DREXEL UNIVERSITY
AND SUBSIDIARIES

FINANCIAL REPORT
June 30, 2010

Drexel
UNIVERSITY

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Drexel University
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Drexel University and Subsidiaries (the "University") 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 University'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 University'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 University as of 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.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating schedules on pages 26-29 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and change in net assets of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the University's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly presented in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 21, 2010

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION

as of June 30, 2010 and 2009 (in thousands)

ASSETS	2010	2009
Cash and cash equivalents:		
Operating cash	$ 32,016	$ 36,935
Risk Retention Group cash	4,507	4,398
Accounts receivable, net:		
Tuition	41,797	44,004
Grants, contracts and other	35,577	31,324
Patients	7,268	6,081
Tenet HealthSystem	2,175	1,530
Total accounts receivable, net	86,817	82,939
Contributions receivable, net	52,440	69,404
Other assets	22,623	43,219
Deposits with bond trustees	27,847	82,204
Student loans receivable, net	32,654	34,523
Beneficial interests in trusts	21,061	19,818
Investments	466,907	426,931
Land, buildings and equipment, net	606,162	546,900
Total assets	**$ 1,353,034**	**$ 1,347,271**
LIABILITIES		
Accounts payable	$ 41,862	$ 41,932
Accrued expenses	83,124	78,428
Deposits	19,460	20,625
Deferred revenue	69,727	72,560
Capital lease	3,119	3,150
Government advances for student loans	26,005	26,199
Postretirement benefits	33,777	27,977
Bonds and notes payable	390,192	402,948
Total liabilities	**667,266**	**673,819**
NET ASSETS		
Unrestricted	336,683	326,748
Temporarily restricted	144,022	148,194
Permanently restricted	205,063	198,510
Total net assets	**685,768**	**673,452**
Total liabilities and net assets	**$ 1,353,034**	**$ 1,347,271**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES

for the year ended June 30, 2010 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees	$ 556,986			$ 556,986
Less: institutional financial aid	(126,327)			(126,327)
Net student revenue	430,659			430,659
Patient care activities	91,118			91,118
State appropriations	12,876			12,876
Government grants and contracts	99,301			99,301
Private grants and contracts	16,709			16,709
Private gifts	3,517	$ 8,383		11,900
Endowment payout under spending formula	10,496	13,484	$ 345	24,325
Investment income	1,790	1,038		2,828
Sales and services of auxiliary enterprises	68,832			68,832
Other sources	10,350			10,350
Net assets released from restrictions	34,099	(36,179)	2,080	
Total operating revenue	**779,747**	**(13,274)**	**2,425**	**768,898**
OPERATING EXPENSE				
College programs	261,598			261,598
Research and public service	94,884			94,884
Academic support	23,344			23,344
Student services	36,923			36,923
Institutional support	88,980			88,980
Scholarships and fellowships	18,855			18,855
Auxiliary enterprises	36,342			36,342
Total education and general	**560,926**			**560,926**
Patient care activities	108,875			108,875
Operation and maintenance	46,434			46,434
Interest	13,876			13,876
Depreciation and amortization	29,612			29,612
Total operating expense	**759,723**			**759,723**
Change in net assets from operating activities	**20,024**	**(13,274)**	**2,425**	**9,175**
NON-OPERATING ACTIVITY				
Endowment and other gifts			2,516	2,516
Realized/unrealized gain on investments, including endowment payout of $20,624	3,253	9,102	1,612	13,967
Other non-operating expense	(13,342)			(13,342)
Change in net assets from non-operating activities	**(10,089)**	**9,102**	**4,128**	**3,141**
Change in net assets	**9,935**	**(4,172)**	**6,553**	**12,316**
Net assets at beginning of year	**326,748**	**148,194**	**198,510**	**673,452**
Net assets at end of year	**$ 336,683**	**$ 144,022**	**$ 205,063**	**$ 685,768**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENT of ACTIVITIES
for the year ended June 30, 2009 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
Tuition and fees	$ 519,548			$ 519,548
Less: institutional financial aid	(120,228)			(120,228)
Net student revenue	399,320			399,320
Patient care activities	86,543			86,543
State appropriations	18,274			18,274
Government grants and contracts	91,909			91,909
Private grants and contracts	13,706			13,706
Private gifts	2,534	$ 42,644		45,178
Endowment payout under spending formula	11,940	14,768	$ 228	26,936
Investment income	2,726	274		3,000
Sales and services of auxiliary enterprises	65,672			65,672
Other sources	20,873			20,873
Net assets released from restrictions	34,684	(34,467)	(217)	
Total operating revenue	**748,181**	**23,219**	**11**	**771,411**
OPERATING EXPENSE				
College programs	239,431			239,431
Research and public service	85,676			85,676
Academic support	21,858			21,858
Student services	35,640			35,640
Institutional support	98,474			98,474
Scholarships and fellowships	17,234			17,234
Auxiliary enterprises	34,019			34,019
Total education and general	**532,332**			**532,332**
Patient care activities	104,499			104,499
Operation and maintenance	47,218			47,218
Interest	15,781			15,781
Depreciation and amortization	26,702			26,702
Total operating expense	**726,532**			**726,532**
Change in net assets from operating activities	**21,649**	**23,219**	**11**	**44,879**
NON-OPERATING ACTIVITY				
Endowment and other gifts			9,430	9,430
Realized/unrealized loss on investments, including endowment payout of $21,353	(82,747)	(67,669)	(5,035)	(155,451)
Other non-operating expense	(13,641)			(13,641)
Change in net assets from non-operating activities	**(96,388)**	**(67,669)**	**4,395**	**(159,662)**
Change in net assets	**(74,739)**	**(44,450)**	**4,406**	**(114,783)**
Net assets at beginning of year	**401,487**	**192,644**	**194,104**	**788,235**
Net assets at end of year	**$ 326,748**	**$ 148,194**	**$ 198,510**	**$ 673,452**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

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	$ 12,316	$ (114,783)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property	29,612	26,702
Provision for uncollectible accounts	792	(2,451)
Loss on disposal of property and equipment	126	336
(Increase) decrease in beneficial interests in trusts	(1,243)	6,840
Contributions for long-term investment	(2,516)	(9,430)
Actuarial change on annuity liabilities	843	1,165
Realized/unrealized (gain) loss on investments	(34,591)	155,451
Changes in operating assets and liabilities:		
Accounts receivable	(4,460)	(6,207)
Contributions receivable	16,977	(25,833)
Accounts payable and accrued expenses	2,184	1,765
Postretirement benefits	5,800	2,646
Other assets	20,596	(5,330)
Deposits and deferred revenue	(3,998)	12,148
Net cash provided by operating activities	**42,438**	**43,019**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(96,394)	(348,628)
Proceeds from sale of investments	91,009	343,092
Proceeds from student loan collections	4,742	3,759
Student loans issued	(3,096)	(5,719)
Purchase of land, buildings and equipment	(87,137)	(123,840)
Use of deposits with bond trustees	54,357	62,824
Net cash used in investing activities	**(36,519)**	**(68,512)**
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	2,516	9,430
Payments on annuity obligations	(295)	(662)
Government advances for student loans	(194)	48
Proceeds from long-term borrowings		20,000
Repayment of short-term debt		(195)
Repayment of long-term debt	(12,756)	(6,363)
Net cash (used in) provided by financing activities	**(10,729)**	**22,258**
Net decrease in cash and cash equivalents	**(4,810)**	**(3,235)**
Cash and cash equivalents at beginning of year	**41,333**	**44,568**
Cash and cash equivalents at end of year	**$ 36,523**	**$ 41,333**
SUPPLEMENTAL INFORMATION		
Gifts in kind	$ 1,128	$ 163
Cash paid for interest	$ 14,088	$ 16,015
Amounts accrued for purchase of property, plant and equipment	$ 10,224	$ 8,330

See notes to consolidated financial statements.

Note 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 subject to donor-imposed stipulations that they 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, doing business as Drexel University College of Medicine ("PHEC"). PHEC 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 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 (see Note 14).

Note 1: Summary of Significant Accounting Policies, continued...

In addition, PHEC has agreed to provide teaching and administrative services for the education of the University's medical students in accordance with an agreement, which renews annually, that is effective until June 30, 2011. PHEC has also engaged the University to provide services and personnel for its administrative and academic operations.

Academic Properties, Inc.: The University owns 100% of Academic Properties, Inc. ("API"), a tax-exempt organization. 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 consolidated in the University's financial statements.

Drexel e-Learning, Inc.: The University owns 100% of the issued and outstanding stock of Drexel e-Learning, Inc. ("DeL"). DeL was created to provide educational products and services through distance learning. The balances and activities of DeL are consolidated in the University's 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 is split 87% and 13% between PHEC and the University, respectively.

At June 30, 2010, the assets and ownership equity of the RRRG amounted to $32,290,000 and $4,446,000, respectively, and net investment income and the net operating deficit were $1,008,000 and ($1,251,000), respectively. At June 30, 2009, the assets and ownership equity of the RRRG amounted to $38,683,000 and $3,052,000, respectively, and net investment income and the net operating deficit were $1,024,000 and ($2,404,000), 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.

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

Beneficial Interests in Trusts: Gifts held by outside trustees for which the University has a beneficial interest are recorded at the present value of expected future cash flows as unrestricted, temporarily and permanently restricted net assets and related beneficial interests in trusts in the consolidated financial statements.

Fair Value of Financial Instruments: The University applies fair value measurements to contributions receivable, 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 are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts. See Notes 4, 5, 6 and 10 for additional fair value disclosures.

Note 1: Summary of Significant Accounting Policies, continued...

Patient Care Activities: PHEC faculty physicians participate in several physician practice plans that are managed by PHEC. Revenue and expenses related to these practice plans are recorded as patient care activities.

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payers for services rendered. PHEC 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 2010 and 2009, revenue from Medicare and Medicaid programs combined and from managed care payers accounted for 17% and 54%, respectively, and 18% and 54%, respectively, of gross patient service revenue.

Non-operating Activities: Non-operating activities include permanently restricted contributions, gains and losses on investments in excess of payouts under the endowment spending policies, claims related to PHEC, loss on the disposal of equipment, postretirement benefit adjustment, severances and start-up costs for the Drexel College of Law and Sacramento Center for Graduate Studies.

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 University 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 6).

Note 1: Summary of Significant Accounting Policies, continued...

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-12 *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).* ASU 2009-12 amends ASC Topic 820 for Fair Value Measurements and Disclosures to: (1) permit a reporting entity, in certain situations as a practical expedient, to measure the fair value of an alternative investment on the basis of the net asset value per share of the investment, and (2) require additional disclosures for such investments. The changes related to this update are effective for periods ending after December 15, 2009. The University adopted this guidance for the year ended June 30, 2010 (see Note 6).

Effective June 30, 2009, the University 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 endowment funds (see Note 7).

Effective June 30, 2010, the University implemented FASB ASC 815-10, *"Disclosures about Derivative Instruments and Hedging Activities"*, formerly SFAS No. 161, that requires disclosures on how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 *"Accounting for Derivative Instruments and Hedging Activities,"* and how derivative instruments and related hedged items affect an organization's financial statements. The impact of ACS 815-10 is limited to the additional disclosures regarding these activities shown below.

Accounting for Derivative Instruments and Hedging Activities: The University entered into a variable-to-fixed swap agreement with Wachovia Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in losses of $1,473,000 and $1,915,000 in 2010 and 2009, respectively, reported as unrealized losses on investments in the consolidated statement of activities. The estimated fair value of the agreement was ($3,669,000) and ($2,196,000), respectively, at June 30, 2010 and 2009.

During fiscal year 2009, the University 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 losses of $413,000 and $120,000 in 2010 and 2009, respectively, reported as unrealized losses on investments in the consolidated statement of activities. The estimated fair value of the agreement was ($533,000) and ($120,000) at June 30, 2010 and 2009.

The swap agreements are used by the University to reduce exposure to the volatility in variable interest rates on long-term debt. The fixed payments due under the swap agreements were higher than the underlying variable payments in 2010 and 2009, which negatively affected the University's unrestricted financial position, financial performance and cash flows. There were no other swap agreements in effect as of June 30, 2010 or 2009. The fair value of the swap agreements is reported as accrued expenses in the consolidated statements of financial position.

Note 2: Net Assets

Net assets consist of the following:

	(in thousands) 2010	2009
Unrestricted:		
Undesignated	$ (176,025)	$ (164,471)
Designated for:		
Colleges, departments and student loans	84,692	79,040
Physical plant	269,973	262,073
Quasi-endowment funds	171,860	166,870
Reclassification for endowments with deficiencies	(13,817)	(16,764)
Total unrestricted	**336,683**	**326,748**
Temporarily restricted:		
Funds for instruction, scholarships and capital expenditures:		
Unexpended	90,167	99,622
Endowment realized and unrealized gain	33,256	24,332
Reclassification for endowments with deficiencies	13,817	16,764
Life income and term endowment funds	6,782	7,476
Total temporarily restricted	**144,022**	**148,194**
Permanently restricted:		
Endowment principal	181,151	176,288
Beneficial interests in trusts	17,450	16,135
Student loans and others	6,462	6,087
Total permanently restricted	**205,063**	**198,510**
Total net assets	**$ 685,768**	**$ 673,452**

Note 3: Receivables

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

	(in thousands) 2010	2009
Tuition	$ 47,614	$ 49,543
Grants, contracts and other	36,582	32,430
Patients, net of contractual allowances	12,592	11,000
Tenet HealthSystem	2,175	1,530
	98,963	94,503
Less allowance for doubtful accounts	(12,146)	(11,564)
Net accounts receivable	**$ 86,817**	**$ 82,939**
Student loans receivable	$ 35,903	$ 37,549
Less allowance for doubtful accounts	(3,249)	(3,026)
Net student loans receivable	**$ 32,654**	**$ 34,523**

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

Net contributions receivable at June 30 consist of the following:

	(in thousands) 2010	2009
Amounts due in:		
Less than one year	$ 6,393	$ 15,932
One to five years	32,532	36,688
Greater than five years	24,613	29,908
Gross contributions receivable	63,538	82,528
Less:		
Allowance for uncollectibles	(1,177)	(1,190)
Discounts to present value	(9,921)	(11,934)
Total contributions receivable, net	**$ 52,440**	**$ 69,404**

Outstanding conditional promises to give to the University totaled $15,706,000 and $9,987,000 at June 30, 2010 and 2009, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, are not included in the consolidated financial statements.

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

	(in thousands) 2010	2009
Net contributions receivable, beginning of year	**$ 69,404**	**$ 42,483**
New pledges	3,923	35,570
Collections and adjustments	(22,912)	(11,257)
Decrease in allowance for uncollectibles	13	1,088
Decrease in present value discounts	2,012	1,520
Net contributions receivable, end of year	**$ 52,440**	**$ 69,404**

Note 5: Investments and Investment Return

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.

Note 5: Investments and Investment Return, continued...

For the years ended June 30, 2010 and 2009, the University 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.

At June 30, 2010 and 2009, investments included the following:

	(in thousands)			
	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Equity securities	$ 208,593	$ 213,627	$ 186,588	$ 213,982
Fixed income securities and bond funds	42,280	44,437	41,591	46,023
Alternative investments	63,318	68,446	50,935	60,519
Real estate and real assets	80,960	30,305	73,973	24,958
Money market funds	20,507	20,507	40,055	40,052
Total endowment investments	**415,658**	**377,322**	**393,142**	**385,534**
Self-insurance escrow funds (Note 12)	9,798	9,568	7,775	7,454
Balanced index fund (Notes 12 and 14)	15,749	16,000	4,094	5,000
Real estate	25,702	25,702	21,920	21,920
Total investments	**$ 466,907**	**$ 428,592**	**$ 426,931**	**$ 419,908**

The following summarizes the University'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	$ 3,701			$ 3,701
Net realized and unrealized gain	3,253	$ 29,381	$ 1,957	34,591
Return on endowment investments	6,954	29,381	1,957	38,292
Interest on other investments	1,790	1,038		2,828
Total return on investments	8,744	30,419	1,957	41,120
Investment return designated for current operations	(5,491)	(21,317)	(345)	(27,153)
Investment return in excess of amounts designated for current operations	**$ 3,253**	**$ 9,102**	**$ 1,612**	**$ 13,967**

	(in thousands)			
	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 5,583			$ 5,583
Net realized and unrealized loss	(82,747)	$ (46,544)	$ (4,807)	(134,098)
Loss on endowment investments	(77,164)	(46,544)	(4,807)	(128,515)
Interest on other investments	2,726	274		3,000
Total loss on investments	(74,438)	(46,270)	(4,807)	(125,515)
Investment return designated for current operations	(8,309)	(21,399)	(228)	(29,936)
Investment loss in excess of amounts designated for current operations	**$ (82,747)**	**$ (67,669)**	**$ (5,035)**	**$ (155,451)**

6. Fair Value of Financial Instruments

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 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 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:

6. Fair Value of Financial Instruments, continued...

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

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

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

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. There were no transfers between levels during the year ended June 30, 2010.

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

	(in thousands)			
2010	Total	Level 1	Level 2	Level 3
Assets at Fair Value:				
Deposits with bond trustees	$ 27,847	$ 27,847		
Beneficial interests in trusts	21,061	21,061		
Investments:				
Equity securities	208,593	208,593		
Fixed income securities and bond funds	42,280	26,925	$ 15,355	
Alternative investments	63,318			$ 63,318
Real estate and real assets	80,960	15,929	58,545	6,486
Money market funds	20,507	20,507		
Investments held in endowment	415,658	271,954	73,900	69,804
Self-insurance escrow funds (Note 12)	9,798	9,798		
Balanced index fund (Note 12)	15,749	15,749		
Real estate	25,702		25,702	
Total investments	466,907	297,501	99,602	69,804
Total assets	**$ 515,815**	**$ 346,409**	**$ 99,602**	**$ 69,804**
Liabilities at Fair Value:				
Interest rate swaps (Note 1)	$ 4,202		$ 4,202	
Annuities	5,837			$ 5,837
Total liabilities	**$ 10,039**		**$ 4,202**	**$ 5,837**

6. Fair Value of Financial Instruments, continued...

2009	Total	Level 1	Level 2	Level 3
	(in thousands)			
Assets at Fair Value:				
Deposits with bond trustees	$ 82,204	$ 82,204		
Beneficial interests in trusts	19,818	19,818		
Investments:				
Equity securities	186,588	186,588		
Fixed income securities and bond funds	41,591	36,590	$ 5,001	
Alternative investments	50,935			$ 50,935
Real estate and real assets	73,973	12,270	56,795	4,908
Money market funds	40,055	40,055		
Investments held in endowment	393,142	275,503	61,796	55,843
Self-insurance escrow funds (Note 12)	7,775	7,775		
Balanced index fund (Note 12)	4,094	4,094		
Real estate	21,920		21,920	
Total investments	426,931	287,372	83,716	55,843
Total assets	**$ 528,953**	**$ 389,394**	**$ 83,716**	**$ 55,843**
Liabilities at Fair Value:				
Interest rate swaps (Note 1)	$ 2,316		$ 2,316	
Annuities	5,289			$ 5,289
Total liabilities	**$ 7,605**		**$ 2,316**	**$ 5,289**

Detailed information for Level 3 investments as of June 30, 2010 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
		Unfunded	Frequency	Notice Period
	Fair Value	Commitments	(if currently eligible)	(if applicable)
Multi-Strategy Hedge Funds (a)	$ 18,828		Quarterly	65 days
Distressed Debt Hedge Funds (b)	19,570		Quarterly/Annually	90 days
Fixed Income Hedge Funds (c)	9,228		Monthly	60 days
Private Capital Funds - Secondaries (d)	1,240	$ 9,060		
Private Capital Funds - Venture Capital (e)	7,539	1,752		
Private Capital Funds - Distressed Debt (f)	4,290	4,398		
Private Capital Funds - Buy-out (g)	2,621	66		
Real Asset Funds (h)	3,143	9,180		
Real Estate Funds (i)	3,345	4,869		
Total	**$ 69,804**	**$ 29,325**		

(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.

6. Fair Value of Financial Instruments, continued...

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

The net change in Level 3 assets and liabilities as of June 30 is as follows:

	(in thousands)	
	2010	2009
Assets, beginning balance	$ 55,843	$ 44,593
Net unrealized gain (loss)	3,579	(11,850)
Net purchases and sales (including realized gains of $1,149,000 in 2010 and $1,013,000 in 2009)	10,382	23,100
Assets, ending balance	$ 69,804	$ 55,843
Annuities, beginning balance	$ 5,289	$ 4,786
Actuarial change on annuity liabilities	843	1,165
Payments on annuity liabilities	(295)	(662)
Annuities, ending balance	$ 5,837	$ 5,289

Note 7: Endowment Funds

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 donor-restricted funds 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.

Note 7: Endowment Funds, continued...

Interpretation of Relevant Law – The Board of Trustees of the University has interpreted Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 is as follows:

	(in thousands)			
2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 14,380	$ 42,221	$ 181,151	$ 237,752
Board-designated endowment funds	151,384	28,084		179,468
Total Net Assets	**$ 165,764**	**$ 70,305**	**$ 181,151**	**$ 417,220**
2009				
Donor-restricted endowment funds	$ 11,433	$ 40,888	$ 176,288	$ 228,609
Board-designated endowment funds	146,996	20,120		167,116
Total Net Assets	**$ 158,429**	**$ 61,008**	**$ 176,288**	**$ 395,725**

Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	(in thousands)			
2010	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 158,429**	**$ 61,008**	**$ 176,288**	**$ 395,725**
Investment return:				
Investment income, net of fees	2,015	2,562	(33)	4,544
Net realized gain	2,170	1,665	31	3,866
Net unrealized gain	11,406	18,160	180	29,746
Reclassification for funds with deficiencies	2,947	(2,947)		
Total investment return	18,538	19,440	178	38,156
Contributions		4,218	2,424	6,642
Use of endowment assets:				
Annual transfer for operations	(10,665)	(13,660)		(24,325)
Other transfers	(538)	(701)	2,261	1,022
Total uses	(11,203)	(14,361)	2,261	(23,303)
Endowment net assets, end of year	**$ 165,764**	**$ 70,305**	**$ 181,151**	**$ 417,220**

Note 7: Endowment Funds, continued...

2009	(in thousands) Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 232,910	$ 126,842	$ 167,219	$ 526,971
Investment return:				
Investment income, net of fees	2,796	3,264		6,060
Net realized loss	(34,347)	(34,402)	(404)	(69,153)
Net unrealized loss	(15,452)	(37,873)	(114)	(53,439)
Reclassification for funds with deficiencies	(16,764)	16,764		
Total investment return	(63,767)	(52,247)	(518)	(116,532)
Contributions	1	1,207	9,395	10,603
Use of endowment assets:				
Annual transfer for operations	(11,940)	(14,996)		(26,936)
Other transfers	1,225	202	192	1,619
Total uses	(10,715)	(14,794)	192	(25,317)
Endowment net assets, end of year	$ 158,429	$ 61,008	$ 176,288	$ 395,725

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 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 $13,817,000 and $16,764,000 as of June 30, 2010 and 2009, respectively.

Note 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. In 2006, the University began capitalizing library books. The books are depreciated on a straight-line basis over twenty years.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $935,000 and $3,408,000 at June 30, 2010 and $994,000 and $3,571,000 at June 30, 2009, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position.

Note 8: Land, Buildings and Equipment, continued...

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

	(in thousands) 2010	2009
Art collection	$ 10,481	$ 8,643
Land and improvements	66,224	61,560
Buildings and improvements	591,713	489,260
Equipment, software and library books	152,116	141,647
Construction in progess	46,874	79,650
	867,408	**780,760**
Less accumulated depreciation	(261,246)	(233,860)
Total land, buildings and equipment	**$ 606,162**	**$ 546,900**

Note 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	$ 12,741
2012	12,401
2013	11,716
2014	11,442
2015	10,481
Thereafter	69,575
Total minimum lease payments	**$ 128,356**

Total rent expense for operating leases amounted to $11,607,000 and $12,630,000 for the years ended June 30, 2010 and 2009, respectively.

Under the terms of a twenty-year operating lease with Tenet for educational and medical office space that ends on June 30, 2022, 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. 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.

During fiscal year 2009, the University entered into an agreement with the Commonwealth of Pennsylvania (the "Commonwealth") 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. During fiscal year 2009, the University paid $301,000 for architectural and engineering services connected with the improvement project. There were no expenditures for the required improvements in fiscal year 2010. The estimated costs for the required improvements amounted to $3,119,000 and $3,150,000 at June 30, 2010 and 2009, respectively. These costs have been capitalized, and a comparable capital lease liability has been recorded for the same amount.

Note 10: Bonds and Notes Payable

Description	Project	Maturity	Interest Rate	(in thousands) 2010	2009
Dormitory Bonds of 1965	Kelly Hall	2011-2018	3.00 - 3.50%	$ 520	$ 610
Dormitory Bonds of 1969	Calhoun Hall	2011-2019	3.00%	610	670
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2011-2015	3.00%	505	604
Pennsylvania Higher Educational Facilities Authority Revenue Bonds:					
First Series of 1993 Convertible Series	Athletic field acquisition	2011-2012	8.55%	130	185
1997 Bonds	Van Rensselaer renovation & advance refunding (1987 & 1990)	2011-2022	5.65 - 5.75%	7,755	10,790
First Series of 1998	North Hall	2011-2028	4.50 - 4.80%	30,835	32,145
Second Series of 1998	Advance refunding (1993 & 1996)	2011-2017	5.00 - 5.375%	4,720	5,130
Second Series of 2000	Capital improvements & equipment	2019-2026	variable	22,500	22,500
Series A of 2002	Matheson Hall improvements, new research center, advance refunding (2000-1)	2011-2032	4.05 - 5.20%	12,160	12,270
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 (1993 tax-exempt bonds)	2011-2018	5.50%	26,680	26,790
Series B of 2003	Stiles Hall renovations, Queen Lane campus acquisition & renovations, capital improvements & equipment	2011-2033	variable	19,260	19,915
Series A of 2005	Capital improvements & equipment	2011-2034	3.00-5.00%	29,440	29,469
Series B of 2005	Advance refunding (1997 & 1999)	2019-2030	variable	29,825	30,325
Series A of 2007	New laboratory,	2030-2037	4.50-5.00%	96,080	96,329
Series B of 2007	dormitory & Wellness Center; capital improvements & equipment	2011-2037	variable	29,460	30,000
TD Bank Loan	3501 Market & 3401 Filbert Street buildings	2011-2014	3.83%	15,000	20,000
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements & equipment	2011-2037	3.75-5.00%	22,372	22,817
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	ODP Evening College renovations	2011-2013	3.00%	200	259
Total bonds and notes payable				**$ 390,192**	**$ 402,948**

Note 10: Bonds and Notes Payable, continued...

The variable rates of interest on the 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 $373,357,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was $373,447,000 at June 30, 2010, based on a comparison to current interest rates.

The Dormitory bonds of 1965 - Kelly Hall and Dormitory bonds of 1969 - Calhoun Hall 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 1993, 1997, 1998, 2000, 2002, 2003, 2005 and 2007 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 and an assignment of any rents and leases. 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
2011	$ 6,707	$ 1,235	$ 7,942
2012	11,743	1,275	13,018
2013	14,174	1,310	15,484
2014	11,192	1,355	12,547
2015	7,722	1,395	9,117
Thereafter	195,469	136,615	332,084
			$ 390,192

The Second Series of 2000 and Series B of 2002, Series B of 2003, 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, 2012, 2012 and 2013, respectively, based on the current expiration dates of the letters of credit. 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 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 June 30, 2010 and 2009.

Total unsecured Revolving Credit Facilities ("Facilities") of $55,000,000 mature on April 1, 2011, 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, 2010, the interest rates were 0.75% for the University and 1.25% for PHEC, and there was no amount outstanding. At June 30, 2009, the Facilities accrued interest at 0.75% for the University and 0.54% for PHEC, and there was no amount outstanding.

Note 11: Retirement Plans

The University and PHEC maintain contributory retirement plans administered by Teachers Insurance Annuity Association, the Vanguard Group and Fidelity Investments which provide for the purchase of annuity contracts and mutual funds for the majority of full-time faculty and certain non-academic 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 $25,594,000 and $24,087,000 in 2010 and 2009, respectively.

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. Substantially all employees could become eligible when they reach retirement age 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 $4,807,000 and $2,161,000, respectively, for the years ended 2010 and 2009 and are reflected in the consolidated statements of activities and included in postretirement benefits in the consolidated statements of financial position.

	(in thousands)	
	2010	2009
Benefit obligation	$ 33,650	$ 27,831
Fair value of plan assets	-	-
Funded status	$ 33,650	$ 27,831
Accrued benefit cost recognized in the consolidated statements of financial position	$ 33,650	$ 27,831
Discount rate	5.37%	6.30%

For measurement purposes, a 7.45% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 4.75% for 2011 and remain at that level thereafter.

	(in thousands)	
	2010	2009
Benefit cost	$ 2,771	$ 2,212
Employer contribution	1,758	1,718
Plan participant contributions	523	425
Benefits paid	2,281	2,143

Note 11: Retirement Plans, continued...

Estimated future benefit payments:

	(in thousands)
2011	$ 1,992
2012	2,028
2013	2,062
2014	2,084
2015	2,107
2016 to 2020	10,969

A one-percentage-point change in the assumed health care cost trend rates would have no significant impact on the net periodic postretirement benefit service and interest costs or the benefit obligation at June 30, 2010.

Note 12: 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. In addition, PHEC'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. PHEC 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.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2010 and 2009, respectively, the University, PHEC and the RRRG recorded total reserves of $29,416,000 and $28,068,000, 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 on the accompanying consolidated statements of financial position. The self-insurance escrow funds of $9,798,000 and $7,775,000 at June 30, 2010 and 2009, respectively, plus the RRRG guaranteed investment contract, invested in a balanced index fund, of $15,749,000 and $4,094,000 at June 30, 2010 and 2009, respectively, are available to fund these liabilities (see Note 5). In addition, in June 2009, the University established a cash reserve of $9,000,000 for claims payable in July 2009 by liquidating a portion of the index fund.

Note 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 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 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 2009.

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

The University maintains five letters of credit totaling $3,252,000 associated with workers' compensation insurance that expire on July 31, August 28, September 3, September 15, and October 6, 2011. The agreements are renewable annually and, as of June 30, 2010 and 2009, there were no amounts outstanding.

Note: 14: 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, 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 PHEC and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs. Total 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.

In September 2004, the University 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. The University intends to renew the contract at the current interest rate of 7% when the GIC matures in September 2010. The fair value of $15,749,000 and $4,094,000 at June 30, 2010 and 2009, respectively, is included in investments in the consolidated statements of financial position (see Notes 5 and 12).

Note 15: Operating Expenses

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

	(in thousands)	
	2010	**2009**
College programs	$ 30,167	$ 29,058
Research and public service	18,612	20,127
Academic support	5,175	5,377
Student services	11,319	9,486
Institutional support	5,877	6,786
Auxiliary enterprises	15,698	16,056
Patient care activities	3,074	2,811
Total	**$ 89,922**	**$ 89,701**

16. Subsequent Events

The University evaluated events subsequent to June 30, 2010 through September 21, 2010 and determined that there were no events requiring adjustment or disclosure in the consolidated financial statements.

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DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION as of June 30, 2010 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 23,959	$ 8,057		$ 32,016
Risk Retention Group cash		4,507		4,507
Accounts receivable, net:				
Tuition	41,797	3,294	$ (3,294)	41,797
Grants, contracts and other	28,026	8,542	(991)	35,577
Patients		7,268		7,268
Tenet HealthSystem		2,175		2,175
Total accounts receivable, net	69,823	21,279	(4,285)	86,817
Contributions receivable, net	51,457	983		52,440
Other assets	19,244	3,379		22,623
Deposits with bond trustees	23,572	4,275		27,847
Student loans receivable, net	16,555	16,099		32,654
Beneficial interests in trusts	4,299	16,762		21,061
Investments	326,776	140,131		466,907
Land, buildings and equipment, net	553,993	55,010	(2,841)	606,162
Total assets	**$ 1,089,678**	**$ 270,482**	**$ (7,126)**	**$ 1,353,034**
LIABILITIES				
Accounts payable	$ 31,653	$ 10,209		$ 41,862
Accrued expenses	43,667	39,457		83,124
Payable to affiliate	4,285		$ (4,285)	
Deposits	15,130	4,330		19,460
Deferred revenue	68,537	1,190		69,727
Capital leases, affiliate and other	3,119	2,841	(2,841)	3,119
Government advances for student loans	13,284	12,721		26,005
Postretirement benefits	33,777			33,777
Bonds and notes payable	367,820	22,372		390,192
Total liabilities	**581,272**	**93,120**	**(7,126)**	**667,266**
NET ASSETS				
Unrestricted	321,086	15,597		336,683
Temporarily restricted	89,356	54,666		144,022
Permanently restricted	97,964	107,099		205,063
Total net assets	**508,406**	**177,362**		**685,768**
Total liabilities and net assets	**$ 1,089,678**	**$ 270,482**	**$ (7,126)**	**$ 1,353,034**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES for the year ended June 30, 2010 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 495,256	$ 64,242	$ (2,512)	$ 556,986
Less: institutional financial aid	(121,804)	(4,523)		(126,327)
Net student revenue	373,452	59,719	(2,512)	430,659
Patient care activities		91,118		91,118
State appropriations	2,393	10,483		12,876
Government grants and contracts	77,047	22,254		99,301
Private grants and contracts	11,501	5,208		16,709
Private gifts	7,055	4,845		11,900
Endowment payout under spending formula	17,888	6,437		24,325
Investment income	1,186	1,642		2,828
Sales and services of auxiliary enterprises	68,832			68,832
Other sources	19,325	17,249	(26,224)	10,350
Total operating revenue	**578,679**	**218,955**	**(28,736)**	**768,898**
OPERATING EXPENSE				
College programs	242,674	18,924		261,598
Research and public service	69,971	24,913		94,884
Academic support	14,314	9,030		23,344
Student services	35,356	2,095	(528)	36,923
Institutional support	92,485	24,545	(28,050)	88,980
Scholarships and fellowships	14,056	4,799		18,855
Auxiliary enterprises	36,342			36,342
Total education and general	**505,198**	**84,306**	**(28,578)**	**560,926**
Patient care activities		108,875		108,875
Operation and maintenance	31,281	15,153		46,434
Interest	12,993	883		13,876
Depreciation and amortization	22,272	7,498	(158)	29,612
Total operating expense	**571,744**	**216,715**	**(28,736)**	**759,723**
Change in net assets from operating activities	**6,935**	**2,240**		**9,175**
NON-OPERATING ACTIVITY				
Endowment and other gifts	2,003	513		2,516
Realized/unrealized gain on investments, including endowment payout of $20,624	6,142	7,825		13,967
Other non-operating expense	(13,254)	(88)		(13,342)
Change in net assets from non-operating activities	**(5,109)**	**8,250**		**3,141**
Change in net assets	**1,826**	**10,490**		**12,316**
Net assets at beginning of year	**506,580**	**166,872**		**673,452**
Net assets at end of year	**$ 508,406**	**$ 177,362**	**$ -**	**$ 685,768**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION as of June 30, 2009 (in thousands)

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
ASSETS				
Cash and cash equivalents:				
Operating cash	$ 29,740	$ 7,195		$ 36,935
Risk Retention Group cash		4,398		4,398
Accounts receivable, net:				
Tuition	44,004	7,411	$ (7,411)	44,004
Grants, contracts and other	20,933	12,232	(1,841)	31,324
Patients		6,081		6,081
Tenet HealthSystem		1,530		1,530
Total accounts receivable, net	64,937	27,254	(9,252)	82,939
Contributions receivable, net	68,700	704		69,404
Other assets	36,012	7,207		43,219
Deposits with bond trustees	72,452	9,752		82,204
Student loans receivable, net	17,139	17,384		34,523
Beneficial interests in trusts	4,233	15,585		19,818
Investments	311,869	129,062	(14,000)	426,931
Land, buildings and equipment, net	500,082	49,817	(2,999)	546,900
Total assets	**$ 1,105,164**	**$ 268,358**	**$ (26,251)**	**$ 1,347,271**
LIABILITIES				
Accounts payable	$ 30,183	$ 11,749		$ 41,932
Accrued expenses	41,924	36,504		78,428
Payable to affiliates	23,252		$ (23,252)	
Deposits	15,969	4,656		20,625
Deferred revenue	62,691	9,869		72,560
Capital leases, affiliate and other	3,150	2,999	(2,999)	3,150
Government advances for student loans	13,307	12,892		26,199
Postretirement benefits	27,977			27,977
Bonds and notes payable	380,131	22,817		402,948
Total liabilities	**598,584**	**101,486**	**(26,251)**	**673,819**
NET ASSETS				
Unrestricted	314,898	11,850		326,748
Temporarily restricted	98,097	50,097		148,194
Permanently restricted	93,585	104,925		198,510
Total net assets	**506,580**	**166,872**		**673,452**
Total liabilities and net assets	**$ 1,105,164**	**$ 268,358**	**$ (26,251)**	**$ 1,347,271**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES for the year ended June 30, 2009 (in thousands)

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 462,394	$ 59,367	$ (2,213)	$ 519,548
Less: institutional financial aid	(116,183)	(4,045)		(120,228)
Net student revenue	346,211	55,322	(2,213)	399,320
Patient care activities		86,543		86,543
State appropriations	8,151	10,123		18,274
Government grants and contracts	71,055	20,854		91,909
Private grants and contracts	9,989	3,717		13,706
Private gifts	40,361	9,454	(4,637)	45,178
Endowment payout under spending formula	19,657	7,279		26,936
Investment income	969	2,031		3,000
Sales and services of auxiliary enterprises	65,672			65,672
Other sources	16,624	7,907	(3,658)	20,873
Total operating revenue	**578,689**	**203,230**	**(10,508)**	**771,411**
OPERATING EXPENSE				
College programs	224,064	15,367		239,431
Research and public service	64,289	21,387		85,676
Academic support	12,240	9,618		21,858
Student services	33,615	2,025		35,640
Institutional support	84,487	24,337	(10,350)	98,474
Scholarships and fellowships	12,061	5,173		17,234
Auxiliary enterprises	34,019			34,019
Total education and general	**464,775**	**77,907**	**(10,350)**	**532,332**
Patient care activities		104,499		104,499
Operation and maintenance	31,738	15,480		47,218
Interest	14,724	1,057		15,781
Depreciation and amortization	20,202	6,658	(158)	26,702
Total operating expense	**531,439**	**205,601**	**(10,508)**	**726,532**
Change in net assets from operating activities	**47,250**	**(2,371)**		**44,879**
NON-OPERATING ACTIVITY				
Endowment and other gifts	6,387	3,043		9,430
Realized/unrealized loss on investments, including endowment payout of $21,353	(103,452)	(51,999)		(155,451)
Other non-operating expense	(13,590)	(51)		(13,641)
Change in net assets from non-operating activities	**(110,655)**	**(49,007)**		**(159,662)**
Change in net assets	**(63,405)**	**(51,378)**		**(114,783)**
Net assets at beginning of year	**569,985**	**218,250**		**788,235**
Net assets at end of year	**$ 506,580**	**$ 166,872**	**$ -**	**$ 673,452**

See notes to consolidated financial statements.