Drexel University and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2015 and 2014

Drexel University and Subsidiaries
Index
June 30, 2015 and 2014

Independent Auditor's Report

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, 2015 and 2014, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drexel University and its subsidiaries at June 30, 2015 and 2014, and the results of their operations 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 27, 2015

Drexel University and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2015 and 2014

(in thousands)	**2015**	**2014**
Assets		
Cash and cash equivalents		
Operating	$ 99,457	$ 88,141
Restricted	7,341	7,017
Accounts receivable, net		
Tuition	73,917	50,720
Grants, contracts and other	71,461	60,940
Patients	8,950	8,043
Tenet Healthcare Corporation	1,852	1,746
Total accounts receivable, net	156,180	121,449
Contributions receivable, net	88,888	72,334
Other assets	36,847	33,998
Funds held by trustees	5,845	20,834
Student loans receivable, net	35,482	35,106
Beneficial interests in trusts	53,507	56,438
Investments	691,672	676,669
Land, buildings and equipment, net	902,329	884,807
Total assets	$ 2,077,548	$ 1,996,793
Liabilities		
Accounts payable	$ 58,379	$ 48,205
Accrued expenses	112,975	101,669
Deposits	22,394	39,062
Deferred revenue	118,993	104,681
Capital lease	2,804	3,451
Government advances for student loans	28,513	28,185
Post-retirement and pension benefits	64,200	55,745
Bonds and notes payable	458,661	468,405
Total liabilities	866,919	849,403
Net assets		
Unrestricted	631,177	575,745
Temporarily restricted	255,432	261,203
Permanently restricted	324,020	310,442
Total net assets	1,210,629	1,147,390
Total liabilities and net assets	$ 2,077,548	$ 1,996,793

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

Drexel University and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2015

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

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

Drexel University and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2014

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 802,867	$ -	$ -	$ 802,867
Less: Institutional financial aid	(203,281)			(203,281)
Net student revenue	599,586	-	-	599,586
Patient care activities	109,364			109,364
State appropriations	8,179			8,179
Government grants and contracts	91,520	484		92,004
Private grants and contracts	17,626			17,626
Private gifts	5,495	22,588		28,083
Endowment payout under spending formula	11,602	14,306	155	26,063
Investment income	3,466	1,451		4,917
Sales and services of auxiliary enterprises	86,134			86,134
Other sources	14,518			14,518
Net assets released from restrictions	61,735	(61,936)	201	-
Total operating revenue	1,009,225	(23,107)	356	986,474
Operating expense				
College programs	348,725			348,725
Research and public service	107,626			107,626
Academic support	28,954			28,954
Student services	46,630			46,630
Institutional support	128,892			128,892
Scholarships and fellowships	13,489			13,489
Auxiliary enterprises	43,672			43,672
Total education and general	717,988	-	-	717,988
Patient care activities	129,299			129,299
Other operating expense	56,144			56,144
Interest	17,957			17,957
Depreciation and amortization	43,630			43,630
Total operating expense	965,018	-	-	965,018
Change in net assets from operating activities	44,207	(23,107)	356	21,456
Non-operating activities				
Endowment and other gifts	763	994	14,172	15,929
Realized/unrealized net gain on investments, net of endowment payout	26,936	34,856	5,883	67,675
Other non-operating expense	(4,536)	(7,000)		(11,536)
Change in net assets from non-operating activities	23,163	28,850	20,055	72,068
Change in net assets	67,370	5,743	20,411	93,524
Net assets				
Beginning of year	508,375	255,460	290,031	1,053,866
End of year	$ 575,745	$ 261,203	$ 310,442	$ 1,147,390

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, 2015 and 2014

(in thousands)	**2015**	**2014**
Cash flow from operating activities		
Increase in net assets	$ 63,239	$ 93,524
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	43,685	43,630
Provision for uncollectible accounts	13,024	10,053
Loss on disposal of equipment	517	1,563
Change in market value in beneficial interests in trusts	2,931	(2,833)
Contributions for long-term investment	(16,578)	(14,172)
Non-cash contributions received	(13,663)	(2,791)
Fair value of donated securities	5,607	1,351
Actuarial change on annuity liabilities	7	653
Realized/unrealized loss(gain) on investments	4,281	(73,991)
Changes in operating assets and liabilities		
Accounts receivable	(46,834)	(6,591)
Contributions receivable	(17,073)	10,348
Other assets	(2,849)	(950)
Accounts payable and accrued expenses	20,305	5,650
Post-retirement and pension benefits	8,455	5,004
Deposits	(16,668)	3,934
Deferred revenue	14,312	26,753
Net cash provided by operating activities	62,698	101,135
Cash flow from investing activities		
Purchase of investments	(565,235)	(123,609)
Proceeds from sale of investments	545,984	137,944
Change in restricted cash	(324)	(3,013)
Proceeds from student loan collections	7,214	5,186
Student loans issued	(7,992)	(3,634)
Purchase of land, buildings and equipment	(54,667)	(133,651)
Investment in New Market Tax Credit entities	-	(13,814)
Change in funds held by trustees	14,989	29,210
Net cash used in investing activities	(60,031)	(105,381)
Cash flow from financing activities		
Contributions restricted for endowments	16,578	14,172
Proceeds from sales of donated securities	2,112	958
Payments on annuity obligations	(333)	(263)
Government advances for student loans	328	791
Proceeds from short-term debt	20,000	20,000
Repayment of short-term debt	(20,000)	(20,000)
Repayment of long-term debt	(10,036)	(6,771)
Net cash provided by financing activities	8,649	8,887
Net increase in cash and cash equivalents	11,316	4,641
Cash and cash equivalents		
Beginning of year	88,141	83,500
End of year	$ 99,457	$ 88,141
Supplemental information		
Gifts-in-kind	$ 5,911	$ 175
Cash paid for interest	16,796	17,164
Amounts accrued for purchase of land, buildings and equipment	9,525	8,024
Donated securities	7,752	2,616
Issuance of long-term debt for restricted purpose	-	19,540

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

1. Summary of Significant Accounting Policies

Organization and Basis of Consolidated Financial Statements

Drexel University (the "University") is a private comprehensive global research university located in Philadelphia, Pennsylvania. The University is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The consolidated financial statements include Drexel University, the Academy of Natural Sciences of Philadelphia, Drexel eLearning, Inc., Academic Properties, Inc., and the University's other subsidiaries which are described in detail in these notes.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). All revenues received and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and deferred charges, respectively. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into the categories as shown below.

Permanently Restricted

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

Temporarily Restricted

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

Unrestricted

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

Philadelphia Health and Education Corporation

The University owned 100% of the Philadelphia Health and Education Corporation ("PHEC"), doing business as Drexel University College of Medicine, and providing teaching and administrative services for the education of the University's medical students and students in the health professions. PHEC was party to an Academic Affiliation Agreement with Tenet Healthcare Corporation ("Tenet") intended to establish a relationship to foster continued coordination and integration between PHEC and the Tenet hospitals whereby PHEC agrees to provide administrative, supervisory and teaching services to Tenet at budgeted levels. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms (Note 17). As a result of the merger, the University has assumed responsibility for the affiliation agreement with Tenet.

On February 7, 2013, the PHEC Board of Trustees adopted a resolution to merge PHEC into Drexel. The Drexel Board of Trustees adopted the resolution to merge on February 20, 2013.

On April 11, 2014, the Philadelphia County Court of Common Pleas, Orphans' Court Division approved the merger of PHEC into Drexel, including the transfer of all of the assets of PHEC to Drexel with a target effective date of July 1, 2014.

In accordance with the resolutions and an effective date of July 1, 2014, PHEC merged with and into Drexel, and the separate existence of PHEC ceased.

Academy of Natural Sciences of Philadelphia
Pursuant to an affiliation agreement dated September 13, 2011, the University owns 100% of the Academy of Natural Sciences of Philadelphia, doing business as The Academy of Natural Sciences of Drexel University ("ANS"). ANS, founded in 1812, is an 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 systematics research and research in aquatic ecosystem, including integrating such research with education regarding biodiversity and the environmental science in collaboration with the University and its students. The balances and activities of ANS are included in the accompanying consolidated financial statements.

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. The balances and activities of API are included in the accompanying consolidated financial statements.

Drexel e-Learning, Inc.
The University owns 100% of the issued and outstanding stock of Drexel e-Learning, Inc. ("DeL") a for-profit entity. DeL was created to provide educational products and services through distance learning. The balances and activities of DeL are included in the accompanying consolidated financial statements.

On July 1, 2015, DeL merged with and into Drexel University Online, LLC ("DUO"), a non-profit, Delaware, single-member, limited liability company whose sole member is Drexel University. On that date, DUO will be the surviving entity and will carry on all of the operations previously performed by DeL . Accordingly, as of July 1, 2015, the DeL legal entity ceased to exist.

Schuylkill Crossing Reciprocal Risk Retention Group
The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG") operated to provide primary coverage for claims-made medical professional liability insurance for healthcare professionals employed by PHEC. Ownership of the RRRG was split 85% and 15% between PHEC and the University (Note 15).

At June 30, 2014, total assets of the RRRG totaled $25,591,000 and ownership equity totaled $2,173,000 which are included in the consolidated financial statements.

As a result of the merger of PHEC and Drexel, effective as of July 1, 2014, RRRG has terminated its license to provide insurance. All prior risks have been novated, substituted, and assumed by Drexel University Medical Professional Self-Insurance Trust for the primary layer and by a newly-formed captive, Dragon Risk Limited, Co. for the excess layers.

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

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

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

3509 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. Drexel University owns 10% of the outstanding stock of 3509 GP, the remaining 90% is owned by 3509 GP. The officers of 3509 GP are also the officers and senior leadership of Drexel University. As part of the New Market Tax Credit and Historic Tax Credit transactions, a for-profit single purpose entity was needed to own the property and to the QALICB. The QALICB was established as a limited partnership, with 3509 GP acting as the general partner and holding a 90% interest.

3509 Spring Garden, Master Tenant, Limited Partnership
3509 Spring Garden, Master Tenant, Limited Partnership ("3509 MTLP") a Pennsylvania limited partnership, was formed on August 21, 2013 to lease, manage and operate property owned by 3509 Spring Garden Limited Partnership, 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 Regulations. 3509 MTLP has made an equity investment in the QALICB 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 the QALICB have executed a HTC (Historic Tax Credit) Pass-Through Agreement pursuant to which the QALICB will elect under Section 50 of the Internal Revenue Code to pass through to the Partnership the Federal Tax Credits to which the QALICB is entitled as a result of the historic buildings rehabilitation project.

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. Drexel University owns 10% of the outstanding stock of 3509 MTM, the remaining 90% is owned by 3509 MTM. The officers of 3509 MTM are also the officers and senior leadership of Drexel University. As part of the New Market Tax Credit and Historic Tax Credit transactions, a separate for-profit single purpose entity was established to operate the sublease of the Spring Garden property to meet the QALICB requirements. An additional for-profit subsidiary of the University, 3509 Spring Garden Master Tenant, Limited Partnership was established to act as the non-member manager of the property. The Master Tenant entity was established as a limited partnership with the Corporation acting as the general partner and holding a 0.1% interest.

Cash and Cash Equivalents
Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2015 and 2014, 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.

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

Beneficial Interests in Trusts
The University is the beneficiary of the income of certain trusts, but has neither possession nor control of the investments. Beneficial interests in trusts are classified as Level 3. The trusts are valued based on the underlying securities held by the trusts and are primarily composed of equity and fixed income securities that have readily determinable values and would, if not for being held by third parties, be classified as Level 1. The primary unobservable inputs used in the fair value measurement of the trusts are the present value of expected future cash flows. Significant fluctuation in the securities held in the trusts could result in a material change in fair value. Liabilities to beneficiaries are revalued annually based on the current interest rate from IRS Section 7520 actuarial tables, and are categorized as Level 3.

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

Patient Care Activities

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

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

Contributions

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

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

Non-operating Activities

Non-operating activities include permanently restricted contributions, realized and unrealized (losses) / gains on investments net of payouts under the endowment spending policies, loss on the disposals of equipment, post-retirement benefit adjustment, severances, settlement of claims related to Allegheny Health, Education, and Research Foundation, costs related to the merger of PHEC into Drexel, and costs related to the dissolution of DeL and the formation of DUO. Non-operating activities are detailed as follows:

(in thousands)	**2015**	**2014**
Post-retirement and pension adjustment	$ 5,820	$ 2,003
Restructuring costs	5,430	1,165
Merger-related expense	742	400
Change to endowment	-	7,000
Other miscellaneous expense	591	968
Other non-operating expense	$ 12,583	$ 11,536

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 nonprofit organization under Section 501(c) (3) of the Internal Revenue Code and, accordingly, files Federal Tax Form 990 (Return of Organization Exempt from Income Tax) annually. No provision for income taxes is required in the University financial statements. However, DeL, a for-profit subsidiary of the University, does record a provision for income taxes which is immaterial to the University's consolidated financial statements. The University files U.S. Federal, state and local information returns. The statute of limitations on the University's U.S. Federal information returns remains open for three years following the year they are filed.

The University and its affiliates incur activities that are subject to unrelated business income taxes for which appropriate income tax returns are filed (Note 16).

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 740-10, Accounting for Uncertainty in Income Taxes, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. The University does not believe there are any uncertain tax positions.

Accounting for Derivative Instruments and Hedging Activities
The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in losses of $247,000 in 2015 and $71,000 in 2014. The fair value of the interest rate swap agreement was a liability of $4,567,000 and $4,321,000, respectively, at June 30, 2015 and 2014.

The swap agreement is used by the University to reduce exposure to the volatility in variable interest rates on long-term debt (Note 10). There were no other swap agreements in effect as of June 30, 2015 or 2014. The fair value of the swap agreements is reported as 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.

2. Revision of 2014 Financial Statements

The University has revised its prior period financial statements to correct errors related to the classification of the New Market Tax Credit Program loan transactions. The nature of the error relates to the classification of the fund proceeds and the gross presentation of the loan investments and loan borrowings. Management does not believe the impact on the prior year is material. However, management has chosen to revise the previously issued financial statements to correct this error. The following table sets forth the affected line items in the statement of financial position and statement of cash flows for the year ended June 30, 2014.

Statement of Financial Position
As of June 30, 2014

	As originally presented	Correction	As revised
Assets			
Cash and cash equivalents	$ 106,992	$ (18,851)	$ 88,141
Funds held by trustees	1,983	18,851	20,834
Other assets	20,184	13,814	33,998
Liabilities			
Bonds and notes payable	454,591	13,814	468,405

Statement of Cash Flows
For the Year ended June 30, 2014

	As originally presented	Correction	As revised
Cash flow from investing activities			
Investment in New Market Tax Credit entities	$ -	$ (13,814)	$ (13,814)
Change in restricted cash	-	(3,013)	(3,013)
Change in funds held by trustees	28,521	689	29,210
Cash flow from financing activities			
Repayment of long-term debt	(1,045)	(5,726)	(6,771)
Supplemental information			
Issuance of long-term debt for restricted purpose	-	19,540	19,540
Cash at Beginning of Year	87,504	(4,004)	83,500
Cash at End of Year	114,009	(25,868)	88,141

3. Reclassification of Prior Year Presentation

Certain prior year balances have been reclassified to conform with June 30, 2015 presentation. These reclassifications had no impact on the change in net assets.

4. Net Assets

Net assets included the following:

(in thousands)	2015	2014
Unrestricted		
Undesignated	$ (282,639)	$ (253,288)
Designated for colleges, departments and student loans	128,958	104,213
Physical plant	535,752	477,471
Quasi-endowment funds	251,551	248,955
Reclassification for endowments with deficiencies	(2,445)	(1,606)
Total unrestricted	631,177	575,745
Temporarily restricted		
Funds for instruction, scholarships and capital expenditures	148,088	142,496
Endowment realized and unrealized gain	102,052	113,767
Reclassification for endowments with deficiencies	1,733	1,606
Life income and term endowment funds	3,559	3,334
Total temporarily restricted	255,432	261,203
Permanently restricted		
Endowment principal	277,859	264,115
Reclassification for endowments with deficiencies	712	-
Beneficial interests in trusts	38,081	39,023
Student loans and others	7,368	7,304
Total permanently restricted	324,020	310,442
Total net assets	$ 1,210,629	$ 1,147,390

5. Accounts Receivable

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

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

(in thousands)	**2015**	**2014**
Tuition	$ 96,832	$ 68,816
Grants, contracts, and other	73,674	62,709
Patient, net of contractual allowance	15,155	14,342
Tenet Healthcare Corporation	1,852	1,768
	187,513	147,635
Allowance for doubtful accounts:		
Tuition	(22,915)	(18,096)
Grants, contracts, and other	(2,213)	(1,769)
Patient	(6,205)	(6,299)
Tenet Healthcare Corporation	-	(22)
Accounts receivable, net	$ 156,180	$ 121,449

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 $28,513,000 and $28,185,000 at June 30, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the government.

At June 30, 2015 and 2014, student loans consisted of the following:

(in thousands)	**2015**	**2014**
Federal government loan programs		
Perkins loan program	$ 22,988	$ 23,864
Health professions student loans and loans for disadvantaged students	4,039	4,540
Nursing student loans	28	36
Federal government loan programs	27,055	28,440
Institutional loan programs	11,101	8,939
	38,156	37,379
Less: Allowance for doubtful accounts		
Balances at beginning of year	(2,273)	(3,074)
Change in provision for doubtful accounts	(401)	801
Balances at end of year	(2,674)	(2,273)
Student loans receivable, net	$ 35,482	$ 35,106

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

6. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment more than a year from the pledge date are recorded net of a discount which averaged 1.5% at June 30, 2015 and 2014. The University considers these discount rates to be a Level 3 input in the context of ASC 820-10 (Note 8).

Net contributions receivable at June 30 were as follows:

(in thousands)	**2015**	**2014**
Amounts due in		
Less than one year	$ 30,412	$ 16,197
One to five years	35,400	28,070
Greater than five years	45,522	42,468
Gross contributions receivable	111,334	86,735
Less:		
Allowance for uncollectibles	(648)	(777)
Discounts to present value	(21,798)	(13,624)
Total contributions receivable, net	$ 88,888	$ 72,334

Outstanding conditional promises to give amounted to $30,852,000 and $37,055,000 and at June 30, 2015 and 2014, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, not included in the consolidated financial statements.

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

(in thousands)	**2015**	**2014**
Net contributions receivable at beginning of year	$ 72,334	$ 82,200
New pledges	36,213	21,211
Collections and adjustments	(11,611)	(31,517)
Decrease in allowance for uncollectibles	171	471
Increase in present value discounts	(8,219)	(31)
Net contributions receivable at end of year	$ 88,888	$ 72,334

7. Investments and Investment Return

At June 30, 2015 and 2014, the fair value of investments included the following:

	Fair value	
(in thousands)	**2015**	**2014**
Equity securities	$ 294,955	$ 299,383
Fixed income securities and bond funds	61,062	62,629
Alternative investments	83,819	88,002
Real estate and real assets funds	57,311	59,490
Directly-held real estate	122,755	119,345
Money market funds	17,994	6,741
Total endowment investments	637,896	635,590
Self-insurance escrow funds (Note 15)	53,776	12,638
Balanced index fund (Notes 15)	-	28,441
Total investments	$ 691,672	$ 676,669

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2015 and 2014:

	2015			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest	$ 91	$ 3,227	$ -	$ 3,318
Net realized and unrealized gain	(4,414)	3,249	(3,116)	(4,281)
Return on investments	(4,323)	6,476	(3,116)	(963)
Interest income	888	2,149		3,037
Total return on investments	(3,435)	8,625	(3,116)	2,074
Investment return designated for current operations	(979)	(19,989)	(100)	(21,068)
Investment return net of amounts designated for current operations	$ (4,414)	$ (11,364)	$ (3,216)	$ (18,994)

	2014			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Dividends and interest	$ 5,733	$ 1,161	$ -	$ 6,894
Net realized and unrealized gain	26,937	53,869	6,038	86,844
Return on investments	32,670	55,030	6,038	93,738
Interest income	3,700	1,451		5,151
Total return on investments	36,370	56,481	6,038	98,889
Investment return designated for current operations	(9,434)	(21,625)	(155)	(31,214)
Investment return net of amounts designated for current operations	$ 26,936	$ 34,856	$ 5,883	$ 67,675

8. 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 non-exchange traded fixed income securities, certain bond investments, mutual funds, structured products, and interest rate swaps.

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

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

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies. The University's policy is to recognize such transfers at the end of the reporting period.

As of June 30, 2015, the assets measured at fair value for each hierarchy level were as follows:

(in thousands)	2015 Level 1	Level 2	Level 3	Total
Assets				
Funds held by trustees	$ 5,845	$ -	$ -	$ 5,845
Beneficial interests in trusts			53,507	53,507
Investments				
Equity securities	261,243	33,712	-	294,955
Fixed income securities and bond funds	11,520	49,542	-	61,062
Alternative investments	-	-	83,819	83,819
Real estate and real assets funds	749	14,395	42,167	57,311
Directly-held real estate	-	-	122,755	122,755
Money market funds	17,994	-	-	17,994
Investments held in endowment	291,506	97,649	248,741	637,896
Self-insurance escrow funds (Note 15)	53,776	-	-	53,776
Total investments	345,282	97,649	248,741	691,672
Total assets at fair value	$ 351,127	$ 97,649	$ 302,248	$ 751,024
Liabilities				
Interest rate swaps (Note 1)	$ -	$ 4,567	$ -	$ 4,567
Annuities	-	-	6,440	6,440
Total liabilities at fair value	$ -	$ 4,567	$ 6,440	$ 11,007

(in thousands)	2014 Level 1	Level 2	Level 3	Total
Assets				
Funds held by trustees	$ 20,834	$ -	$ -	$ 20,834
Beneficial interests in trusts	-	-	56,438	56,438
Investments				
Equity securities	268,461	30,922	-	299,383
Fixed income securities and bond funds	11,603	51,026	-	62,629
Alternative investments	-		88,002	88,002
Real estate and real assets funds	1,014	16,269	42,207	59,490
Directly-held real estate	-	-	119,345	119,345
Money market funds	6,741	-	-	6,741
Investments held in endowment	287,819	98,217	249,554	635,590
Self-insurance escrow funds (Note 15)	12,638	-	-	12,638
Balanced index fund (Note 15)	28,441	-	-	28,441
Total investments	328,898	98,217	249,554	676,669
Total assets at fair value	$ 349,732	$ 98,217	$ 305,992	$ 753,941
Liabilities				
Interest rate swaps (Note 1)	$ -	$ 4,321	$ -	$ 4,321
Annuities	-	-	6,430	6,430
Total liabilities at fair value	$ -	$ 4,321	$ 6,430	$ 10,751

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

	2015			
(in thousands)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Applicable)**
Multi-Strategy Hedge Funds (a)	$ 15,418	$ -	Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	6,036	-	Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	21,285	-	Monthly/Quarterly	10-60/65 days
Private Capital Funds-Secondaries (d)	11,716	5,877		
Private Capital Funds-Venture Capital (e)	3,418	2,380		
Private Capital Funds - Distrissed Assets (f)	3,254	1,002		
Private Capital Funds-Buy-out (g)	3,724	5,006		
Real Asset Funds (h)	16,556	6,250		
Real Estate Funds (i)	13,524	7,967		
Long/Short Equity Hedge Funds (j)	3,028	-	Annual/Quarterly	60/45 days
Private Capital Funds-Hedge Fund Seeder (k)	6,978	733		
Private Capital Funds-Mezzanine Debt (l)	8,963	2,452		
	$ 113,900	$ 31,667		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2015 and 2014, respectively, the composite portfolio includes approximately 49% and 54% in distressed investments with a liquidation period of 1 to 3 years, 32% and 24% arbitrage opportunities, 6% and 5% in cash, 11% and 8% long/short equity and 2% and 8% 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. It is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

b. This category includes investments in hedge funds that invest in debt of companies in or facing bankruptcy. The investment managers seek to liquidate these investments in 1 to 3 years. The fair value has been estimated using the reported net asset value per share of the hedge fund.

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

d. This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2015, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 2% in 1 to 4 years; 64% in 5 to 7 years; and 34% in 8 to 10 years. At June 30, 2014, the liquidation periods were expected to be: 4% in 1 to 4 years; 79% in 5 to 7 years; and 17% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private equity fund.

e. This category includes investments in private equity funds that invest primarily in technology and healthcare companies in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2015, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 74% in 1 to 4 years; and 26% in 5 to 7 years (with the inclusion of a new investment in fiscal year 2015). At June 30, 2014, the liquidation period was expected to be 1 to 2 years. The fair value has been estimated using the reported net asset value per share of the private equity fund.

f. This category includes investments in private equity funds that invest in the distressed asset and middle market corporate distressed markets. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2015, it is estimated that the underlying assets of the fund would be liquidated over 5 to 7 years, versus 6 to 9 years at June 30, 2014. The fair value has been estimated using the reported net asset value per share of the private equity 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 primarily in U.S. technology and healthcare companies with one investment dedicated to Asian companies. 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, 2015, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 63% over 1 to 4 years; and 37% over 8 to 10 years (with the inclusion of new investments in FY2015). As of June 30, 2014, it was estimated that the underlying assets of the fund would be liquidated over 1 to 2 years. The fair value has been estimated using the reported net asset value per share of the private equity fund.

h. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2015, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 25% in 1 to 4 years; 49% in 5 to 7 years; and 26% in 8 to 10 years. At June 30, 2014, the liquidation periods were expected to be: 20% in 1 to 4 years; 46% in 5 to 7 years; and 34% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real asset fund.

i. This category includes investments in private equity funds that invest in U.S. commercial real estate. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2015 and 2014, respectively, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 73% and 48% in 1 to 4 years, 26% and 52% in 5 to 7 years, and 1% to 0% in 8 to 10 years (with the inclusion of a new investment in FY2015). The fair value has been estimated using the reported net asset value per share of the real estate fund.

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

k. This category includes investments in private equity funds that invest in newly-started hedge funds that pursue multiple strategies. The fund provides start-up funding to hedge funds of various strategies with the potential to share in the appreciation of the investment, as well as to share in the management fees gathered by the underlying start-up hedge funds. As of June 30, 2015 and 2014, respectively, the fund's underlying investments were 48% and 52% long/short global equity, 7% and 8% in macro and commodity trading, 22% and 20% in diversified credit, 7% and 9% in arbitrage opportunities, and 16% and 11% in global event-driven opportunities. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets would be liquidated in 2 to 6 years at June 30, 2015 and 2 to 7 years at June 30, 2014. The fair value has been estimated using the reported net asset value per share of the private equity fund.

l. This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets of the fund would be liquidated in 5 to 7 years at June 30, 2015 and 3 to 8 years at June 30, 2014. The fair value has been estimated using the reported net asset value per share of the private equity fund.

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

The University owns partnership interests in a real estate portfolio classified real estate and real estate funds as a Level 3 asset. The interests have a fair market value of $12,086,000, net of $15,124,000 in outstanding debt. The valuation of these investment properties is prepared annually by an independent appraiser.

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

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

(in thousands)	2015	2014
Assets at beginning of year	$ 305,992	$ 286,511
Net unrealized gain	788	7,221
Net realized gain	4,076	3,005
Purchases	57,135	24,281
Sales	(65,743)	(18,418)
Funds transferred from Level 1	-	3,392
Assets at end of year	$ 302,248	$ 305,992

(in thousands)	2015	2014
Annuities at beginning of year	$ 6,430	$ 6,040
Actuarial change on annuity liabilities	704	653
Payments on annuity liabilities	(694)	(263)
Annuities at end of year	$ 6,440	$ 6,430

9. 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, 2015 and 2014, the University had an endowment spending rule that limited the spending of endowment resources to 4.75% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years.

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

Interpretation of Relevant Law

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

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

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

	2014			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 23,584	$ 143,460	$ 263,405	$ 430,449
Board-designated endowment funds	208,190			208,190
Total assets	$ 231,774	$ 143,460	$ 263,405	$ 638,639

Changes in the University's endowment assets for the years ended June 30, 2015 and 2014 were as follows:

	2015			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment at beginning of year	$ 231,774	$ 143,460	$ 263,405	$ 638,639
Investment return				
Investment income, net of fees	7,552	4,472	612	12,636
Net realized gain	5,517	9,408	1,471	16,396
Net unrealized loss	(1,866)	(10,802)	(2,056)	(14,724)
Reclassification for funds with deficiencies	(839)	564	275	-
Total endowment return	10,364	3,642	302	14,308
Contributions	-	(962)	15,682	14,720
Use of endowment assets				
Annual transfer for operations	(8,592)	(14,670)	(2,208)	(25,470)
Other transfers	11	(377)	127	(239)
Total uses	(8,581)	(15,047)	(2,081)	(25,709)
Endowment at end of year	$ 233,557	$ 131,093	$ 277,308	$ 641,958

	2014			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment at beginning of year	$ 213,771	$ 111,495	$ 245,290	$ 570,556
Investment return				
Investment income, net of fees	2,815	5,103	190	8,108
Net realized gain	3,540	6,821	731	11,092
Net unrealized gain	10,784	50,957	6,134	67,875
Reclassification for funds with deficiencies	4,847	(4,847)	-	-
Total endowment return	21,986	58,034	7,055	87,075
Contributions	797	(10,245)	13,701	4,253
Use of endowment assets				
Annual transfer for operations	(9,649)	(13,739)	(2,645)	(26,033)
Other transfers	4,869	(2,085)	4	2,788
Total uses	(4,780)	(15,824)	(2,641)	(23,245)
Endowment at end of year	$ 231,774	$ 143,460	$ 263,405	$ 638,639

Endowment Funds with Deficiencies

From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund. The aggregate amount of funds with deficiencies is reported in unrestricted net assets in the consolidated statement of activities. Subsequent investment gains will be used to restore the balance to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies were $2,445,000 and $1,606,000 as of June 30, 2015 and 2014, respectively.

10. Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if acquired by gift, at the appraised value on the date of acquisition. Amortization and depreciation are computed on a straight-line basis over the lesser of the estimated useful lives of the assets ranging from 3 to 30 years for equipment and software and 5 to 50 years for buildings and improvements or the shorter of the term of the lease.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $3,122,000 and $5,487,000 at June 30, 2015 and $3,149,000 and $5,593,000 at June 30, 2014, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. In 2015 and 2014, depreciation and accretion expense amounted to $43,000 and $61,000, respectively, and $132,000 and $134,000, respectively.

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

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

(in thousands)	**2015**	**2014**
Works of art	$ 10,918	$ 10,867
Land and improvements	132,808	119,126
Buildings and improvements	914,955	895,438
Equipment, software and library books	208,328	206,041
Construction in progress	63,869	48,662
	1,330,878	1,280,134
Less: Accumulated depreciation	(428,549)	(395,327)
Total land, buildings and equipment	$ 902,329	$ 884,807

11. 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)	
2016	$ 16,966
2017	15,601
2018	14,842
2019	14,189
2020	13,021
Thereafter	31,296
Total minimum lease payments	$ 105,915

Total rent expense for operating leases amounted to $21,182,000 and $22,705,000 for the years ended June 30, 2015 and 2014, respectively.

The University leases educational, research, and medical office space from Tenet under an operating lease expiring June 30, 2022. The future minimum payments are included in the table above. Total rent expense for the Tenet operating lease was $7,991,000 for each of the years ended June 30, 2015 and 2014.

The University entered into an agreement with the Commonwealth of Pennsylvania (the "Commonwealth") on August 1, 2002 to lease space in the Armory Building (the "Armory") at no cost for an initial period of fifty years during which time the University agreed to complete certain improvements to the Armory at the University's expense. Thereafter, the lease may be renewed for two, additional twenty-year periods at fair value. In the event the Commonwealth should desire to sell the property during the initial or additional lease periods, the University has the option to purchase the Armory for $1,700,000, adjusted for inflation. There were $62,000 and $0, respectively, for improvements in fiscal years 2015 or 2014. Estimated costs for the required improvements amounted to $2,804,000 and $2,867,000 at June 30, 2015 and 2014, respectively. These costs have been capitalized and a comparable capital lease liability recorded.

In January 2012, the University and American Campus Communities (ACC) entered into a triple net ground lease structure governing the conveyance of the land area located on Chestnut Street with a base lease term of forty (40) years and three (3) ten (10) year option periods. In consideration for the right to develop, own, and operate the proposed project on the University's campus, ACC will pay Drexel University an annual ground rent of $254,000 which is recorded as rental income by the University. The University bears no cost of the ACC Chestnut Street Development 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 the affiliates of ACC, whereby ACC contributed land it owned contiguous to Drexel's campus (i.e.3175 JFK Blvd) to Drexel as a gift without any purchase consideration, but retained the ownership of University Crossings, an existing 17 story building, and improvements erected on this land. As a condition of the Land Purchase Agreement, Drexel and ACC also entered into a Ground Lease Agreement whereby Drexel leased the land back to ACC for no consideration other than reimbursement of property tax that Drexel would be required to pay as the land owner. The term of the lease is 40 years with an option to renew for three consecutive 10 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 entered into a sublease agreement with an affiliate of ACC on August 30, 2013 to lease space in the 3400 Lancaster Avenue property to be utilized as a student dining facility. The sublease calls for annual rent payments of $741,395 for the first 30 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 10 year renewal options. At the expiration or sooner termination of the ground lease, title shall vest in 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 plans to execute the option in December 2015. The amount will be capitalized and amortized over the term of the lease.

In June 2014, the University entered into ground lease agreements with Wexford 3750 Lancaster Avenue, LLC , Wexford 115 North 38th Street, LLC, Wexford 225 North 38th Streeet, 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 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") for University property located at 3301 Chestnut Street. The base term of the lease is 50 years with two (2) ten (10) year renewal options. In consideration for the right to develop, own, and operate the property, SPHLLC will pay the University annual ground rent ranging from $150,000 to $167,000 over the fifty year term of the lease. The commencement date is twenty-four months from the date of the lease or the opening date whichever is earlier. Upon the expiration of the lease, the leased premises will become the property of the University.

12. Bonds and Notes Payable

(in thousands)	**Project**	**Maturity**	**Interest Rate**	**2015**	**2014**
Description					
Dormitory Bonds of 1965	Kelly Hall	2014-2015	3.00-3.50%	$ -	$ 110
Dormitory Bonds of 1969	Calhoun Hall	2014-2019	3.00%	290	360
Philadelphia Industrial Development Corp.	Abbotts demolition / parking lot	2014-2015	3.00%	-	86
Pennsylvania Higher Educational Facilities Authority Revenue Bonds					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	22,500	22,500
Series B of 2002	Matheson Hall improvements, new research center, other improvements	2015-2032	Variable	41,825	42,140
Series A of 2005	Capital improvements and equipment	2014-2034	3.20-5.00%	26,162	27,126
Series B of 2005	Advance refunding	2019-2030	Variable	29,625	29,625
Series A of 2007	New laboratory	2030-2037	4.50-5.00%	95,382	95,521
Series B of 2007	Dormitory & Wellness Center; capital improvements and equipment	2014-2037	Variable	26,345	27,025
Series of 2007	Refund mortgage, capital improvements and equipment	2014-2037	3.75-5.00%	19,903	20,433
Series A of 2011	Partial cost of buildings for the Colleges of Business and Media Arts & Design, Department of Biology; Stratton Hall renovations; refunding	2014-2041	2.00-5.25%	150,784	155,564
Series of 2012	Refunding	2014-2032	1.00-5.00%	26,305	28,375
11th Street Family Health Services Inc.					
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	2,717	2,717
		2043	1.297%	6,783	6,783
3509 Spring Garden, LP					
Philadelphia Industrial Development Corp.	New Market Tax Credit Program	2044	1.517%	1,964	1,964
		2044	1.517%	4,826	4,826
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	1,045	1,045
		2044	1.00%	2,205	2,205
Total bonds and notes payable				$ 458,661	$ 468,405

The variable rates of interest on the Pennsylvania Higher Educational Facilities Authority Revenue Bonds are based on the weekly rate determined by the remarketing or auction agent, not to exceed 16% per annum. The total market value of the $438,550,000 bonds was $450,942,000 at June 30, 2015, based on a comparison to current interest rates. The bonds are considered to be a Level 2 liability.

The Dormitory bonds of 1965 and 1969 are collateralized by first mortgages on the associated buildings and first liens on, and pledges of, the net revenues derived from the building operations.

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

The Philadelphia Industrial Development Corporation loan was secured by a mortgage lien on One Drexel Plaza.

Debt maturities for the fiscal years ending June 30 are as follows:

(in thousands)	**Maturities**	**Remarketed Debt**	**Total Debt**
2016	$ 10,438	$ 1,030	$ 11,468
2017	11,438	1,070	12,508
2018	11,913	1,115	13,028
2019	8,568	5,130	13,698
2020	10,163	4,005	14,168
Thereafter	285,846	107,945	393,791
			$ 458,661

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 to the fiscal years 2016, 2018, and 2019, respectively, based on the current expiration dates of the letters of credit (see Note 16). These issues have been included in the above table based on the date of the letter of credit. The University is in compliance with the covenants contained in the various loan agreements.

Lines of Credit

PHEC entered into a term note - line of credit of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. With the merger at July 1, 2015, the line of credit has been assumed by Drexel. Advances are available through June 30, 2015, 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, 2015 and 2014.

Total unsecured Revolving Credit Facilities ("Facilities") of $55,000,000 matures on December 31, 2015, and accrues interest based on Intercontinental Exchange Benchmark Administration "ICE" (subject to a floor of 0.75%) for the University. It can be extended annually based upon the mutual agreement of the University and the bank maintaining the Facilities. At June 30, 2015, the interest rate was 0.75% and there were no amounts outstanding.

13. Retirement Plans

Defined Benefit and Defined Contribution Plans

The University maintains contributory retirement plans which provide for the purchase of annuity contracts and mutual funds for the majority of full-time faculty and certain nonacademic employees. 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 $39,263,000 and $32,976,000 in 2015 and 2014, respectively.

ANS maintains a defined contribution plan that provides for discretionary employee contributions. The defined contribution plan is a calendar year plan, with declared employer contributions made at the conclusion of the plan year.

ANS also maintains a defined benefit pension plan. 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)	**2015**	**2014**
Weighted average assumptions as of June 30		
Discount rate	4.60 %	4.40 %
Expected return on plan assets	6.50 %	6.50 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 17,562	$ 16,193
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 16,193	$ 14,841
Service costs	115	125
Interest costs	697	725
Actuarial loss	1,310	1,191
Gross benefits paid	(753)	(689)
Net benefit obligation at June 30	$ 17,562	$ 16,193

(in thousands)	**2015**	**2014**
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,269	$ 9,338
Actual return on plan assets	80	1,054
Employer contributions	834	566
Gross benefits paid	(753)	(689)
Fair value of plan assets at June 30	$ 10,430	$ 10,269
Fair value of plan assets	$ 10,430	$ 10,269
Benefit obligation	17,562	16,193
Net amount recognized at June 30*	$ (7,132)	$ (5,924)

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

The components of net periodic benefit cost are noted below:

(in thousands)	**2015**	**2014**
Weighted average assumptions used to used to determine net periodic benefit cost		
Discount rate	4.40 %	5.00 %
Expected return on plan assets	6.50 %	6.75 %
Components of net periodic benefit cost		
Service costs	$ 115	$ 125
Interest costs	697	725
Expected return on assets	(678)	(629)
Amortization of actuarial loss	1,908	766
Net periodic benefit cost	$ 2,042	$ 987

As of June 30, 2015 and 2014, 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 $17,562,000 and $16,193,000 at June 30, 2015 and 2014, respectively. The fair value of the plan assets was $10,430,000 and $10,269,000 as of June 30, 2015 and 2014, respectively. The obligations exceeded the fair value of plan assets of the pension plan.

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

Expected benefit payments	
2016	$ 768
2017	891
2018	967
2019	1,016
2020	1,054
2021-2025	5,637

Plan Assets

The ANS pension plan weighted-average asset allocations at June 30, 2015 and 2014 by asset category are as follows:

(in thousands)	**2015**	**2014**
Asset category		
Equity securities	20.5 %	34.3 %
Fixed income securities	64.6 %	36.3 %
Hedge fund and alternative investments	11.1 %	11.1 %
Cash	3.8 %	18.3 %
	100.0 %	100.0 %

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

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

The following table sets forth by level, within the fair value hierarchy, the ANS pension plan assets at fair value at June 30, 2015 and 2014:

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

	2014			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Cash equivalents	$ 1,862	$ -	$ -	$ 1,862
Mutual funds	6,691	-	-	6,691
Alternative investments	-	495	1,221	1,716
	$ 8,553	$ 495	$ 1,221	$ 10,269

The following table sets forth a summary of changes in the fair value of ANS plan's Level 3 assets for the years ended June 30, 2015 and 2014:

(in thousands)	**2015**	**2014**
Assets at beginning of year	$ 1,221	$ 2,633
Dividends and interest	-	29
Net realized gain	-	161
Net unrealized gain	3	86
Transfers out	(73)	(1,688)
Assets at end of year	$ 1,151	$ 1,221

14. 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. University employees may become eligible for these benefits if they reach the age and service requirements of the plans while working for the University. The postretirement 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 $3,778,000 and $1,015,000 respectively, for the years ended 2015 and 2014 and are reflected in the consolidated statements of activities and included in post-retirement benefits in the consolidated statements of financial position.

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

Plans Funded Status

(in thousands)	**2015**	**2014**
Change in benefit obligation		
Benefit obligation, beginning of year	$ 49,726	$ 45,088
Service cost	2,666	2,155
Interest cost	2,052	1,993
Plan amendments	(7,608)	-
Actuarial loss	11,716	2,101
Plan participant contributions	163	159
Actual benefits paid	(1,773)	(1,770)
Benefit obligation, end of year	56,942	49,726
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	1,610	1,611
Plan participant contributions	163	159
Actual benefits paid	(1,773)	(1,770)
Fair value of plan assets, end of year	-	-
Unfunded status of the plan	$ 56,942	$ 49,726

Weighted average assumptions to determine benefit obligations and net cost as of June 30		
Discount rate	4.10%	4.65%
Ultimate retiree health care cost trend	5.00%	5.00%
Year ultimate trend rate is achieved	2025	2025

Included within the 2015 plan amendments is a $6,900,000 adjustment which resulted from plan amendments that were enacted in 2014.

For measurement purposes, a 9.4% and a 7.0% 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 2015 grading down to ultimate rates of 5.0% in the year 2025 and thereafter:

Net Periodic Benefit Cost

(in thousands)	**2015**	**2014**
Components of net periodic benefit cost		
Service cost	$ 2,666	$ 2,155
Interest cost	2,052	1,993
Amortization of:		
Prior service credit	(1,396)	-
Net loss	1,727	1,086
Net periodic benefit cost	$ 5,049	$ 5,234
Other changes recognized in unrestricted net assets		
Net actuarial loss	$ 11,716	$ 2,101
Prior service credit	$ (7,607)	
Amortization of:		
Prior service cost	1,396	-
Net gain	(1,727)	(1,086)
Total recognized in unrestricted net assets	$ 3,778	$ 1,015
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets		
Prior service credit	$ (6,212)	$ -
Actuarial loss	28,492	18,502
Amounts in unrestricted net assets, end of year	$ 22,280	$ 18,502
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost in fiscal 2016		
Prior service credit	$ (1,396)	
Actuarial loss	$ 1,762	

In 2015 and 2014, the effect of a 1% change in the health care cost trend rate is as follows:

(in thousands)	**2015**		**2014**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Effect on net periodic benefit cost	$ 61	$ (54)	$ -	$ -
Effect on postretirement benefit obligation	324	(306)	-	-

Contributions:
Expected contributions for the 2016 fiscal year are $2,238,000.

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)

Year Ending June 30,	
2016	$ 2,238
2017	2,474
2018	2,652
2019	2,752
2020	2,887
Thereafter	16,266

15. Professional Liability Insurance

Prior to July 1, 2014, PHEC maintained commercial, occurrence-based insurance coverage for professional liability claims that occurred from November 10, 1998 through November 10, 2003. Beginning on November 10, 2003, PHEC purchased primary and excess insurance coverage from RRRG on a claims-made basis. The RRRG provided primary coverage of $500,000 for physicians and midwives and up to $1,000,000 for other health professions and entity coverage.

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, 2015 and 2014, the University and its subsidiaries recorded gross combined reserves of $36,140,000 and $35,209,000, respectively and related recoveries from third party insurers of $6,256,000 and $5,092,000 at June 30, 2015 and 2014, respectively. For fiscal year 2014, the reserves were discounted at 6.25% for the RRRG retained layer. For fiscal years 2015 and 2014, the reserves were discounted at 2% for the layers retained by University and its subsidiaries and excess carriers. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying 2015 and 2014 consolidated statements of financial position. At June 30, 2015 and 2014, escrow funds of $10,599,000 and $15,133,000, respectively and balanced index funds of $29,894,000 and $28,441,000, respectively, were available to fund these liabilities (Note 7).

16. 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.

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

Litigation

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

Other Commitments and Contingencies

Prior to July 1, 2014, PHEC maintained a letter of credit in the amount of $225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste. Effective July 1, 2014, Drexel has assumed responsibility for the letter of credit which is renewed annually. There were no amounts outstanding as of June 30, 2015 and 2014.

The University maintains three letters of credit totaling $2,125,000 associated with workers' compensation insurance. The agreements are renewable annually. There were no amounts outstanding as of June 30, 2015 and 2014.

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, 2016.

- 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, 2016.

- The Series B of 2005 bond has a letter of credit in an amount not to exceed $30,047,055 which will expire September 30, 2019.

- The Series B of 2007 bond has a letter of credit in an amount not to exceed $29,879,704, plus required accrued interest, which will expire October 30, 2018.

There were no amounts outstanding on these bond-related letters of credit as of June 30, 2015 and 2014.

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, 2016 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, 2015.

Business Income Taxes

The activities and income of the University and its non-profit affiliates related to its exempt purposes are not subject to income tax. Unrelated business income (UBI) which is income generated in a trade or business that is regularly carried on and is not substantially related to furthering the exempt purpose of the organization, is subject to income tax. The University and its affiliates generate UBI from consulting and conference services and from investment income held in the endowment fund for which the investment manager has reported UBI on a Schedule K-1. The net income is subject to unrelated business income tax for which appropriate income tax returns are filed. In fiscal years 2015 and 2014, the University paid income taxes of $866,000 and $311,000, respectively. These payments were made at the time of the filing of the Form 990-T, Exempt Organization Business Income Tax Return, for fiscal years 2014 and 2013, respectively. In fiscal year 2015, the University has accrued $866,000 for the fiscal year 2015 UBI tax liability. The University is also subject to the City of Philadelphia Business Income and Receipts Tax. In fiscal years 2015 and 2014, the University paid $339,000 and $206,000 for fiscal years 2014 and 2013, respectively, and has accrued $340,000 for the estimated fiscal year 2015 liability.

17. Related Party Transactions

Prior to July 1, 2015, PHEC had various operating agreements with Tenet which have continued with Drexel as a result of the merger. Under these agreements, the University acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2015 and 2014 were $12,420,000 and $12,377,000, respectively. These services include charges for various personnel, administrative and support services related to operating the College of Medicine and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs and services and support provided by physicians to support hospital operations. Total charges to Tenet for these services amounted to $23,275,000 and $23,283,000 for the years ended June 30, 2015 and 2014, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

18. Operating Expenses

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

(in thousands)	**2015**	**2014**
College programs	$ 39,783	$ 37,818
Research and public service	21,804	21,066
Academic support	6,684	6,299
Student services	15,086	14,366
Institutional support	11,047	11,578
Auxiliary enterprises	23,756	23,729
Patient care activities	3,051	2,875
	$ 121,211	$ 117,731

19. Subsequent Events

The University evaluated events subsequent to June 30, 2015 through October 27, 2015 and determined that there were no additional events requiring adjustment to or disclosure in the consolidated financial statements.