Drexel University and Subsidiaries

Consolidated Financial Statements
June 30, 2013 and 2012

Drexel University and Subsidiaries
Index
June 30, 2013 and 2012

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Independent Auditor's Report

To The Board of Trustees
Drexel University

We have audited the accompanying consolidated financial statements of Drexel University and subsidiaries (the "University"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statement of activities and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the June 30, 2013 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Drexel University and its subsidiaries at June 30, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Other Matters

The consolidated financial statements of the University as of June 30, 2012 and for the year then ended were audited by other auditors whose report, dated October 8, 2012, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2013 consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 2013 consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or the results of operations of the individual companies.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
December 3, 2013

Drexel University and Subsidiaries
Consolidated Statements of Financial Position
As of June 30, 2013 and 2012 (in thousands)

	2013	2012
Assets		
Cash and cash equivalents		
Operating cash	$ 81,432	$ 66,631
Risk Retention Group cash	6,072	3,961
Accounts receivable, net		
Tuition	54,244	54,448
Grants, contracts and other	60,295	52,594
Patients	8,537	6,281
Tenet Healthcare Corporation	3,119	3,105
Total accounts receivable, net	126,195	116,428
Contributions receivable, net	82,200	101,036
Other assets	19,234	16,962
Deposits with bond trustees	30,504	87,176
Student loans receivable, net	35,856	32,345
Beneficial interests in trusts	53,605	43,889
Investments	616,706	581,087
Land, buildings and equipment, net	803,733	706,109
Total assets	$ 1,855,537	$ 1,755,624
Liabilities		
Accounts payable	$ 60,205	$ 60,642
Accrued expenses	91,709	95,945
Deposits	35,128	24,545
Deferred revenue	77,928	78,877
Capital lease	2,930	2,993
Government advances for student loans	27,394	27,114
Postretirement and pension benefits	50,741	51,924
Bonds and notes payable	455,636	467,251
Total liabilities	801,671	809,291
Net assets		
Unrestricted	508,375	428,963
Temporarily restricted	255,460	240,878
Permanently restricted	290,031	276,492
Total net assets	1,053,866	946,333
Total liabilities and net assets	$ 1,855,537	$ 1,755,624

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, 2013 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 757,635			$ 757,635
Less: Institutional financial aid	(186,556)			(186,556)
Net student revenue	571,079			571,079
Patient care activities	101,991			101,991
State appropriations	8,210			8,210
Government grants and contracts	95,116			95,116
Private grants and contracts	14,519	$ 1,585		16,104
Private gifts	7,156	32,624		39,780
Endowment payout under spending formula	11,680	14,514	$ 143	26,337
Investment income	4,595	1,032		5,627
Sales and services of auxiliary enterprises	83,237			83,237
Other sources	17,786			17,786
Net assets released from restrictions	49,516	(49,692)	176	
Total operating revenue	964,885	63	319	965,267
Operating expense				
College programs	322,391			322,391
Research and public service	103,746			103,746
Academic support	27,385			27,385
Student services	44,865			44,865
Institutional support	116,007			116,007
Scholarships and fellowships	15,556			15,556
Auxiliary enterprises	44,826			44,826
Total education and general	674,776	-	-	674,776
Patient care activities	116,473			116,473
Operation and maintenance	48,063			48,063
Interest	19,221			19,221
Depreciation and amortization	37,885			37,885
Total operating expense	896,418	-	-	896,418
Change in net assets from operating activities	68,467	63	319	68,849
Non-operating activity				
Endowment and other gifts			9,232	9,232
Realized/unrealized net gain on investments, net of endowment payout	6,374	14,519	3,988	24,881
Other non-operating income	4,571			4,571
Change in net assets from non-operating activities	10,945	14,519	13,220	38,684
Change in net assets	79,412	14,582	13,539	107,533
Net assets				
Beginning of year	428,963	240,878	276,492	946,333
End of year	$ 508,375	$ 255,460	$ 290,031	$ 1,053,866

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, 2012 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Tuition and fees	$ 697,171			$ 697,171
Less: Institutional financial aid	(163,513)			(163,513)
Net student revenue	533,658			533,658
Patient care activities	96,538			96,538
State appropriations	6,933			6,933
Government grants, contracts and contributions	104,629			104,629
Private grants and contracts	13,299			13,299
Private gifts	7,501	$ 36,563		44,064
Endowment payout under spending formula	10,529	14,213	$ 141	24,883
Investment income	5,783	1,240		7,023
Sales and services of auxiliary enterprises	73,540			73,540
Other sources	16,833	501		17,334
Net assets released from restrictions	41,579	(41,353)	(226)	
Total operating revenue	910,822	11,164	(85)	921,901
Operating expense				
College programs	301,104			301,104
Research and public service	107,635			107,635
Academic support	25,722			25,722
Student services	42,083			42,083
Institutional support	112,179			112,179
Scholarships and fellowships	16,638			16,638
Auxiliary enterprises	42,393			42,393
Total education and general	647,754	-	-	647,754
Patient care activities	110,182			110,182
Operation and maintenance	45,576			45,576
Interest	20,077			20,077
Depreciation and amortization	34,419			34,419
Total operating expense	858,008	-	-	858,008
Change in net assets from operating activities	52,814	11,164	(85)	63,893
Non-operating activity				
Endowment and other gifts			6,490	6,490
Realized/unrealized net (loss) gain on investments, net of endowment payout	(23,759)	(11,009)	1,779	(32,989)
Net assets acquired from the Academy of Natural Sciences (Note 17)	15,088	7,474	43,952	66,514
Other non-operating expense	(9,737)			(9,737)
Change in net assets from non-operating activities	(18,408)	(3,535)	52,221	30,278
Change in net assets	34,406	7,629	52,136	94,171
Net assets				
Beginning of year	394,557	233,249	224,356	852,162
End of year	$ 428,963	$ 240,878	$ 276,492	$ 946,333

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, 2013 and 2012 (in thousands)

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 107,533	$ 94,171
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation and amortization of property	37,885	34,419
Provision for uncollectible accounts	4,525	1,574
(Gain) loss on disposal of equipment	(184)	917
Increase in beneficial interests in trusts	(9,716)	(4,950)
Contributions for long-term investment	(9,232)	(6,490)
Noncash contributions received	(14,676)	-
Proceeds from sales of donated securities	12,552	-
Actuarial change on annuity liabilities	1,689	(847)
Realized/unrealized (gain) loss on investments	(44,712)	17,205
Acquisition of Academy land, buildings & equipment at fair value (Note 17)	-	(20,581)
Acquisition of Academy investments at fair value (Note 17)	-	(41,974)
Deposits	10,583	-
Changes in operating assets and liabilities:		
Accounts receivable	(13,904)	(29,291)
Contributions receivable	18,487	(691)
Accounts payable and accrued expenses	(1,625)	9,215
Postretirement benefits	(1,183)	15,980
Other assets	(2,272)	8,406
Deferred revenue	(949)	(419)
Net cash provided by operating activities	**94,801**	**76,644**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(112,882)	(146,137)
Proceeds from sale of investments	121,658	134,515
Proceeds from student loan collections	5,019	5,238
Student loans issued	(8,569)	(6,532)
Purchase of land, buildings and equipment	(138,206)	(64,325)
Deposits placed with bond trustees	-	(329)
Use of deposits with bond trustees	56,672	14,719
Net cash used in investing activities	**(76,308)**	**(62,851)**
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	9,232	6,490
Proceeds from sales of donated securities	929	-
Payments on annuity obligations	(407)	(557)
Government advances for student loans	280	862
Proceeds from short-term borrowings	1,078	-
Proceeds from long-term borrowings	33,096	-
Repayment of long-term debt	(45,789)	(13,273)
Net cash used in financing activities	**(1,581)**	**(6,478)**
Net increase in cash and cash equivalents	**16,912**	**7,315**
Cash and cash equivalents at beginning of year	**70,592**	**63,277**
Prior year reclassification		
Cash and cash equivalents at end of year	**$ 87,504**	**$ 70,592**
SUPPLEMENTAL INFORMATION		
Gifts in kind	$ 1,669	$ 286
Cash paid for interest	$ 19,298	$ 20,003
Amounts accrued for purchase of land, buildings and equipment	$ 16,408	$ 20,874
Donated securities	$ 13,165	

1. Summary of Significant Accounting Policies

Basis of Financial Statements

Drexel University (the "University") is a private research university located in Philadelphia, Pennsylvania. The University is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. 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 for not-for-profit organizations. All revenues received and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and deferred charges, respectively.

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

Permanently Restricted

Net assets explicitly required by donors 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 or may otherwise be limited by contractual agreements with outside parties. Expenses are shown as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

Philadelphia Health & Education Corporation

The University owns 100% of the Philadelphia Health & Education Corporation ("PHEC"), doing business as Drexel University College of Medicine and providing teaching and administrative services for the education of the University's medical students and students in the health professions. PHEC is party to an Academic Affiliation Agreement with Tenet Healthcare Corporation ("Tenet") intended to establish a relationship to foster continued coordination and integration between PHEC and the Tenet hospitals whereby PHEC agrees to provide administrative, supervisory and teaching services to Tenet at budgeted levels. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms (Note 15).

Merger with Philadelphia Health & Education Corporation

On February 7, 2013, the PHEC Board of Trustees adopted by resolution the recommendation of a merger of PHEC with and into Drexel. The Drexel Board of Trustees adopted the resolution to merge on February 20, 2013. In accordance with the resolutions, PHEC will merge with and into Drexel, and the separate existence of PHEC will cease, effective July 1, 2014.

The merger is subject to the several preconditions: (i) there is no order or injunction of a court of competent jurisdiction preventing Drexel or PHEC from consummating the merger; (ii) that no governmental action, statute, rule or regulation shall have been enacted or adopted which would prohibit or make the consummation of the merger illegal; and (iii) approval for transfer PHEC endowment funds has been obtained from the Philadelphia Court of Common Pleas Orphans' Court Division. At this time the University is not aware of any preconditions that would preclude the consummation of the merger.

Academy of Natural Sciences of Philadelphia

Pursuant to an affiliation agreement dated September 13, 2011, the University owns 100% of the Academy of Natural Sciences of Philadelphia, doing business as The Academy of Natural Sciences of Drexel University ("ANS") (Note 17). ANS, founded in 1812, is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. ANS is dedicated to encouraging and cultivating the sciences and advancing learning. ANS operates a public museum in Philadelphia and conducts systematics research and research in aquatic ecosystems, including integrating such research with education regarding biodiversity and the environmental sciences in collaboration with the University and its students. The balances and activities of ANS are included in the accompanying consolidated financial statements.

Academic Properties, Inc.

The University owns 100% of Academic Properties, Inc. ("API"), a tax-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 the campus. The balances and activities of API are included in the accompanying consolidated financial statements.

Drexel e-Learning, Inc.

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

Schuylkill Crossing Reciprocal Risk Retention Group

The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG") operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by PHEC. Ownership of the RRRG was split 87% and 13% between PHEC and the University, respectively, through November 9, 2010. Effective November 10, 2010, the ownership allocation was adjusted to 85% for PHEC and 15% for the University (Note 13).

At June 30, 2013 and 2012, total assets of the RRRG were $36,771,000 and $35,654,000, respectively, and ownership equity totaled $12,393,000 and $8,109,000, respectively. The balances and activities of the RRRG are included in the accompanying consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. Included in cash and cash equivalents are amounts which are limited in use by agency agreements, such as Federal government loan programs, and Board mandated self-insurance liability funding. Amounts restricted as of June 30, 2013 and June 30, 2012 were $5,584,811 and $8,779,115, respectively.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows.

Beneficial Interests in Trusts

The University is the beneficiary of the income of certain trusts but has neither possession nor control of the investments. Beneficial interests in trusts are recorded at the present value of expected future cash flows and are primarily composed of equity and fixed income securities that have readily determinable values and would, if not for being held by third parties, be classified as Level 1. The primary unobservable inputs used in the fair value measurement of the trusts are the underlying securities held by the trust. Significant fluctuation in the securities held in the trusts could result in a material change in fair value.

Fair Value of Financial Instruments

The University applies fair value measurements to contributions receivable in the year of receipt, beneficial interests in trusts, endowment investments, self-insurance escrow funds, real estate, deposits with bond 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 could not 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. See Notes 4, 5, 6 and 10 for additional fair value disclosures.

Patient Care Activities

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

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

Nonoperating Activities

Nonoperating activities include permanently restricted contributions, realized and unrealized (loss) gain on investments net of payouts under the endowment spending policies, loss on the disposal of equipment, postretirement benefit adjustment, severances, net assets acquired and costs related to the acquisition and implementation of the Academy of Natural Sciences into Drexel operations and costs related to the upcoming merger of PHEC into Drexel.

Use of Estimates

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

Income Taxes
The University has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, files Federal Tax Form 990 (Return of Organization Exempt from Income Tax) annually. No provision for income taxes is required in the University financial statements. However, DeL, a for-profit subsidiary, of the University does record provisions for income taxes which is immaterial to the University's consolidated financial statements as a whole. The University files U.S. federal, state and local information returns and no returns are currently under examination. 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 do from time to time incur incidental activities that are subject to unrelated business income for which appropriate income tax returns are filed. This primarily includes income from investments held in the endowment fund for which the investment manager has reported unrelated business income on a Schedule K-1 along with income from certain consulting and conference services.

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

Recent Accounting Pronouncements
In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with Accounting Principles Generally Accepted in the United States and International Financial Reporting Standards. The amendments, including expanded disclosures about Level 3 measurements, are effective for interim and annual periods beginning after December 15, 2011 and are applied prospectively. The University adopted this standard in these consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, Presentation and Disclosures of Patient Service Revenue Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities, requiring that health care entities must reclassify their provisions for bad debts associated with patient services revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This guidance is effective for fiscal years beginning after December 15, 2011. This standard is not applicable to the University or its subsidiaries.

In October 2012, the FASB issued ASU No. 2012-05, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows, to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows for not-for-profit entities. This guidance is effective for fiscal years beginning after June 15, 2013, with early adoption permitted. The University has adopted this guidance early within its statement of cash flows for the fiscal year ended June 30, 2013.

Accounting for Derivative Instruments and Hedging Activities
The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in a gain of $2,391,000 in 2013 and a loss of $3,751,000 in 2012.

The fair value of the interest rate swap agreement was ($4,250,000) and ($6,641,000), respectively, at June 30, 2013 and 2012.

The University also entered into a variable-to-fixed swap agreement with TD Bank, N.A., which converts the TD Bank loan to a fixed rate of 3.83% through the January 2014 termination date. The agreement resulted in a gain of $145,000 in 2013 and $244,000 in 2012. The fair value of the interest rate swap agreement was ($28,000) and ($174,000) at June 30, 2013 and 2012.

The swap agreements are 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, 2013 or 2012. The estimated fair value of terminating the swap agreements is reported as accrued expenses in the consolidated statements of financial position. The change in the estimated fair value of terminating the interest rate swap agreement is included in realized and unrealized net (loss) gain on investments in the nonoperating section of the consolidated statements of activities.

2. Net Assets

Net assets included the following:

	(in thousands) 2013	2012
Unrestricted		
Undesignated	$ (250,848)	$ (217,214)
Designated for colleges, departments and student loans	96,908	97,151
Physical plant	447,563	340,063
Quasi-endowment funds	221,206	217,527
Reclassification for endowments with deficiencies	(6,454)	(8,564)
Total unrestricted	508,375	428,963
Temporarily restricted		
Funds for instruction, scholarships and capital expenditures		
Unexpended	159,858	157,729
Endowment realized and unrealized gain	81,892	67,075
Reclassification for endowments with deficiencies	6,454	8,564
Life income and term endowment funds	7,256	7,510
Total temporarily restricted	255,460	240,878
Permanently restricted		
Endowment principal	253,403	250,014
Beneficial interests in trusts	29,546	19,614
Student loans and others	7,082	6,864
Total permanently restricted	290,031	276,492
Total net assets	$ 1,053,866	$ 946,333

3. Receivables

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

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

	(in thousands)	
	2013	**2012**
Tuition	$ 66,804	$ 62,717
Grants, contracts and other *	61,574	53,923
Patients, net of contractual allowances	13,811	11,568
Tenet Healthcare Corporation	3,202	3,279
	145,391	131,487
Less allowance for doubtful accounts	(19,196)	(15,059)
Accounts receivable, net	$ 126,195	$ 116,428

* 2012 includes the impact of adoption of ASU 2010-24 (Notes 1 and 13) and the acquisition of ANS (Note 17).

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. At June 30, 2013 and 2012, student loans represented 1.9% and 1.8%, respectively, of total assets.

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 $27,394,000 and $27,114,000 at June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the government.

At June 30, 2013 and 2012, student loans consisted of the following:

	(in thousands)	
	2013	**2012**
Student loans		
Federal government loan programs		
Perkins loan program	$ 24,494	$ 21,318
Health professions student loans and loans for disadvantaged students	4,961	5,507
Nursing student loans	37	43
Federal government loan programs	29,492	26,868
Institutional loan programs	9,438	8,512
	38,930	35,380
Less allowance for doubtful accounts		
Balances at beginning of year	(3,035)	(3,396)
Change in provision for doubtful accounts	(39)	361
Balances at end of year	(3,074)	(3,035)
Student loans receivable, net	$ 35,856	$ 32,345

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. Further, the University does not evaluate the credit quality of student loans receivable after the initial approval of the loan. Student loans are considered past due when payment is not received within 30 days of the due date, and interest continues to accrue until the loan is paid in full or written off. When student loans receivable are deemed uncollectible, an allowance for doubtful accounts is established.

The University considers the age of the amounts outstanding in determining the collectability of student loans receivable. The aging of student loans receivable based on days delinquent and the related allowance for doubtful accounts at June 30, 2013 and 2012 is as follows:

	(in thousands)				
2013	**< 30 Days**	**30–60 Days**	**61–90 Days**	**>= 91 Days**	**Total**
Student loans receivable					
Federal government loan programs	$ 23,781	$ 18	$ 28	$ 5,665	$ 29,492
Institutional loan programs	6,772	9	21	2,636	9,438
Total student loans receivable	30,553	27	49	8,301	38,930
Allowance for doubtful accounts					
Federal government loan programs			(3)	(1,757)	(1,760)
Institutional loan programs			(2)	(1,312)	(1,314)
Total allowance for doubtful accounts			(5)	(3,069)	(3,074)
Student loans receivable, net	$ 30,553	$ 27	$ 44	$ 5,232	$ 35,856

2012	(in thousands) < 30 Days	30–60 Days	61–90 Days	>= 91 Days	Total
Student loans receivable					
Federal government loan programs	$ 21,327	$ 35	$ 28	$ 5,478	$ 26,868
Institutional loan programs	6,203	42	2	2,265	8,512
Total student loans receivable	27,530	77	30	7,743	35,380
Allowance for doubtful accounts					
Federal government loan programs			(3)	(1,669)	(1,672)
Institutional loan programs				(1,363)	(1,363)
Total allowance for doubtful accounts			(3)	(3,032)	(3,035)
Student loans receivable, net	$ 27,530	$ 77	$ 27	$ 4,711	$ 32,345

4. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable are recorded net of a discount which averaged 1.2% and 1.3% at June 30, 2013 and 2012, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC 820-10 (Note 6).

Net contributions receivable at June 30 were as follows:

	(in thousands) 2013	2012
Amounts due in		
Less than one year	$ 16,316	$ 26,912
One to five years	$ 37,414	47,302
Greater than five years	$ 43,322	40,139
Gross contributions receivable	$ 97,052	$ 114,353
Less		
Allowance for uncollectibles	$ (1,259)	(910)
Discounts to present value	$ (13,593)	(12,407)
Total contributions receivable, net	$ 82,200	$ 101,036

Outstanding conditional promises to give amounted to $36,869,000 and $28,476,000 at June 30, 2013 and 2012, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, not included in the consolidated financial statements.

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

	(in thousands) 2013	2012
Net contributions receivable at beginning of year	$ 101,036	$ 100,313
New pledges	18,173	30,105
Collections and adjustments	(35,375)	(35,412)
(Increase) decrease in allowance for uncollectibles	(448)	32
(Increase) decrease in present value discounts	(1,186)	5,998
Net contributions receivable at end of year	$ 82,200	$ 101,036

5. Investments and Investment Return

At June 30, 2013 and 2012, the fair value of investments included the following:

	Fair value (in thousands) 2013	2012
Equity securities	$ 244,603	$ 211,968
Fixed income securities and bond funds	65,110	53,312
Mutual funds	-	7,868
Alternative investments	77,535	85,083
Real estate and real assets funds	67,764	173,799
Directly-held real estate	110,445	-
Money market funds	10,790	12,211
Total endowment investments	576,247	544,241
Self-insurance escrow funds (Note 13)	10,858	10,174
Balanced index fund (Notes 13)	29,601	26,373
Real estate	-	299
Total investments	$ 616,706	$ 581,087

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2013 and 2012:

(in thousands) 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 5,959	$ 551	$ -	$ 6,510
Net realized and unrealized gain	6,374	34,204	4,130	44,708
Return on investments	12,333	34,755	4,130	51,218
Interest income	4,595	1,032		5,627
Total return on investments	16,928	35,787	4,130	56,845
Investment return designated for current operations	(10,554)	(21,268)	(142)	(31,964)
Investment return net of amounts designated for current operations	$ 6,374	$ 14,519	$ 3,988	$ 24,881

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 3,299	$ 68	$ -	$ 3,367
Net realized and unrealized (loss) gain	(22,702)	9,309	1,920	(11,473)
Return on investments	(19,403)	9,377	1,920	(8,106)
Interest income	5,783	1,240		7,023
Total return on investments	(13,620)	10,617	1,920	(1,083)
Investment return designated for current operations	(10,139)	(21,626)	(141)	(31,906)
Investment return net of amounts designated for current operations	$ (23,759)	$ (11,009)	$ 1,779	$ (32,989)

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 amount of price or other inputs, considered to be unobservable, are used in their valuations. The fair value hierarchy and inputs to valuation techniques are as follows:

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

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

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

As a practical expedient, the University is permitted to estimate the fair value of an investment in an investment company 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 fund consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held that do not have readily determinable fair values are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issue, and subsequent developments concerning the companies to which the securities relate.

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies. During 2012, the University determined that its beneficial interests in trusts were more appropriately classified as Level 2 in the fair value hierarchy. On June 30, 2012, the University transferred assets totaling $43,889,000 from Level 1 to Level 2.

During 2013, the University determined that beneficial interests in trusts of $53,605,000 and directly-held real estate of $110,445,000 were Level 3 in the fair value hierarchy and were reclassified from Level 2. Also during 2013, Investments of $54,587,000 for equity, fixed income, real estate and real asset funds were reclassified from Level 1 to Level 2. The University's policy is to recognize such transfers at the end of the reporting period, therefore these hierarchy level changes were recognized on June 30, 2013.

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

	(in thousands)			
	2013			
	Level 1	Level 2	Level 3	Total
Assets at fair value				
Deposits with bond trustees	$ 30,504	$ -	$ -	$ 30,504
Beneficial interests in trusts	-	-	53,605	53,605
Investments				
Equity securities	216,566	28,037	-	244,603
Fixed income securities and bond funds	16,687	48,423	-	65,110
Alternative investments	-	-	77,535	77,535
Real estate and real assets funds	910	21,928	44,926	67,764
Directly-held real estate	-	-	110,445	110,445
Money market funds	10,790	-	-	10,790
Investments held in endowment	244,953	98,388	232,906	576,247
Self-insurance escrow funds (Note 13)	10,858			10,858
Balanced index fund (Note 13)	29,601			29,601
Total investments	285,412	98,388	232,906	616,706
Total assets at fair value	$ 315,916	$ 98,388	$ 286,511	$ 700,815
Liabilities at fair value				
Interest rate swaps (Note 1)	$ -	$ 4,279	$ -	$ 4,279
Annuities			6,040	6,040
Total liabilities at fair value	$ -	$ 4,279	$ 6,040	$ 10,319

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Deposits with bond trustees	$ 87,176	$ -	$ -	$ 87,176
Beneficial interests in trusts	-	43,889	-	43,889
Investments				
Equity securities	211,968	-	-	211,968
Fixed income securities and bond funds	35,295	15,405	2,612	53,312
Mutual funds	-	7,868	-	7,868
Alternative investments	-	9,440	75,643	85,083
Real estate and real assets	32,279	111,724	29,796	173,799
Money market funds	12,211	-	-	12,211
Investments held in endowment	291,753	144,437	108,051	544,241
Self-insurance escrow funds (Note 13)	10,174	-	-	10,174
Balanced index fund (Note 13)	26,373	-	-	26,373
Real estate	-	299	-	299
Total investments	328,300	144,736	108,051	581,087
Total assets at fair value	$ 415,476	$ 188,625	$ 108,051	$ 712,152
Liabilities at fair value				
Interest rate swaps (Note 1)	$ -	$ 6,815	$ -	$ 6,815
Annuities	-	-	4,342	4,342
Total liabilities at fair value	$ -	$ 6,815	$ 4,342	$ 11,157

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

(in thousands)

	2013			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Multi-Strategy Hedge Funds (a)	$ 15,495	$ -	Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	12,495	-	Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	13,579	-	Monthly/Quarterly	10–60/65 days
Private Capital Funds-Secondaries (d)	10,553	11,290		
Private Capital Funds-Venture Capital (e)	3,927	625		
Private Capital Funds-Buy-out (g)	2,852	743		
Real Asset Funds (h)	16,176	12,455		
Real Estate Funds (i)	28,750	3,630		
Long/Short Equity Hedge Funds (j)	10,854	-	Annual/Quarterly	60/45 days
Private Capital Funds-Hedge Fund Seeder (k)	4,267	3,386		
Private Capital Funds-Mezzanine Debt (l)	3,513	6,402		
	$ 122,461	$ 38,531		

	2012			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Multi-Strategy Hedge Funds (a)	$ 15,108	$ -	Annual/Quarterly	45–60/65 days
Distressed Debt Hedge Funds (b)	11,665	-	Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	25,690	-	Monthly/Quarterly	10–60/65 days
Private Capital Funds-Secondaries (d)	9,250	3,559		
Private Capital Funds-Venture Capital (e)	5,614	1,342		
Private Capital Funds-Distressed Debt (f)	3,247	559		
Private Capital Funds-Buy-out (g)	4,157	1,001		
Real Asset Funds (h)	12,297	16,911		
Real Estate Funds (i)	14,250	3,657		
Long/Short Equity Hedge Funds (j)	10,977	-	Annual/Quarterly	60/45 days
Private Capital Funds-Hedge Fund Seeder (k)	3,514	3,795		
Private Capital Funds-Mezzanine Debt (l)	1,722	3,000		
	$ 117,491	$ 33,824		

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2013, the composite portfolio includes approximately 46% in distressed investments with a liquidation period of 1 to 3 years, 17% arbitrage opportunities, 24% cash, 6% long/short equity and 7% 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. As of June 30, 2012, this category included investments of approximately 45% in credit and distressed credit (with a liquidation period of 1 to 3 years), 17% arbitrage opportunities, 29% cash, 3% long/short equity and 6% private equity. If the private equity investments were held, it is estimated that the underlying assets would have been liquidated over the next 1 to 3 years. The fair values of the investments have been estimated using the net asset value per share of the hedge fund.

b. This category includes investments in hedge funds that invest in debt of companies that are in or facing bankruptcy. The investment managers seek to liquidate these investments in 1 to 3 years. The fair value has been estimated using the net asset value per share of the investments. As of June 30, 2012, the liquidation period would have been the same (1 to 3 years) as the investment horizon was still 1 to 3 years. The fair values of the investments have been estimated using the 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, publicly traded corporate bonds, and sovereign debt and currency forward contracts of emerging market countries. The fair values of the investments have been estimated using the 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, 2013, if the investments were held, it is estimated that the underlying assets of the fund would be liquidated over 2 to 12 years, given the addition of the new investment. As of June 30, 2012, the estimated liquidation period would have been 1 to 4 years. The fair value has been estimated using the 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, 2013, if these investments were held, it is estimated that the underlying assets of the funds would be liquidated over 1 to 3 years. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 4 years. The fair value has been estimated using the net asset value per share of the private capital fund.

f. This category includes investments in private equity funds that invest in legacy loans and securities which banks are otherwise unable to remove from their balance sheets. 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, 2013, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 4 years. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 5 years. The fair value has been estimated using the net asset value per share of the private capital fund.

g. This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation’s shares or product line or some business. These investments are primarily in U.S. technology and healthcare companies, with one investment dedicated to Asian companies. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2013, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 4 years. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 5 years. The fair value has been estimated using the net asset value per share of the private capital fund.

h. This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2013, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 4 to 11 years. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets would be liquidated over 5 to 12 years. A new investment was added in 2012 that has a 12 year term, extending the overall liquidation period. The fair value has been estimated using the net asset value per share of the real asset fund.

i. This category includes investments in private equity funds that invest in U.S. commercial real estate. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2013, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the following time frames: approximately 1% in 1 to 2 years, 70% in 4 to 6 years and 29% in 7 to 9 years. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets would be liquidated over the following time frames: approximately 4% in 1 to 3 years, 75% in 5 to 7 years, and 21% in 8 to 10 years. The fair value has been estimated using the net asset value per share of the real estate fund.

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

k. This category includes investments in private equity funds that invest in newly started hedge funds that pursue multiple strategies. The fund provides start-up funding to hedge funds of various strategies with the potential to share in the appreciation of the investment, as well as to share in the management fees gathered by the underlying start-up hedge funds. As of June 30, 2013 the fund's underlying investments were 53% long/short global equity, 10% macro and commodity trading, 13% in diversified credit, 12% in arbitrage opportunities, and 12% in global event-driven opportunities. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets would be liquidated in 2 to 7 years. The fair value has been estimated using the net asset value per share of the private capital fund.

l. This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 3 to 8 years. The fair value has been estimated using the net asset value per share of the private capital fund.

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

	(in thousands) 2013	2012
Assets at beginning of year	$ 108,051	$ 106,500
Net unrealized gain	5,406	1,593
Net realized loss	(2,600)	(1,336)
Purchases	21,589	26,850
Sales	(9,985)	(25,556)
Real estate and real assets funds transferred from level 2	110,445	-
Funds transferred from level 2	53,605	-
Assets at end of year	$ 286,511	$ 108,051

	(in thousands) 2013	2012
Annuities at beginning of year	$ 4,342	$ 5,746
Actuarial change on annuity liabilities	1,689	(847)
Payments on annuity liabilities	(407)	(557)
ANS annuity liabilities transferred	416	-
Annuities at end of year	$ 6,040	$ 4,342

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

In June 2012, the University was pledged two real estate partnership interests, which were recorded as private gifts and receivable with an estimated fair value of $3,000,000 as of June 30, 2012. During fiscal year 2013, based on additional information obtained, the University revised its estimate of fair value for the real estate interests and recorded the change of $9,100,000 as an increase in private gifts as of June 30, 2013. Upon receipt of the interests in fiscal year 2013, they were reclassified to investments.

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

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements as of June 30, 2013:

	(in thousands) **Fair Value June 30, 2013**	**Valuation Techniques**	**Unobservable Inputs**	**Ranges Low**	**Ranges High**
Investment in Real Estate and Real Estate Funds	$ 44,926	Income Capitalization Approach - Discounted Cash Flow	Discount Rate	8.00%	10.50%
			Terminal Cap Rate	6.50%	10.00%
Directly-held Real Estate	110,445	Income Capitalization Approach - Discounted Cash Flow	Discount Rate	6.48%	13.70%
			Terminal Cap Rate	5.60%	10.00%
		Income Capitalization Approach - Direct Capitalization	Overall Cap Rate	5.07%	13.62%
			Gross Rent Multiplier	8.50	10.50

The following is a reconciliation of the investments in real estate measured at fair value on a recurring basis using Level 3 inputs during the years ended June 30, 2013 and 2012. The following also includes total unrealized appreciation reported in the Consolidated Statement of Activities relating to investments in real estate held as of the reporting date.

	(in thousands) **Investment in Real Estate** 2013	2012
Beginning Balance	$ 109,955	$ 108,763
Additions		-
Total unrealized appreciation reported in the Consolidated Statement of Activities	490	1,192
Ending Balance	$ 110,445	$ 109,955

During the year ended June 30, 2013 it was determined that directly held real estate should be classified as level 3 based on factors applied to determine fair value.

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, 2013 and 2012, the University and PHEC had an endowment spending rule that limited the spending of endowment resources to 4.75% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years. The ANS spending rule for the year ended June 30, 2013 was 6.5% of a seven year rolling average and was 7% of a four year rolling average for the year ended June 30, 2012. To the extent that current yield is inadequate to meet the spending rule, a portion of cumulative realized net gains is available for current use.

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. Board-designated temporarily restricted endowment funds represent funds having donor-imposed restrictions for which the Board has earmarked for endowment purposes. 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 gift instruments. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) earnings of the endowment made in accordance with the direction of the applicable donor designation. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by PA Act 141.

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

	(in thousands) 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 19,590	$ 111,495	$ 245,290	$ 376,375
Board-designated endowment funds	194,181		-	194,181
Total net assets	$ 213,771	$ 111,495	$ 245,290	$ 570,556

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 17,957	$ 60,949	$ 242,383	$ 321,289
Board-designated endowment funds	187,121	26,040	-	213,161
Total net assets	$ 205,078	$ 86,989	$ 242,383	$ 534,450

Changes in the University's endowment net assets for the years ended June 30, 2013 and 2012 were as follows:

(in thousands)

2013								
	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
Endowment net assets at beginning of year	$	205,078	$	86,989	$	242,383	$	534,450
Investment return								
Investment income, net of fees		2,981		3,906		772		7,659
Net realized gain		3,909		5,752		-		9,661
Net unrealized gain		8,409		17,790		3,587		29,786
Reclassification for funds with deficiencies		2,110		(2,110)		-		-
Total endowment return		17,409		25,338		4,359		47,106
Contributions				12,176		3,029		15,205
Use of endowment assets								
Annual transfer for operations		(9,348)		(14,268)		(2,534)		(26,150)
Other transfers		632		1,260		(1,947)		(55)
Total uses		(8,716)		(13,008)		(4,481)		(26,205)
Endowment net assets at end of year	$	213,771	$	111,495	$	245,290	$	570,556

2012								
	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
Endowment net assets at beginning of year	$	219,387	$	104,394	$	236,458	$	560,239
Investment return								
Investment income, net of fees		2,737		3,545		201		6,483
Net realized gain		566		1,963		23		2,552
Net unrealized (loss) gain		(2,488)		(7,008)		1,712		(7,784)
Reclassification for funds with deficiencies		(4,295)		4,295		-		-
Total endowment return		(3,480)		2,795		1,936		1,251
Contributions		-		522		5,722		6,244
Use of endowment assets								
Annual transfer for operations		(10,665)		(14,297)		(1,237)		(26,199)
Other transfers		(164)		(6,425)		(496)		(7,085)
Total uses		(10,829)		(20,722)		(1,733)		(33,284)
Endowment net assets at end of year	$	205,078	$	86,989	$	242,383	$	534,450

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, while other assets maintain or exceed the level required. In accordance with accounting principles generally accepted in the United States, the aggregate amount of these 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 $6,454,000 and $8,564,000 as of June 30, 2013 and 2012, 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 is computed on a straight-line basis over the lesser of the estimated useful lives of the assets (or term of the lease) or depreciated over the following useful lives: for equipment, between 3 and 30 years; software, between 3 and 7 years; land and building improvements, between 5 and 25 years; and buildings, between 30 and 60 years.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $809,000 and $3,110,000 at June 30, 2013 and $743,000 and $3,176,000 at June 30, 2012, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. In 2013 and 2012, depreciation and accretion expense amounted to $62,000 and $150,000, respectively, and $121,000 and $104,000, respectively.

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

	(in thousands) 2013	2012
Works of art	$ 10,670	$ 10,589
Land and improvements	80,486	70,104
Buildings and improvements	775,593	704,955
Equipment, software and library books	182,834	180,989
Construction in progress	105,464	66,455
	1,155,047	1,033,092
Less: Accumulated depreciation	(351,314)	(326,983)
Total land, buildings and equipment	$ 803,733	$ 706,109

9. Leases

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

(in thousands)	
2014	$ 16,233
2015	14,332
2016	13,796
2017	13,579
2018	12,804
Thereafter	53,901
Total minimum lease payments	$ 124,645

Total rent expense for operating leases amounted to $21,854,000 and $14,830,000 for the years ended June 30, 2013 and 2012, respectively.

The University leases educational, research, and medical office space from Tenet under an operating lease expiring June 30, 2022. The future minimum payments are included in the table above. Total rent expense for the Tenet operating lease was $7,991,000 for each of the years ended June 30, 2013 and 2012.

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 no expenditures for improvements in fiscal years 2013 or 2012. Estimated costs for the required improvements amounted to $2,930,000 and $2,993,000 at June 30, 2013 and 2012, respectively. These costs have been capitalized and a comparable capital lease liability recorded.

10. Bonds and Notes Payable

Description	Project	Maturity	Interest Rate	2013 (in thousands)	2012 (in thousands)
Dormitory Bonds of 1965	Kelly Hall	2014-2015	3.00-3.50%	$ 220	$ 320
Dormitory Bonds of 1969	Calhoun Hall	2014-2019	3.00%	425	490
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2014-2015	3.00%	198	299
Pennsylvania Higher Educational Facilities Authority Revenue Bonds					
Second Series of 2000	Capital improvements and equipment	2019-2026	Variable	22,500	22,500
Series A of 2002	Matheson Hall improvements, new research center, advance refunding	Refunded			11,950
Series B of 2002	Matheson Hall improvements, new research center, other improvements	2015-2032	Variable	42,140	42,140
Series A of 2003	Advance refunding	Refunded			20,659
Series A of 2005	Capital improvements and equipment	2014-2034	3.20-5.00%	28,184	29,043
Series B of 2005	Advance refunding	2019-2030	Variable	29,625	29,625
Series A of 2007	New laboratory	2030-2037	4.50-5.00%	95,661	95,800
Series B of 2007	Dormitory & Wellness Center; capital improvements and equipment	2014-2037	Variable	27,675	28,295
Series A of 2011	Partial cost of buildings for the Colleges of Business and Media Arts & Design, Department of Biology; Stratton Hall renovations; advance refunding	2014-2041	2.00-5.25%	157,514	158,774
Series of 2012	Advance refunding	2014-2032	1.00-5.00%	30,540	
TD bank loan	3501 Market & 3401 Filbert Street buildings				5,842
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements and equipment	2014-2037	3.75-5.00%	20,943	21,438
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	One Drexel Plaza Evening College renovations	2014	3.00%	11	76
Total bonds and notes payable				$ 455,636	$ 467,251

The variable rates of interest on the Pennsylvania Higher Educational Facilities Authority Revenue Bonds are based on the weekly rate determined by the remarketing or auction agent, not to exceed 16% per annum. The total market value of the $433,839,000 bonds was $461,723,000 at June 30, 2013, based on a comparison to current interest rates. The bonds are considered to be a Level 2 liability.

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

The 2000, 2002, 2005, 2007, 2011 and 2012 bonds are secured by a security interest in unrestricted gross revenues. The TD Bank loan is secured by a first property lien on the properties. The Philadelphia Industrial Development Corporation loans are secured by a mortgage lien on One Drexel Plaza.

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

	(in thousands)		
	Maturities	Remarketed Debt	Total Debt
2014	$ 6,121	$ 650	$ 6,771
2015	8,749	680	9,429
2016	10,438	710	11,148
2017	11,438	745	12,183
2018	11,913	780	12,693
Thereafter	285,037	118,375	403,412
			$ 455,636

The Second Series of 2000 and Series B of 2002, Series B of 2005 and Series B of 2007 bonds have remarketing terms and related standby letters of credit which could change the maturity dates to the fiscal years 2016, 2015 and 2014, respectively, based on the current expiration dates of the letters of credit (see Note 14). These issues have been included in the above table based on the stated maturity dates. The University is in compliance with the covenants contained in the various loan agreements.

Lines of Credit

PHEC entered into a term note - line of credit of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available through June 30, 2014, 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, 2013 and 2012.

Total unsecured Revolving Credit Facilities (“Facilities”) of $55,000,000 mature on June 30, 2014, and accrue interest based on Libor (subject to a floor of 0.75%) for the University and Libor (subject to a floor of 1.00%) plus 0.25% for PHEC. They can be extended annually based upon the mutual agreement of the University and PHEC and the bank maintaining the Facilities. At June 30, 2013 and 2012, the interest rates were 0.75% for the University and 1.25% for PHEC, respectively, and there were no amounts outstanding.

11. Retirement Plans

Defined Benefit and Defined Contribution Plans

The University and PHEC maintain contributory retirement plans which provide for the purchase of annuity contracts and mutual funds for the majority of full-time faculty and certain nonacademic employees. The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was $30,802,000 and $28,853,000 in 2013 and 2012, respectively.

Through December 31, 2009, ANS offered participation in either a defined benefit pension plan or a defined contribution retirement plan which are currently frozen to new members. Annual pension benefits are based upon a percentage of preretirement compensation. For the defined benefit pension plan, this percentage increases with years of service and the annual payment is adjusted based upon social security benefits. ANS funding policy is to contribute annually an amount as required by the Employee Retirement Income Security Act of 1974. For the defined contribution pension plan, contributions are based on a flat eight (8%) percent of annual compensation

Effective January 1, 2010, ANS established a new defined contribution 403(b) Retirement Plan for all eligible ANS employees. The new plan replaces both the defined benefit and TIAA-CREF plans for all new employees with a minimum of one year of service who are not otherwise eligible for the previous plans. For the year ended June 30, 2013, there were no employer contributions to the defined contribution plan. ANS did make required contributions to the frozen defined benefit plan in the amounts of $545,000 and $271,000 for 2013 and 2012.

The assumptions for the pension liabilities, the Accumulated Benefit Obligation, change in Projected Benefit Obligation, and change in Plan Assets are noted as follows:

	(in thousands)	
	2013	**2012**
Weighted average assumptions as of June 30		
Discount rate	5.00 %	4.40 %
Expected return on plan assets	6.75 %	6.75 %
Accumulated benefit obligation		
Accumulated benefit obligation at June 30	$ 14,841	$ 15,468
Change projected in benefit obligation		
Net benefit obligation at June 30	$ 15,468	$ 14,397
Service costs	92	46
Interest costs	665	350
Actuarial (gain)/loss	(771)	938
Gross benefits paid	(613)	(263)
Net benefit obligation at June 30	$ 14,841	$ 15,468

	(in thousands) 2013	2012
Change in plan assets		
Fair value of plan assets at beginning of year	$ 8,645	$ 8,215
Actual return on plan assets	760	421
Employer contributions	546	271
Gross benefits paid	(613)	(262)
Fair value of plan assets at June 30	$ 9,338	$ 8,645
Fair value of plan assets	$ 9,338	$ 8,645
Benefit obligation	(14,841)	(15,468)
Net amount recognized at June 30*	$ (5,503)	$ (6,823)

* These amounts are recognized in the financial statements including the statement of financial position in the Other Liabilities classifications.

The components of net periodic benefit cost are noted below:

	(in thousands) 2013	2012
Weighted average assumptions used to used to determine net periodic benefit cost		
Discount rate	4.40 %	5.00 %
Expected return on plan assets	6.75 %	7.00 %
Components of net periodic benefit cost		
Service costs	$ 92	$ 46
Interest costs	665	350
Expected return on assets	(587)	(288)
Amortization of actuarial (gain) loss	(944)	805
Net periodic benefit cost	$ (774)	$ 913

As of June 30, 2013 and 2012, the measurement date used by ANS, the pension plan had a projected benefit obligation and an accumulated benefit obligation in excess of plan assets. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan are as follows as of June 30, 2013 and 2012:

	(in thousands) Projected Benefit Obligation Exceeds Fair Value of Plan Assets	
	2013	**2012**
Projected benefit obligation	$ 14,841	$ 15,468
Fair value of plan assets	9,338	8,645

	(in thousands) Accumulated Benefit Obligation Exceeds Fair Value of Plan Assets	
	2013	**2012**
Accumulated benefit obligation	$ 14,841	$ 15,468
Fair value of plan assets	9,338	8,645

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

	(in thousands)
Expected benefit payments	
2014	$ 700
2015	740
2016	774
2017	837
2018	904
2019-2022	$ 5,021

Plan Assets

The ANS pension plan weighted-average asset allocations at June 30, 2013 and 2012 by asset category are as follows:

	(in thousands)	
	2013	**2012**
Asset category		
Equity securities	30.6 %	27.6 %
Fixed income securities	37.5	37.4
Hedge fund and alternative investments	28.0	32.5
Cash	3.9	2.5
	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 ANS investment strategy is based on identifying the appropriate mix of assets that achieve an optimal balance between risk and investment return potential. The strategy focuses on five fundamental decision points:

Overall portfolio risk
Diversification across equity markets
Diversification across fixed income markets
Allocation to hedge funds
Allocation to real estate

Accordingly, the composition of the ANS plan assets is characterized as a 40%, 22%, and 38% allocation between equity, alternative investments, and fixed income investments. 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 ANS to invest in a diversified manner with a mix of assets that are set not to be highly correlated. This diversity is designed to reduce the potential of a single security or asset class from having a disproportionate or significant impact on the portfolio.

The expected rate of return on assets was based on the current interest rate environment and historical market premiums of equity and other asset classes relative to fixed income rates.

The following table sets forth by level, within the fair value hierarchy, the ANS pension plan assets at fair value at June 30, 2013 and 2012:

	(in thousands) 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Cash equivalents	$ 356	$ -	$ -	$ 356
Mutual funds	5,885	-	-	5,885
Alternative investments	-	-	3,097	3,097
	$ 6,241	$ -	$ 3,097	$ 9,338

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Cash equivalents	$ 208	$ -	$ -	$ 208
Mutual funds	5,403	-	-	5,403
Alternative investments	-	-	3,034	3,034
	$ 5,611	$ -	$ 3,034	$ 8,645

The following table sets forth a summary of changes in the fair value of ANS plan's Level 3 assets for the year ended June 30, 2013 and six months ended June 30, 2012:

	(in thousands) 2013	2012
Assets at beginning of year	$ 3,034	$ 3,002
Dividends and interest	38	-
Net unrealized gain	196	159
Transfers out	(171)	(127)
Assets at end of year	$ 3,097	$ 3,034

12. Other Post-Retirement Benefits

In addition to retirement plan benefits, the University also provides postretirement benefits to retirees in the form of group life insurance, major medical insurance and tuition remission. University employees may become eligible for these benefits if they reach the age and service requirements of the plans while working for the University. The postretirement health care plan is contributory, and the life insurance plan is noncontributory.

The net periodic postretirement benefit costs and related funded status as of June 30 are shown below. Adjustments to the unfunded status amounted to ($3,910,000) and $6,424,000 respectively, for the years ended 2013 and 2012 and are reflected in the consolidated statements of activities and included in postretirement benefits in the consolidated statements of financial position.

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

Plan's Funded Status:

	(in thousands) 2013	2012
Change in Benefit Obligation		
Benefit Obligation, Beginning of Year	$ 45,017	$ 35,826
Service Cost	2,266	1,579
Interest Cost	1,818	1,912
Actuarial (Gain)/Loss	(2,265)	7,501
Plan Participant Contributions	353	589
Actual Benefits Paid	(2,101)	(2,390)
Benefit Obligation, End of Year	45,088	45,017
Change in Plan Assets		
Fair Value of Plan Assets, Beginning of Year	-	-
Employer Contributions	1,748	1,801
Plan Participant Contributions	353	589
Actual Benefits Paid	(2,101)	(2,390)
Fair Value of Plan Assets, End of Year	-	-
Unfunded Status of the Plan	$ 45,088	$ 45,017
Weighted Average Assumptions to Determine Benefit Obligations and Net Cost as of June 30		
Discount Rate	4.00% - 4.65%	4.00% - 5.40%
Ultimate Retiree Health Care Cost Trend	5.00%	5.00%
Year Ultimate Trend Rate is Achieved	2025	2025

For measurement purposes, a 9.80% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 grading down to ultimate rates of 5.0% in the year 2025 and thereafter.

Net Periodic Benefit Cost:

	(in thousands) 2013	2012
Components of Net Periodic Benefit Cost		
Service Cost	$ 2,266	$ 1,579
Interest Cost	1,818	1,912
Amortization of Net (Gain)/Loss	1,645	1,077
Net Periodic Benefit Cost	$ 5,729	$ 4,568
Other Changes Recognized in Unrestricted Net Assets		
Net Actuarial (Gain)/Loss	$ (2,265)	$ 7,501
Amortization of Actuarial Net (Gain)/Loss	(1,645)	(1,077)
Total Recognized in Unrestricted Net Assets	$ (3,910)	$ 6,424
Amounts not yet reflected in Net Periodic Benefit Cost and included in Unrestricted Net Assets		
Actuarial (Gain)/Loss	$ 17,487	$ 21,397
Amounts in Unrestricted Net Assets, End of Year	$ 17,487	$ 21,397
Amounts in Unrestricted Net Assets Expected to be Recognized in Net Periodic Benefit Cost in Fiscal 2014		
Actuarial (Gain)/Loss	$ 1,170	

In 2013 and 2012, the effect of a 1% change in the health care cost trend rate is as follows:

	2013		2012	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on Net Periodic Benefit Cost	$ 4,659	$ (4,091)	$ 4,001	$ (3,544)
Effect on Postretirement Benefit Obligation	20,361	(18,399)	27,314	(24,734)

Contributions:
Expected contributions for the 2014 fiscal year are $1,170,000.

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

	(in thousands)
Year Ending June 30:	
2014	$ 2,237
2015	2,302
2016	2,374
2017	2,448
2018	2,531
Thereafter	14,129

13. Professional Liability Insurance

PHEC maintained commercial, occurrence-based insurance coverage for professional liability claims that occurred from November 10, 1998 through November 10, 2003. Beginning on November 10, 2003, PHEC purchased primary and excess insurance coverage from the RRRG on a claims-made basis. The RRRG provides primary coverage of $500,000 for physicians and midwives and up to $1,000,000 for other health professions and entity coverage. PHEC's 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, PHEC self-insures a layer of excess of up to $2,000,000 above the Mcare Fund. The RRRG provides excess coverage above the self-insured layer of an additional $5,000,000.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2013 and 2012, the University, PHEC and the RRRG recorded gross combined reserves of $31,623,000 and $35,073,000, respectively, and related recoveries from third party insurers of $5,300,000 and $6,164,000, respectively. For fiscal years 2013 and 2012, the reserves were discounted at 6.25% for the RRRG retained layer and 2% for the layers retained by University, PHEC and excess carriers. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying 2013 consolidated statements of financial position. In 2013, the liability, net of the reinsurance recovery, is recorded in accrued expenses (see recent accounting pronouncements above). At June 30, 2013 and 2012, escrow funds of $11,360,000 and $10,174,000, respectively, and balanced index funds of $29,601,000 and $26,373,000 at June 30, 2013 and 2012, respectively, are available to fund these liabilities (Note 5).

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 net income or cash flow.

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

Litigation

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

Other Commitments and Contingencies

PHEC maintains a letter of credit in the amount of $260,000 for the benefit of Pennsylvania Manufacturer’s Association associated with workers’ compensation insurance. The letter of credit will expire on March 14, 2014 and is renewed annually. There were no amounts outstanding as of June 30, 2013 or 2012.

PHEC also 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. It expires on May 14, 2014 and is renewed annually. There were no amounts outstanding as of June 30, 2013 or 2012.

The University maintains four letters of credit totaling $2,200,000 associated with workers’ compensation insurance. The agreements are renewable annually. There were no amounts outstanding as of June 30, 2013 and 2012.

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

- The Second Series of 2000 bond has a letter of credit in an amount not to exceed $22,500,000, plus required interest coverage, which will expire June 1, 2016.
- The Series B of 2002 bond has a letter of credit in an amount not to exceed $42,140,000, plus required interest coverage, which will expire June 1, 2016.
- The Series B of 2005 bond has a letter of credit in an amount not to exceed $30,047,055 which will expire September 30, 2014.

- 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 7, 2014.

There were no amounts outstanding on these bond-related Letters of Credit as of June 30, 2013 and 2012.

On June 30, 2012, the ANS $2,500,000 line of credit agreement with Citizen's Bank expired and was replaced by a new line of credit with the University. This unsecured line of credit allows ANS to borrow up to $1,500,000 to meet short term cash flow needs. It expires on June 30, 2014 and will automatically renew for an additional 12-month period unless a 30-day notice of non-renewal is provided. The amount outstanding at June 30, 2013 was $1,078,000.

15. Related Party Transactions

PHEC has various operating agreements with Tenet. Under these agreements, PHEC acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2013 and 2012 were $12,269,000 and $12,571,000, respectively. These services include charges for various personnel, administrative and support services related to operating PHEC and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs and services and support provided by physicians to support hospital operations. Total charges to Tenet for these services amounted to $23,836,000 and $21,287,000 for the years ended June 30, 2013 and 2012, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

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)	
	2013	**2012**
College programs	$ 34,312	$ 32,665
Research and public service	20,007	20,958
Academic support	6,177	5,401
Student services	12,855	11,031
Institutional support	7,668	7,178
Auxiliary enterprises	21,238	19,690
Patient care activities	2,912	3,149
	$ 105,169	$ 100,072

17. Academy of Natural Sciences Acquisition

On September 13, 2011, the University entered into an affiliation agreement with the Academy of Natural Sciences of Philadelphia ("ANS") whereby, effective on September 30, 2012, the University undertook a controlling interest in ANS establishing it as a non-for-profit subsidiary of the University. No monetary consideration was exchanged in this transaction. Both the ANS and the University retain their separate corporate identities and missions. ANS remains a separate 501(c)(3) nonprofit organization with its own Board of Trustees and retains its corporate name (d.b.a. The Academy of Natural Sciences of Drexel University). The University is the sole voting member of ANS.

The University assumed responsibility for the fiscal condition of ANS and the management of its financial resources. ANS endowment funds will continue to be used only for the benefit of ANS and to support its operations, programs and activities and all restrictions on such funds will continue to be honored. ANS collections and scientific resources will be preserved and managed in a manner to enhance scientific and reputational value and they are not to be liquidated or sold for budgetary reasons. Care and preservation of the collections and scientific resources will be overseen by the ANS Board of Trustees.

The affiliation agreement with ANS was accounted for using the acquisition method of accounting as set forth in ASC topic 958-805, *Not-for-Profit Business Combinations,* and therefore assets acquired and liabilities assumed were recorded at estimated fair value. Accordingly, an independent appraisal of ANS land and buildings was obtained whereby an adjustment of $5,869,233 was recorded to increase these assets to fair value.

ANS has converted from a calendar year organization to a June 30th fiscal year organization, beginning January 1, 2012 through June 30, 2012 and for each June 30th thereafter, matching Drexel's fiscal year. A final calendar year financial report was completed for the year ended December 31, 2011 followed by a stub year financial report for the six months ended June 30, 2012. Separate financial disclosures were included in these reports for the period from September 30, 2011 (the effective date of the affiliation) through June 30, 2012.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date:

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2011

Assets	
Cash	$ 3,897,573
Accounts receivable, net of reserve for uncollectible accounts ($73,416)	946,523
Grants receivable	297,568
Contributions receivable	607,867
Investments	41,974,212
Property and equipment	20,580,731
Beneficial interest in trust	6,678,072
Other assets	513,797
Total assets	$ 75,496,343
Liabilities and net assets	
Liabilities	
Accounts payable and accrued expenses	$ 790,630
Deposits	203,362
Other liabilities	6,887,748
Notes payable	1,100,000
Total liabilities	8,981,740
Net assets	
Unrestricted	15,087,791
Temporarily restricted	7,474,399
Permanently restricted	43,952,413
Total net assets	66,514,603
Total liabilities and net assets	$ 75,496,343

The University has recognized the excess of net assets acquired over consideration transferred as a nonoperating addition in its consolidated statement of activities.

For the nine months ended June 30, 2012, ANS reported the following summary results, net of eliminations for intercompany transactions, which have been included in the University's Consolidated Statement of Activities:

	For the Nine Months Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total support and revenues	$ 6,286,095	$ 2,146,190	$ -	$ 8,432,285
Net assets released from restriction	3,317,044	(3,317,044)		-
Total operating revenues	9,603,139	(1,170,854)	-	8,432,285
Total operating expenses	12,367,062	-	-	12,367,062
Change in net assets from operating activity	(2,763,923)	(1,170,854)	-	(3,934,777)
Nonoperating activities	131,388	565,548	3,720,202	4,417,138
Change in net assets	(2,632,535)	(605,306)	3,720,202	482,361
Net assets				
September 30, 2011	15,087,791	7,474,399	43,952,413	66,514,603
June 30, 2012	$ 12,455,256	$ 6,869,093	$ 47,672,615	$ 66,996,964

The University's unaudited estimated pro forma revenue and changes in unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets for the fiscal years ending June 30, 2012 and 2011, as if the acquisition had occurred at July 1, 2010, are:

	Revenues	Change in Unrestricted Net Assets	Change in Temporarily Restricted Net Assets	Change in Permanently Restricted Net Assets
July 1, 2011 to June 30, 2012	$ 924,712,000	$ 18,440,000	$ (47,000)	$ 9,424,000
July 1, 2010 to June 30, 2011	$ 907,451,000	$ 53,015,000	$ 88,524,000	$ 17,998,000

18. Subsequent Events

The University evaluated events subsequent to June 30, 2013 through December 3, 2013 and determined that, except as noted below, there were no additional events requiring adjustment to or disclosure in the consolidated financial statements.

Dornsife Center - New Market & Historic Tax Credits:
In August 2013, the University executed several agreements with U.S. Bancorp ("USB") and Philadelphia Industrial Development Corporation ("PIDC") for the development of the Dornsife Community Extension Center located at 3509-13 Spring Garden Street, Philadelphia as approved by the Board of Trustees and associated committees by Resolutions in September and December 2012. Pursuant to the agreements the University provided funding of $7 million, while USB and PIDC provided $4 million in New Market Tax Credits and $1.3 million in Historic Tax Credits for the establishment and renovation of the center. The University's portion of the funding

was provided by a $10 million gift received from the Dornsife family in fiscal year 2012 a portion of which was also used to fund the acquisition of the 3509 property in February 2013. The property is held by a Qualified Active Low Income Community Business or QALICB.

3400 Lancaster Avenue:
In September 2013, pursuant to the Resolution approved by the Board of Trustees and associated committees in December 2012, the University executed all necessary agreements for a ground lease and site development of 3400 Lancaster Avenue, Philadelphia, PA with American Campus Communities ("ACC") allowing for the development of a mixed use, retail and student housing, at ACC's sole cost and expense. It is anticipated that the new facility will provide 1,248 beds, parking, a 22,500 square foot dining facility and approximately 20,000 square feet of retail space.

University Crossings:
In September 2013, pursuant to the Resolution approved in December 2012 by the Board of Trustees and associated committees, the University executed all necessary agreements with ACC for the acquisition and lease back of the land and the acquisition of the air rights for the property known as University Crossings, 3175 John F. Kennedy Boulevard, Philadelphia. The transfer of the land will be a donation given in part in consideration for the University leasing the property to ACC pursuant to a Ground Lease. ACC retained ownership of the existing structure on the property consisting of 261 units with a total bed capacity of 1,016 and 52,000 square feet of academic space.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATING STATEMENTS of FINANCIAL POSITION as of June 30, 2013 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API, DeL and ANS	PHEC and RRRG	Elimination Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 61,105	$ 20,327	$ -	$ 81,432
Risk Retention Group cash	-	6,072	-	6,072
Accounts receivable, net:				
Tuition	54,244	2,452	(2,452)	54,244
Grants, contracts and other	43,518	16,777	-	60,295
Patients	-	8,537	-	8,537
Tenet Healthcare Corporation	-	3,119	-	3,119
Total accounts receivable, net	97,762	30,885	(2,452)	126,195
Contributions receivable, net	80,543	1,657	-	82,200
Other assets	15,657	3,577	-	19,234
Deposits with bond trustees	29,013	1,491	-	30,504
Student loans receivable, net	24,992	10,864	-	35,856
Beneficial interests in trusts	24,236	29,369	-	53,605
Investments	451,057	165,649	-	616,706
Land, buildings and equipment, net	747,561	58,540	(2,368)	803,733
Total assets	**$ 1,531,926**	**$ 328,431**	**$ (4,820)**	**$ 1,855,537**
LIABILITIES				
Accounts payable	$ 51,708	$ 8,497	$ -	$ 60,205
Accrued expenses	50,557	41,152	-	91,709
Payable to affiliate	2,452	-	(2,452)	-
Deposits	20,240	14,888	-	35,128
Deferred revenue	75,905	2,023	-	77,928
Capital leases, affiliate and other	2,930	2,368	(2,368)	2,930
Government advances for student loans	13,637	13,757	-	27,394
Postretirement benefits	50,741	-	-	50,741
Bonds and notes payable	434,693	20,943	-	455,636
Total liabilities	**702,863**	**103,628**	**(4,820)**	**801,671**
NET ASSETS				
Unrestricted	473,410	34,965	-	508,375
Temporarily restricted	187,545	67,915	-	255,460
Permanently restricted	168,108	121,923	-	290,031
Total net assets	**829,063**	**224,803**	**-**	**1,053,866**
Total liabilities and net assets	**$ 1,531,926**	**$ 328,431**	**$ (4,820)**	**$ 1,855,537**

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

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATING STATEMENTS of FINANCIAL POSITION as of June 30, 2012 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API, DeL and ANS	PHEC and RRRG	Elimin/Reclass Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 55,092	$ 11,539	$ -	$ 66,631
Risk Retention Group cash	-	3,961	-	3,961
Accounts receivable, net:				
Tuition	54,448	4,557	(4,557)	54,448
Grants, contracts and other	37,679	17,731	(2,816)	52,594
Patients	-	6,281	-	6,281
Tenet Healthcare Corporation	-	3,105	-	3,105
Total accounts receivable, net	92,127	31,674	(7,373)	116,428
Contributions receivable, net	99,087	1,949	-	101,036
Other assets	13,151	3,811	-	16,962
Deposits with bond trustees	85,685	1,491	-	87,176
Student loans receivable, net	19,782	12,563	-	32,345
Beneficial interests in trusts	25,633	18,256	-	43,889
Investments	422,063	159,024	-	581,087
Land, buildings and equipment, net	650,388	58,247	(2,526)	706,109
Total assets	**$ 1,463,008**	**$ 302,515**	**$ (9,899)**	**$ 1,755,624**
LIABILITIES				
Accounts payable	$ 49,416	$ 11,226	$ -	$ 60,642
Accrued expenses	50,934	45,011	-	95,945
Payable to affiliates	7,373	-	(7,373)	-
Deposits	18,279	6,266	-	24,545
Deferred revenue	76,710	2,167	-	78,877
Capital leases, affiliate and other	2,993	2,526	(2,526)	2,993
Government advances for student loans	13,661	13,453	-	27,114
Postretirement benefits	51,924	-	-	51,924
Bonds and notes payable	445,813	21,438	-	467,251
Total liabilities	**717,103**	**102,087**	**(9,899)**	**809,291**
NET ASSETS				
Unrestricted	401,350	27,613	-	428,963
Temporarily restricted	181,009	59,869	-	240,878
Permanently restricted	163,546	112,946	-	276,492
Total net assets	**745,905**	**200,428**	**-**	**946,333**
Total liabilities and net assets	**$ 1,463,008**	**$ 302,515**	**$ (9,899)**	**$ 1,755,624**

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

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATING STATEMENT of ACTIVITIES for the year ended June 30, 2013 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API, DeL and ANS	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 691,498	$ 69,022	$ (2,885)	$ 757,635
Less: institutional financial aid	(181,572)	(4,984)	-	(186,556)
Net student revenue	509,926	64,038	(2,885)	571,079
Patient care activities	-	101,991	-	101,991
State appropriations	4,752	3,458	-	8,210
Government grants and contracts	77,199	18,284	-	95,483
Private grants and contracts	12,447	3,657	-	16,104
Private gifts	32,835	5,659	-	38,494
Endowment payout under spending formula	20,431	5,906	-	26,337
Investment income	3,238	2,389	-	5,627
Sales and services of auxiliary enterprises	83,237	-	-	83,237
Other sources	29,643	28,333	(39,271)	18,705
Total operating revenue	**773,708**	**233,715**	**(42,156)**	**965,267**
OPERATING EXPENSE				
College programs	299,744	22,647	-	322,391
Research and public service	77,637	26,109	-	103,746
Academic support	20,406	6,979	-	27,385
Student services	43,713	1,964	(812)	44,865
Institutional support	130,844	26,349	(41,186)	116,007
Scholarships and fellowships	11,917	3,639	-	15,556
Auxiliary enterprises	44,826	-	-	44,826
Total education and general	**629,087**	**87,687**	**(41,998)**	**674,776**
Patient care activities		116,473	-	116,473
Operation and maintenance	34,655	13,408	-	48,063
Interest	18,257	964	-	19,221
Depreciation and amortization	29,706	8,337	(158)	37,885
Total operating expense	**711,705**	**226,869**	**(42,156)**	**896,418**
Change in net assets from operating activities	**62,003**	**6,846**	**-**	**68,849**
NON-OPERATING ACTIVITY				
Endowment and other gifts	2,074	7,158	-	9,232
Realized/unrealized net loss on investments net of endowment payout	14,504	10,377	-	24,881
Net assets acquired from the Academy of Natural Sciences				-
Other non-operating expense	4,577	(6)	-	4,571
Change in net assets from non-operating activities	**21,155**	**17,529**	**-**	**38,684**
Change in net assets	**83,158**	**24,375**	**-**	**107,533**
Net assets at beginning of year	**745,905**	**200,428**	**-**	**946,333**
Net assets at end of year	**$ 829,063**	**$ 224,803**	**$ -**	**$ 1,053,866**

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

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATING STATEMENT of ACTIVITIES for the year ended June 30, 2012 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 631,651	$ 68,190	$ (2,670)	$ 697,171
Less: institutional financial aid	(158,940)	(4,573)	-	(163,513)
Net student revenue	472,711	63,617	(2,670)	533,658
Patient care activities	-	96,538	-	96,538
State appropriations	4,476	2,457	-	6,933
Government grants and contracts	82,484	22,145	-	104,629
Private grants and contracts	8,290	5,009	-	13,299
Private gifts	39,680	4,384	-	44,064
Endowment payout under spending formula	18,859	6,024	-	24,883
Investment income	4,657	2,366	-	7,023
Sales and services of auxiliary enterprises	73,540	-	-	73,540
Other sources	27,664	26,261	(36,591)	17,334
Total operating revenue	**732,361**	**228,801**	**(39,261)**	**921,901**
OPERATING EXPENSE				
College programs	281,869	19,235	-	301,104
Research and public service	79,494	28,141	-	107,635
Academic support	19,384	6,338	-	25,722
Student services	40,542	2,071	(530)	42,083
Institutional support	121,654	29,098	(38,573)	112,179
Scholarships and fellowships	12,905	3,733	-	16,638
Auxiliary enterprises	42,393	-	-	42,393
Total education and general	**598,241**	**88,616**	**(39,103)**	**647,754**
Patient care activities	-	110,182	-	110,182
Operation and maintenance	29,748	15,828	-	45,576
Interest	19,094	983	-	20,077
Depreciation and amortization	27,007	7,570	(158)	34,419
Total operating expense	**674,090**	**223,179**	**(39,261)**	**858,008**
Change in net assets from operating activities	**58,271**	**5,622**	**-**	**63,893**
NON-OPERATING ACTIVITY				
Endowment and other gifts	4,911	1,579	-	6,490
Realized/unrealized net gain on investments, net of endowment payout	(23,693)	(9,296)	-	(32,989)
Net assets acquired from the Academy of Natural Sciences	66,514			66,514
Other non-operating expense	(8,598)	(1,139)	-	(9,737)
Change in net assets from non-operating activities	**39,134**	**(8,856)**	**-**	**30,278**
Change in net assets	**97,405**	**(3,234)**	**-**	**94,171**
Net assets at beginning of year	**648,500**	**203,662**	**-**	**852,162**
Net assets at end of year	**$ 745,905**	**$ 200,428**	**$ -**	**$ 946,333**

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