted on a retrospective basis to all periods presented. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The ASU aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. Entities can apply the guidance prospectively or retrospectively. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements (Topic 808) – Clarifying the Interaction between Topic 808 and Topic 606*, which seeks to clarify that certain transaction between collaborative arrangement participants should be accounted for as revenue and apply all relevant guidance under Topic 606 to these revenues. In additional this ASU provides more comparability in the presentation of revenue for certain transaction between collaborative arrangement participants. ASU No. 2018-18 is effective for annual periods beginning after December 15, 2020 The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, which seeks to align the definition of collections as defined in the American Alliance of Museums' (AAM) Code of Ethics for Museums with its definition of collections in the Master Glossary. The FASB is also making a technical correction in *Topic 360 – Property, Plant and Equipment*, to clarify the accounting and disclosure guidance for collections in *Subtopic 958-360, Not-for Profit Entities – Property, Plant and Equipment.* ASU No. 2019-03 is effective for fiscal years beginning after December 15, 2019. The University is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

3. Accounts Receivable

Accounts receivable are reported less estimates for uncollectable amounts and contractually based discounts. American Academic Health Systems' receivables have been fully reserved due to their filing for bankruptcy on June 30, 2019.

Accounts receivable as of June 30, 2019 and 2018 were as follows:

(in thousands)		**2019**		**2018**
Tuition	$	56,329	$	93,319
Grants, contracts, and other		67,356		91,767
Patient, net of contractual allowance		8,923		9,082
American Academic Health Systems		10,174		3,669
Accounts receivable, gross		142,782		197,837
Allowance for doubtful accounts:				
Tuition		(6,662)		(17,610)
Grants, contracts, and other		(4,919)		(3,664)
Patient		(2,695)		(3,144)
American Academic Health Systems		(10,174)		-
Accounts receivable	$	118,332	$	173,419

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 $29,199,000 and $29,096,000 at June 30, 2019 and 2018, 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. As of October 1, 2017, the Federal Perkins Loan Program expired, and new loans are no longer awarded and disbursed.

At June 30, 2019 and 2018, student loans consisted of the following:

(in thousands)		**2019**		**2018**
Federal government loan programs				
Perkins loan program	$	17,458	$	21,247
Health professions student loans and loans for disadvantaged students		2,058		2,522
Nursing student loans		-		20
Federal government loan programs		19,516		23,789
Institutional loan programs		7,206		8,113
Student loans receivable, gross		26,722		31,902
Less: Allowance for doubtful accounts		(3,320)		(3,188)
Student loans receivable	$	23,402	$	28,714

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 a student loan receivable is deemed uncollectible, an allowance for doubtful accounts is established.

4. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment due more than a year from the pledge date are recorded net of a discount using rates as of June 30, 2019 and June 30, 2018 that range between 1.75% to 2.00% and 2.52% to 2.85%, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC No. 820-10 (Note 6).

Net contributions receivable at June 30 were as follows:

(in thousands)		**2019**		**2018**
Amounts due in				
Less than one year	$	22,571	$	13,599
One to five years		29,918		56,865
Greater than five years		51,235		51,012
Contributions receivable, gross		103,724		121,476
Less:				
Allowance for uncollectibles		(506)		(336)
Discounts to present value		(15,825)		(20,487)
Contributions receivable, net	$	87,393	$	100,653

As of June 30, 2019, the University has outstanding unrecorded conditional promises to give, including non-legally binding bequests, of $110,300,000. When the conditional barriers are overcome and the donor's right of return has expired, the revenue is recorded and is generally restricted for operations, endowment and capital projects as stipulated by the donors.

As of June 30, 2019, the University, acting as an agent for U.S. Squash Racquets Association, has outstanding conditional pass-through pledges of $11,233,000. As of June 30, 2019, the University has accrued a liability of $270,000 payable to U.S. Squash Racquets Association.

5. Investments and Investment Return

At June 30, 2019 and 2018, the fair value of the malpractice insurance trust and investments included the following:

	Fair value	
(in thousands)	**2019**	**2018**
Money market funds	$ 25,973	$ 36,072
U.S. equity	167,506	157,942
Global equity	131,027	117,250
Fixed income securities and bond funds	112,632	109,356
Real estate and real assets funds	98,258	99,578
Hedge funds	27,421	24,102
Private equity	104,907	96,453
Directly-held real estate	99,469	88,515
Total endowment investments	767,193	729,268
Self-insurance escrow funds	44,204	48,422
Other investments	723	679
Total investments	812,120	778,369
Malpractice insurance trust	13,208	8,972
Total investments and malpractice insurance trust	$ 825,328	$ 787,341

Self-insurance escrow funds are comprised of mutual funds that trade on active markets with readily observable prices. Malpractice insurance trust funds are comprised of fixed income securities with readily observable prices.

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2019 and 2018:

	2019		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Investment income, net of expenses	$ 2,907	$ 6,784	$ 9,691
Realized/unrealized gains	10,805	21,923	32,728
Endowment payout under spending formula	(9,893)	(19,676)	(29,569)
Realized/unrealized gain on investments, net of endowment payout and expenses	3,819	9,031	12,850
Operating investment income, net	2,594	414	3,008
Total return on investments	$ 6,413	$ 9,445	$ 15,858

	2018		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Investment income, net of expenses	$ 2,056	$ 4,256	$ 6,312
Realized/unrealized gains	30,918	48,689	79,607
Endowment payout under spending formula	(11,503)	(18,524)	(30,027)
Realized/unrealized gain on investments, net of endowment payout and expenses	21,471	34,421	55,892
Operating investment income, net	2,909	1,737	4,646
Total return on investments	$ 24,380	$ 36,158	$ 60,538

6. 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 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 trusts and annuities, directly held real estate, and interest in real estate.

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 by these funds 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.

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.

As of June 30, 2019, and 2018, assets and liabilities at fair value were as follows:

	2019				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets					
Beneficial interest in trusts	$ -	$ -	$ 43,595	$ -	$ 43,595
Malpractice insurance trust	13,208	-	-	-	13,208
Investments					
Money market funds	25,973	-	-	-	25,973
U.S. Equity	155,617	-	-	11,889	167,506
Global Equity	92,196	-	-	38,831	131,027
Fixed Income securities and bond funds	76,828	1,242	-	34,562	112,632
Real estate and real assets funds	-	-	4,790	93,468	98,258
Hedge funds	-	-	-	27,421	27,421
Private Equity	-	-	-	104,907	104,907
Directly-held real estate	-	-	99,469	-	99,469
Investments held in endowment	350,614	1,242	104,259	311,078	767,193
Self-insurance escrow funds	44,204	-	-	-	44,204
Other investments	521	-	-	202	723
Total investments	395,339	1,242	104,259	311,280	812,120
Total assets measured at fair value	$ 408,547	$ 1,242	$ 147,854	$ 311,280	$ 868,923
Liabilities					
Interest rate swaps (Note 1)	$ -	$ 3,423	$ -	$ -	$ 3,423
Split-interest agreements	-	-	1,647	-	1,647
Annuities	-	-	5,404	-	5,404
Total liabilities measured at fair value	$ -	$ 3,423	$ 7,051	$ -	$ 10,474

	2018				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets					
Beneficial interest in trusts	$ -	$ -	$ 45,473	$ -	$ 45,473
Malpractice insurance trust	8,972	-	-	-	8,972
Investments					
Money market funds	36,072	-	-	-	36,072
U.S. Equity	157,942	-	-	-	157,942
Global Equity	101,591	-	-	15,659	117,250
Fixed Income securities and bond funds	76,367	1,182	-	31,807	109,356
Real estate and real assets funds	-	-	4,761	94,817	99,578
Hedge funds	-	-	-	24,102	24,102
Private Equity	-	-	-	96,453	96,453
Directly-held real estate	-	-	88,515	-	88,515
Investments held in endowment	371,972	1,182	93,276	262,838	729,268
Self-insurance escrow funds	48,422	-	-	-	48,422
Other investments	554		-	125	679
Total investments	420,948	1,182	93,276	262,963	778,369
Total assets measured at fair value	$ 429,920	$ 1,182	$ 138,749	$ 262,963	$ 832,814
Liabilities					
Interest rate swaps (Note 1)	$ -	$ 2,616	$ -	$ -	$ 2,616
Split-interest agreements	-	-	2,087	-	2,087
Annuities	-	-	5,508	-	5,508
Total liabilities measured at fair value	$ -	$ 2,616	$ 7,595	$ -	$ 10,211

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

2019				
(in thousands)	**Fair Value**	**Unfunded Commitments**	**Redemption Terms (If Currently Eligible)**	**Redemption Notice Period (If Applicable)**
Hedge funds:				
Multi-Strategy Hedge Funds (a)	$ 112	$ -		
Distressed Debt Hedge Funds (b)	2,460	-		
Fixed Income and Related Hedge Funds (c)	17,698	-	Quarterly	45 days
Real Estate Hedge Funds (d)	7,151	-	Quarterly	60 days
Subtotal Hedge funds	27,421	-		
Private Equity:				
Private Capital Funds-Secondaries (e)	8,516	3,024		
Private Capital Funds-Venture Capital (f)	1,504	198		
Private Capital Funds-Buy-out (g)	45,489	38,505		
Private Capital Funds-Debt (h)	8,860	11,212		
Private Capital Funds-Real Asset Funds (i)	27,859	41,338		
Private Capital Funds-Real Estate Funds (j)	9,775	20,049		
Private Capital Funds-Hedge Fund Seeder (k)	2,904	222		
Subtotal Private Equity	104,907	114,548	Close-ended funds not available for redemption	
US Equity (l)	11,889	-		
Global Equity (l)	38,831	-		
Fixed Income Securities and Bond Funds (l)	34,562	-		
Real Estate and Real Assets Funds (l)	93,468	-		
Other investments (l)	202	-		
	$ 311,280	$ 114,548		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2019, the composite portfolio includes 100% 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. As of June 30, 2019, the composite portfolio includes 100% 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.

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 investment in hedge funds that invest in diversified U.S. real estate properties. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

e. 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, 2019, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 100% in 1 to 4 years. At June 30, 2018, the liquidation periods were expected to be: 39% in 1 to 4 years; and 61% in 5 to 7 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 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, 2019, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 100% in 1 to 4 years. At June 30, 2018, the liquidation periods were expected to be: 10% in 1 to 4 years; and 90% in 5 to 7 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

g. This category includes investments in private equity funds that invest 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, 2019, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 0% over 1 to 4 years; 65% in 5 to 7 years; and 35% over 8 to 10 years. At June 30, 2018, the liquidation periods were expected to be: 2% in 1 to 4 years; 53% in 5 to 7 years; and 45% 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 provide debt financing to middle market firms. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2019, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 60% in 1 to 4 years; and 40% in 8 to 10 years. At June 30, 2018, the liquidation periods were expected to be: 100% in 1 to 4 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

i. 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, 2019, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 45% in 1 to 4 years; 21% in 5 to 7 years; and 34% in 8 to 10 years. At June 30, 2018, the liquidation periods were expected to be: 73% in 1 to 4 years; and 12% in 5 to 7 years; and 15% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real asset fund.

j. 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, 2019, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 21% in 1 to 4 years; 47% in 5 to 7 years; and 32% in 8 to 10 years. At June 30, 2018, the liquidation periods were expected to be: 54% in 1 to 4 years; 28% in 5 to 7 years; and 18% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real estate 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, 2019, and 2018, respectively, the fund's underlying investments were: 37% and 77% global equity; 0% and 1% in commodities; and 63% and 22% in diversified credit. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets would be liquidated in 1 to 4 years at June 30, 2019. 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 US equity, global equity, fixed income securities and bond funds, real estate and real assets funds, and other investments. Investments in this category reflect the fair value of the specific assets or the underlying ventures' net assets. The valuations of these investments are the net asset values prepared by fund managers. Majority of these investments are commingled 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 $4,790,000 net of $2,620,000 in outstanding debt. The valuation of these investment properties is prepared annually by an independent appraiser.

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

(in thousands)	**2019**	**2018**
Assets, at beginning of year	$ 138,749	$ 186,461
Net realized/unrealized gain	13,671	40,070
Sales and distributions of investments	(4,566)	(7,597)
Transfers out - Schuylkill Yards	-	(80,185)
Assets, at end of year	$ 147,854	$ 138,749

(in thousands)	**2019**	**2018**
Liabilities, at beginning of year	$ 7,595	$ 8,222
Changes in annuities and split-interest agreements	(544)	(627)
Liabilities, at end of year	$ 7,051	$ 7,595

7. 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, 2019 and 2018, the University had an endowment spending rule that limited the spending of endowment resources to a range of 4.75% to 6.00% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years, except for ANS. The actual endowment spend rate for the University was 4.75% for fiscal years ended June 30, 2019 and 2018. For the fiscal years ended June 30, 2019 and 2018, ANS had an endowment spending rule that limited the spending of endowment resources to 5.50% of the fair market value of the pooled endowment assets for the prior seven fiscal years. This rule was applied except in cases where the spending rate had been stipulated by the donor agreement (typically 5.0%).

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

Interpretation of Relevant Law

The Board of Trustees has interpreted Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. Because of this interpretation, the University internally 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. Both permanently restricted and temporarily restricted net assets are considered net assets with donor restrictions as per the applicable accounting standards. The University's policy is to not allocate spend from underwater endowment funds.

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 net assets with donor restrictions in the Consolidated Statements of Activities. Subsequent investment gains are used to restore the balance to the fair market value of the original amount of the gift. Aggregate deficiencies were $2,245,000 and $2,297,000 as of June 30, 2019 and 2018, respectively. The original gift amount and the fair value of underwater endowment funds in the aggregate were $30,793,000 and $28,549,000 and as of June 30, 2019 and $31,302,000 and $29,005,000 as of June 30, 2018, respectively.

The net asset balances for the endowment composition by fund as of June 30, 2019 and 2018 were as follows:

	2019		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 537,242	$ 537,242
Board-designated endowment funds	277,042	-	277,042
Total assets	$ 277,042	$ 537,242	$ 814,284

	2018		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 509,481	$ 509,481
Board-designated endowment funds	270,713	-	270,713
Total assets	$ 270,713	$ 509,481	$ 780,194

Changes in the University's endowment assets (excluding annuities and trusts) and for the years ended June 30, 2019 and 2018 were as follows:

	2019		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Endowment, at beginning of year	$ 270,713	$ 509,481	$ 780,194
Endowment return:			
Investment income, net of fees	2,907	6,784	9,691
Net realized/unrealized gain	10,614	24,180	34,794
Total endowment return	13,521	30,964	44,485
Contributions	1,363	15,246	16,609
Use of endowment assets:			
Endowment payout used in operations	(8,525)	(21,044)	(29,569)
Other	(30)	2,595	2,565
Total uses of endowment assets	(8,555)	(18,449)	(27,004)
Endowment, at end of year	$ 277,042	$ 537,242	$ 814,284

	2018		
(in thousands)	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Endowment, at beginning of year	$ 239,034	$ 460,532	$ 699,566
Endowment return:			
Investment income, net of fees	2,056	4,256	6,312
Net realized/unrealized gain	25,101	52,753	77,854
Total endowment return	27,157	57,009	84,166
Contributions	133	17,597	17,730
Use of endowment assets:			
Endowment payout used in operations	(9,171)	(20,857)	(30,028)
Other	13,560	(4,800)	8,760
Total uses of endowment assets	4,389	(25,657)	(21,268)
Endowment, at end of year	$ 270,713	$ 509,481	$ 780,194

Endowment Loan
On December 5, 2018, the University's Board of Trustee's authorized management to fund the capital expenditures associated with the renovation and expansion of Bentley Hall (formerly Calhoun Hall) with a loan investment from the University's endowment portfolio, not to exceed $35,000,000 million. On February 19, 2019, the University received a $5,000,000 gift from Greg S. and Caroline Bentley for which the dormitory has been renamed. The dormitory will house a living/learning community for the Pennoni Honors College students and include a new, two-story glass stone addition of 10,800 square feet that will house the Pennoni Honors College offices and seminar rooms.

The loan investment (Note 5) is consistent with the asset allocation provisions of the University's endowment Investment Policy Statement. Furthermore, the interest rate associated with this loan investment is comparable to investments of similar risk that are available to the endowment for investment.

The loan investment will be interest-only over the five-year term, with a balloon payment of principal due no later the last day of the 60th month following the initial/first Anniversary Date. The interest rate will be fixed for the first four years at 5% per annum ("Base Rate"). Effective as of the fifth anniversary date (the first day of the 49th month following the initial/first Anniversary Date), the Base Rate will increase to the greater of (a) 5% plus 100 basis points (bps) or (b) the 10-year U.S. Treasury note plus 200 bps (based on the 30-day average prior to the fifth anniversary date), not to exceed a rate of 8%. If the University is unable to obtain financing for the outstanding amount of the loan investment by the end of year 5, the University will consult with the Investment Committee and the Board of Trustees and receive approval of an extension for one year and thereafter secure approval for each year that the loan investment is unable to be financed. If the loan investment is not repaid by the sixth Anniversary Date, the Base Rate on the loan investment will continue to increase as of each Anniversary Date to the greater of (a) the then current Base Rate plus 100 bps, or (b) the 10-year U.S. Treasury note plus 200 bps (based on the 30-day average prior to the anniversary date) not to exceed a rate of 8%.

Interest is payable quarterly, with the first interest payment due three months after the first Anniversary Date. The University will fund the loan investment interest payments from current capital funds dedicated within the University's sources and uses and upon completion and occupancy of Bentley Hall, interest payments will then be funded from Bentley Hall's operating revenues, less the facility's associated expenses. Remaining Bentley Hall net revenue, if applicable, could be applied to the principal balance, as well as other University capital resources, until third-party financing is secured to replace the loan investment from the endowment portfolio. While the loan investment is outstanding, any donor funds received in support of this project, in supporting or naming the building, or associated activities concerning the property, will be directly applied to the outstanding principal balance of the loan investment. The University will incur zero fees, and the entire loan investment can be prepaid, at any time, without penalty at the discretion of the University.

In accordance with Treasury Regulation § 1.150-2, the University may temporarily finance from its own funds, all or a portion of the costs of the renovation and expansion of Bentley Hall up to an amount equal to the total costs of the renovation and expansion of Bentley Hall, which shall not exceed $35,000,000, and may then use all or a portion of the proceeds of tax-exempt obligations to reimburse itself for expenditures originally paid prior to the date of issuance of the tax-exempt obligations, and all original expenditures which may be reimbursed will be capital expenditures (as defined in Treasury Regulation § 1.150-1(b)) and other permissible amounts under Treasury Regulation § 1.150-2(d)(3).

8. 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, 3 to 5 years for software, and 5 to 60 years for buildings and improvements or the shorter of the term of the lease.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $1,278,000 and $3,628,000 at June 30, 2019 and $1,419,000 and $3,772,000 at June 30, 2018, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the Consolidated Statements of Financial Position. The demolition of the University City High School and removal of its hazardous substances significantly reduced the University's asset retirement obligation resulting in a significant credit to the depreciation expenses to recognize the elimination of this obligation.

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

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

(in thousands)	**2019**	**2018**
Works of art	$ 10,583	$ 10,511
Land and improvements	148,234	147,300
Buildings and improvements	1,118,603	1,083,648
Equipment, software and library books	226,104	219,641
Construction in progress	61,698	39,939
Land, buildings, and equipment, gross	1,565,222	1,501,039
Less: Accumulated depreciation	(593,183)	(548,503)
Land, buildings and equipment, net	$ 972,039	$ 952,536

9. 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,	
2020	$ 25,077
2021	23,148
2022	21,599
2023	10,969
2024	4,659
Thereafter	50,170
Total minimum lease payments	$ 135,622

Total rent expense for operating leases amounted to $24,628,000 and $19,826,000 for the years ended June 30, 2019 and 2018, respectively.

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. In June 2018, the University and the Commonwealth of Pennsylvania entered into an amendment to the original lease agreement to extend the initial term for the "Drill Hall" portion of the lease to sixty-five years. The University remeasured the capital lease asset and liability based on the fair market value of the rent under the arrangement for the revised lease term of 65 years. The capital lease liability amounted to $6,846,000 and $2,613,000 at June 30, 2019 and 2018, respectively. These costs have been capitalized and a comparable capital lease liability recorded. In June 2018, the University entered into a sublease agreement for the Drill Hall portion of the Armory, the term of which is coterminous with the Armory lease. The sublease is for the benefit of the U.S. Squash Racquet Association. Rent under the sublease agreement is nominal for the entire lease term.

On January 23, 2012, the University and ACC OP (Chestnut PA), LLC, an affiliate of American Campus Communities ("ACC"), entered a triple net ground lease structure governing the conveyance of the land area located on 3200 Chestnut Street with a base lease term of forty years and three, ten-year option periods. In consideration for the right to develop, own, and operate the proposed project referred to as "Chestnut Square" on the University's campus, ACC pays the University annual ground rent of $254,000. Chestnut Square includes 360,000 square feet of residential space, housing approximately 863 students. The facility also includes 36,000 square feet of retail and office space along the Chestnut Street frontage. The structures consist of two eight story low-rise buildings and a nineteen-story high-rise residential tower at the corner of 32nd and Chestnut Streets. A

101,500-square foot parking structure containing 267 spaces is also included for the south side of the existing Creese Student Center. The University bears no cost of the Chestnut Square project. At the end of the lease (40-70 years), the asset reverts to the University.

On August 30, 2013, the University entered into a land purchase agreement with 3175 JFK Associates, LP and L-A 31, LP, both affiliates of ACC, whereby ACC contributed land, air rights and a subsurface parcel it owned contiguous to Drexel's campus (i.e. 3175 JFK Boulevard) to the University as a gift, without any purchase consideration, but retained the ownership of the "University Crossings" building and improvements erected on this land. The University Crossings property consists of 1.15 acres of land and a 17-story, 452,483 square foot building with 261 units and a total bed capacity of 1,016. As a condition of the land purchase agreement, Drexel and ACC also entered into a ground lease agreement whereby Drexel leased the land back to ACC for no consideration other than reimbursement of property tax that Drexel would be required to pay as the landowner. 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, 2019, and 2018 of $10,250,000 and $10,550,000 respectively. The University recognized $300,000 of ground lease income related to this agreement during fiscal years 2019 and 2018.

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

In tandem with the execution of the ground lease agreement, the University entered into a sublease agreement with ACC Lancaster, for the dining facility at The Summit property at 3400 Lancaster Avenue. The sublease calls for annual rent payments of $741,395 for the first thirty years of the sublease. The sublease is, in all respects, subject to and subordinate to the ground lease between the University and ACC established on August 30, 2013, to develop the 3400 Lancaster Avenue property. The term of the sublease follows the term of the ground lease, commencing September 2015. The initial term is 40 years with three, ten-year renewal options. At the expiration or sooner termination of the ground lease, title shall vest with the University and belong exclusively to the University without any interest on the part of ACC. The sublease provides a rent prepayment option, which allows the full 30 years of rent for the dining facility to be satisfied with an upfront payment of $9,200,000. The University executed the option in September 2015. The amount is 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 38^{th} Street, LLC, Wexford 225 North 38^{th} 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 33^{rd} Street. The hotel features a ground floor restaurant and retail space, a conference center, approximately 212 hotel rooms, and accessory hotel amenities, with a main entrance on 33^{rd} Street. The hotel includes a ten-story building, totaling 145,000 square feet of space. The base term of the lease is fifty years with two, ten-year renewal options. The annual rent commencement date is December 17, 2016 i.e. twenty-four months from the date of the lease. Upon the expiration of the lease, the leased premises will become the property of the University. The University recognized $154,000 of ground lease income related to this agreement during fiscal years 2019 and 2018.

On October 2, 2015, the University entered into a ground lease agreement with RPG 32 Race, LP ("RPG") for University property located at 3201 Race Street. RPG intends to lease the property and develop a 178,00-square foot multi-storied, mixed-use facility, consisting of 164 "Class A" rental apartment units, 13,800 square foot childcare center, ancillary amenities and improvements including a café and rooftop sundeck, 27 on-site parking spaces, accommodation for customer curbside drop-off for use in connection with the childcare center. Nobel Learning Communities, Inc. is the approved childcare operator. The annual rent commencement date is September 13, 2018 defined as twelve months following the substantial completion of the project. The initial term of the lease is seventy-five years with the option to extend the lease for one additional term of twenty-four years. The University recognized ground lease income of $215,000 related to this agreement during fiscal years 2019 and 2018.

Schuylkill Yards

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

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

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

On October 13, 2017, the University completed the initial conveyance for the Schuylkill Yards project involving the transfer of 3001 and 3025 Market Street to BRT. The total fair value of these properties included in the endowment was $52,000,000. BRT commenced the construction of a large public realm area on the 3001 Market Street parking lot with completion in the second quarter of fiscal year 2019. The exterior remodeling of the 3025 Market Street building has commenced. The surface rights for 3001 Market Street were conveyed through a ground lease in consideration for $100, as the University agreed to provide the land for a park to define and significantly enhance the value of the entire project. The 3025 Market Street parcel was conveyed through a 99-year prepaid ground lease combined with the conveyance of the vertical improvements and the subterranean rights of 3001 Market Street for $35,000,000 resulting in a loss of $17,000,000. The proceeds from both parcels were invested in the University's endowment portfolio replacing the real estate values for the 3001 and 3025 Market Street parcels. In addition to the conveyance transactions BRT provided $370,000 for access to the property management staff at Academic Proprieties Inc., a Drexel subsidiary, to assist with the repositioning and re-tenanting of the 3025 Market Street property.

On March 22, 2018, the University completed the conveyance of the second parcel for the Schuylkill Yards project, 3001-3003 John F. Kennedy Boulevard to BRT. The 3001-3003 John F. Kennedy Boulevard parcel was conveyed through a 99-year prepaid ground lease for $24,640,000 resulting in a gain of $16,440,000. The proceeds were invested in the University's endowment portfolio replacing the real estate values for the 3001-3003 John F. Kennedy Boulevard.

On June 29, 2018, the University completed the conveyance of the third parcel for the Schuylkill Yards project, 3025 John F. Kennedy Boulevard to BRT. The 3025 John F. Kennedy Boulevard parcel was conveyed through a 99-year prepaid ground lease for $20,545,000 resulting in a gain of $13,945,000. The proceeds were received on July 2, 2018 and invested in the University's endowment portfolio replacing the real estate values for the 3025 John F. Kennedy Boulevard. As of June 30, 2018, the receivable of

$20,545,000 was included in the Grants, contracts, and other accounts receivable category on the Consolidated Statements of Financial Position.

At least one structure on the John F. Kennedy Boulevard parcels is expected to begin construction in 2020.

10. Retirement Plans

Defined Benefit and Defined Contribution Plans

The University established the Drexel University Defined Contribution Retirement Plan ("DU DC") effective April 1, 1972. Drexel University is the DU DC administrator. The trustees of the DU DC are Teachers Insurance and Annuity Association - College Retirement Equities Fund, as agent for JP Morgan Chase Bank, N.A. ("TIAA-CREF"), Vanguard Fiduciary Trust Company ("Vanguard") and Fidelity Management Trust Company ("Fidelity").

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

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

The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was $42,680,000 and $41,465,000 in 2019 and 2018, 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)	2019	2018
Weighted average assumptions as of June 30		
Discount rate	3.60 %	4.30 %
Expected return on plan assets	6.25 %	6.25 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 21,096	$ 19,650
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 19,650	$ 20,037
Service costs	230	230
Interest costs	822	762
Actuarial (gain)/loss	1,589	(321)
Gross benefits paid	(1,195)	(1,058)
Net benefit obligation at June 30	$ 21,096	$ 19,650

(in thousands)	2019	2018
Change in plan assets		
Fair value of plan assets, at beginning of year	$ 10,670	$ 10,639
Actual return on plan assets	621	330
Employer contributions	1,283	759
Gross benefits paid	(1,195)	(1,058)
Fair value of plan assets, at June 30	$ 11,379	$ 10,670
Fair value of plan assets, at June 30	$ 11,379	$ 10,670
Benefit obligation	21,096	19,650
Net amount recognized, at June 30*	$ (9,717)	$ (8,980)

* These amounts are recognized in the financial statements including the Consolidated Statements of Financial Position in the “Accrued retirement obligations” financial statement line item.

The components of net periodic benefit cost are noted below:

(in thousands)	**2019**	**2018**
Weighted average assumptions used to determine net periodic benefit costs		
Discount rate	4.30 %	4.30 %
Expected return on plan assets	6.25 %	6.25 %
Components of net periodic benefit costs		
Service costs	$ 230	$ 230
Interest costs	822	762
Expected return on assets	(666)	(661)
Amortization of actuarial loss	1,633	10
Net periodic benefit cost	$ 2,019	$ 341

As of June 30, 2019, and 2018, 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 $21,096,000 and $19,650,000 at June 30, 2019 and 2018, respectively. The fair value of the plan assets was $11,379,000 and $10,670,000 as of June 30, 2019 and 2018, respectively.

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

Expected benefit payments *(in thousands)*	
June 30,	
2020	1,125
2021	1,230
2022	1,256
2023	1,275
2024	1,291
2025-2029	6,568

Plan Assets

The ANS pension plan weighted-average asset allocations at June 30, 2019 and 2018 by asset category are as follows:

	2019	2018
Asset category		
Equity securities	46.2 %	49.2 %
Fixed income securities	28.6 %	31.4 %
Hedge fund and alternative investments	22.0 %	12.3 %
Cash	3.2 %	7.1 %
	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 several alternative investment vehicles. The alternative investments are allocated among various classes, including but not limited to equities, hedge funds, fixed income, natural resources, and real estate. The strategy allows to invest in a diversified manner with a mix of assets that are set not to be highly correlated. The expected rate of return on assets was based on the current interest rate environment and historical market premiums of equity and other asset classes relative to fixed income rates.

The following tables present the plan assets at fair value as of June 30, 2019, and 2018 according to the valuation hierarchy (Note 6):

	2019				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets, at fair value					
Cash equivalents	$ 364	$ -	$ -	$ -	$ 364
Mutual funds	8,847	-	-	-	8,847
Alternative investments	-	-	-	2,168	2,168
	$ 9,211	$ -	$ -	$ 2,168	$ 11,379

	2018				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets, at fair value					
Cash equivalents	$ 763	$ -	$ -	$ -	$ 763
Mutual funds	9,093	-	-	-	9,093
Alternative investments	-	-	-	814	814
	$ 9,856	$ -	$ -	$ 814	$ 10,670

11. 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 shares the cost of coverage for medical plan options under this Plan with eligible retirees who retired prior to July 1, 2017. Retirees must pay the difference between the monthly cost for the health plan in which they are enrolled and the University's retiree allowance. For eligible retirees who retired from employment prior to September 1, 2014, the retiree allowance is $400 per month for an eligible retiree and up to an additional $400 per month for his or her spouse or same-sex domestic partner. For eligible retirees who retire from employment on or after September 1, 2014 but before July 1, 2017, the retiree allowance is $300 per month for an eligible retiree and up to an additional $300 per month for his or her spouse or same-sex domestic partner. The University reserves the right to change the level of the retiree allowance at any time. For eligible retirees who retire from employment after July 1, 2017, there is no retiree allowance and eligible retirees must pay the entire cost of medical coverage under this Plan. The retirees have a choice of various providers. The post-retirement health care plan is contributory, and the life insurance plan is noncontributory.

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 ($800,000) and ($2,636,000) respectively, for the years ended 2019 and 2018 and are reflected in the Consolidated Statements of Activities and included in Accrued retirement obligations 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)	2019	2018
Change in benefit obligation		
Benefit obligation, beginning of year	$ 39,588	$ 44,066
Service cost	300	303
Interest cost	1,442	1,559
Actuarial (gain)	(1,535)	(2,936)
Plan participant contributions	582	703
Actual benefits paid	(4,147)	(4,107)
Benefit obligation, end of year	36,230	39,588
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	3,565	3,404
Plan participant contributions	582	703
Actual benefits paid	(4,147)	(4,107)
Fair value of plan assets, end of year	-	-
Unfunded status of the plan*	$ 36,230	$ 39,588

* These amounts are recognized in the financial statements including the Consolidated Statements of Financial Position in the Accrued retirement obligations financial statement line item.

Weighted average assumptions to determine benefit obligations and net cost as of June 30		
Discount rate - benefit obligations	3.39%	4.22%
Discount rate - benefit cost	4.22%	3.80%
Ultimate retiree health care cost trend	4.50%	4.50%
Year ultimate trend rate is achieved	2027	2027

For measurement purposes, an 8.5% and an 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 2019 grading down to ultimate rates of 4.5% in the year 2027 and thereafter.

Net Periodic Benefit Cost

(in thousands)		**2019**		**2018**
Components of net periodic benefit cost				
Service cost	$	300	$	303
Interest cost		1,442		1,559
Amortization of:				
Prior service credit		(1,536)		(1,536)
Net loss		801		1,236
Net periodic benefit cost	$	1,007	$	1,562
Other changes recognized in net assets without restrictions				
Net actuarial gain	$	(1,535)	$	(2,936)
Prior service credit		-		-
Amortization of:				
Prior service cost		1,536		1,536
Net (gain)		(801)		(1,236)
Total recognized in net assets without restrictions	$	(800)	$	(2,636)
Amounts not yet reflected in net periodic benefit cost and included in net assets without restrictions				
Prior service credit	$	(18,247)	$	(19,783)
Actuarial loss		15,484		17,820
Amounts in unrestricted net assets, end of year	$	(2,763)	$	(1,963)
Amounts in net assets without restrictions expected to be recognized in net periodic benefit cost				
Prior service credit	$	(1,536)		
Actuarial loss	$	905		

For the fiscal years ended June 30, 2019 and 2018, the effect of a 1% change in the health care cost trend rate is as follows:

	2019				**2018**			
(in thousands)		**1% Increase**		**1% Decrease**		**1% Increase**		**1% Decrease**
Effect on net periodic benefit cost	$	53	$	(47)	$	53	$	(47)
Effect on postretirement benefit obligation		297		(272)		288		(268)

Contributions

Expected contributions for the 2019 fiscal year are $3,320,000.

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,	
2020	3,322
2021	3,231
2022	3,110
2023	2,994
2024	2,900
Thereafter	12,772

12. Bonds and Notes Payable

Bonds and notes payable at June 30, 2019 and 2018 are as follows:

(in thousands)	Project	Final Maturity	Effective Interest Rate at June 30, 2019	2019	2018
Fixed rate debt obligations					
Drexel University					
Series A of 2011	Capital improvements and equipment	2014-2041	2.00-5.25%	7,375	7,710
Series of 2012	Refunding	2014-2032	1.00-5.00%	11,280	11,480
Series of 2016	Refunding	2022-2037	2.00-5.00%	117,130	117,130
Series of 2017	Refunding	2018-2041	2.00-5.00%	116,150	117,800
11th Street Family Health Services Inc.					
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	2,717	2,717
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	6,783	6,783
3509 Spring Garden, LP					
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	1,964	1,964
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	4,826	4,826
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	1,045	1,045
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	2,205	2,205
Variable rate debt obligations					
Drexel Unversity					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	19,510	22,010
Series B of 2002	Capital improvements and equipment	2015-2032	Variable	40,340	40,680
Series B of 2005	Advance refunding	2019-2030	Variable	28,150	29,625
Series B of 2007	Capital improvements and equipment	2014-2037	Variable	23,295	24,110
Total outstanding bonds and notes payable				382,770	390,085
Line of Credit				30,000	-
Unamortized original issue premiums/discounts and cost of issuance, net				32,757	34,436
Total bonds and notes payable				$ 445,527	$ 424,521

The documents pursuant to which the Pennsylvania Higher Educational Facilities Authority ("PHEFA") Revenue Bonds are issued contain restrictive financial covenants which, among other things, require the University to maintain a minimum debt service ratio of not less than 1:1 for the fiscal year. At June 30, 2019, the University failed to meet the requirement. The failure to meet the requirement is not an event of default under the PHEFA loan documents.

The University has Reimbursement, Credit and Security Agreements with several banks in regards to letters of credit supporting the variable rate debt. Those agreements contain certain restrictive financial covenants which, among other things, require the University to maintain expendable resources of at least 50% of outstanding long-term debt and to maintain a minimum debt service ratio of not less than 1.1:1 for the fiscal year. The University was in compliance with these financial covenant requirements at June 30, 2018. As of June 30, 2019, the University was in a violation of debt service coverage ratio covenants, but such violation was waived by the applicable banks.

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

In December 2017, the University issued PHEFA, Drexel University Revenue Refunding Bonds, Series of 2017 in the amount of $117,800,000. The primary purpose of this issue was the refunding of most of the outstanding Series of 2011A bonds. The 2017 bonds will be maturing between May 1, 2018 and May 1, 2041. The bonds were issued on a parity basis with the University's other outstanding Authority bonds and on a parity basis with the interest rate swap agreement in connection with the Series of 2005B bonds.

The Second Series of 2000, Series B of 2002, Series B of 2005, Series B of 2007, 2011, 2012, 2016 and 2017 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**
2020	5,463	4,005	9,468
2021	8,253	5,730	13,983
2022	9,823	4,720	14,543
2023	8,658	7,190	15,848
2024	9,618	8,660	18,278
Thereafter	265,180	80,990	346,170
	306,995	111,295	$ 418,290
Cost of issuance			(2,763)
			415,527

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

(in thousands)	**Remarketed Debt**
June 30,	
2020	43,815
2021	25,798
2022	25,847
2023	7,038
2024	7,038
Thereafter	1,759
	$ 111,295

Lines of Credit

The University holds a line of credit which 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, 2019 and 2018.

Total unsecured Revolving Credit Facilities ("Facilities") of $70,000,000 matures on December 31, 2019, and accrues interest based on Intercontinental Exchange Benchmark Administration "ICE" (subject to a floor of 0.75%) for the University. It can be extended annually based upon the agreement of the University and the bank maintaining the Facilities. At June 30, 2019, the interest rate was 2.44% and there was $30,000,000 outstanding.

13. Net Assets

Net assets included the following:

(in thousands)		2019		2018
Without donor restrictions:				
Operating	$	(364,065)	$	(279,116)
Physical plant		677,236		664,395
Quasi-endowment funds		277,042		270,713
Total net assets without donor restrictions		590,213		655,992
With donor restrictions:				
Temporarily Restricted				
Funds for programs and capital expenditures		106,210		119,480
Funds for endowments		169,611		159,357
Life income annuities		1,587		1,532
Beneficial interests in trusts		4,858		7,192
Permanently Restricted				
Funds for endowments		367,631		350,124
Life income annuities		2,397		2,450
Beneficial interests in trusts		34,978		34,545
Student loans and others		7,607		7,417
Total net assets with donor restrictions		694,879		682,097
Total net assets	$	1,285,092	$	1,338,089

14. Revenue Recognition

The University adopted *Revenue from Contracts with Customers (Topic 606)* effective July 1, 2018 using the retrospective transition method. The University assessed the various contractual arrangements for material revenue streams, the impact to internal processes, the control environment, and disclosures, and determined that the adoption would not result in a material change to the timing of revenue recognition. For all revenue streams, the impact of the adoption was immaterial and the impact of applying the standard retrospectively had no impact on total revenues or total changes in net assets in the prior year presented. The impact of the retroactive adjustment to the presentation of financial statements for the period ended June 30, 2018 was as follows:

(in thousands)		As reported under ASC 605	As reported under ASC 606	Change
Tuition and fees	$	919,982		
Less: Institutional financial aid		(316,167)		
Net tuition revenue		603,815	664,324	60,509
Sales and services of auxiliary enterprises		80,563	20,054	(60,509)
Physician services revenue		91,902	92,034	132
Other operating expenses		338,063	338,195	132

In assessing collectability, the University has elected the portfolio approach as a practical expedient to combine customers with similar characteristics. The University determined that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

For the University's revenue streams, the performance obligations are within contracts with durations of one year or less. Therefore, the optional exemption to not disclose remaining performance obligations was applied.

Tuition and fees, room and board

Tuition and related fees are recognized as revenue over time during the academic period in which the related academic services are rendered. The University records tuition revenue at the standalone selling price, which most often reflects the published rates, less price concessions related to institutional financial discounts provided by the University. Payment is due in full by the student before the commencement of the semester or term.

As the performance obligations are met (i.e. classes are instructed), revenue is recognized ratably based upon the allocated transaction price. Ratable recognition depicts the transfer of services as the student obtains the benefit of services throughout the semester or term.

The following table disaggregates tuition and fees, room and board revenue by major portfolios for the years ended June 30, 2019, and 2018:

(in thousands)	2019			
	Tuition and Fees	Room and Board	Institutional Financial Aid	Total
Undergraduate	$ 685,548	$ 57,155	$ (308,947)	$ 433,756
Graduate	265,358	2,183	(35,533)	232,008
Tuition and fees, room and board	$ 950,906	$ 59,338	$ (344,480)	$ 665,764

(in thousands)	2018			
	Tuition and Fees	Room and Board	Institutional Financial Aid	Total
Undergraduate	$ 659,988	$ 58,190	$ (283,633)	$ 434,545
Graduate	259,994	2,319	(32,534)	229,779
Tuition and fees, room and board	$ 919,982	$ 60,509	$ (316,167)	$ 664,324

Physician Services

Net patient care activity revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Performance obligations are met as Physician Services are administered to patients. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price.

In assessing collectability, we have elected the portfolio approach and grouped into portfolios based on services provided (practice plans). The portfolios elected consist of patients with similar characteristics in payment behavior. The following table disaggregates the Physician Services' revenue by major portfolios with similar characteristics for the years ended June 30, 2019 and 2018 respectively:

(in thousands)		**2019**		**2018**
Medicine	$	57,592	$	57,047
OB/GYN		9,266		9,604
Pathology		4,417		6,574
Psychiatry		4,015		3,764
Surgery		4,095		3,428
Neurology		2,858		2,406
Dermatology		16		1,959
Ophthalmology		2,099		1,834
Other services		6,324		5,418
Total physician services	$	90,682	$	92,034

Grants and Contracts

The University receives grant and contract revenue from governmental and private sources, which are considered non-exchange revenue transactions. The University generally recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred in accordance with the related cost principles outlines in the grant agreement. The University negotiates its federal indirect rate with its cognizant federal agency.

The following table disaggregates grants and contracts revenue for the years ended June 30, 2019, and 2018:

(in thousands)		**2019**				
		Without donor restrictions		**With donor restrictions**		**Total**
Government grants and contracts:						
Federal	$	96,738	$	1,408	$	98,146
State		4,260		199		4,459
Local		433		186		619
Private grants and contracts		10,363		12,216		22,579
Total grants and contracts	$	111,794	$	14,009	$	125,803

(in thousands)	2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Government grants and contracts:			
Federal	$ 94,499	$ -	$ 94,499
State	4,119	-	4,119
Local	2,441	-	2,441
Private grants and contracts	25,318	2,917	28,235
Total grants and contracts	$ 126,377	$ 2,917	$ 129,294

As of June 30, 2019, the University has outstanding unrecorded conditional grants receivable of $115,547,000. Revenue for these conditional grants will be recognized in future periods when the related barriers are overcome when the conditions have been substantially met.

15. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in accordance with the overall service mission of the University. Each functional classification displays all expenses related to the underlying operations by natural classification. Depreciation and interest expenses are allocated based on the square footage occupancy. Plant operations and maintenance represent space related costs which are allocated to the functional categories directly and/or based on the square footage occupancy. Expenses reported as auxiliary enterprises, library, and student services are incurred in support of program services.

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

(in thousands)	2019			
	Program Services	**Management and General**	**Fundraising**	**Total**
Salaries and wages	$ 433,563	$ 54,400	$ 9,682	$ 497,645
Employee benefits	112,454	14,115	2,507	129,076
Depreciation and amortization	45,427	4,956	13	50,396
Interest	13,888	1,514	-	15,402
Other operating expenses	320,622	48,401	4,791	373,814
Total expenses	$ 925,954	$ 123,386	$ 16,993	$ 1,066,333

Expenses by functional classification for the year ended June 30, 2018 consist of the following:

(in thousands)	2018			
	Program Services	**Management and General**	**Fundraising**	**Total**
Salaries and wages	$ 415,297	$ 50,306	$ 9,431	$ 475,034
Employee benefits	109,053	13,208	2,462	124,723
Depreciation and amortization	48,874	3,221	13	52,108
Interest	13,919	940	-	14,859
Other operating expenses	295,783	38,052	4,360	338,195
Total expenses	$ 882,926	$ 105,727	$ 16,266	$ 1,004,919

16. 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, 2019 and 2018, the University and its subsidiaries recorded gross combined reserves of $46,719,000 and $36,923,000, respectively and related recoveries from third party insurers of $12,213,000 and $7,105,000 at June 30, 2019 and 2018, respectively. For fiscal years 2019 and 2018, 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 2019 and 2018 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, 2019 and 2018, self-insurance escrow funds and malpractice insurance trust consisting of mutual funds and fixed income securities amounted to $57,412,000 and $57,394,000, respectively, were available to fund incurred but not reported liabilities.

17. Commitments and Contingencies

Healthcare Legislation and Regulation

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

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

Litigation

There is a pending litigation between SodexoMAGIC and the University in relation to the former food services agreement. There is also pending litigation between United Educators' Insurance and the University for breach of contract in relation to the general liability coverage for medical professionals.

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

Other Commitments and Contingencies

The University maintains a letter of credit in the amount of $225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste and is renewed annually. There were no amounts outstanding as of June 30, 2019 and 2018.

The University maintains three letters of credit totaling $4,144,000 associated with workers' compensation insurance. The agreements are renewable annually. There were no amounts outstanding as of June 30, 2019 and 2018.

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, 2021.

- 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, 2021.

- 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, 2024.

- 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 April 30, 2020.

There were no amounts outstanding on these bond-related letters of credit as of June 30, 2019 and 2018.

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, 2020 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, 2019.

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, 2019 and 2018, the University recorded $1,125,000 and $1,711,000 as income tax expenses and assigned a functional expense category of institutional support for these expenditures.

The Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017, impacted the University in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduced the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%.

18. Related Party Transactions

Tenet Healthcare Corporation and American Academic Health System
On September 1, 2017, Tenet Healthcare Corporation ("Tenet") announced that they had signed a definitive agreement to sell its two Philadelphia medical centers — Hahnemann University Hospital, St. Christopher's Hospital for Children — to American Academic Health System ("AAHS"), a newly formed affiliate of Paladin Healthcare. On January 11, 2018, all operating agreements under Tenet Healthcare Corporation ("Tenet") were transferred to American Academic Health System ("AAHS") with the exception of the real estate assets related to the medical office buildings and parking garages, which were sold to Harrison Street and master leased to St. Christopher's Hospital, LLC. The University in turn subleases from St. Christopher's Hospital LLC. Under these agreements, the University acts both as a purchaser and provider of services. Total services purchased from AAHS/Tenet for the years ended June 30, 2019 and 2018 were $12,309,000 and $12,369,000, 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/AAHS 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 AAHS/Tenet for these services amounted to $24,386,000 and $24,063,000 for the years ended June 30, 2019 and 2018, respectively, and are mainly included in patient care activities revenue in the accompanying Consolidated Statements of Activities.

Bankruptcy Filing of Philadelphia Academic Health System
On June 30 of 2019, the owners of Hahnemann University Hospital ("HUH") and St. Christopher's Hospital for Children ("St. Christopher's"), Philadelphia Academic Health System ("PAHS"), a subsidiary of the California based American Academic Health System ("AAHS"), filed for chapter 11 bankruptcy. HUH was experiencing unsustainable financial losses and could not continue to operate under these financial conditions. As a result of the announcement, HUH's facilities and departments released a timeline of planned closure dates with an estimated final shut down date of September 6, 2019. St. Christopher's will remain open and operated by a joint venture between the University and Tower Health ("Tower"), which acquired certain assets and liabilities of the hospital in a bankruptcy sale. (See Note 18B)

Drexel's main business relationship with the HUH is an academic affiliation agreement that designates HUH as the medical school's primary academic partner for its medical student training and provides for Drexel's faculty to manage the hospital's residency program through 2022.

University leadership in anticipation of the 2022 conclusion of the Drexel Academic affiliation agreement with HUH had previously begun evaluating potential successor hospitals to replace HUH. As a result, on December 31, 2018, the University announced a 20-year academic affiliation with Tower, a six-hospital system with locations in the Philadelphia area, to open a new branch campus for Drexel medical students at Tower's flagship hospital, Reading Memorial Health in Reading Pennsylvania. The University and Tower, signed a Letter of Intent on May 10, 2019, to transfer substantially all of the assets of the Drexel University Practice Plan to the Tower Health Medical Group on or before January 1, 202o. Tower, working with the University's management, are in the process of structuring agreements to finalize the transfer, define research management services, and academic affiliation services.

The University took further steps to minimize potential disruptions within the College of Medicine and the University's financial operations as a result of the HUH bankruptcy and closure. In late June 2019, when PAHS notified the University of its intent to file for bankruptcy, the management team developed a timeline in which various departments would close and which ones would be transitioned to Tower. On July 19, 2019, Drexel announced its plan to eliminate certain healthcare service lines and discontinue positions of affected physicians and clinical staff employed by the practice plan. Tower Health has worked with Drexel to transition some of the affected physicians and clinical staff to the Tower Health Medical Group on an accelerated basis. The initial closures began on August 23, 2019 and are scheduled to end December 31, 2019. The transition departments are scheduled to transfer on January 1, 2020 and at which time the University will have ceased operations of its practice plan.

The University, in the period ending June 30, 2019, has accrued as an operating expenditure for loss related to closure of physician practice plan an accrual for faculty severance of $5,891,000 and staff severance of $3,492,000. For faculty, the University is contractually required to provide 6-months' notice of termination and this notice was provided on July 15, 2019. Professional staff severance is determined by length of service and ranges from 2 weeks salary for less than 1 year of service to 5 month's salary for 5 or more years of service. All benefits are discontinued at the end of the month of the effective date of the position elimination. Accrued vacation and sick time, as applicable, will be paid out in accordance with the University's policies.

As part of the practice plan closure, the University has assessed its equipment, furnishings, and software related to the physician practices. Most of these assets will likely be sold or transitioned to Tower. As such, the estimated loss on the disposal of these assets is estimated to be $896,000 and was recorded for the period ending June 30, 2019. The assets will remain on the University's books until they are disposed of or sold but it is anticipated that the University's equipment and software would be reduced by a net amount of $896,000 if all assets and corresponding accumulated depreciation are disposed.

Tower Health

On December 31, 2018, Tower Health ("Tower") and Drexel University signed a 20-year academic affiliation agreement that allows the University to use Tower Health's Reading Hospital campus in Berks County, Pennsylvania as another location for the College of Medicine's four-year undergraduate medical education program. The academic affiliation agreement will allow the Drexel University's College of Medicine to create and maintain high quality medical education and academic programs in an appropriate learning environment and serve the community through the delivery of high quality and cost-effective health care services at Tower Health facilities.

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.

19. Subsequent Events

The University evaluated events subsequent from June 30, 2019 through October 24, 2019, the date at which financial statements were issued.

A. St. Christopher's Hospital for Children Acquisition
On September 18, 2019, a joint bid for St. Christopher's Hospital was submitted by the University and Tower. On Friday, September 20, 2019, the University and Tower were awarded the bid and have agreed to pay $50 million for St. Christopher's and will be equal partners in the ownership of St. Christopher's. Tower Health will manage the day-to-day operations of the hospital and physician practices. The St. Christopher's real estate is owned by separate companies and is not included as part of the transaction. A court hearing held on September 23, 2019 provided final approval of the acquisition and set a closing date of December 15, 2019.

The partnership's mission is to ensure that access to pediatric services continues uninterrupted for the vulnerable, underserved community that depends on St. Christopher's for its care. The partnership will provide outstanding health care and operating expertise, as well as financial security and stability that will complement and augment St. Christopher's nationally recognized programs for children and exceptional care.

B. Powel Elementary and Science Leadership Academy Middle School Project
On May 8, 2019, the Board of Trustees approved a Resolution authorizing the University to undertake the design and construction of a combined K-8 Powel Elementary School and Science Leadership Academy Middle School ("Powel/SLA-MS") on the northern portion of 60 N. 36th Street in Philadelphia, Pennsylvania, which is a portion of the tract of land that formerly housed University City High School. To fund a portion of the Project costs, the University will be utilizing New Market Tax Credits ("NMTCs"). The Project qualifies for

the NMTC program because the Property is in a "highly distressed" low income community. The University has been allocated $29,000,000 of NMTCs from four separate Community Development Entities, which will result in an equity investment in the Project estimated at $9,726,600. Upon completion, the University will lease the building to the School District of Philadelphia ("SDP") for nominal annual rent. SDP will be responsible for all operating and maintenance costs. The University has introduced a dormant entity Drexel University City, Inc. ("DUC"), to act as the leveraged loan lender in this transaction.

The University secured a $15,000,000 gift from the Lenfest Foundation to construct Powel/SLA-MS. The gift is conditional and requires a one-to-one match but has no conditions on where the matching funds must be derived. As such, the University sold Lot 2 (the "Wedge" parcel) to Wexford Science and Technology, LLC on September 26, 2019, for $9,200,000 and directed the proceeds from this sale to the Lenfest Foundation match. Wexford Science and Technology, LLC will contribute a minimum of $4,850,000 towards the match.

C. Drexel Academic Tower

On May 8, 2019, the Board of Trustees approved a resolution authorizing the University to develop a new Academic Tower to house the College of Nursing and Health Professions, relocating the college from Center City to University City. The Academic Tower will be developed by Wexford Development, LLC on the southern portion of 60 N. 36th Street, Philadelphia, Pennsylvania which is a portion of the tract of land that formerly housed University City High School. The building size is expected to be between 258,000 and 450,000 square feet. The building development will be aided by a number of financial mechanisms that include a $9,546,000 prepaid ground lease between the University and Wexford Science and Technology, LLC. and a sale by the University to Wexford Science and Technology, LLC of 142,857 square feet of air rights above the premises of Lot 6 (the PSLAMS premises) for a price of $5,300,000. The University is entered into a 29 year and 11-month lease with Wexford Science and Technology, LLC and sold the air rights on September 26, 2019.

D. 3675 Market Sublease - DXC Technologies

In October 2018, Drexel University entered into a 20-year lease with Wexford-SCEC 3675 Market Street, LLC for space on the 9th, 10th, and 11th floors of 3675 Market Street, Philadelphia, PA for the College of Computing and Informatics ("CCI"). The 14-story building, opened in November, is located to the west of University City Campus. The Building offers offices, classrooms, laboratories, co-working and convening spaces. On August 29, 2019, Drexel University entered into a sublease with a strategic partner, DXC Technology Services LLC (DXC), to utilize a portion of the 9th floor space to create a "DXC Digital Transformation Center" and to help offset early term lease expenses as CCI continues to grow.

DXC is one of the largest technology companies globally, with over 175,000 employees and clients across 70 countries. DXC's Chairman and CEO, Mike Lawrie, is a Drexel alumnus and Trustee. CCI is building an overarching strategic partnership with DXC to support DXC's technology talent needs, from talent development to recruitment and professional training. This strategic partnership has the potential to substantially increase CCI's total graduate enrollment numbers.