

**PHILADELPHIA HEALTH &  
EDUCATION CORPORATION –  
DREXEL UNIVERSITY  
COLLEGE OF MEDICINE  
AND SUBSIDIARY**

**FINANCIAL REPORT**  
June 30, 2009



**DREXEL UNIVERSITY  
COLLEGE OF MEDICINE**

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Philadelphia Health & Education Corporation  
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine, and its subsidiary (the "College") as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the College at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

September 17, 2009

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -  
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**  
**CONSOLIDATED STATEMENTS of FINANCIAL POSITION**  
as of JUNE 30, 2009 and 2008 (in thousands)

<b>ASSETS</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Cash and cash equivalents:		
Operating cash	\$ 7,195	\$ 10,411
Risk Retention Group cash	4,398	3,354
Accounts receivable, net:		
Patients	6,081	6,194
Grants, contracts and other	10,391	10,840
Drexel University, tuition and other	9,252	1,665
Tenet HealthSystem	1,530	801
Total accounts receivable, net	<u>27,254</u>	<u>19,500</u>
Contributions receivable, net	704	1,107
Other assets	7,207	6,355
Deposits with bond trustees	9,752	12,972
Beneficial interests in trusts	15,585	20,390
Investments	129,062	173,832
Student loans receivable, net	17,384	16,646
Buildings, property and equipment, net	<u>49,817</u>	<u>49,919</u>
<b>Total assets</b>	<b><u>\$ 268,358</u></b>	<b><u>\$ 314,486</u></b>
 <b>LIABILITIES</b>		
Accounts payable	\$ 11,749	\$ 10,565
Accrued expenses	36,504	36,762
Note payable to Drexel University		1,250
Deposits and deferred revenue	14,525	8,890
Capital leases, affiliate	2,999	3,157
Government advances for student loans	12,892	12,765
Bonds payable	<u>22,817</u>	<u>22,847</u>
<b>Total liabilities</b>	<b><u>101,486</u></b>	<b><u>96,236</u></b>
 <b>NET ASSETS</b>		
Unrestricted	11,850	32,233
Temporarily restricted	50,097	79,006
Permanently restricted	<u>104,925</u>	<u>107,011</u>
<b>Total net assets</b>	<b><u>166,872</u></b>	<b><u>218,250</u></b>
 <b>Total liabilities and net assets</b>	<b><u>\$ 268,358</u></b>	<b><u>\$ 314,486</u></b>

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -  
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**  
CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2009 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Patient care activities	\$ 86,543			\$ 86,543
Affiliate tuition and fees (net of discounts of \$4,045)	55,322			55,322
Government grants and contracts	20,854			20,854
Private grants and contracts	3,717			3,717
State appropriations	10,123			10,123
Contributions	5,374	\$ 4,080		9,454
Endowment payout under spending formula	761	6,460	\$ 58	7,279
Investment income, net	1,923	108		2,031
Other revenue	7,907			7,907
Net assets released from restrictions	10,584	(10,432)	(152)	
<b>Total operating revenue</b>	<b><u>203,108</u></b>	<b><u>216</u></b>	<b><u>(94)</u></b>	<b><u>203,230</u></b>
<b>OPERATING EXPENSE</b>				
Patient care activities	104,499			104,499
Educational and general:				
Instruction	15,367			15,367
Research and public service	21,387			21,387
Academic support	9,618			9,618
Student services	2,025			2,025
Institutional support	24,337			24,337
Scholarships and fellowships	5,173			5,173
<b>Total educational and general</b>	<b><u>77,907</u></b>			<b><u>77,907</u></b>
Depreciation and amortization	6,658			6,658
Operation and maintenance	15,480			15,480
Interest	1,057			1,057
<b>Total operating expense</b>	<b><u>205,601</u></b>			<b><u>205,601</u></b>
<b>Change in net assets from operating activities</b>	<b><u>(2,493)</u></b>	<b><u>216</u></b>	<b><u>(94)</u></b>	<b><u>(2,371)</u></b>
<b>NON-OPERATING ACTIVITY</b>				
Contributions			3,043	3,043
Realized/unrealized loss on investments, including endowment payout	(17,839)	(29,125)	(5,035)	(51,999)
Other non-operating expense	(51)			(51)
<b>Change in net assets from non-operating activities</b>	<b><u>(17,890)</u></b>	<b><u>(29,125)</u></b>	<b><u>(1,992)</u></b>	<b><u>(49,007)</u></b>
<b>Change in net assets</b>	<b><u>(20,383)</u></b>	<b><u>(28,909)</u></b>	<b><u>(2,086)</u></b>	<b><u>(51,378)</u></b>
<b>Net assets at beginning of year</b>	<b><u>32,233</u></b>	<b><u>79,006</u></b>	<b><u>107,011</u></b>	<b><u>218,250</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 11,850</u></b>	<b><u>\$ 50,097</u></b>	<b><u>\$ 104,925</u></b>	<b><u>\$ 166,872</u></b>

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -  
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**  
CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2008 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Patient care activities	\$ 83,415			\$ 83,415
Affiliate tuition and fees (net of discounts of \$4,124)	53,628			53,628
Government grants and contracts	24,902			24,902
Private grants and contracts	3,973			3,973
State appropriations	10,077			10,077
Contributions	5,522	\$ 11,321		16,843
Endowment payout under spending formula	728	6,131	\$ 56	6,915
Investment income, net	2,312	2,049		4,361
Other revenue	7,975			7,975
Net assets released from restrictions	12,411	(12,411)		
<b>Total operating revenue</b>	<b><u>204,943</u></b>	<b><u>7,090</u></b>	<b><u>56</u></b>	<b><u>212,089</u></b>
<b>OPERATING EXPENSE</b>				
Patient care activities	97,141			97,141
Educational and general:				
Instruction	19,427			19,427
Research and public service	23,990			23,990
Academic support	9,789			9,789
Student services	1,936			1,936
Institutional support	25,600			25,600
Scholarships and fellowships	4,976			4,976
<b>Total educational and general</b>	<b><u>85,718</u></b>			<b><u>85,718</u></b>
Depreciation and amortization	6,352			6,352
Operation and maintenance	12,947			12,947
Interest	1,177			1,177
<b>Total operating expense</b>	<b><u>203,335</u></b>			<b><u>203,335</u></b>
<b>Change in net assets from operating activities</b>	<b><u>1,608</u></b>	<b><u>7,090</u></b>	<b><u>56</u></b>	<b><u>8,754</u></b>
<b>NON-OPERATING ACTIVITY</b>				
Contributions			1,444	1,444
Realized/unrealized loss on investments, including endowment payout	(3,420)	(27,560)	(2,239)	(33,219)
Other non-operating expense	(46)			(46)
<b>Change in net assets from non-operating activities</b>	<b><u>(3,466)</u></b>	<b><u>(27,560)</u></b>	<b><u>(795)</u></b>	<b><u>(31,821)</u></b>
<b>Change in net assets</b>	<b><u>(1,858)</u></b>	<b><u>(20,470)</u></b>	<b><u>(739)</u></b>	<b><u>(23,067)</u></b>
<b>Net assets at beginning of year</b>	<b><u>34,091</u></b>	<b><u>99,476</u></b>	<b><u>107,750</u></b>	<b><u>241,317</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 32,233</u></b>	<b><u>\$ 79,006</u></b>	<b><u>\$ 107,011</u></b>	<b><u>\$ 218,250</u></b>

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -  
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**  
CONSOLIDATED STATEMENTS of CASH FLOWS  
for the years ended JUNE 30, 2009 and 2008 (in thousands)

	<u>2009</u>	<u>2008</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (51,378)	\$ (23,067)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,500	6,194
Disposals of property and equipment	2	35
Contributions for long-term investment	(3,043)	(1,444)
Actuarial change on annuity liabilities	(244)	(406)
Realized/unrealized loss on investments	51,999	33,219
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(7,351)	356
Other assets	(852)	(678)
Accounts payable and accrued expenses	1,672	7,065
Deposits and deferred revenue	5,635	(2,949)
	<b>2,940</b>	<b>18,325</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(228,123)	(152,135)
Proceeds from sales and maturities of investments	225,699	148,520
Proceeds from student loan collections	1,450	1,262
Student loans issued	(2,188)	(2,841)
Purchase of property and equipment	(6,901)	(8,388)
Deposits placed with bond trustees		(21,985)
Use of deposits with bond trustees	3,220	8,990
	<b>(6,843)</b>	<b>(26,577)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowments	3,043	1,444
Payments on annuity obligations	(159)	(188)
Government advances (refunds) for student loans	127	(77)
Proceeds from short-term borrowings		1,250
Proceeds from long-term borrowings		22,870
Repayment of short-term debt	(1,250)	(5,000)
Repayment of long-term debt	(30)	(6,341)
	<b>1,731</b>	<b>13,958</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,172)</b>	<b>5,706</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>13,765</b>	<b>8,059</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 11,593</b>	<b>\$ 13,765</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 1,058	\$ 1,051
Amortization of capital lease	\$ 158	\$ 158

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -  
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for the years ended June 30, 2009 and 2008**

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**1. Organization and Summary of Significant Accounting Policies**

**Organization:**

The Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine (the "College or Corporation"), is a research university concentrating in medical and related education located in Philadelphia, Pennsylvania. On July 1, 2002, the Corporation became a non-profit affiliate of Drexel University ("Drexel"), a Philadelphia non-profit corporation. The Corporation is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code.

*Schuylkill Crossing Reciprocal Risk Retention Group* - The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG"), a majority-owned subsidiary of the College, operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by the College. Ownership of the RRRG is split 87%/13% between the College and Drexel.

At June 30, 2009, the assets and ownership equity of the RRRG amounted to \$38,683,000 and \$3,052,000 respectively; and the College's proportional interest in the RRRG's revenues and expenses were \$891,000 and \$2,091,000, respectively. At June 30, 2008, the assets and ownership equity of the RRRG amounted to \$31,205,000 and \$2,747,000, respectively; and the College's proportional interest in its revenues and expenses were \$916,000 and \$903,000, respectively. The balances and activities of the RRRG are included in the accompanying consolidated financial statements. The minority interest in the equity of the RRRG of \$1,360,000 and \$1,321,000 at June 30, 2009 and 2008, respectively, is included in accrued expenses.

*Affiliations and Agreements* - The College is party to an Academic Affiliation Agreement with Tenet HealthSystem Philadelphia, Inc. ("Tenet") intended to establish a relationship to foster continued coordination and integration between the College and Tenet hospitals. 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. Under the terms of the agreement, the College commits to furnish administrative, supervisory, and teaching services to Tenet at budgeted levels through June 30, 2022 (see Note 12).

The College is party to an agreement to provide teaching and administrative services to Drexel for the education of Drexel's medical students. The agreement, which automatically renews annually, is effective until June 30, 2010. In addition, the College has engaged Drexel to provide service and personnel for its administrative and academic operations (see Note 12).

## Significant Accounting Policies:

**Basis of Accounting** – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Under these principles, contributions or unconditional promises to give are recognized as revenues in the period received at their net present value, less an allowance for uncollectible pledges. Net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows.

**Permanently Restricted** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, donors of these assets permit the use of all or part of the income earned on these assets.

**Temporarily Restricted** – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the College in accordance with those stipulations or by the passage of time. Contributions and income from endowments for which restrictions have been met in the same fiscal year as their receipt are combined and reported with unrestricted revenues. The College classifies gifts to acquire long-lived assets as temporarily restricted net assets. The release of restriction occurs when the asset is placed in service.

**Unrestricted** – Net assets not subject to donor-imposed restrictions. These net assets 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. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

**Patient Care Activities** – Faculty physicians participate in several physician practice plans that are managed by the College. Revenue and expenses related to these practice plans are recorded by the College as patient care activities.

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payors for services rendered. The College provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement. In 2009 and 2008, revenue from Medicare and Medicaid programs combined and from managed care payors accounted for 18% and 54%, respectively, and 18% and 53%, respectively, of the College's gross patient service revenue.

**Cash and Cash Equivalents** – These are bank deposits and other investments with original maturities of 90 days or less.

