

# DREXEL UNIVERSITY AND SUBSIDIARIES

## FINANCIAL REPORT

June 30, 2011



## INDEPENDENT AUDITORS' REPORT

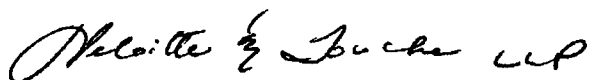
To the Board of Trustees  
Drexel University  
Philadelphia, Pennsylvania

We have audited the accompanying consolidated statements of financial position of Drexel University and Subsidiaries (the "University") as of June 30, 2011 and 2010, 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 at June 30, 2011 and 2010, 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 31-34 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.



September 20, 2011

**DREXEL UNIVERSITY and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS of FINANCIAL POSITION**  
as of June 30, 2011 and 2010 (in thousands)

<b>ASSETS</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Cash and cash equivalents:		
Operating cash	\$ 58,504	\$ 32,016
Risk Retention Group cash	4,773	4,507
Accounts receivable, net:		
Tuition	47,368	41,797
Grants, contracts and other	33,865	35,577
Patients	6,890	7,268
Tenet Healthcare Corporation	981	2,175
Total accounts receivable, net	<u>89,104</u>	<u>86,817</u>
Contributions receivable, net	100,313	52,440
Other assets	25,368	22,623
Deposits with bond trustees	101,566	27,847
Student loans receivable, net	30,690	32,654
Beneficial interests in trusts	38,939	21,061
Investments	544,696	466,907
Land, buildings and equipment, net	<u>644,834</u>	<u>606,162</u>
<b>Total assets</b>	<b><u>\$ 1,638,787</u></b>	<b><u>\$ 1,353,034</u></b>
 <b>LIABILITIES</b>		
Accounts payable	\$ 44,626	\$ 41,862
Accrued expenses	92,351	83,124
Deposits	31,064	19,460
Deferred revenue	72,777	69,727
Capital lease	3,087	3,119
Government advances for student loans	26,252	26,005
Postretirement benefits	35,944	33,777
Bonds and notes payable	<u>480,524</u>	<u>390,192</u>
<b>Total liabilities</b>	<b><u>786,625</u></b>	<b><u>667,266</u></b>
 <b>NET ASSETS</b>		
Unrestricted	394,557	336,683
Temporarily restricted	233,249	144,022
Permanently restricted	<u>224,356</u>	<u>205,063</u>
<b>Total net assets</b>	<b><u>852,162</u></b>	<b><u>685,768</u></b>
 <b>Total liabilities and net assets</b>	<b><u>\$ 1,638,787</u></b>	<b><u>\$ 1,353,034</u></b>

See notes to consolidated financial statements.

**DREXEL UNIVERSITY and SUBSIDIARIES**  
**CONSOLIDATED STATEMENT of ACTIVITIES**  
for the year ended June 30, 2011 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Tuition and fees	\$ 610,186			\$ 610,186
Less: institutional financial aid	(137,727)			(137,727)
Net student revenue	472,459			472,459
Patient care activities	95,595			95,595
State appropriations	13,652			13,652
Government grants, contracts and contributions	102,657	\$ 19,016		121,673
Private grants and contracts	13,886			13,886
Private gifts	4,647	61,893		66,540
Endowment payout under spending formula	9,373	12,477	\$ 126	21,976
Investment income	2,796	1,074		3,870
Sales and services of auxiliary enterprises	73,902			73,902
Other sources	13,403			13,403
Net assets released from restrictions	35,736	(36,195)	459	
<b>Total operating revenue</b>	<b>838,106</b>	<b>58,265</b>	<b>585</b>	<b>896,956</b>
<b>OPERATING EXPENSE</b>				
College programs	275,042			275,042
Research and public service	97,877			97,877
Academic support	22,017			22,017
Student services	39,823			39,823
Institutional support	105,392			105,392
Scholarships and fellowships	16,971			16,971
Auxiliary enterprises	39,042			39,042
<b>Total education and general</b>	<b>596,164</b>			<b>596,164</b>
Patient care activities	110,959			110,959
Operation and maintenance	44,120			44,120
Interest	16,590			16,590
Depreciation and amortization	31,227			31,227
<b>Total operating expense</b>	<b>799,060</b>			<b>799,060</b>
<b>Change in net assets from operating activities</b>	<b>39,046</b>	<b>58,265</b>	<b>585</b>	<b>97,896</b>
<b>NON-OPERATING ACTIVITY</b>				
Endowment and other gifts			15,318	15,318
Realized/unrealized gain on investments, net of endowment payout of \$18,196	28,308	30,962	3,390	62,660
Other non-operating expense	(9,480)			(9,480)
<b>Change in net assets from non-operating activities</b>	<b>18,828</b>	<b>30,962</b>	<b>18,708</b>	<b>68,498</b>
<b>Change in net assets</b>	<b>57,874</b>	<b>89,227</b>	<b>19,293</b>	<b>166,394</b>
<b>Net assets at beginning of year</b>	<b>336,683</b>	<b>144,022</b>	<b>205,063</b>	<b>685,768</b>
<b>Net assets at end of year</b>	<b>\$ 394,557</b>	<b>\$ 233,249</b>	<b>\$ 224,356</b>	<b>\$ 852,162</b>

See notes to consolidated financial statements.

**DREXEL UNIVERSITY and SUBSIDIARIES**  
**CONSOLIDATED STATEMENT of ACTIVITIES**  
for the year ended June 30, 2010 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Tuition and fees	\$ 556,986			\$ 556,986
Less: institutional financial aid	(126,327)			(126,327)
Net student revenue	<u>430,659</u>			<u>430,659</u>
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	
<b>Total operating revenue</b>	<u><b>779,747</b></u>	<u><b>(13,274)</b></u>	<u><b>2,425</b></u>	<u><b>768,898</b></u>
<b>OPERATING EXPENSE</b>				
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
<b>Total education and general</b>	<u><b>560,926</b></u>			<u><b>560,926</b></u>
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
<b>Total operating expense</b>	<u><b>759,723</b></u>			<u><b>759,723</b></u>
<b>Change in net assets from     operating activities</b>	<u><b>20,024</b></u>	<u><b>(13,274)</b></u>	<u><b>2,425</b></u>	<u><b>9,175</b></u>
<b>NON-OPERATING ACTIVITY</b>				
Endowment and other gifts			2,516	2,516
Realized/unrealized gain on investments, net of endowment payout of \$20,624	3,253	9,102	1,612	13,967
Other non-operating expense	(13,342)			(13,342)
<b>Change in net assets from     non-operating activities</b>	<u><b>(10,089)</b></u>	<u><b>9,102</b></u>	<u><b>4,128</b></u>	<u><b>3,141</b></u>
<b>Change in net assets</b>	<u><b>9,935</b></u>	<u><b>(4,172)</b></u>	<u><b>6,553</b></u>	<u><b>12,316</b></u>
<b>Net assets at beginning of year</b>	<u><b>326,748</b></u>	<u><b>148,194</b></u>	<u><b>198,510</b></u>	<u><b>673,452</b></u>
<b>Net assets at end of year</b>	<u><u><b>\$ 336,683</b></u></u>	<u><u><b>\$ 144,022</b></u></u>	<u><u><b>\$ 205,063</b></u></u>	<u><u><b>\$ 685,768</b></u></u>

See notes to consolidated financial statements.

**DREXEL UNIVERSITY and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS of CASH FLOWS**  
**for the years ended June 30, 2011 and 2010 (in thousands)**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 166,394	\$ 12,316
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property	31,227	29,612
Provision for uncollectible accounts	858	792
Loss on disposal of equipment	78	126
Increase in beneficial interests in trusts	(17,878)	(1,243)
Contributions for long-term investment	(15,318)	(2,516)
Actuarial change on annuity liabilities	569	843
Realized/unrealized gain on investments	(80,856)	(34,591)
Changes in operating assets and liabilities:		
Accounts receivable	(3,233)	(4,460)
Contributions receivable	(47,638)	16,977
Accounts payable and accrued expenses	13,231	2,184
Postretirement benefits	2,167	5,800
Other assets	(2,745)	20,596
Deposits and deferred revenue	14,654	(3,998)
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<b>Net cash provided by operating activities</b>	<b>61,510</b>	<b>42,438</b>
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<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(206,341)	(96,394)
Proceeds from sale of investments	209,408	91,009
Proceeds from student loan collections	5,308	4,742
Student loans issued	(3,491)	(3,096)
Purchase of land, buildings and equipment	(71,158)	(87,137)
Deposits placed with bond trustees	(156,705)	
Use of deposits with bond trustees	82,986	54,357
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<b>Net cash used in investing activities</b>	<b>(139,993)</b>	<b>(36,519)</b>
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<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Contributions restricted for endowments	15,318	2,516
Payments on annuity obligations	(660)	(295)
Government advances (refunds) for student loans	247	(194)
Proceeds from long-term borrowings	160,299	
Repayment of long-term debt	(69,967)	(12,756)
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<b>Net cash provided by (used in) financing activities</b>	<b>105,237</b>	<b>(10,729)</b>
	<hr/>	<hr/>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>26,754</b>	<b>(4,810)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>36,523</b>	<b>41,333</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 63,277</b>	<b>\$ 36,523</b>
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<b>SUPPLEMENTAL INFORMATION</b>		
Gifts in kind	\$ 792	\$ 1,128
Cash paid for interest	\$ 15,589	\$ 14,088
Amounts accrued for purchase of land, buildings and equipment	\$ 9,075	\$ 10,224

See notes to consolidated financial statements.

**DREXEL UNIVERSITY and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the Years Ended June 30, 2011 and 2010**

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**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 Healthcare Corporation ("Tenet") intended to establish a relationship to foster continued coordination and integration between PHEC and the Tenet hospitals whereby PHEC agrees to provide administrative, supervisory and teaching services to Tenet at budgeted levels. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms (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 and students in the health professions in accordance with an agreement, which renews annually, that is effective until June 30, 2012. 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 was split 87% and 13% between PHEC and the University, respectively, through November 9, 2010. Effective November 10, 2010, the ownership allocation was adjusted to 85% for PHEC and 15% for the University (see Note 12).

At June 30, 2011, the assets and ownership equity of the RRRG amounted to \$32,671,000 and \$5,138,000, respectively, and net investment income and the net operating deficit were \$1,173,000 and (\$481,000), 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. 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 Note 3). 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 2011 and 2010, revenue from Medicare and Medicaid programs combined and from managed care payers accounted for 20% and 53%, respectively, and 17% and 54%, respectively, of gross patient service revenue.

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

**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:** In September 2009, the Financial Accounting Standards Board ("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 Accounting Standards Codification ("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, 2010, the University implemented FASB ASC 815-10, *Disclosures about Derivative Instruments and Hedging Activities*, 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 ASC 815-10 is limited to the additional disclosures regarding these activities shown in the Accounting for Derivative Instruments and Hedging Activities section below.

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

Effective July 1, 2010, the University adopted ASU No. 2010-06, *Fair Value Measurements and Disclosures*, which amends ASC 820, adding new disclosure requirements for Levels 1 and 2; separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. The impact of ASU 2010-06 is limited to these additional disclosures (see Note 6).

On July 21, 2010, the FASB issued ASU 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which amends ASC 310, *Receivables*, by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. ASU 2010-20 was adopted by the University on June 30, 2011 (see Note 3).

**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 a gain of \$779,000 in 2011 and a loss of \$1,473,000 in 2010, reported as an unrealized gain/loss on investments in the consolidated statement of activities. The estimated fair value of the agreement was (\$2,890,000) and (\$3,669,000), respectively, at June 30, 2011 and 2010.

The University has also entered into a variable-to-fixed swap agreement with TD Bank, N.A., which converts the TD Bank loan to a fixed rate of 3.83% through the January 2014 termination date. The agreement resulted in a gain of \$115,000 in 2011 and a loss of \$413,000 in 2010, reported as an unrealized gain/loss on investments in the consolidated statement of activities. The estimated fair value of the agreement was (\$418,000) and (\$533,000) at June 30, 2011 and 2010.

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 2011 and 2010, 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, 2011 or 2010. 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 included the following:

	(in thousands)	
	2011	2010
Unrestricted:		
Undesignated	\$ (213,158)	\$ (176,025)
Designated for colleges, departments and student loans	89,878	84,692
Physical plant	296,197	269,973
Quasi-endowment funds	225,909	171,860
Reclassification for endowments with deficiencies	(4,269)	(13,817)
<b>Total unrestricted</b>	<b>394,557</b>	<b>336,683</b>
Temporarily restricted:		
Funds for instruction, scholarships and capital expenditures:		
Unexpended	145,047	90,167
Endowment realized and unrealized gain	77,486	33,256
Reclassification for endowments with deficiencies	4,269	13,817
Life income and term endowment funds	6,447	6,782
<b>Total temporarily restricted</b>	<b>233,249</b>	<b>144,022</b>
Permanently restricted:		
Endowment principal	197,281	181,151
Beneficial interests in trusts	20,417	17,450
Student loans and others	6,658	6,462
<b>Total permanently restricted</b>	<b>224,356</b>	<b>205,063</b>
<b>Total net assets</b>	<b>\$ 852,162</b>	<b>\$ 685,768</b>

## Note 3: Receivables

Accounts receivable are reported at their net realizable value. Accounts are written off against the allowance for doubtful accounts when they are determined to be uncollectible based upon management's assessment of the individual accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of the accounts. Interest is not accrued on the balances. Accounts receivable, net of allowances, were as follows:

	(in thousands)	
	2011	2010
Tuition	\$ 53,474	\$ 47,614
Grants, contracts and other	34,961	36,582
Patients, net of contractual allowances	12,780	12,592
Tenet Healthcare Corporation	981	2,175
	102,196	98,963
Less allowance for doubtful accounts	(13,092)	(12,146)
<b>Accounts receivable, net</b>	<b>\$ 89,104</b>	<b>\$ 86,817</b>

### Note 3: Receivables, continued...

Student loans are disbursed based on financial need and include loans granted by the University from institutional resources and under federal government loan programs. Students have a grace period until repayment is required based upon the earlier of graduation or no longer achieving full-time status. The grace period varies depending on the type of loan. Loans accrue interest after the grace period and are repaid directly to the University. Student loans are uncollateralized and carry default risk. At June 30, 2011 and 2010, student loans represented 1.8% and 2.4% of total assets, respectively.

The availability of funds for loans under federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of \$26,252,000 and \$26,005,000 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the government.

At June 30, 2011 and 2010, student loans consisted of the following:

	(in thousands)	
	2011	2010
Student loans:		
Federal government loan programs:		
Perkins loan program	\$ 20,927	\$ 23,798
Health Professions Student Loans and Loans for Disadvantaged Students	5,593	5,613
Nursing student loans	43	42
	<hr/>	<hr/>
Federal government loan programs	26,563	29,453
Institutional loan programs	7,523	6,450
	<hr/>	<hr/>
	34,086	35,903
Less allowance for doubtful accounts:		
Balance, beginning of year	(3,249)	(3,030)
Provision for doubtful accounts	(147)	(219)
	<hr/>	<hr/>
Balance, end of year	(3,396)	(3,249)
	<hr/>	<hr/>
<b>Student loans receivable, net</b>	<b>\$ 30,690</b>	<b>\$ 32,654</b>

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

### Note 3: Receivables, continued...

The University considers the age of the amounts outstanding in determining the collectibility of student loans receivable. The aging of student loans receivable based on days delinquent and the related allowance for doubtful accounts at June 30, 2011 and 2010 is as follows:

	(in thousands)				
	<u>&lt; 30 Days</u>	<u>30-60 Days</u>	<u>61-90 Days</u>	<u>&gt;= 91 Days</u>	<u>Total</u>
<b>2011</b>					
Student loans receivable:					
Federal government loan programs	\$ 20,798	\$ 687	\$ 565	\$ 4,513	\$ 26,563
Institutional loan programs	5,402	100	34	1,987	7,523
Total student loans receivable	<u>26,200</u>	<u>787</u>	<u>599</u>	<u>6,500</u>	<u>34,086</u>
Allowance for doubtful accounts:					
Federal government loan programs			(56)	(2,158)	(2,214)
Institutional loan programs			(3)	(1,179)	(1,182)
Total allowance for doubtful accounts			<u>(59)</u>	<u>(3,337)</u>	<u>(3,396)</u>
<b>Student loans receivable, net</b>	<b><u>\$ 26,200</u></b>	<b><u>\$ 787</u></b>	<b><u>\$ 540</u></b>	<b><u>\$ 3,163</u></b>	<b><u>\$ 30,690</u></b>
<b>2010</b>					
Student loans receivable:					
Federal government loan programs	\$ 23,965	\$ 682	\$ 214	\$ 4,593	\$ 29,454
Institutional loan programs	4,498	128	53	1,770	6,449
Total student loans receivable	<u>28,463</u>	<u>810</u>	<u>267</u>	<u>6,363</u>	<u>35,903</u>
Allowance for doubtful accounts:					
Federal government loan programs			(22)	(2,205)	(2,227)
Institutional loan programs			(6)	(1,016)	(1,022)
Total allowance for doubtful accounts			<u>(28)</u>	<u>(3,221)</u>	<u>(3,249)</u>
<b>Student loans receivable, net</b>	<b><u>\$ 28,463</u></b>	<b><u>\$ 810</u></b>	<b><u>\$ 239</u></b>	<b><u>\$ 3,142</u></b>	<b><u>\$ 32,654</u></b>

### 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-twenty year U.S. Treasury notes, which averaged 2.3% at June 30, 2011, and two-to-ten year U.S. Treasury notes, which averaged 2% at June 30, 2010. The University considers these discount rates to be a Level 3 input in the context of ASC 820-10 (see Note 6).

**Note 4: Contributions Receivable, continued...**

Net contributions receivable at June 30 were as follows:

	(in thousands)	
	2011	2010
Amounts due in:		
Less than one year	\$ 22,112	\$ 6,393
One to five years	40,557	32,532
Greater than five years	56,991	24,613
Gross contributions receivable	<u>119,660</u>	<u>63,538</u>
Less:		
Allowance for uncollectibles	(942)	(1,177)
Discounts to present value	<u>(18,405)</u>	<u>(9,921)</u>
<b>Total contributions receivable, net</b>	<b><u>\$ 100,313</u></b>	<b><u>\$ 52,440</u></b>

Outstanding conditional promises to give amounted to \$23,065,000 and \$15,706,000 at June 30, 2011 and 2010, respectively, which are dependent upon the fulfillment of certain conditions and, therefore, not included in the consolidated financial statements.

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

	(in thousands)	
	2011	2010
<b>Net contributions receivable, beginning of year</b>	<b>\$ 52,440</b>	<b>\$ 69,404</b>
New pledges	60,873	3,923
Collections and adjustments	(4,751)	(22,912)
Decrease in allowance for uncollectibles	235	13
(Increase) decrease in present value discounts	<u>(8,484)</u>	<u>2,012</u>
<b>Net contributions receivable, end of year</b>	<b><u>\$ 100,313</u></b>	<b><u>\$ 52,440</u></b>

**Note 5: Investments and Investment Return**

At June 30, 2011 and 2010, the fair value of investments included the following:

	(in thousands)	
	2011	2010
	<u>Fair Value</u>	<u>Fair Value</u>
Equity securities	\$ 224,581	\$ 208,593
Fixed income securities and bond funds	43,569	42,280
Mutual funds	8,209	
Alternative investments	78,855	63,318
Real estate and real assets	148,959	80,960
Money market funds	7,817	20,507
<b>Total endowment investments</b>	<b><u>511,990</u></b>	<b><u>415,658</u></b>
Self-insurance escrow funds (Note 12)	11,367	9,798
Balanced index fund (Notes 12 and 14)	21,022	15,749
Real estate	<u>317</u>	<u>25,702</u>
<b>Total investments</b>	<b><u>\$ 544,696</u></b>	<b><u>\$ 466,907</u></b>



## Note 6: Fair Value of Financial Instruments, continued...

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

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

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

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

*Level 3* - Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of partnership investments in hedge funds, alternative and private equities, contributions receivable 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. At June 30, 2011, one investment transferred from Level 3 to Level 2 as a result of an increase in liquidity due to the release of restrictions for redemption. The University's policy is to recognize such transfers at the end of the reporting period.



## Note 6: Fair Value of Financial Instruments, continued...

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

	(in thousands)			
	Total	Level 1	Level 2	Level 3
<b>2011</b>				
<b>Assets at Fair Value:</b>				
Deposits with bond trustees	\$ 101,566	\$ 101,566		
Beneficial interests in trusts	38,939	38,939		
<b>Investments:</b>				
Equity securities	224,581	224,581		
Fixed income securities and bond funds	43,569	28,784	\$ 14,785	
Mutual funds	8,209		8,209	
Alternative investments	78,855		9,716	\$ 69,139
Real estate and real assets	148,959	19,774	111,308	17,877
Money market funds	7,817	7,817		
Investments held in endowment	511,990	280,956	144,018	87,016
Self-insurance escrow funds (Note 12)	11,367	11,367		
Balanced index fund (Note 12)	21,022	21,022		
Real estate	317		317	
Total investments	544,696	313,345	144,335	87,016
<b>Total assets</b>	<b>\$ 685,201</b>	<b>\$ 453,850</b>	<b>\$ 144,335</b>	<b>\$ 87,016</b>
<b>Liabilities at Fair Value:</b>				
Interest rate swaps (Note 1)	\$ 3,308		\$ 3,308	
Annuities	5,746			\$ 5,746
<b>Total liabilities</b>	<b>\$ 9,054</b>		<b>\$ 3,308</b>	<b>\$ 5,746</b>
<b>2010</b>				
<b>Assets at Fair Value:</b>				
Deposits with bond trustees	\$ 27,847	\$ 27,847		
Beneficial interests in trusts	21,061	21,061		
<b>Investments:</b>				
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
<b>Total assets</b>	<b>\$ 515,815</b>	<b>\$ 346,409</b>	<b>\$ 99,602</b>	<b>\$ 69,804</b>
<b>Liabilities at Fair Value:</b>				
Interest rate swaps (Note 1)	\$ 4,202		\$ 4,202	
Annuities	5,837			\$ 5,837
<b>Total liabilities</b>	<b>\$ 10,039</b>		<b>\$ 4,202</b>	<b>\$ 5,837</b>

## Note 6: Fair Value of Financial Instruments, continued...

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

	(in thousands)		Redemption Frequency (if currently eligible)	Redemption Notice Period (if applicable)
	Fair Value	Unfunded Commitments		
<b>2011</b>				
Multi-Strategy Hedge Funds (a)	\$ 13,364		Quarterly	65 days
Distressed Debt Hedge Funds (b)	21,269		Quarterly/Annually	90 days
Fixed Income Hedge Funds (c)	9,716		Monthly	60 days
Private Capital Funds - Secondaries (d)	5,993	\$ 4,800		
Private Capital Funds - Venture Capital (e)	7,484	1,342		
Private Capital Funds - Distressed Debt (f)	4,452	3,482		
Private Capital Funds - Buy-out (g)	2,441	36		
Real Asset Funds (h)	7,658	9,603		
Real Estate Funds (i)	5,736	3,604		
Long/Short Equity Hedge Funds (j)	16,005		Quarterly	45 days
Private Capital Funds - Hedge Fund Seeder (k)	2,171	5,325		
Private Capital Funds - Mezzanine Debt (l)	443	4,400		
<b>Total</b>	<b>\$ 96,732</b>	<b>\$ 32,592</b>		
<b>2010</b>				
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		
<b>Total</b>	<b>\$ 69,804</b>	<b>\$ 29,325</b>		

- (a) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio includes approximately 57% in distressed investments with a liquidation period of 1 to 3 years, 21% arbitrage opportunities, 9% cash, 7% long/short equity and 6% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. As of June 30, 2010, this category included investments of approximately 57% in credit and distressed credit (with a liquidation period of 1 to 3 years), 19% arbitrage opportunities, 9% cash, 6% long/short equity and 9% private equity. If the private equity investments were held, it is estimated that the underlying assets would have been liquidated over the next 1 to 4 years.

## Note 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 investment managers seek to liquidate these investments in 1 to 3 years. The fair value has been estimated using the net asset value per share of the investments. As of June 30, 2010, the liquidation period would have been the same (1 to 3 years) as the investment horizon was still 1 to 3 years.
- (c) This category includes investments in hedge funds that invest in publicly traded corporate bonds, sovereign debt and currency forward contracts of emerging market countries. The fair value has been estimated using the net asset value per share of the investments. There were no changes in this category from June 30, 2010.
- (d) This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If the investments were held, it is estimated that the underlying assets of the fund would be liquidated over 3 to 5 years. As of June 30, 2010, the estimated liquidation period would have been 3 to 6 years.
- (e) This category includes investments in private equity funds that invest primarily in technology and healthcare companies in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the funds would be liquidated over 2 to 5 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 3 to 6 years.
- (f) This category includes investments in private equity funds that invest in legacy loans and securities which banks are otherwise unable to remove from their balance sheets. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 6 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 7 years.
- (g) This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation's shares or product line or some business. These investments are primarily in U.S. technology and healthcare companies. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 3 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 2 to 4 years.
- (h) This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 6 to 10 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 7 to 11 years.

**Note 6: Fair Value of Financial Instruments, continued...**

- (i) This category includes investments in private equity funds that invest primarily in U.S. commercial real estate. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the following time frames: approximately 12% in 2 to 4 years, 71% in 6 to 8 years and 17% in 9 to 11 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over the following time frames: approximately 12% in 2 to 5 years and approximately 88% in 7 to 9 years.
- (j) This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments have been estimated using the net asset value per share of the investments. Investments representing approximately 50% of the value of the investments cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 months after acquisition. The remaining restriction period for these investments was three months at June 30, 2011.
- (k) This category includes investments in private equity funds that invest in newly started hedge funds that pursue multiple strategies. The fund provides start-up funding to hedge funds of various strategies with the potential to share in the appreciation of the investment, as well as to share in the management fees gathered by the underlying start-up hedge funds. As of June 30, 2011, the fund's underlying investments were 62% long/short global equity, 21% macro and commodity trading and 17% in global event-driven opportunities. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets would be liquidated in 5 to 8 years.
- (l) This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets would be liquidated over 5 to 8 years.

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

	(in thousands)	
	2011	2010
<b>Assets, beginning of year</b>	<b>\$ 69,804</b>	<b>\$ 55,843</b>
Net unrealized gain	5,761	3,579
Net realized gain	680	1,149
Purchases	32,078	12,235
Sales	(11,591)	(3,002)
Funds transferred to Level 2	(9,716)	
<b>Assets, end of year</b>	<b>\$ 87,016</b>	<b>\$ 69,804</b>

## Note 6: Fair Value of Financial Instruments, continued...

	(in thousands)	
	2010	2009
Annuities, beginning of year	\$ 5,837	\$ 5,289
Actuarial change on annuity liabilities	569	843
Payments on annuity liabilities	(660)	(295)
Annuities, end of year	<u>\$ 5,746</u>	<u>\$ 5,837</u>

## Note 7: Endowment Funds

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

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

For the years ended June 30, 2011 and 2010, 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.

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.

**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.

**Note 7: Endowment Funds, continued...**

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

<u>2011</u>	(in thousands)			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor-restricted endowment funds	\$ 21,607	\$ 72,357	\$ 197,281	\$ 291,245
Board-designated endowment funds	195,017	28,183		223,200
<b>Total net assets</b>	<b>\$ 216,624</b>	<b>\$ 100,540</b>	<b>\$ 197,281</b>	<b>\$ 514,445</b>

<u>2010</u>				
Donor-restricted endowment funds	\$ 14,380	\$ 42,221	\$ 181,151	\$ 237,752
Board-designated endowment funds	151,384	28,084		179,468
<b>Total net assets</b>	<b>\$ 165,764</b>	<b>\$ 70,305</b>	<b>\$ 181,151</b>	<b>\$ 417,220</b>

Changes in endowment net assets for the years ended June 30, 2011 and 2010 were as follows:

<u>2011</u>	(in thousands)			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Endowment net assets, beginning of year</b>	<b>\$ 165,764</b>	<b>\$ 70,305</b>	<b>\$ 181,151</b>	<b>\$ 417,220</b>
Investment return:				
Investment income, net of fees	1,336	2,103	149	3,588
Net realized gain	8,730	13,376	50	22,156
Net unrealized gain	17,481	39,078	358	56,917
Reclassification for funds with deficiencies	9,548	(9,548)		
<b>Total investment return</b>	<b>37,095</b>	<b>45,009</b>	<b>557</b>	<b>82,661</b>
Contributions	20	270	15,283	15,573
Use of endowment assets:				
Annual transfer for operations	(7,829)	(14,147)		(21,976)
Other transfers	21,574	(897)	290	20,967
<b>Total uses</b>	<b>13,745</b>	<b>(15,044)</b>	<b>290</b>	<b>(1,009)</b>
<b>Endowment net assets, end of year</b>	<b>\$ 216,624</b>	<b>\$ 100,540</b>	<b>\$ 197,281</b>	<b>\$ 514,445</b>

**Note 7: Endowment Funds, continued...**

<u>2010</u>	(in thousands)			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ 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)
<b>Endowment net assets, end of year</b>	<u>\$ 165,764</u>	<u>\$ 70,305</u>	<u>\$ 181,151</u>	<u>\$ 417,220</u>

**Endowment Funds with Deficiencies** - From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets maintain or exceed the level required. In accordance with 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 \$4,269,000 and \$13,817,000 as of June 30, 2011 and 2010, 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 20 years.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was \$864,000 and \$3,509,000 at June 30, 2011 and \$935,000 and \$3,408,000 at June 30, 2010, 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)	
	2011	2010
Art collection	\$ 10,504	\$ 10,481
Land and improvements	69,828	66,224
Buildings and improvements	608,219	591,713
Equipment, software and library books	161,166	152,116
Construction in progress	85,667	46,874
	<u>935,384</u>	<u>867,408</u>
Less accumulated depreciation	(290,550)	(261,246)
<b>Total land, buildings and equipment</b>	<b>\$ 644,834</b>	<b>\$ 606,162</b>

## 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)
2012	\$ 13,143
2013	12,459
2014	12,035
2015	11,012
2016	10,152
Thereafter	61,388
<b>Total minimum lease payments</b>	<b>\$ 120,189</b>

Total rent expense for operating leases amounted to \$14,366,000 and \$11,607,000 for the years ended June 30, 2011 and 2010, 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.

The University has 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. There were no expenditures for improvements in fiscal years 2011 or 2010. Estimated costs for the required improvements amounted to \$3,087,000 and \$3,119,000 at June 30, 2011 and 2010, respectively. These costs have been capitalized and a comparable capital lease liability recorded.



## Note 10: Bonds and Notes Payable

<u>Description</u>	<u>Project</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>(in thousands)</u>	
				<u>2011</u>	<u>2010</u>
Dormitory Bonds of 1965	Kelly Hall	2012-2015	3.00 - 3.50%	\$ 420	\$ 520
Dormitory Bonds of 1969	Calhoun Hall	2012-2019	3.00%	550	610
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2012-2015	3.00%	402	505
Pennsylvania Higher Educational Facilities Authority Revenue Bonds:					
First Series of 1993					
Convertible Series	Athletic field acquisition	2012	8.55%	70	130
1997 Bonds	Van Rensselaer renovation & advance refunding (1987 & 1990)	refunded			7,755
First Series of 1998	North Hall	refunded			30,835
Second Series of 1998	Advance refunding (1993 & 1996)	refunded			4,720
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)	2012-2032	4.15 - 5.20%	12,050	12,160
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)	2012-2018	5.50%	23,770	26,680
Series B of 2003	Stiles Hall renovations, Queen Lane campus acquisition & renovations, capital improvements & equipment	refunded			19,260
Series A of 2005	Capital improvements & equipment	2012-2034	3.20-5.00%	29,261	29,440
Series B of 2005	Advance refunding (1997 & 1999)	2019-2030	variable	29,825	29,825
Series A of 2007	New laboratory,	2030-2037	4.50-5.00%	95,942	96,080
Series B of 2007	dormitory & Wellness Center; capital improvements & equipment	2012-2037	variable	28,890	29,460
Series A of 2011	Partial cost of buildings for the Colleges of Business and Media Arts & Design, Department of Biology; Stratton Hall renovations; advance refunding (1997, 1998, 1998-2 and 2003-B)	2012-2041	2.00-5.25%	160,299	
TD Bank Loan	3501 Market & 3401 Filbert Street buildings	2012-2014	3.83%	12,353	15,000

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

<u>Description</u>	<u>Project</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>(in thousands)</u>	
				<u>2011</u>	<u>2010</u>
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements & equipment	2012-2037	3.75-5.00%	21,913	22,372
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	ODP Evening College renovations	2012-2013	3.00%	139	200
<b>Total bonds and notes payable</b>				<b>\$ 480,524</b>	<b>\$ 390,192</b>

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 \$466,660,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was \$461,384,000 at June 30, 2011, 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, 2007 and 2011 bonds are secured by a security interest in unrestricted gross revenues. The TD Bank loan is secured by a first property lien on the properties. The Philadelphia Industrial Development Corporation loans are secured by a mortgage lien on One Drexel Plaza.

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

	<u>(in thousands)</u>		
	<u>Maturities</u>	<u>Remarketed Debt</u>	<u>Total Debt</u>
2012	\$ 12,408	\$ 595	\$ 13,003
2013	12,029	620	12,649
2014	7,051	650	7,701
2015	9,763	680	10,443
2016	10,139	710	10,849
Thereafter	305,779	120,100	425,879
			<b>\$ 480,524</b>

The Second Series of 2000 and Series B of 2002, Series B of 2005 and Series B of 2007 bonds have remarketing terms and related standby letters of credit which could change the maturity dates to the fiscal years 2016, 2015 and 2014, respectively, based on the current expiration dates of the letters of credit. 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, 2012, with equal payments of principal and interest due sixty months thereafter. The line of credit is secured by a lien and security interest in deposits or other sums held by the lender or its affiliates. There were no amounts outstanding at June 30, 2011 and 2010.

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

Total unsecured Revolving Credit Facilities ("Facilities") of \$55,000,000 mature on April 1, 2012, 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, 2011 and 2010, the interest rates were 0.75% for the University and 1.25% for PHEC, respectively, and there were no amounts 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 \$26,999,000 and \$25,594,000 in 2011 and 2010, 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 \$206,000 and \$4,807,000 respectively, for the years ended 2011 and 2010 and are reflected in the consolidated statements of activities and included in postretirement benefits in the consolidated statements of financial position.

	(in thousands)	
	2011	2010
Benefit obligation	\$ 35,826	\$ 33,650
Fair value of plan assets	-	-
Funded status	<u>\$ 35,826</u>	<u>\$ 33,650</u>
Accrued benefit cost recognized in the consolidated statements of financial position	\$ 35,826	\$ 33,650
Discount rate	5.40%	5.37%

For measurement purposes, a 6.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011. The rate was assumed to decrease gradually to 5.0% for 2012 and remain at that level thereafter.

**Note 11: Retirement Plans, continued...**

	<u>(in thousands)</u>	
	<u>2011</u>	<u>2010</u>
Benefit cost	\$ 3,691	\$ 2,771
Employer contribution	1,723	1,758
Plan participant contributions	606	523
Benefits paid	2,329	2,281

## Estimated future benefit payments:

	<u>(in thousands)</u>
2012	\$ 2,127
2013	2,173
2014	2,215
2015	2,257
2016	2,306
2017 to 2021	12,474

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, 2011.

**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. PHEC's physicians and midwives also participate in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare") that covers from \$500,000 to \$1,000,000. In addition, PHEC self insures a layer of excess of up to \$2,000,000 above the Mcare Fund. The RRRG provided excess coverage above the self-insured layer of an additional \$9,000,000 through January 10, 2011. Beginning January 11, 2011, the excess coverage above the self-insured layer provided by the RRRG was \$5,000,000.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2011 and 2010, respectively, the University, PHEC and the RRRG recorded total reserves of \$31,118,000 and \$29,416,000, net of estimated recoveries from purchased reinsurance of \$6,413,000 and \$7,935,000, respectively. For fiscal years 2011 and 2010, the reserves were discounted at 7% for the RRRG coverage and 2% for the self-insured layer. Such reserves are included in accrued expenses on the accompanying consolidated statements of financial position. Escrow funds of \$11,367,000 and \$9,798,000 at June 30, 2011 and 2010, respectively, plus the RRRG guaranteed investment contract, invested in a balanced index fund, of \$21,022,000 and \$15,749,000 at June 30, 2011 and 2010, respectively, are available to fund these liabilities (see Note 5).

## 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 \$9,000 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, 2012 and March 14, 2012, respectively, and are renewed annually. There were no amounts outstanding as of June 30, 2011 or 2010.

PHEC also maintains a letter of credit in the amount of \$225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste. It expires on May 14, 2012 and is renewed annually. There were no amounts outstanding as of June 30, 2011 or 2010.

The University maintains four letters of credit totaling \$2,200,000 associated with workers' compensation insurance that expire on July 31, August 28, September 4 and September 13, 2012. The agreements are renewable annually. As of June 30, 2011 and 2010, 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, 2011 and 2010 were \$12,862,000 and \$13,660,000, 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 \$20,552,000 and \$20,416,000 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. The University intends to renew the contract with interest at the rate of 6.75% effective January 2012. The fair value of \$21,022,000 and \$15,749,000 at June 30, 2011 and 2010, 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 education and general expense categories in the consolidated statements of activities. The allocation of those expenses, based on the space assigned to each, is as follows:

	(in thousands)	
	2011	2010
College programs	\$ 31,984	\$ 30,167
Research and public service	17,326	18,612
Academic support	5,137	5,175
Student services	10,851	11,319
Institutional support	5,832	5,877
Auxiliary enterprises	17,718	15,698
Patient care activities	3,089	3,074
<b>Total</b>	<b>\$ 91,937</b>	<b>\$ 89,922</b>

## 16. Subsequent Events

In September 2011, the University entered into an agreement with the Academy of Natural Sciences ("Academy") located in Philadelphia, Pennsylvania, whereby the Academy became a subsidiary of the University to enhance the research and educational opportunities at both institutions through their joint operations.

The President of PHEC and Annenberg Dean, Richard V. Homan, M.D., announced his resignation effective October 31, 2011. The University's President, John A. Fry, will assume the position of President of PHEC, and Daniel V. Schidlow, M.D. will assume the position of Interim Dean. Dr. Schidlow is currently Professor of Pediatrics, Pharmacology and Physiology and Chair of the Department of Pediatrics at PHEC and Physician in Chief at St. Christopher's Hospital for Children in Philadelphia.

## 16. Subsequent Events, continued...

The University evaluated events subsequent to June 30, 2011 through September 20, 2011 and determined that there were no additional events requiring adjustment to or disclosure in the consolidated financial statements.

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# DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION as of June 30, 2011 (in thousands)

## Supplemental Consolidating Schedule of Financial Position

	Drexel University, <u>API and DeL</u>	<u>PHEC</u>	<u>Elimination Adjustments</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents:				
Operating cash	\$ 38,682	\$ 19,822		\$ 58,504
Risk Retention Group cash		4,773		4,773
Accounts receivable, net:				
Tuition	47,368	3,831	\$ (3,831)	47,368
Grants, contracts and other	25,497	10,044	(1,676)	33,865
Patients		6,890		6,890
Tenet Healthcare Corporation		981		981
Total accounts receivable, net	<u>72,865</u>	<u>21,746</u>	<u>(5,507)</u>	<u>89,104</u>
Contributions receivable, net	98,188	2,125		100,313
Other assets	22,249	3,119		25,368
Deposits with bond trustees	99,388	2,178		101,566
Student loans receivable, net	16,264	14,426		30,690
Beneficial interests in trusts	19,444	19,495		38,939
Investments	381,186	163,510		544,696
Land, buildings and equipment, net	<u>587,660</u>	<u>59,857</u>	<u>(2,683)</u>	<u>644,834</u>
<b>Total assets</b>	<b><u>\$ 1,335,926</u></b>	<b><u>\$ 311,051</u></b>	<b><u>\$ (8,190)</u></b>	<b><u>\$ 1,638,787</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 34,399	\$ 10,227		\$ 44,626
Accrued expenses	48,224	44,127		92,351
Payable to affiliate	5,507		\$ (5,507)	
Deposits	17,103	13,961		31,064
Deferred revenue	71,317	1,460		72,777
Capital leases, affiliate and other	3,087	2,683	(2,683)	3,087
Government advances for student loans	13,234	13,018		26,252
Postretirement benefits	35,944			35,944
Bonds and notes payable	<u>458,611</u>	<u>21,913</u>		<u>480,524</u>
<b>Total liabilities</b>	<b><u>687,426</u></b>	<b><u>107,389</u></b>	<b><u>(8,190)</u></b>	<b><u>786,625</u></b>
<b>NET ASSETS</b>				
Unrestricted	364,967	29,590		394,557
Temporarily restricted	171,555	61,694		233,249
Permanently restricted	<u>111,978</u>	<u>112,378</u>		<u>224,356</u>
<b>Total net assets</b>	<b><u>648,500</u></b>	<b><u>203,662</u></b>		<b><u>852,162</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 1,335,926</u></b>	<b><u>\$ 311,051</u></b>	<b><u>\$ (8,190)</u></b>	<b><u>\$ 1,638,787</u></b>

See notes to consolidated financial statements.



# DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES for the year ended June 30, 2011 (in thousands)

## Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, <u>API and DeL</u>	<u>PHEC</u>	<u>Elimination Adjustments</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Tuition and fees	\$ 546,244	\$ 66,396	\$ (2,454)	\$ 610,186
Less: institutional financial aid	(133,505)	(4,222)		(137,727)
Net student revenue	<u>412,739</u>	<u>62,174</u>	<u>(2,454)</u>	<u>472,459</u>
Patient care activities		95,595		95,595
State appropriations	3,030	10,622		13,652
Government grants and contracts	97,158	24,515		121,673
Private grants and contracts	8,848	5,038		13,886
Private gifts	62,943	3,597		66,540
Endowment payout under spending formula	16,308	5,668		21,976
Investment income	1,809	2,061		3,870
Sales and services of auxiliary enterprises	73,902			73,902
Other sources	23,887	18,016	(28,500)	13,403
<b>Total operating revenue</b>	<b><u>700,624</u></b>	<b><u>227,286</u></b>	<b><u>(30,954)</u></b>	<b><u>896,956</u></b>
<b>OPERATING EXPENSE</b>				
College programs	252,010	23,032		275,042
Research and public service	70,755	27,122		97,877
Academic support	15,132	6,885		22,017
Student services	38,120	2,247	(544)	39,823
Institutional support	106,767	28,877	(30,252)	105,392
Scholarships and fellowships	13,287	3,684		16,971
Auxiliary enterprises	39,042			39,042
<b>Total education and general</b>	<b><u>535,113</u></b>	<b><u>91,847</u></b>	<b><u>(30,796)</u></b>	<b><u>596,164</u></b>
Patient care activities		110,959		110,959
Operation and maintenance	28,391	15,729		44,120
Interest	15,592	998		16,590
Depreciation and amortization	24,186	7,199	(158)	31,227
<b>Total operating expense</b>	<b><u>603,282</u></b>	<b><u>226,732</u></b>	<b><u>(30,954)</u></b>	<b><u>799,060</u></b>
<b>Change in net assets from     operating activities</b>	<b><u>97,342</u></b>	<b><u>554</u></b>		<b><u>97,896</u></b>
<b>NON-OPERATING ACTIVITY</b>				
Endowment and other gifts	13,469	1,849		15,318
Realized/unrealized loss on investments, net of endowment payout of \$18,196	40,142	22,518		62,660
Other non-operating expense	(9,404)	(76)		(9,480)
<b>Change in net assets from     non-operating activities</b>	<b><u>44,207</u></b>	<b><u>24,291</u></b>		<b><u>68,498</u></b>
<b>Change in net assets</b>	<b><u>141,549</u></b>	<b><u>24,845</u></b>		<b><u>166,394</u></b>
<b>Net assets at beginning of year</b>	<b><u>506,951</u></b>	<b><u>178,817</u></b>		<b><u>685,768</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 648,500</u></b>	<b><u>\$ 203,662</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 852,162</u></b>

See notes to consolidated financial statements.

# DREXEL UNIVERSITY and SUBSIDIARIES

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

## Supplemental Consolidating Schedule of Financial Position

	Drexel University, <u>API and DeL</u>	<u>PHEC</u>	<u>Elimination Adjustments</u>	<u>Total</u>
<b>ASSETS</b>				
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 Healthcare Corporation		2,175		2,175
Total accounts receivable, net	<u>69,823</u>	<u>21,279</u>	<u>(4,285)</u>	<u>86,817</u>
Contributions receivable, net	51,457	983		52,440
Other assets	17,789	4,834		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	<u>553,993</u>	<u>55,010</u>	<u>(2,841)</u>	<u>606,162</u>
<b>Total assets</b>	<b><u>\$ 1,088,223</u></b>	<b><u>\$ 271,937</u></b>	<b><u>\$ (7,126)</u></b>	<b><u>\$ 1,353,034</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 31,653	\$ 10,209		\$ 41,862
Accrued expenses	43,667	39,457		83,124
Payable to affiliates	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	<u>367,820</u>	<u>22,372</u>		<u>390,192</u>
<b>Total liabilities</b>	<b><u>581,272</u></b>	<b><u>93,120</u></b>	<b><u>(7,126)</u></b>	<b><u>667,266</u></b>
<b>NET ASSETS</b>				
Unrestricted	319,631	17,052		336,683
Temporarily restricted	89,356	54,666		144,022
Permanently restricted	<u>97,964</u>	<u>107,099</u>		<u>205,063</u>
<b>Total net assets</b>	<b><u>506,951</u></b>	<b><u>178,817</u></b>		<b><u>685,768</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 1,088,223</u></b>	<b><u>\$ 271,937</u></b>	<b><u>\$ (7,126)</u></b>	<b><u>\$ 1,353,034</u></b>

# 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, <u>API and DeL</u>	<u>PHEC</u>	Elimination <u>Adjustments</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Tuition and fees	\$ 495,256	\$ 64,242	\$ (2,512)	\$ 556,986
Less: institutional financial aid	(121,804)	(4,523)		(126,327)
Net student revenue	<u>373,452</u>	<u>59,719</u>	(2,512)	<u>430,659</u>
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
<b>Total operating revenue</b>	<b><u>578,679</u></b>	<b><u>218,955</u></b>	<b><u>(28,736)</u></b>	<b><u>768,898</u></b>
<b>OPERATING EXPENSE</b>				
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
<b>Total education and general</b>	<b><u>505,198</u></b>	<b><u>84,306</u></b>	<b><u>(28,578)</u></b>	<b><u>560,926</u></b>
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
<b>Total operating expense</b>	<b><u>571,744</u></b>	<b><u>216,715</u></b>	<b><u>(28,736)</u></b>	<b><u>759,723</u></b>
<b>Change in net assets from operating activities</b>	<b><u>6,935</u></b>	<b><u>2,240</u></b>		<b><u>9,175</u></b>
<b>NON-OPERATING ACTIVITY</b>				
Endowment and other gifts	2,003	513		2,516
Realized/unrealized gain on investments, net of endowment payout of \$20,624	6,142	7,825		13,967
Other non-operating expense	(13,254)	(88)		(13,342)
<b>Change in net assets from non-operating activities</b>	<b><u>(5,109)</u></b>	<b><u>8,250</u></b>		<b><u>3,141</u></b>
<b>Change in net assets</b>	<b><u>1,826</u></b>	<b><u>10,490</u></b>		<b><u>12,316</u></b>
<b>Cumulative effect of accounting change</b>	<b><u>(1,455)</u></b>	<b><u>1,455</u></b>		
<b>Net assets at beginning of year</b>	<b><u>506,580</u></b>	<b><u>166,872</u></b>		<b><u>673,452</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 506,951</u></b>	<b><u>\$ 178,817</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 685,768</u></b>

See notes to consolidated financial statements.