Drexel University and Subsidiaries

Consolidated Financial Statements
For the Years Ended June 30, 2018 and 2017

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June 30, 2018 and 2017

Report of Independent Auditors

To the Board of Trustees
Drexel University

We have audited the accompanying consolidated financial statements of Drexel University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drexel University and its subsidiaries as of June 30, 2018 and 2017, and their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 24, 2018

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1800, 2001 Market Street, Philadelphia, PA 19103-7045
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Drexel University and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2018 and 2017

(in thousands)	**2018**	**2017**
Assets		
Cash, cash equivalents, and restricted cash		
Operating	$ 45,666	$ 51,459
Restricted	12,611	12,263
Accounts receivable, net		
Tuition	75,709	67,540
Grants, contracts and other	88,103	68,769
Patients	5,938	7,753
American Academic Health Systems	3,669	-
Tenet Healthcare Corporation	-	1,335
Total accounts receivable, net	173,419	145,397
Contributions receivable, net	100,653	100,003
Other assets	33,529	30,334
Funds held by trustees	-	313
Student loans receivable, net	28,714	30,484
Malpractice insurance trust	8,972	8,991
Beneficial interests in trusts	45,473	48,727
Investments	778,369	726,315
Land, buildings and equipment, net	952,536	951,318
Total assets	$ 2,179,942	$ 2,105,604
Liabilities		
Accounts payable	$ 60,660	$ 67,289
Accrued expenses	105,437	112,691
Deposits and deferred revenue	170,958	156,973
Capital lease	2,613	2,677
Government advances for student loans	29,096	29,625
Post-retirement and pension benefits	48,568	53,464
Bonds and notes payable	424,521	427,554
Total liabilities	841,853	850,273
Net assets		
Unrestricted	654,779	635,729
Temporarily restricted	288,169	244,750
Permanently restricted	395,141	374,852
Total net assets	1,338,089	1,255,331
Total liabilities and net assets	$ 2,179,942	$ 2,105,604

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

Drexel University and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2018

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 919,982	$ -	$ -	$ 919,982
Less: Institutional financial aid	(316,167)			(316,167)
Net student revenue	603,815	-	-	603,815
Patient care activities	91,902			91,902
State appropriations	8,217			8,217
Government grants and contracts	101,059			101,059
Private grants and contracts	25,318	2,917		28,235
Private gifts	4,265	38,632		42,897
Endowment payout under spending formula	11,503	18,524		30,027
Investment income	2,909	1,737		4,646
Sales and services of auxiliary enterprises	80,563			80,563
Other sources	32,079	718		32,797
Net assets released from restrictions	52,420	(52,844)	424	-
Total operating revenue	1,014,050	9,684	424	1,024,158
Operating expense				
College programs	356,725			356,725
Research and public service	121,532			121,532
Academic support	30,453			30,453
Student services	64,409			64,409
Institutional support	145,833			145,833
Scholarships and fellowships	15,205			15,205
Auxiliary enterprises	40,697			40,697
Total education and general	774,854	-	-	774,854
Patient care activities	110,449			110,449
Other operating expense	55,366			55,366
Interest	13,100			13,100
Depreciation and amortization	52,107			52,107
Total operating expense	1,005,876	-	-	1,005,876
Change in net assets from operating activities	8,174	9,684	424	18,282
Non-operating activities				
Endowment and other gifts			17,965	17,965
Realized/unrealized net gain/(loss) on investments, net of endowment payout	20,257	33,735	1,900	55,892
Other non-operating activities	(9,381)			(9,381)
Change in net assets from non-operating activities	10,876	33,735	19,865	64,476
Change in net assets	19,050	43,419	20,289	82,758
Net assets				
Beginning of year	635,729	244,750	374,852	1,255,331
End of year	$ 654,779	$ 288,169	$ 395,141	$ 1,338,089

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

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

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

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

Drexel University and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

(in thousands)	2018	2017
Cash flows from operating activities		
Increase in net assets	$ 82,758	$ 34,845
Adjustments to reconcile change in net assets to net cash (used in) / provided by operating activities:		
Depreciation and amortization	50,899	46,853
Loss on extinguishment of debt	10,663	4,484
Provision for uncollectible accounts	12,945	5,497
Loss on disposal of equipment	3,682	922
Change in market value in beneficial interests in trusts	3,254	(515)
Contributions restricted for long-term investment	(16,840)	(6,675)
Non-cash contributions received	(3,718)	(952)
Proceeds from sale of donated securities	3,557	908
Actuarial change on annuity liabilities	(627)	(73)
Realized/unrealized (gain) on investments	(87,160)	(80,442)
Changes in operating assets and liabilities		
Accounts receivable	(20,131)	(2,615)
Contributions receivable	(1,864)	17,340
Other assets	(3,195)	(4,160)
Accounts payable and accrued expenses	(15,445)	5,085
Post-retirement and pension benefits	(4,896)	(25,075)
Deposits and deferred revenue	13,985	(3,621)
Net cash (used in) / provided by operating activities	27,867	(8,194)
Cash flows from investing activities		
Purchase of investments	(140,657)	(155,481)
Proceeds from sales and maturities of investments	155,204	173,506
Change in malpractice insurance trust	19	407
Proceeds from student loan collections	5,790	6,437
Student loans issued	(4,311)	(6,353)
Purchase of land, buildings and equipment	(53,842)	(64,349)
Net cash used in investing activities	(37,797)	(45,833)
Cash flows from financing activities		
Contributions restricted for endowments	16,840	6,675
Proceeds from sales of donated securities	1,027	414
Payments on annuity obligations	(551)	(526)
Government advances for student loans	(529)	265
Repayment of long-term debt	(12,615)	(17,944)
Net cash (used in) / provided by financing activities	4,172	(11,116)
Net decrease in cash, cash equivalents, and restricted cash	(5,758)	(65,143)
Cash, cash equivalents, and restricted cash		
Beginning of year	64,035	129,178
End of year	$ 58,277	$ 64,035
Supplemental information		
Gifts-in-kind	$ 181	$ 33
Cash paid for interest	16,147	16,128
Amounts accrued for purchase of land, buildings and equipment	8,027	10,767
Donated securities	4,570	1,338

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

1. Nature of Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

1200 Chestnut Street I, Limited Partnership
1200 Chestnut Street I, Limited Partnership (the “Partnership”) a Pennsylvania limited partnership, was formed on November 28, 2016 to acquire, own, rehabilitate and lease, manage and operate Partnership property in a manner that will qualify such rehabilitation for historic rehabilitation tax credits allowable pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The Partnership property is comprised of the land and historic building located at 1200-1202 Chestnut Street, Philadelphia, Pennsylvania 19107. The general partner is 1200 Chestnut Street General Partner Inc., a Pennsylvania corporation (“General Partner”), which holds a 1% interest in the Partnership. Drexel University is the 100% shareholder of the General Partner. Drexel University

meets the requirements for consolidation of the Partnership through its ownership of the General Partner and control of the Partnership. The Partnership follows a calendar based fiscal year.

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

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

3509 Spring Garden, Limited Partnership
3509 Spring Garden, Limited Partnership ("3509 LP"), a Pennsylvania limited partnership, was formed on February 25, 2013 to acquire, own, rehabilitate, lease, manage and operate the 3509 Spring Garden property (the "Dornsife Center") in a manner that will qualify such rehabilitation for historic rehabilitation tax credits allowable pursuant to Section 47 of the Internal Revenue Code of 1986, as amended. The Dornsife Center is also located in a qualified census tract that meets certain income, unemployment and poverty level requirements and qualifies under the New Market Tax Credit Program as a QALICB. Through its ownership of 3509 GP, Drexel University holds a 90% interest in 3509 LP. 3509 LP follows a calendar based fiscal year.

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

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

Cash, Cash Equivalents, and Restricted Cash
Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. At June 30, 2018 and 2017, the University had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes the credit risks related to these deposits to be minimal. Cash and cash equivalents are carried at cost, which approximates fair value. Restricted cash includes funds related to the Perkins Loan program and uninvested restricted gifts.

Cash, cash equivalents, and restricted cash as reported in the consolidated statement of cash flows are presented on the consolidated statement of financial position as follows:

(in thousands)	**2018**	**2017**
Cash, cash equivalents, and restricted cash		
Operating	$ 45,666	$ 51,459
Restricted	12,611	12,263
Funds held by trustees	-	313
Total cash, cash equivalents, and restricted cash	$ 58,277	$ 64,035

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

Beneficial Interests in Trusts and Split-Interest Agreements
The University is the beneficiary of the income of certain trusts, but has neither possession nor control of the investments. Beneficial interests in trusts are classified as Level 3. (See Note 6 for investment level definitions). The trusts are recorded at fair value based on the interest in the trust as determined by the trustee based on the value of underlying securities held by the trusts and are primarily composed of equity and fixed income securities that have readily determinable values. The primary unobservable inputs used in the fair value measurement of the trusts are the present value of expected future cash flows. Significant fluctuation in the securities held in the trusts could result in a material change in fair value. The University is also party to certain split-interest agreements. The related liabilities to these arrangements are revalued annually based on the current interest rate tables from the Society of Actuaries, and are categorized as Level 3.

Fair Value of Financial Instruments
The University applies fair value measurements 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 5, 6, 7, and 11 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 received are available for unrestricted use unless specifically restricted by the donor. Amounts to be received in the future or that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted. Contributions having restrictions that are general purpose in nature are released in the year of the donation.

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

Non-operating Activities

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

Non-operating activities are detailed as follows:

(in thousands)	2018	2017
Endowment and other gifts	$ 17,965	$ 2,696
Realized/unrealized net gain (loss) on investments, net of endowment payout	42,507	54,364
Gain on Schuylkill Yards parcels	13,385	-
Post-retirement and pension plan adjustments	2,281	27,519
Restructuring costs	(923)	(12,569)
US Bank contribution to 1200 Chestnut I, LP	-	1,321
Loss on extinguishment of debt	(10,663)	(4,484)
Other expenses	(76)	(388)
Change in net assets from non-operating activities	$ 64,476	$ 68,459

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

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

The University and its affiliates engage in activities that are subject to unrelated business income taxes for which appropriate income tax returns are filed (Note 14).

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

Accounting for Derivative Instruments and Hedging Activities
The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in a gain of $1,380,000 and $2,105,000 in 2018 and 2017, respectively. The fair value of the interest rate swap agreement was a liability of $2,616,000 and $3,996,000, respectively, at June 30, 2018 and 2017.

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, 2018 or 2017. The fair value of the swap agreements is reported within accrued expenses in the consolidated statements of financial position. The change in the estimated fair value of terminating the interest rate swap agreement is included in realized and unrealized net loss / gain on investments in the non-operating section (Note 1) of the consolidated statements of activities.

Recently Adopted Accounting Pronouncements
In January 1, 2018, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*, which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The University has adopted ASU No. 2016-18 by applying a retrospective transition method, which was reflected in the Consolidated Statement of Cash Flows for both periods presented.

Recently Issued Accounting Pronouncements

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU No. 2015-14 is that revenue be recognized in manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be compensated in exchange for those goods or services. The guidance is effective for annual fiscal periods beginning after December 15, 2017. The standard permits the use of either retrospective or cumulative effect transition method. The University has assessed the standard and determined that the impact on its financial statements will be immaterial. The University is planning to apply this standard on a retrospective basis.

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

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which revises the not-for-profit financial reporting model. ASU No. 2016-14 is meant to reduce the complexity of and add clarity to net asset reporting, add additional disclosure regarding nature of self-imposed limits on unrestricted net assets and donor restricted net assets, and add reporting requirements related to nature of expenses. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017. The University is positioned to implement this standard for its fiscal year beginning July 1, 2018 and is developing the additional disclosures and formatting required to conform with the standard.

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

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715):* ASU No. 2017-07 requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost to be presented as part of fringe benefit expense in the statement of activities. The other components of net periodic benefit cost will be reported as non-operating activity in the consolidated statement of activities. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new guidance improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The University is currently evaluating the standard to determine the impact it will have on its financial statements.

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

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

2. Net Assets

Net assets included the following:

(in thousands)	**2018**	**2017**
Unrestricted		
Undesignated	$ (421,175)	$ (384,772)
Designated for colleges, departments and student loans	142,066	138,092
Physical plant	664,395	633,419
Quasi-endowment funds	271,789	252,458
Reclassification for endowments with deficiencies	(2,296)	(3,468)
Total unrestricted	654,779	635,729
Temporarily restricted		
Funds for programs and capital expenditures	119,480	112,986
Funds for endowments and trusts	165,466	127,574
Reclassification for endowments with deficiencies	1,691	2,601
Life income annuities	1,532	1,589
Total temporarily restricted	288,169	244,750
Permanently restricted		
Endowment principal (including annuities)	352,568	328,846
Reclassification for endowments with deficiencies	605	866
Beneficial interests in trusts	34,551	37,622
Student loans and others	7,417	7,518
Total permanently restricted	395,141	374,852
Total net assets	$ 1,338,089	$ 1,255,331

3. Accounts Receivable

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

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

(in thousands)	2018	2017
Tuition	$ 93,319	$ 83,404
Grants, contracts, and other	91,767	72,651
Patient, net of contractual allowance	9,082	12,048
American Academic Health Systems	3,669	-
Tenet Healthcare Corporation	-	1,335
	197,837	169,438
Allowance for doubtful accounts:		
Tuition	(17,610)	(15,864)
Grants, contracts, and other	(3,664)	(3,882)
Patient	(3,144)	(4,295)
Accounts receivable, net	$ 173,419	$ 145,397

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

The availability of funds for loans under Federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of $29,096,000 and $29,625,000 at June 30, 2018 and 2017, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the government. As of October 1, 2017, the Federal Perkins Loan Program expired and new loans are no longer awarded and disbursed.

At June 30, 2018 and 2017, student loans consisted of the following:

(in thousands)	**2018**	**2017**
Federal government loan programs		
Perkins loan program	$ 21,247	$ 21,369
Health professions student loans and loans for disadvantaged students	2,522	2,982
Nursing student loans	20	24
Federal government loan programs	23,789	24,375
Institutional loan programs	8,113	9,027
	31,902	33,402
Less: Allowance for doubtful accounts	(3,188)	(2,918)
Student loans receivable, net	$ 28,714	$ 30,484

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

4. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable with a payment more than a year from the pledge date are recorded net of a discount using rates as of June 30, 2018 and June 30, 2017 that range between 2.52% to 2.85% and 0.07% to 2.31%, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC No. 820-10 (Note 6).

Net contributions receivable at June 30 were as follows:

(in thousands)	**2018**	**2017**
Amounts due in		
Less than one year	$ 13,599	$ 12,785
One to five years	56,865	47,511
Greater than five years	51,012	60,203
Gross contributions receivable	121,476	120,499
Less:		
Allowance for uncollectibles	(336)	(336)
Discounts to present value	(20,487)	(20,160)
Total contributions receivable, net	$ 100,653	$ 100,003

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

(in thousands)	**2018**	**2017**
Net contributions receivable at beginning of year	$ 100,003	$ 117,762
New pledges	32,596	9,796
Collections and adjustments	(31,619)	(28,115)
Decrease in allowance for uncollectibles	-	-
Net (increase)/decrease in present value discounts	(327)	560
Net contributions receivable at end of year	$ 100,653	$ 100,003

5. Investments and Investment Return

At June 30, 2018 and 2017, the fair value of the malpractice insurance trust and investments included the following:

	Fair value	
(in thousands)	**2018**	**2017**
Money market funds	$ 36,072	$ 20,763
U.S. equity	157,942	148,327
Global equity	117,250	159,189
Fixed income securities and bond funds	109,356	54,670
Real estate and real assets funds	99,578	66,571
Hedge funds	24,102	26,040
Private equity	96,453	71,279
Directly-held real estate	88,515	130,555
Total endowment investments	729,268	677,394
Self-insurance escrow funds (Note 14)	48,422	48,921
Other investments	679	-
Total investments	778,369	726,315
Malpractice insurance trust	8,972	8,991
Total investments and malpractice insurance trust	$ 787,341	$ 735,306

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

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2018 and 2017:

	2018			
(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income, net of expenses	$ 2,056	$ 3,734	$ 522	$ 6,312
Realized/unrealized gain	29,704	48,525	1,378	79,607
Endowment payout under spending formula	(11,503)	(18,524)	-	(30,027)
Realized/unrealized net gain/(loss) on investments, net of endowment payout	20,257	33,735	1,900	55,892
Operating investment income	2,909	1,737	-	4,646
Total return on investments	$ 23,166	$ 35,472	$ 1,900	$ 60,538

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

6. Fair Value of Financial Instruments

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

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

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

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

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

Level 3 Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of trusts and annuities, directly held real estate, and interest in real estate.

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

As of June 30, 2018 and 2017, assets and liabilities at fair value were as follows:

	2018				
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments at NAV**	**Total**
Assets					
Funds held by trustees	$ -	$ -	$ -	$ -	$ -
Beneficial interest in trusts	-	-	45,473	-	45,473
Malpractice insurance trust	8,972	-	-	-	8,972
Investments					
Money market funds	36,072	-	-	-	36,072
U.S. Equity	157,942	-	-	-	157,942
Global Equity	101,591	-	-	15,659	117,250
Fixed Income securities and bond funds	76,367	1,182	-	31,807	109,356
Real estate and real assets funds	-	-	4,761	94,817	99,578
Hedge funds	-	-	-	24,102	24,102
Private Equity	-	-	-	96,453	96,453
Directly-held real estate	-	-	88,515	-	88,515
Investments held in endowment	371,972	1,182	93,276	262,838	729,268
Self-insurance escrow funds (Note 14)	48,422	-	-	-	48,422
Other investments	554	-	-	125	679
Total investments	420,948	1,182	93,276	262,963	778,369
Total assets at fair value	$ 429,920	$ 1,182	$ 138,749	$ 262,963	$ 832,814
Liabilities					
Interest rate swaps (Note 1)	$ -	$ 2,616	$ -	$ -	$ 2,616
Split-interest agreements	-	-	2,087	-	2,087
Annuities	-	-	5,508	-	5,508
Total liabilities at fair value	$ -	$ 2,616	$ 7,595	$ -	$ 10,211

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

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

	2018			
(in thousands)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Applicable)**
Multi-Strategy Hedge Funds (a)	$ 125	$ -	Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	2,516	-	Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	21,460	-	Quarterly	45 days
Private Capital Funds-Secondaries (d)	10,306	3,023		
Private Capital Funds-Venture Capital (e)	1,941	258		
Private Capital Funds-Buy-out (f)	36,763	44,747		
Private Capital Funds - Real Asset (g)	26,142	31,305		
Private Capital Funds - Real Estate (h)	9,527	16,558		
Private Capital Funds-Hedge Fund Seeder (i)	2,932	222		
Private Capital Funds-Mezzanine Debt (j)	8,843	611		
Global Equity (k)	15,659	-		
Fixed Income Securities and Bond Funds (k)	31,807	-		
Real Estate and Real Assets Funds (k)	94,817	-		
Other investments (k)	125	-		
	$ 262,963	$ 96,724		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2018, the composite portfolio includes 100% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

b. This category includes investments in hedge funds that invest in debt of companies in or facing bankruptcy. As of June 30, 2018, the composite portfolio includes 100% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the reported net asset value per share of the hedge fund.

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

d. This category includes 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, 2018, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 39% in 1 to 4 years; and 61% in 5 to 7 years. At June 30, 2017, the liquidation periods were expected to be: 46% in 1 to 4 years; and 54% in 5 to 7 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

e. This category includes investments in private equity funds that invest primarily in technology and healthcare companies in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2018, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 10% in 1 to 4 years; and 90% in 5 to 7 years. At June 30, 2017, the liquidation periods were expected to be: 9% in 1 to 4 years; 0% in 5 to 7 years; and 91% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

f. This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation’s shares or product line or some business. These investments are diversified across industries and primarily in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2018, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 2% over 1 to 4 years; 53% in 5 to 7 years; and 45% over 8 to 10 years. At June 30, 2017, the liquidation periods were expected to be: 8% in 1 to 4 years; 31% in 5 to 7 years; and 61% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

g. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2018, it is estimated that the underlying assets of the fund would be liquidated over the following periods: 73% in 1 to 4 years; 12% in 5 to 7 years; and 15% in 8 to 10 years. At June 30, 2017, the liquidation periods were expected to be: 55% in 1 to 4 years; and 45% in 5 to 7 years. The fair value has been estimated using the reported net asset value per share of the real asset fund.

h. This category includes investments in private equity funds that invest in U.S. commercial real estate. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2018, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 54% in 1 to 4 years; 28% in 5 to 7 years; and 18% in 8 to 10 years. At June 30, 2017, the liquidation periods were expected to be: 75% in 1 to 4 years; 25% in 5 to 7 years; and 0% in 8 to 10 years. The fair value has been estimated using the reported net asset value per share of the real estate fund.

i. 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, 2018, and 2017, respectively, the fund's underlying investments were: 77% and 56% global equity; 1% and 12% in commodities; and 22% and 32% in diversified credit. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. It is estimated that the underlying assets would be liquidated in 1 to 4 years at June 30, 2018. The fair value has been estimated using the reported net asset value per share of the private capital fund.

j. This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2018, it is estimated that the fund's underlying assets would be liquidated over the following time frames: 100% in 1 to 4 years. At June 30, 2017, the liquidation periods were expected to be: 63% in 1 to 4 years; and 37% in 5 to 7 years. The fair value has been estimated using the reported net asset value per share of the private capital fund.

k. This category includes investments in global equity, fixed income securities and bond funds, real estate and real assets funds, and other investments. Investments in this category reflect the fair value of the specific assets or the underlying ventures' net assets. The valuations of these investments are the net asset values prepared by fund managers. Majority of these investments are commingled funds.

The University owns partnership interests in a real estate portfolio classified real estate and real estate funds as a Level 3 asset. The interests have a fair market value of $4,761,000 net of $3,049,000 in outstanding debt. The valuation of these investment properties is prepared annually by an independent appraiser.

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

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

(in thousands)	**2018**	**2017**
Assets at beginning of year	$ 186,461	$ 182,618
Net realized/unrealized gain	40,070	7,429
Purchases of investments	-	1,232
Sales of investments	(7,597)	(4,818)
Transfers out - Schuylkill Yards	(80,185)	-
Assets at end of year	$ 138,749	$ 186,461

(in thousands)	**2018**	**2017**
Liabilities at beginning of year	$ 8,222	$ 8,224
Change in annuities and split-interest liabilities	(627)	(2)
Liabilities at end of year	$ 7,595	$ 8,222

7. Endowment Funds

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

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

For the years ended June 30, 2018 and 2017, the University had an endowment spending rule that limited the spending of endowment resources to 4.75% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years, except for ANS. For the fiscal years ended June 30, 2018 and 2017, ANS had an endowment spending rule that limited the spending of endowment resources to 5.50% and 6.50%, respectively, of the fair market value of the pooled endowment assets for the prior seven fiscal years. This rule was applied except in cases where the spending rate had been stipulated by the donor agreement (typically 5.0%).

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

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

Endowment composition by type of fund as of June 30, 2018 and 2017 was as follows:

	2018			
(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 22,423	$ 159,965	$ 350,729	$ 533,117
Board-designated endowment funds	247,077	-	-	247,077
Total assets	$ 269,500	$ 159,965	$ 350,729	$ 780,194

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

Changes in the University's endowment assets (excluding annuities and trusts) and for the years ended June 30, 2018 and 2017 were as follows:

	2018			
(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ 236,679	$ 135,076	$ 327,811	$ 699,566
Endowment return:				
Investment income, net of fees	2,056	3,734	522	6,312
Net realized/unrealized gain	25,101	49,071	3,682	77,854
Transfer for funds with deficiencies	1,142	(881)	(261)	-
Total endowment return	28,299	51,924	3,943	84,166
Contributions	133	(1)	17,598	17,730
Use of endowment assets:				
Endowment payout used in operations	(9,171)	(18,407)	(2,450)	(30,028)
Other	13,560	(8,627)	3,827	8,760
Total uses of endowment assets	4,389	(27,034)	1,377	(21,268)
Endowment at end of year	$ 269,500	$ 159,965	$ 350,729	$ 780,194

	2017			
(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment at beginning of year	$ 215,041	$ 111,900	$ 317,198	$ 644,139
Endowment return:				
Investment income, net of fees	2,050	4,076	610	6,736
Net realized/unrealized gain	22,453	41,117	5,799	69,369
Transfer for funds with deficiencies	5,386	(4,381)	(1,005)	-
Total endowment return	29,889	40,812	5,404	76,105
Contributions	-	-	2,696	2,696
Use of endowment assets:				
Endowment payout used in operations	(8,197)	(15,709)	(2,687)	(26,593)
Other	(54)	(1,927)	5,200	3,219
Total uses of endowment assets	(8,251)	(17,636)	2,513	(23,374)
Endowment at end of year	$ 236,679	$ 135,076	$ 327,811	$ 699,566

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 $2,297,000 and $3,439,000 as of June 30, 2018 and 2017, respectively.

8. Land, Buildings and Equipment

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

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $1,419,000 and $3,772,000 at June 30, 2018 and $1,427,000 and $3,578,000 at June 30, 2017, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. The depreciation and accretion expense amounted to $512,000 and $197,000 at June 30, 2018 and ($671,000) and $402,000 at June 30, 2017, respectively. The demolition of the University City High School and removal of its hazardous substances significantly reduced the University's asset retirement obligation resulting in a significant credit to the depreciation expenses to recognize the elimination of this obligation.

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

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

(in thousands)	**2018**	**2017**
Works of art	$ 10,511	$ 10,441
Land and improvements	147,300	147,211
Buildings and improvements	1,083,648	1,020,995
Equipment, software and library books	219,641	218,035
Construction in progress	39,939	63,067
	1,501,039	1,459,749
Less: Accumulated depreciation	(548,503)	(508,431)
Total land, buildings and equipment	$ 952,536	$ 951,318

9. Leases

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

(in thousands)	
June 30,	
2019	$ 19,213
2020	18,076
2021	17,722
2022	17,685
2023	7,479
Thereafter	43,355
Total minimum lease payments	$ 123,530

Total rent expense for operating leases amounted to $19,826,000 and $19,338,000 for the years ended June 30, 2018 and 2017, respectively.

On September 1, 2017, Tenet Healthcare Corporation (“Tenet”) announced that they had signed a definitive agreement to sell its two Philadelphia medical centers — Hahnemann University Hospital, St. Christopher’s Hospital for Children — to American Academic Health System (“AAHS”), a newly formed affiliate of Paladin Healthcare. On January 11, 2018, all operating lease agreements under Tenet Healthcare Corporation (“Tenet”) were transferred to American Academic Health System (“AAHS”). The University continues to lease educational, research, and medical office space from the AAHS under an operating lease expiring June 30, 2022. The future minimum payments are included in the table above. Total rent expense for the AAHS/Tenet operating lease was $7,991,000 for each of the years ended June 30, 2018 and 2017.

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 $8,600 and $5,032,000, respectively, capitalized for improvements in fiscal years 2018 and 2017. Estimated costs for the required improvements amounted to $2,613,000 and $2,678,000 at June 30, 2018 and 2017, respectively. These costs have been capitalized and a comparable capital lease liability recorded.

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

On August 30, 2013, the University entered into a land purchase agreement with 3175 JFK Associates, LP and L-A 31, LP, both affiliates of ACC, whereby ACC contributed land, air rights and a subsurface parcel it owned contiguous to Drexel’s campus (i.e. 3175 JFK Boulevard) to the University as a gift, without any purchase consideration, but retained the ownership of the “University Crossings” building and improvements erected on this land. The University Crossings property consists of 1.15 acres of land and a 17-story, 452,483 square foot building with 261 units and a total bed capacity of 1,016. As a condition of the land purchase agreement, Drexel and ACC also entered into a ground lease agreement whereby Drexel leased the land back to ACC for no consideration other than reimbursement of property tax that Drexel would be required to pay as the land owner. The term of the lease is forty years with an option to renew for three consecutive ten-year terms. Payments to the University from ACC are recorded as a cost recovery of property taxes. Within five years from the effective date, ACC is required to complete no less than $22,327,000 in capital improvements. The University’s financial statements include a ground lease liability for the sub-parcel and air rights at June 30, 2018, and 2017 of $10,550,000 and $10,850,000 respectively. The University recognized $300,000 of ground lease income related to this agreement during fiscal years 2018 and 2017.

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

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

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

On December 17, 2014, the University entered into a ground lease agreement with Study Philadelphia Holding, LLC ("SPHLLC") to build an upscale hotel, "The Study", on University property located at 3301 Chestnut Street and 20-40 South 33rd Street. The hotel features a ground floor restaurant and retail space, a conference center, approximately 212 hotel rooms, and accessory hotel amenities, with a main entrance on 33rd Street. The hotel includes a ten-story building, totaling 145,000 square feet of space. The base term of the lease is fifty years with two, ten-year renewal options. The commencement date is twenty-four months from the date of the lease or the opening date whichever is earlier. Upon the expiration of the lease, the leased premises will become the property of the University. The University recognized $154,000 of ground lease income related to this agreement during fiscal years 2018 and 2017.

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

University recognized ground lease income of $215,000 related to this agreement during fiscal years 2018 and 2017.

Schuylkill Yards

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

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

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

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

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

On June 29, 2018, the University completed the conveyance of the third parcel for the Schuylkill Yards project, 3025 John F. Kennedy Boulevard to Brandywine Realty Trust ("BRT"), the sole general partner of Brandywine Operating Partnership, LP. The 3025 John F. Kennedy Boulevard parcel was conveyed through a 99-year prepaid ground lease for $20,545,000 resulting in a gain of $13,945,000. The proceeds were received on July 2, 2018 and invested in the University's endowment portfolio replacing the real estate values for the 3025 John F. Kennedy Boulevard. As of June 30, 2018, the receivable of $20,545,000 was included in the Grants, contracts, and other accounts receivable category on the Statement of Financial Position.

At least one structure on the John F. Kennedy Boulevard parcels is expected to start construction by the 4th quarter of 2019.

10. Bonds and Notes Payable

(in thousands)	Project	Final Maturity	Effective Interest Rate at June 30, 2018	2018	2017
Fixed rate debt obligations					
Drexel University					
Dormitory Bonds of 1969	Calhoun Hall	2014-2019	3.00%	$ -	$ 150
Pennsylvania Higher Education Facilities Authority (PHEFA)					
Series A of 2011	Capital improvements and equipment	2014-2041	2.00-5.25%	7,710	136,455
Series of 2012	Refunding	2014-2032	1.00-5.00%	11,480	15,635
Series of 2016	Refunding	2022-2037	2.00-5.00%	117,130	117,130
Series of 2017	Refunding	2018-2041	2.00-5.00%	117,800	-
11th Street Family Health Services Inc.					
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	2,717	2,717
The Reinvestment Fund, Inc.	New Market Tax Credit Program	2043	1.297%	6,783	6,783
3509 Spring Garden, LP					
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	1,964	1,964
Philadelphia Industrial Development Corporation	New Market Tax Credit Program	2044	1.517%	4,826	4,826
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	1,045	1,045
U.S. Bank Corp Community Development Entity	New Market Tax Credit Program	2044	1.00%	2,205	2,205
Variable rate debt obligations					
Drexel Unversity					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	22,010	22,500
Series B of 2002	Capital improvements and equipment	2015-2032	Variable	40,680	41,180
Series B of 2005	Advance refunding	2019-2030	Variable	29,625	29,625
Series B of 2007	Capital improvements and equipment	2014-2037	Variable	24,110	24,890
Total outstanding bonds and notes payable				390,085	407,105
Unamortized original issue premiums/discounts and cost of issuance, net				34,436	20,449
Total bonds and notes payable				$ 424,521	$ 427,554

The PHEFA Revenue Bonds contain certain restrictive covenants which limit the issuance of additional indebtedness, and among other things, require the University to maintain expendable resources of at least 50% of outstanding long-term debt, generate net revenues equal to 110% of annual debt service requirements, and to certify that maximum annual debt service does not exceed 10% of the unrestricted gross revenues. The University was in compliance with these financial covenant requirements at June 30, 2018 and 2017.

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.

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

The Second Series of 2000, Series B of 2002, Series B of 2005, Series B of 2007, 2011, 2012, 2016 and 2017 bonds are secured by a security interest in unrestricted gross revenues.

Debt maturities for the fiscal years ending are as follows:

(in thousands)	**Maturities**	**Remarketed Debt**	**Total Debt**
2019	4,058	5,130	9,188
2020	5,463	4,005	9,468
2021	8,253	5,730	13,983
2022	9,823	4,720	14,543
2023	8,658	7,190	15,848
Thereafter	274,798	89,650	364,448
			$ 427,478
Cost of issuance			(2,957)
			424,521

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

(in thousands)	Remarketed Debt
June 30,	
2019	6,027
2020	34,488
2021	36,340
2022	30,312
2023	7,406
Thereafter	1,852
	$ 116,425

Lines of Credit
The University holds a line of credit which is a term note for a total of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available with equal payments of principal and interest due sixty months thereafter. The line of credit is secured by a lien and security interest in deposits or other sums held by the lender or its affiliates. There were no amounts outstanding at June 30, 2018 and 2017.

Total unsecured Revolving Credit Facilities ("Facilities") of $55,000,000 matures on December 31, 2019, and accrues interest based on Intercontinental Exchange Benchmark Administration "ICE" (subject to a floor of 0.75%) for the University. It can be extended annually based upon the agreement of the University and the bank maintaining the Facilities. At June 30, 2018, the interest rate was 0.75% and there were no amounts outstanding.

11. Retirement Plans

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

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

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

The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was $41,465,000 and $43,211,000 in 2018 and 2017, respectively.

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

(in thousands)	**2018**	**2017**
Weighted average assumptions as of June 30		
Discount rate	4.30 %	3.90 %
Expected return on plan assets	6.25 %	6.25 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 19,650	$ 20,037
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 20,037	$ 19,908
Service costs	230	160
Interest costs	762	759
Actuarial (gain)/loss	(321)	495
Gross benefits paid	(1,058)	(1,285)
Net benefit obligation at June 30	$ 19,650	$ 20,037

(in thousands)	**2018**	**2017**
Change in plan assets		
Fair value of plan assets at beginning of year	$ 10,639	$ 10,582
Actual return on plan assets	330	510
Employer contributions	759	832
Gross benefits paid	(1,058)	(1,285)
Fair value of plan assets at June 30	$ 10,670	$ 10,639
Fair value of plan assets	$ 10,670	$ 10,639
Benefit obligation	19,650	20,037
Net amount recognized at June 30*	$ (8,980)	$ (9,398)

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

The components of net periodic benefit cost are noted below:

(in thousands)	**2018**	**2017**
Weighted average assumptions used to determine net periodic benefit costs		
Discount rate	4.30 %	3.90 %
Expected return on plan assets	6.25 %	6.25 %
Components of net periodic benefit costs		
Service costs	$ 230	$ 160
Interest costs	762	759
Expected return on assets	(661)	(664)
Amortization of actuarial loss	10	649
Net periodic benefit cost	$ 341	$ 904

As of June 30, 2018, and 2017, the pension plan had a projected benefit obligation and an accumulated benefit obligation in excess of plan assets. Both the projected and accumulated benefit obligations were $19,650,000 and $20,037,000 at June 30, 2018 and 2017, respectively. The fair value of the plan assets was $10,670,000 and $10,639,000 as of June 30, 2018 and 2017, respectively.

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

Expected benefit payments *(in thousands)*	
June 30,	
2019	$ 1,068
2020	1,162
2021	1,199
2022	1,225
2023	1,248
2024-2028	6,522

Plan Assets
The ANS pension plan weighted-average asset allocations at June 30, 2018 and 2017 by asset category are as follows:

	2018	**2017**
Asset category		
Equity securities	49.2 %	49.0 %
Fixed income securities	31.4 %	30.8 %
Hedge fund and alternative investments	12.3 %	19.2 %
Cash	7.1 %	1.0 %
	100.0 %	100.0 %

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

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

The following tables present the plan assets at fair value as of June 30, 2018, and 2017 according to the valuation hierarchy:

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

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

12. Other Post-Retirement Benefits

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

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

The net periodic post-retirement benefit costs and related funded status as of June 30 are shown below. Adjustments to the unfunded status amounted to ($2,636,000) and ($28,423,000) respectively, for the years ended 2018 and 2017 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)	2018	2017
Change in benefit obligation		
Benefit obligation, beginning of year	$ 44,066	$ 69,198
Service cost	303	2,443
Interest cost	1,559	2,469
Plan amendments	-	(25,414)
Actuarial gain	(2,936)	(1,950)
Plan participant contributions	703	272
Actual benefits paid	(4,107)	(2,952)
Benefit obligation, end of year	39,588	44,066
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contributions	3,404	2,680
Plan participant contributions	703	272
Actual benefits paid	(4,107)	(2,952)
Fair value of plan assets, end of year	-	-
Unfunded status of the plan*	$ 39,588	$ 44,066

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

Weighted average assumptions to determine benefit obligations and net cost as of June 30		
Discount rate	3.80%	4.03%
Ultimate retiree health care cost trend	4.50%	4.50%
Year ultimate trend rate is achieved	2027	2026

For measurement purposes, a 9.0% and an 8.0% 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 2018 grading down to ultimate rates of 4.5% in the year 2027 and thereafter.

Net Periodic Benefit Cost

(in thousands)	2018	2017
Components of net periodic benefit cost		
Service cost	$ 303	$ 2,443
Interest cost	1,559	2,469
Amortization of:		
Prior service credit	(1,536)	(288)
Net loss	1,236	1,347
Net periodic benefit cost	$ 1,562	$ 5,971
Other changes recognized in unrestricted net assets		
Net actuarial gain	$ (2,936)	$ (1,950)
Prior service credit	-	(25,414)
Amortization of:		
Prior service cost	1,536	288
Net gain	(1,236)	(1,347)
Total recognized in unrestricted net assets	$ (2,636)	$ (28,423)
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets		
Prior service credit	$ (19,783)	$ (21,318)
Actuarial loss	17,820	21,992
Amounts in unrestricted net assets, end of year	$ (1,963)	$ 674
Amounts in unrestricted net assets expected to be recognized in net periodic benefit cost		
Prior service credit	$ (1,536)	
Actuarial loss	$ 1,041	

For the fiscal years ended June 30, 2018 and 2017, the effect of a 1% change in the health care cost trend rate is as follows:

(in thousands)	2018		2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on net periodic benefit cost	$ 53	(47)	$ 50	$ (45)
Effect on postretirement benefit obligation	288	(268)	339	(318)

Contributions

Expected contributions for the 2019 fiscal year are $3,641,000.

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

(in thousands)	
June 30,	
2019	3,641
2020	3,595
2021	3,500
2022	3,386
2023	3,276
Thereafter	14,640

13. Professional Liability Insurance

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

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

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2018 and 2017, the University and its subsidiaries recorded gross combined reserves of $36,923,000 and $39,284,000, respectively and related recoveries from third party insurers of $7,105,000 and $9,567,000 at June 30, 2018 and 2017, respectively. For fiscal years 2018 and 2017, the reserves were discounted at 2% for the layers retained by the University and excess carriers. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying 2018 and 2017 consolidated statements of financial position. Under the self-insurance program, the University is required by the Commonwealth of Pennsylvania to maintain a malpractice trust fund. At June 30, 2018 and 2017, self-insurance escrow funds and malpractice insurance trust consisting of mutual funds and fixed income securities amounted to $57,394,000 and $57,912,000, respectively, were available to fund incurred but not reported liabilities.

14. Commitments and Contingencies

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

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

Litigation

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

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

Other Commitments and Contingencies

The University maintains a letter of credit in the amount of $225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste and is renewed annually. There were no amounts outstanding as of June 30, 2018 and 2017.

The University maintains four letters of credit totaling $3,709,000 associated with workers' compensation insurance. The agreements are renewable annually. There were no amounts outstanding as of June 30, 2018 and 2017.

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, 2019.
- 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, 2019.
- 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, 2018 and 2017.

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, 2019 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, 2018.

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

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

For the fiscal years ended June 30, 2018 and 2017, the University recorded $1,711,000 and $949,000 as income tax expenses and assigned a functional expense category of institutional support for these expenditures.

The Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017, impacts the University in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) by the amount of certain fringe benefits for which a deduction is not allowed, changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the US federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the University with calculating income and excise tax liabilities. The University continues to evaluate the impact of tax reform on the organization.

15. Related Party Transactions

On January 11, 2018, all operating agreements under Tenet Healthcare Corporation (“Tenet”) were transferred to American Academic Health System (“AAHS”). Under these agreements, the University acts both as a purchaser and provider of services. Total services purchased from AAHS/Tenet for the years ended June 30, 2018 and 2017 were $12,369,000 and $12,259,000, respectively. These services include charges for various personnel, administrative and support services related to operating the College of Medicine and rent. Services provided to Tenet/AAHS include administrative, supervisory and teaching services connected with faculty physician and residency programs and services and support provided by physicians to support hospital operations. Total charges to AAHS/Tenet for these services amounted to $24,063,000 and $22,534,000 for the years ended June 30, 2018 and 2017, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

Drexel University/Ben Franklin Technology Partners Seed Fund
On November 15, 2015, the University and Ben Franklin Technology Partners of Southeastern Pennsylvania (“Ben Franklin”) signed a ten year agreement ending November 15, 2025, to establish a jointly funded initiative “the Fund”, managed by Ben Franklin in conjunction with the University that establishes four program areas: 1) seed investments from a jointly capitalized pool into

University spin-outs and other agreed upon Drexel-based ventures, 2) post-investment portfolio management services, 3) appropriate counseling and support for all invested companies and access to all Ben Franklin services and programs, and 4) joint efforts to place Drexel talent with invested enterprises. The University has authorized an amount up to $5,000,000 to be raised from donors and used for the program elements. Ben Franklin has also authorized up to $5,000,000 to be allocated over the life of the initiative from available investment resources. All loans and/or investments made by the Fund will be made with equal participation between the University and Ben Franklin. All loans and/or investment administration will be handled by Ben Franklin. The University and Ben Franklin will share equally in the revenue, income and/or other forms of return from each loan/investment. Upon termination of the agreement, any uncommitted University funds, net of costs associated with any outstanding loan or investment will be returned to the University by Ben Franklin within 45 days of termination.

16. 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)	2018	2017
College programs	$ 37,560	$ 38,908
Research and public service	13,580	13,492
Academic support	6,227	3,544
Student services	15,499	15,305
Institutional support	8,323	8,011
Auxiliary enterprises	34,665	41,702
Patient care activities	4,719	4,827
	$ 120,573	$ 125,789

The allocation of operating expenses at June 30, 2018 and 2017, reflects annual space inventory data using the University space management system. The space inventory includes all space at the Academy of Natural Sciences, Center City, and Queen Lane Campuses, and University City campuses. The allocation at June 30, 2018 and 2017 is based on a total 5,399,000 and 5,427,000 net usable square feet, respectively.

17. Subsequent Events

The University evaluated events subsequent from June 30, 2018 through October 24, 2018.