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

FINANCIAL REPORT
June 30, 2010

Drexel
UNIVERSITY

Deloitte.

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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, 2010 and 2009, 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, 2010 and 2009, 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 16, 2010

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

CONSOLIDATED STATEMENTS of FINANCIAL POSITION
as of JUNE 30, 2010 and 2009 (in thousands)

ASSETS	2010	2009
Cash and cash equivalents:		
Operating cash	$ 8,057	$ 7,195
Risk Retention Group cash	4,507	4,398
Accounts receivable, net:		
Patients	7,268	6,081
Grants, contracts and other	7,551	10,391
Drexel University, tuition and other	4,285	9,252
Tenet HealthSystem	2,175	1,530
Total accounts receivable, net	21,279	27,254
Contributions receivable, net	983	704
Other assets	3,379	7,207
Deposits with bond trustees	4,275	9,752
Beneficial interests in trusts	16,762	15,585
Investments	140,131	129,062
Student loans receivable, net	16,099	17,384
Buildings, property and equipment, net	55,010	49,817
Total assets	**$ 270,482**	**$ 268,358**
LIABILITIES		
Accounts payable	$ 10,209	$ 11,749
Accrued expenses	39,457	36,504
Deposits and deferred revenue	5,520	14,525
Capital lease, affiliate	2,841	2,999
Government advances for student loans	12,721	12,892
Bonds payable	22,372	22,817
Total liabilities	**93,120**	**101,486**
NET ASSETS		
Unrestricted	15,597	11,850
Temporarily restricted	54,666	50,097
Permanently restricted	107,099	104,925
Total net assets	**177,362**	**166,872**
Total liabilities and net assets	**$ 270,482**	**$ 268,358**

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, 2010 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Patient care activities	$ 91,118			$ 91,118
Affiliate tuition and fees (net of discounts of $4,523)	59,719			59,719
Government grants and contracts	22,254			22,254
Private grants and contracts	5,208			5,208
State appropriations	10,483			10,483
Contributions	407	$ 4,438		4,845
Endowment payout under spending formula	661	5,727	$ 49	6,437
Investment income, net	1,575	67		1,642
Other revenue	17,249			17,249
Net assets released from restrictions	10,819	(10,819)		
Total operating revenue	**219,493**	**(587)**	**49**	**218,955**
OPERATING EXPENSE				
Patient care activities	108,875			108,875
Educational and general:				
Instruction	18,924			18,924
Research and public service	24,913			24,913
Academic support	9,030			9,030
Student services	2,095			2,095
Institutional support	24,545			24,545
Scholarships and fellowships	4,799			4,799
Total educational and general	**84,306**			**84,306**
Depreciation and amortization	7,498			7,498
Operation and maintenance	15,153			15,153
Interest	883			883
Total operating expense	**216,715**			**216,715**
Change in net assets from operating activities	**2,778**	**(587)**	**49**	**2,240**
NON-OPERATING ACTIVITY				
Contributions			513	513
Realized/unrealized gain on investments, including endowment payout	1,057	5,156	1,612	7,825
Other non-operating expense	(88)			(88)
Change in net assets from non-operating activities	**969**	**5,156**	**2,125**	**8,250**
Change in net assets	**3,747**	**4,569**	**2,174**	**10,490**
Net assets at beginning of year	**11,850**	**50,097**	**104,925**	**166,872**
Net assets at end of year	**$ 15,597**	**$ 54,666**	**$ 107,099**	**$ 177,362**

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)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
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)	
Total operating revenue	**203,108**	**216**	**(94)**	**203,230**
OPERATING EXPENSE				
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
Total educational and general	**77,907**			**77,907**
Depreciation and amortization	6,658			6,658
Operation and maintenance	15,480			15,480
Interest	1,057			1,057
Total operating expense	**205,601**			**205,601**
Change in net assets from operating activities	**(2,493)**	**216**	**(94)**	**(2,371)**
NON-OPERATING ACTIVITY				
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)
Change in net assets from non-operating activities	**(17,890)**	**(29,125)**	**(1,992)**	**(49,007)**
Change in net assets	**(20,383)**	**(28,909)**	**(2,086)**	**(51,378)**
Net assets at beginning of year	**32,233**	**79,006**	**107,011**	**218,250**
Net assets at end of year	**$ 11,850**	**$ 50,097**	**$ 104,925**	**$ 166,872**

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, 2010 and 2009 (in thousands)

	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 10,490	$ (51,378)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization on property	7,340	6,500
Provision for uncollectible accounts	705	(1,443)
Loss on disposal of property and equipment		2
Contributions for long-term investment	(513)	(3,043)
Actuarial change on annuity liabilities	266	(244)
Realized/unrealized (gain) loss on investments	(13,092)	51,999
Changes in operating assets and liabilities:		
Accounts and contributions receivable	5,335	(5,877)
Other assets	3,828	(852)
Accounts payable and accrued expenses	826	1,672
Deposits and deferred revenue	(9,005)	5,635
Net cash provided by operating activities	**6,180**	**2,971**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(50,835)	(228,123)
Proceeds from sales and maturities of investments	51,681	225,699
Proceeds from student loan collections	2,135	1,419
Student loans issued	(1,194)	(2,188)
Purchase of property and equipment	(12,224)	(6,901)
Use of deposits with bond trustees	5,477	3,220
Net cash used in investing activities	**(4,960)**	**(6,874)**
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	513	3,043
Payments on annuity obligations	(146)	(159)
Government (refunds) advances for student loans	(171)	127
Repayment of note to Drexel		(1,250)
Repayment of long-term debt	(445)	(30)
Net cash (used in) provided by financing activities	**(249)**	**1,731**
Net increase (decrease) in cash and cash equivalents	**971**	**(2,172)**
Cash and cash equivalents at beginning of period	**11,593**	**13,765**
Cash and cash equivalents at end of period	**$ 12,564**	**$ 11,593**
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 1,093	$ 1,058
Amortization of capital lease	$ 158	$ 158
Amounts accrued for purchase of property, plant and equipment	$ 855	$ 388

See notes to consolidated financial statements.

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% and 13% between the College and Drexel, respectively.

At June 30, 2010, the assets and ownership equity of the RRRG amounted to $32,290,000 and $4,446,000 respectively; and the College's proportional interest in the RRRG's net investment income and net operating deficit were $877,000 and ($1,088,000), respectively. 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 net investment income and net operating deficit were $891,000 and ($2,091,000), 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 $1,455,000 and $1,360,000 at June 30, 2010 and 2009, 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 14).

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, 2011. In addition, the College has engaged Drexel to provide service and personnel for its administrative and academic operations (see Note 14).

Significant Accounting Policies:

Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. 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. 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. 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.

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 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 2010 and 2009, revenue from Medicare and Medicaid programs combined and from managed care payors accounted for 17% and 54%, respectively, and 18% and 54%, 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.

Contributions Receivable – Contributions and unconditional pledges are recognized at fair value.

Beneficial Interests in Trusts – These are funds over which the College has neither possession nor control, but is a beneficiary of their income and are therefore recorded at the present value of expected future cash flows. See Note 3 for the fair value of beneficial interests in trusts.

Fair Value of Financial Instruments – The College applies fair value measurements to contributions receivable, beneficial interests in trusts, endowment investments and self-insurance escrow funds. 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 are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts. See Notes 2, 3, 6 and 10 for additional fair value disclosures.

Non-operating Activities – Non-operating activities include permanently restricted contributions, loss on the disposal of equipment, gain/loss on investments in excess of the endowment spending rule and claims associated with the Allegheny Health, Education and Research Foundation.

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.

Recent Accounting Pronouncements - Effective for fiscal years ending after September 15, 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162*, as the sole source of authoritative accounting principles generally accepted in the United States of America for non-SEC registrants. Adoption of this guidance did not have a material effect on the financial statements. References in the footnotes have been updated to be consistent with the codification.

Effective July 1, 2008, the College implemented FASB Accounting Standards Codification ("ASC") 820-10, *Fair Value Measurements and Disclosures*, formerly SFAS No. 157, that defines fair value, requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements. ASC 820-10 clarifies that fair value should be based on assumptions about risk, risks inherent in valuation techniques and the inputs to valuations. It also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The impact of ASC 820-10 is limited to additional disclosures regarding fair value measurement (see Note 3).

Effective June 30, 2009, the College also adopted FASB Staff Position ("FSP") ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, formerly FSP 117-1. This ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization whether or not it is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (" UPMIFA") for the purpose of improving disclosures about both donor-restricted and board-designated endowment funds. The Commonwealth of Pennsylvania has not enacted UPMIFA as of the date of this report. Accordingly, the impact of ASC 958-205 is limited to additional disclosures regarding the College's endowment funds (see Note 4).

2. Investments and Investment Return

The College has an investment policy for endowment assets designed to maximize the total return on the assets invested 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 College 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 of the total portfolio.

At June 30, investments included the following:

	(in thousands)			
	2010		2009	
	Carrying Value	Cost	Carrying Value	Cost
Equity securities	$ 68,581	$ 70,596	$ 59,777	$ 69,080
Fixed income securities and bond funds	14,270	13,184	13,969	14,010
Alternative investments	19,052	19,996	14,635	17,216
Real estate and real assets	7,121	7,952	5,422	6,170
Money market funds	6,228	6,228	14,305	14,305
Total endowment investments	**115,252**	**117,956**	**108,108**	**120,781**
Self-insurance escrow funds (Note 12)	8,879	8,746	6,954	6,635
RRRG guaranteed investment contract (Note 12)	16,000	16,000	14,000	14,000
Total investments	**$ 140,131**	**$ 142,702**	**$ 129,062**	**$ 141,416**

The following summarizes the College's total investment return and its classification in the financial statements for the years ended June 30, 2010 and 2009:

	(in thousands)			
2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 661	$ 576		$ 1,237
Net realized and unrealized gain	1,057	10,374	$ 1,661	13,092
Return on endowment investments	1,718	10,950	1,661	14,329
Interest on other investments	1,575			1,575
Total return on investments	3,293	10,950	1,661	15,904
Investment return designated for current operations	(2,236)	(5,794)	(49)	(8,079)
Investment return in excess of amounts designated for current operations	**$ 1,057**	**$ 5,156**	**$ 1,612**	**$ 7,825**
2009				
Dividends and interest	$ 761	$ 802		$ 1,563
Net realized and unrealized loss	(17,839)	(23,359)	$ (4,977)	(46,175)
Loss on endowment investments	(17,078)	(22,557)	(4,977)	(44,612)
Interest on other investments	1,923			1,923
Total loss on investments	(15,155)	(22,557)	(4,977)	(42,689)
Investment return designated for current operations	(2,684)	(6,568)	(58)	(9,310)
Investment loss in excess of amounts designated for current operations	**$ (17,839)**	**$ (29,125)**	**$ (5,035)**	**$ (51,999)**

3. Fair Value of Financial Instruments

FASB ASC 820-10 establishes a three-level hierarchy for fair value measurements based on observable 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 at the measurement date.

The College 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 change in net assets in the Level 3 category is a required disclosure and is shown below. 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 and funds held by bond trustees.
>
> ***Level 2*** - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 primarily include non-exchange-traded fixed income securities, structured products and certain bond investments.
>
> ***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, annuity liabilities and contributions receivable (see Note 6).

The College 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 the valuation methodologies. There were no transfers between levels during the year ended June 30, 2010.

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

2010	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets at Fair Value:				
Deposits with bond trustees	$ 4,275	$ 4,275		
Beneficial interests in trusts	16,762	16,762		
Investments:				
Equity securities	68,581	68,581		
Fixed income securities and bond funds	14,270	9,114	$ 5,156	
Alternative investments	19,052			$ 19,052
Real estate and real assets	7,121	5,136		1,985
Money market funds	6,228	6,228		
Investments held in endowment	115,252	89,059	5,156	21,037
Self-insurance escrow funds (Note 12)	8,879	8,879		
Total investments at fair value	124,131	$ 97,938	$ 5,156	$ 21,037
Investments at Cost:				
RRRG guaranteed investment contract (Note 12)	16,000			
Total investments	140,131			
Total assets	**$ 161,168**			
Liabilities at Fair Value:				
Annuities	**$ 1,243**			**$ 1,243**

2009	Total	Level 1	Level 2	Level 3
Assets at Fair Value:				
Deposits with bond trustees	$ 9,752	$ 9,752		
Beneficial interests in trusts	15,585	15,585		
Investments:				
Equity securities	59,777	59,777		
Fixed income securities and bond funds	13,969	12,211	$ 1,758	
Alternative investments	14,635			$ 14,635
Real estate and real assets	5,422	3,969		1,453
Money market funds	14,305	14,305		
Investments held in endowment	108,108	90,262	1,758	16,088
Self-insurance escrow funds (Note 12)	6,954	6,954		
Total investments at fair value	115,062	$ 97,216	$ 1,758	$ 16,088
Investments at Cost:				
RRRG guaranteed investment contract (Note 12)	14,000			
Total investments	129,062			
Total assets	**$ 154,399**			
Liabilities at Fair Value:				
Annuities	**$ 1,123**			**$ 1,123**

Detailed information for Level 3 investments as of June 30, 2010 is as follows. The fair values of these investments 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).

	(in thousands)		Redemption	Redemption
	Fair Value	Unfunded Commitments	Frequency (if currently eligible)	Notice Period (if applicable)
Multi-Strategy Hedge Funds (a)	$ 5,938		Quarterly	65 days
Distressed Debt Hedge Funds (b)	6,263		Quarterly/Annually	90 days
Fixed Income Hedge Funds (c)	2,967		Monthly	60 days
Private Capital Funds - Secondaries (d)	384	$ 2,809		
Private Capital Funds - Venture Capital (e)	1,998	50		
Private Capital Funds - Distressed Debt (f)	1,502	1,539		
Real Asset Funds (g)	1,029	2,745		
Real Estate Funds (h)	956	1,461		
Total	**$ 21,037**	**$ 8,604**		

(a) This category includes investments in hedge funds that invest in a single hedge fund that runs several different strategies in-house that contribute to the total performance of the fund. Multi-strategy is different than a Fund of funds in that the money is kept in-house as opposed to being farmed out to external managers.

(b) This category includes investments in hedge funds that invest in debt of companies that are in or facing bankruptcy. The fund manager buys company securities at a low price, assuming that the company will come out of bankruptcy and that the securities will appreciate.

(c) This category includes investments in hedge funds that invest in corporate bonds, sovereign debt and currency forward contracts.

(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.

(e) This category includes investments in private equity funds that invest in venture capital. Venture capital funds pool and manage money from investors seeking private equity stakes in small and medium-size enterprises with strong growth potential.

(f) This category includes investments in private equity funds that invest in debt of companies that are in or facing bankruptcy. The fund manager buys company securities at a low price, assuming that the company will come out of bankruptcy and that the securities will appreciate.

(g) This category includes investments in private equity funds that invest in real assets (e.g. investments with intrinsic value such as real estate or commodities).

(h) This category includes investments in private equity funds that invest primarily in U.S. commercial real estate.

The net change in the assets included in the Level 3 fair value category using significant unobservable inputs as of June 30 is as follows:

	(in thousands)	
	2010	2009
Asset balance, beginning of year	$ 16,088	$ 11,354
Net unrealized gain (loss)	1,811	(2,783)
Net purchases and sales (including realized gain (loss)of ($385,000) in 2010 and $134,000 in 2009)	3,138	7,517
Asset balance, end of year	$ 21,037	$ 16,088
Liability balance, beginning of year	$ 1,123	$ 1,526
Actuarial change on annuity liabilities	266	(244)
Payment on annuity liabilities	(146)	(159)
Liability balance, end of year	$ 1,243	$ 1,123

4. Endowment Funds

The College'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 donor-restricted funds which the Board has earmarked for endowment purposes. The earnings on these funds are utilized by the College in a manner consistent with specific donor restrictions on the original contributions.

For the years ended June 30, 2010 and 2009, the College had an endowment spending rule that limited the spending of endowment resources to 5% of the average fair value of the pooled endowment portfolio for the prior three fiscal years. 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.

Interpretation of Relevant Law – The Board of Trustees of the College has interpreted Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. As a result of this interpretation, the College 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) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. 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, 2010 and 2009 is as follows:

	(in thousands)			
2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (10,130)	$ 13,824	$ 86,356	$ 90,050
Board-designated endowment funds	5,897	15,920		21,817
Total Net Assets	**$ (4,233)**	**$ 29,744**	**$ 86,356**	**$ 111,867**
2009				
Donor-restricted endowment funds	$ (12,411)	$ 10,938	$ 85,446	$ 83,973
Board-designated endowment funds	5,091	16,083		21,174
Total Net Assets	**$ (7,320)**	**$ 27,021**	**$ 85,446**	**$ 105,147**

Changes in endowment net assets are as follows:

	(in thousands)			
2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ (7,320)**	**$ 27,021**	**$ 85,446**	**$ 105,147**
Investment return:				
Investment income (loss), net of fees	99	1,071	(22)	1,148
Net realized (loss) gain	(3)	(29)	31	(1)
Net unrealized gain	906	9,892	180	10,978
Reclassification for funds with deficiencies	2,281	(2,281)		
Total investment return	3,283	8,653	189	12,125
Contributions		140	513	653
Use of endowment assets:				
Annual transfer for operations	(661)	(5,776)		(6,437)
Other transfers	465	(294)	208	379
Total uses	(196)	(6,070)	208	(6,058)
Endowment net assets, end of year	**$ (4,233)**	**$ 29,744**	**$ 86,356**	**$ 111,867**
2009				
Endowment net assets, beginning of year	**$ 9,173**	**$ 55,286**	**$ 82,880**	**$ 147,339**
Investment return:				
Investment income, net of fees	128	1,332		1,460
Net realized loss	(988)	(10,246)	(404)	(11,638)
Net unrealized loss	(2,457)	(26,082)	(114)	(28,653)
Reclassification for funds with deficiencies	(12,411)	12,411		
Total investment return	(15,728)	(22,585)	(518)	(38,831)
Contributions		1,003	3,043	4,046
Use of endowment assets:				
Annual transfer for operations	(761)	(6,518)		(7,279)
Other transfers	(4)	(165)	41	(128)
Total uses	(765)	(6,683)	41	(7,407)
Endowment net assets, end of year	**$ (7,320)**	**$ 27,021**	**$ 85,446**	**$ 105,147**

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 are unaffected to the same extent and maintain or exceed the level required. In accordance with generally accepted accounting principles, the aggregate amount of these deficiencies is reported in unrestricted net assets on the consolidated statement of activities. Subsequent investment gains will be used to restore the balances 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 $10,130,000 and $12,411,000 at June 30, 2010 and 2009, respectively.

5. Accounts and Loans Receivable

Accounts and student loans receivable, net of allowances, as of June 30 are as follows:

	(in thousands)	
	2010	**2009**
Accounts receivable		
Patient, net of contractual allowances	$ 12,592	$ 11,000
Grants, contracts and other	8,078	10,962
Drexel University tuition and other	4,285	9,252
Tenet HealthSystem	2,175	1,530
	27,130	32,744
Less allowance for doubtful accounts	(5,851)	(5,490)
Net accounts receivable	**$ 21,279**	**$ 27,254**
Student loans receivable	$ 17,755	$ 18,696
Less allowance for doubtful accounts	(1,656)	(1,312)
Net student loans receivable	**$ 16,099**	**$ 17,384**

6. 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 based on current yields for two-to-ten year U.S. Treasury notes, which averaged 2% and 2.3% for the years ended June 30, 2010 and 2009, respectively. The College considers these discount rates to be a Level 3 input in the context of FASB ASC 820-10 (see Note 3).

Net contributions receivable as of June 30 are as follows:

	(in thousands)	
	2010	**2009**
Amounts due in:		
Less than one year	$ 235	$ 444
One to five years	662	208
Greater than five years	138	80
Gross contributions receivable	1,035	732
Less discount to present value	(52)	(28)
Total contributions receivable, net	**$ 983**	**$ 704**

Outstanding conditional pledges, dependent upon the fulfillment of certain conditions, amounted to $2,996,000 and $2,499,000 at June 30, 2010 and 2009, respectively. Conditional pledges are not included in the consolidated financial statements.

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

	(in thousands)	
	2010	2009
Balance, beginning of year	**$ 704**	**$ 1,107**
New pledges	554	462
Collections on pledges	(251)	(918)
(Decrease) increase in discount to present value	(24)	53
Balance, end of year	**$ 983**	**$ 704**

7. Retirement Plan

All eligible employees of the College are offered retirement plan benefits through an IRS Section 403 (b) savings plan. The plan is the Philadelphia Health & Education Corporation Defined Contribution Retirement Plan ("Retirement Plan") and is administered by Teachers Insurance Annuity Association, Fidelity Investments and the Vanguard Group.

For the years ended June 30, 2010 and 2009, the College contributed $7,923,000 and $7,734,000 respectively, to the Retirement Plan, reported as institutional support in the consolidated statements of activities.

8. Buildings, Property and Equipment

Buildings, property and equipment owned by the College are stated at cost or, if acquired by gift, at the fair market value on the date of acquisition. The College has received the majority of its artwork through gifts. Artwork items received by gift prior to 1996 are carried at their 1996 appraised (insured) value. Depreciation and amortization is recorded using the straight-line method. Estimated useful lives are as follows: furniture, fixtures and medical equipment, between 5 and 10 years; computer equipment, 3 years; and software, 5 years. Leasehold improvements and buildings and improvements are amortized over the lesser of their useful lives or the term of the lease or depreciated over 25 to 30 years.

The College determined that it has legal obligations to retire certain facilities and equipment. Total asset retirement cost and the related obligation amounted to $78,000 and $210,000 at June 30, 2010 and $94,000 and $211,000 at June 30, 2009, respectively, and are included in buildings and improvements and accrued expenses, respectively, in the consolidated statements of financial position.

Buildings, property and equipment as of June 30 are summarized as follows:

	(in thousands) 2010	2009
Art collection	$ 1,659	$ 1,659
Leasehold improvements	25,150	24,842
Buildings and improvements	16,154	16,163
Equipment and software	52,777	49,556
Construction in progress	11,850	3,845
	107,590	96,065
Less accumulated depreciation and amortization	(52,580)	(46,248)
Buildings, property and equipment, net	**$ 55,010**	**$ 49,817**

9. Leases

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

	(in thousands)
2011	$ 11,837
2012	11,586
2013	11,157
2014	11,157
2015	10,427
Thereafter	67,193
Total minimum lease payments	**$ 123,357**

Total rent expense for operating leases amounted to $10,751,000 and $12,031,000 for the years ended June 30, 2010 and 2009, respectively.

Under the terms of a twenty-year operating lease ending June 30, 2022 with Tenet for educational and medical office space, payments equaled $22.38 per rentable square foot through November 9, 2008, for all space except for special use space, defined as certain research space, which equaled $27.38 per rentable square foot. Effective November 10, 2008, payments were reduced to a blended rate of $19.50 per rentable square foot for the remainder of the lease. The future minimum payments are included in the table above.

On July 1, 2003, the College entered into an agreement with Drexel to lease a building at 2900 Queen Lane, Philadelphia, Pennsylvania, for the sum of $1 annually for a period of 25 years. The proportional cost of the leased property, net of depreciation, has been capitalized and amounted to $2,841,000 and $2,999,000 at June 30, 2010 and 2009, respectively. A capital lease liability has been recorded for the same amount.

10. Bonds and Notes Payable

The Pennsylvania Higher Educational Facilities Authority, Drexel University College of Medicine Revenue Bonds, Series of 2007, were issued during fiscal 2008 in the amount of $21,985,000. The proceeds (1) refunded a mortgage loan; (2) financed capital improvements and equipment for the College's Medical Office Building located at 219 North Broad Street, Philadelphia, Pennsylvania, and other facilities used by the College and (3) funded capitalized interest, a debt service reserve fund and other associated costs. Interest accrues at fixed rates from 3.75% to 5% through the 2037 maturity date. The bonds are secured by a security interest in the College's unrestricted revenues, and Drexel has guaranteed to replenish the debt service reserve fund in the event the College fails to do so. At June 30, 2010, total bonds outstanding, including premium, were $22,372,000, with a fair value of $22,198,000. At June 30, 2009, the outstanding bonds, including premium, amounted to $22,817,000 and had a fair value of $18,669,000.

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

	(in thousands)
2011	$ 460
2012	475
2013	495
2014	510
2015	530
Thereafter	19,902
Total	**$ 22,372**

The College has 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 July 5, 2011, 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 was no amount outstanding at either June 30, 2010 or June 30, 2009.

In addition, the College maintains an unsecured $10,000,000 Revolving Credit Facility (the "Facility") that accrues interest based on Libor (subject to a floor of 1.00%) plus .25% and matures on April 1, 2011. It can be extended annually based upon the mutual agreement of the College and the bank maintaining the Facility. At June 30, 2010 and 2009, the Facility accrued interest at 1.25% and .54%, respectively; and there were no amounts outstanding.

11. Net Assets

Net assets as of June 30 are as follows:

	(in thousands) 2010	2009
Unrestricted:		
Undesignated	$ (29,495)	$ (30,701)
Designated for:		
Colleges, departments and student loans	11,603	11,390
Physical plant	37,722	38,481
Quasi-endowment funds	5,897	5,091
Reclassification for endowments with deficiencies	(10,130)	(12,411)
Total unrestricted	**15,597**	**11,850**
Temporarily restricted:		
Funds for instruction, scholarships and capital expenditures		
Unexpended	40,843	39,159
Endowment realized and unrealized gain (loss)	3,693	(1,473)
Reclassification for endowments with deficiencies	10,130	12,411
Total temporarily restricted	**54,666**	**50,097**
Permanently restricted:		
Endowment funds	86,356	85,446
Beneficial interests in trusts	16,870	15,653
Student loans and others	3,873	3,826
Total permanently restricted	**107,099**	**104,925**
Total net assets	**$ 177,362**	**$ 166,872**

12. Professional Liability Insurance

The College 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, the College 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. In addition, the College's physicians and midwives participate in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare") that covers from $500,000 to $1,000,000. The College self insures a layer of excess of up to $2,000,000 above the Mcare Fund, and the RRRG provides an additional $9,000,000 for excess coverage above the self-insured layer.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2010 and 2009, respectively, the College and the RRRG recorded combined reserves of $28,382,000 and $27,080,000, net of estimated recoveries from purchased reinsurance of $7,935,000 and $15,451,000, respectively. For fiscal year 2010, the reserves were discounted at 7% for the RRRG coverage and 2% for the self-insured layer. For fiscal year 2009, the discount was 7% for the RRRG coverage and 4% for the self-insured layer. Such reserves are included in accrued expenses in the accompanying consolidated statements of financial position. The self-insured escrow funds of $8,879,000 and $6,954,000 at June 30, 2010 and 2009, respectively, plus the RRRG guaranteed investment contract of $16,000,000 and $14,000,000 in 2010 and 2009, respectively, are available to fund these liabilities (see Note 2).

13. 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 the College 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 against the College 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 College's financial condition or results of operations.

Other Commitments and Contingencies - The College maintains two letters of credit in the amounts of $50,000 and $260,000 for the benefit of Liberty Mutual Insurance Company and Pennsylvania Manufacturer's Association, respectively, associated with workers' compensation insurance. The letters of credit expire on February 1, 2011 and March 15, 2011, respectively, and are renewed annually. There were no amounts outstanding under either of these letters of credit as of June 30, 2010 or June 30, 2009.

The College 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 15, 2011 and is renewed annually. There was no amount outstanding under the letter of credit as of June 30, 2010 or June 30, 2009.

14. Related Party Transactions

The College has various operating agreements with Tenet and Drexel. Under these agreements, the College acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2010 and 2009 were $13,660,000 and $15,045,000, respectively. These services include charges for various personnel, administrative and support services related to operating the College and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs. The charges to Tenet for these services amounted to $20,416,000 and $20,657,000 for the years ended June 30, 2010 and 2009, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

The College has entered into a General and Administrative Services Agreement engaging Drexel to provide services and personnel for administrative and academic operations. The agreement, which automatically renews annually, is effective until June 30, 2011. For the years ended June 30, 2010 and 2009, Drexel provided services under this agreement valued at approximately $11,382,000 and $11,214,000, respectively. For the year ended June 30, 2010, the College paid the full cost of the services, reported as institutional support expense in the accompanying consolidated statements of activities. For the year ended June 30, 2009, Drexel and the College agreed to a payment methodology whereby the College paid $6,577,000 based on the incremental costs as opposed to the full cost of services received by the College. The excess in value of services received compared to the payments made of approximately $4,637,000 is reported as contribution revenue from Drexel and institutional support expense in the accompanying consolidated statements of activities in 2009. In addition, in fiscal 2010, Drexel provided approximately $11,000,000 to the College for operations, reported as other revenue.

Separately, Drexel funded $2,774,000 and $2,663,000 of the College's Retirement Plan in fiscal years 2010 and 2009, respectively, and $837,000 of the College's merit compensation program in 2009, both of which are reported as other revenue in the accompanying consolidated statements of activities. The College's merit compensation program was not funded in 2010.

In September 2004, Drexel entered into a guaranteed investment contract ("GIC") with the RRRG that accrued interest at a rate of 7% for the years ended June 30, 2010 and 2009. Drexel intends to renew the contract at the current interest rate of 7% when the GIC matures in September 2010. Principal balances of $16,000,000 and $14,000,000 at June 30, 2010 and 2009, respectively, are included in investments in the consolidated statements of financial position (see Note 2).

15. Operating Expenses

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

	(in thousands)	
	2010	**2009**
Patient care activities	$ 3,074	$ 2,812
Instruction	6,354	6,218
Research and public service	9,726	9,847
Academic support	3,330	3,240
Student services	948	973
Institutional support	102	105
Total	**$ 23,534**	**$ 23,195**

16. Subsequent Events

The College evaluated events subsequent to June 30, 2010 through September 16, 2010 and determined that there were no events requiring adjustment or disclosure in the consolidated financial statements.

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