Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Drexel University
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Drexel University and subsidiaries (the "University") as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 consolidated financial statements as a whole. The supplemental schedules listed on pages 37 through 40 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

As discussed in Note 16 to the consolidated financial statements, on September 13, 2011, the University entered into an affiliation agreement with the Academy of Natural Sciences of Philadelphia whereby the University undertook a controlling interest in the operations and management of the Academy of Natural Sciences of Philadelphia. No monetary consideration was exchanged in the transaction.

Deloitte & Touche LLP

October 8, 2012

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of FINANCIAL POSITION

as of June 30, 2012 and 2011 (in thousands)

ASSETS	**2012**	**2011**
Cash and cash equivalents:		
Operating cash	$ 66,631	$ 58,504
Risk Retention Group cash	3,961	4,773
Accounts receivable, net:		
Tuition	54,448	47,368
Grants, contracts and other	52,594	33,865
Patients	6,281	6,890
Tenet Healthcare Corporation	3,105	981
Total accounts receivable, net	116,428	89,104
Contributions receivable, net	101,036	100,313
Other assets	16,962	25,368
Deposits with bond trustees	87,176	101,566
Student loans receivable, net	32,345	30,690
Beneficial interests in trusts	43,889	38,939
Investments	581,087	544,696
Land, buildings and equipment, net	706,109	644,834
Total assets	**$ 1,755,624**	**$ 1,638,787**
LIABILITIES		
Accounts payable	$ 60,642	$ 44,626
Accrued expenses	95,945	92,351
Deposits	24,545	31,064
Deferred revenue	78,877	72,777
Capital lease	2,993	3,087
Government advances for student loans	27,114	26,252
Postretirement and pension benefits	51,924	35,944
Bonds and notes payable	467,251	480,524
Total liabilities	**809,291**	**786,625**
NET ASSETS		
Unrestricted	428,963	394,557
Temporarily restricted	240,878	233,249
Permanently restricted	276,492	224,356
Total net assets	**946,333**	**852,162**
Total liabilities and net assets	**$ 1,755,624**	**$ 1,638,787**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENT of ACTIVITIES
for the year ended June 30, 2012 (in thousands)

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

See notes to consolidated financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE				
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 and contracts	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	
Total operating revenue	**838,106**	**58,265**	**585**	**896,956**
OPERATING EXPENSE				
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
Total education and general	**596,164**			**596,164**
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
Total operating expense	**799,060**			**799,060**
Change in net assets from operating activities	**39,046**	**58,265**	**585**	**97,896**
NON-OPERATING ACTIVITY				
Endowment and other gifts			15,318	15,318
Realized/unrealized net gain on investments, net of endowment payout	28,308	30,962	3,390	62,660
Other non-operating expense	(9,480)			(9,480)
Change in net assets from non-operating activities	**18,828**	**30,962**	**18,708**	**68,498**
Change in net assets	**57,874**	**89,227**	**19,293**	**166,394**
Net assets at beginning of year	**336,683**	**144,022**	**205,063**	**685,768**
Net assets at end of year	**$ 394,557**	**$ 233,249**	**$ 224,356**	**$ 852,162**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS

for the years ended June 30, 2012 and 2011 (in thousands)

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 94,171	$ 166,394
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property	34,419	31,227
Provision for uncollectible accounts	1,574	858
Loss on disposal of equipment	917	78
Increase in beneficial interests in trusts	(4,950)	(17,878)
Contributions for long-term investment	(6,490)	(15,318)
Actuarial change on annuity liabilities	(847)	569
Realized/unrealized loss (gain) on investments	17,205	(80,856)
Acquisition of Academy land, buildings & equipment at fair value (Note 16)	(20,581)	
Acquisition of Academy investments at fair value (Note 16)	(41,974)	
Changes in operating assets and liabilities:		
Accounts receivable	(29,291)	(3,233)
Contributions receivable	(691)	(47,638)
Accounts payable and accrued expenses	9,215	13,231
Postretirement benefits	15,980	2,167
Other assets	8,406	(2,745)
Deposits and deferred revenue	(419)	14,654
Net cash provided by operating activities	**76,644**	**61,510**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(146,137)	(206,341)
Proceeds from sale of investments	134,515	209,408
Proceeds from student loan collections	5,238	5,308
Student loans issued	(6,532)	(3,491)
Purchase of land, buildings and equipment	(64,325)	(71,158)
Deposits placed with bond trustees	(329)	(156,705)
Use of deposits with bond trustees	14,719	82,986
Net cash used in investing activities	**(62,851)**	**(139,993)**
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	6,490	15,318
Payments on annuity obligations	(557)	(660)
Government advances for student loans	862	247
Proceeds from long-term borrowings		160,299
Repayment of long-term debt	(13,273)	(69,967)
Net cash (used in) provided by financing activities	**(6,478)**	**105,237**
Net increase in cash and cash equivalents	**7,315**	**26,754**
Cash and cash equivalents at beginning of year	**63,277**	**36,523**
Cash and cash equivalents at end of year	**$ 70,592**	**$ 63,277**
SUPPLEMENTAL INFORMATION		
Gifts in kind	$ 286	$ 792
Cash paid for interest	$ 20,003	$ 15,589
Amounts accrued for purchase of land, buildings and equipment	$ 20,874	$ 9,075

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 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).

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, 2013. PHEC has also engaged the University to provide services and personnel for its administrative and academic operations.

Note 1: Summary of Significant Accounting Policies, continued…

Academy of Natural Sciences of Philadelphia: Pursuant to an affiliation agreement dated September 13, 2011, the University owns 100% of the Academy of Natural Sciences of Philadelphia, doing business as The Academy of Natural Sciences of Drexel University ("ANS") (see Note 16). ANS, founded in 1812, is a nonprofit tax-exempt organization dedicated to encouraging and cultivating the sciences and advancing learning. ANS operates a public museum on the Benjamin Franklin Parkway in Philadelphia and conducts systematics research and research in aquatic ecosystems, including integrating such research with education regarding biodiversity and the environmental sciences in collaboration with the University and its students. The balances and activities of ANS are included in the accompanying consolidated financial statements.

Academic Properties, Inc.: The University owns 100% of Academic Properties, Inc. ("API"), a tax-exempt organization. API manages properties used by the University as well as other strategically located properties contiguous to the campus. The balances and activities of API are included in the accompanying consolidated financial statements.

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

Schuylkill Crossing Reciprocal Risk Retention Group: The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG") operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by PHEC. Ownership of the RRRG was split 87% and 13% between PHEC and the University, respectively, through November 9, 2010. Effective November 10, 2010, the ownership allocation was adjusted to 85% for PHEC and 15% for the University (see Note 12).

At June 30, 2012 and 2011, total assets of the RRRG totaled $35,654,000 and $32,671,000, respectively, and ownership equity totaled $8,109,000 and $5,138,000, 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 recorded at the present value of their expected cash flows.

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 in the consolidated statements of 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 2012 and 2011, revenue from Medicare and Medicaid programs combined and from managed care payers accounted for 21% and 52%, respectively, and 20% and 53%, respectively, of gross patient service revenue.

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

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

Income Taxes: The University has been granted tax-exempt status as a nonprofit organization under Section 501(c) (3) of the Internal Revenue Code and, accordingly, files Federal Tax Form 990 (Return of Organization Exempt from Income Tax) annually. No provision for income taxes is required in the University financial statements. The University files U.S. federal, state and local information returns and no returns are currently under examination. The statute of limitations on the University's U.S. federal information returns remains open for three years following the year they are filed.

The University and its affiliates do from time to time incur incidental activities that are subject to unrelated business income for which a 990T or other income tax return is filed, as appropriate. This primarily includes income from investments held in the endowment fund for which the investment manager has reported unrelated business income on a Schedule K-1 along with income from certain consulting and conference services.

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

Note 1: Summary of Significant Accounting Policies, continued…

Recent Accounting Pronouncements: Effective July 1, 2010, the University adopted Accounting Standards Update ("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).

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that entities should not net insurance recoveries against a related claim liability. Further, such entities should determine the claim liability without considering insurance recoveries. ASU 2010-24 was adopted by the University on July 1, 2011. The malpractice liability and related receivables from unaffiliated insurers are recorded in accrued expenses and grants, contracts and other receivables, respectively, in the June 30, 2012 consolidated statement of financial position (see Note 12).

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The amendments, including expanded disclosures about Level 3 measurements, are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. On adoption, the University does not expect a material effect to its financial statements.

Accounting for Derivative Instruments and Hedging Activities: The University entered into a variable-to-fixed swap agreement with Wells Fargo Bank, N.A. that converts the Series B of 2005 bonds to a fixed interest rate of 3.414% through the maturity of the bonds. The agreement resulted in a loss of $3,751,000 in 2012 and a gain of $779,000 in 2011, reported as an unrealized loss on investments in the consolidated statements of activities. The estimated fair value of terminating the interest rate swap agreement was ($6,641,000) and ($2,890,000), respectively, at June 30, 2012 and 2011.

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 $244,000 in 2012 and $115,000 in 2011, reported as an unrealized gain on investments in the consolidated statements of activities. The estimated fair value of terminating the interest rate swap agreement was ($174,000) and ($418,000) at June 30, 2012 and 2011.

Note 1: Summary of Significant Accounting Policies, continued…

The swap agreements are used by the University to reduce exposure to the volatility in variable interest rates on long-term debt (Note 10). The fixed payments due under the swap agreements were higher than the underlying variable payments in 2012 and 2011, 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, 2012 or 2011. The estimated fair value of terminating the swap agreements is reported as accrued expenses in the consolidated statements of financial position. The change in the estimated fair value of terminating the interest rate swap agreement is included in realized and unrealized net (loss) gain on investments in the non-operating section of the consolidated statements of activities.

Note 2: Net Assets

Net assets included the following:

	(in thousands)	
	2012	**2011**
Unrestricted:		
Undesignated	$ (217,214)	$ (213,158)
Designated for colleges, departments and student loans	97,151	89,878
Physical plant	340,063	296,197
Quasi-endowment funds	217,527	225,909
Reclassification for endowments with deficiencies	(8,564)	(4,269)
Total unrestricted	**428,963**	**394,557**
Temporarily restricted:		
Funds for instruction, scholarships and capital expenditures:		
Unexpended	157,729	145,047
Endowment realized and unrealized gain	67,075	77,486
Reclassification for endowments with deficiencies	8,564	4,269
Life income and term endowment funds	7,510	6,447
Total temporarily restricted	**240,878**	**233,249**
Permanently restricted:		
Endowment principal	250,014	197,281
Beneficial interests in trusts	19,614	20,417
Student loans and others	6,864	6,658
Total permanently restricted	**276,492**	**224,356**
Total net assets	**$ 946,333**	**$ 852,162**

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.

Note 3: Receivables, continued …

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

	(in thousands) 2012	2011
Tuition	$ 62,717	$ 53,474
Grants, contracts and other *	53,923	34,961
Patients, net of contractual allowances	11,568	12,780
Tenet Healthcare Corporation	3,279	981
	131,487	102,196
Less allowance for doubtful accounts	(15,059)	(13,092)
Accounts receivable, net	**$ 116,428**	**$ 89,104**

*2012 includes the impact of adoption of ASU 2010-24 (see Notes 1 and 12) and the acquisition of ANS (see Note 16).

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, 2012 and 2011, student loans represented 1.8% of total assets.

The availability of funds for loans under federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of $27,114,000 and $26,252,000 at June 30, 2012 and 2011, 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, 2012 and 2011, student loans consisted of the following:

	(in thousands) 2012	2011
Student loans:		
Federal government loan programs:		
Perkins loan program	$ 21,318	$ 20,927
Health Professions Student Loans and Loans for Disadvantaged Students	5,507	5,593
Nursing student loans	43	43
Federal government loan programs	26,868	26,563
Institutional loan programs	8,512	7,523
	35,380	34,086
Less allowance for doubtful accounts:		
Balance, beginning of year	(3,396)	(3,249)
Change in provision for doubtful accounts	361	(147)
Balance, end of year	(3,035)	(3,396)
Student loans receivable, net	**$ 32,345**	**$ 30,690**

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

The University considers the age of the amounts outstanding in determining the collectability of student loans receivable. The aging of student loans receivable based on days delinquent and the related allowance for doubtful accounts at June 30, 2012 and 2011 is as follows:

(in thousands)

	< 30 Days	30-60 Days	61-90 Days	>= 91 Days	Total
2012					
Student loans receivable:					
Federal government loan programs	$ 21,327	$ 35	$ 28	$ 5,478	$ 26,868
Institutional loan programs	6,203	42	2	2,265	8,512
Total student loans receivable	27,530	77	30	7,743	35,380
Allowance for doubtful accounts:					
Federal government loan programs			(3)	(1,669)	(1,672)
Institutional loan programs				(1,363)	(1,363)
Total allowance for doubful accounts			(3)	(3,032)	(3,035)
Student loans receivable, net	**$ 27,530**	**$ 77**	**$ 27**	**$ 4,711**	**$ 32,345**
2011					
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	26,200	787	599	6,500	34,086
Allowance for doubtful accounts:					
Federal government loan programs			(56)	(2,158)	(2,214)
Institutional loan programs			(3)	(1,179)	(1,182)
Total allowance for doubful accounts			(59)	(3,337)	(3,396)
Student loans receivable, net	**$ 26,200**	**$ 787**	**$ 540**	**$ 3,163**	**$ 30,690**

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 1.3% at June 30, 2012, and two-to-ten year U.S. Treasury notes, which averaged 2.3% at June 30, 2011. 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)	
	2012	2011
Amounts due in:		
Less than one year	$ 26,912	$ 22,112
One to five years	47,302	40,557
Greater than five years	40,139	56,991
Gross contributions receivable	114,353	119,660
Less:		
Allowance for uncollectibles	(910)	(942)
Discounts to present value	(12,407)	(18,405)
Total contributions receivable, net	**$ 101,036**	**$ 100,313**

Outstanding conditional promises to give amounted to $28,476,000 and $23,065,000 and at June 30, 2012 and 2011, 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)	
	2012	2011
Net contributions receivable, beginning of year	**$100,313**	**$ 52,440**
New pledges	30,105	60,873
Collections and adjustments	(35,412)	(4,751)
Decrease in allowance for uncollectibles	32	235
Decrease (increase) in present value discounts	5,998	(8,484)
Net contributions receivable, end of year	**$101,036**	**$100,313**

Note 5: Investments and Investment Return

At June 30, 2012 and 2011, the fair value of investments included the following:

	(in thousands)	
	2012	2011
	Fair Value	Fair Value
Equity securities	$ 211,968	$ 224,581
Fixed income securities and bond funds	53,312	43,569
Mutual funds	7,868	8,209
Alternative investments	85,083	78,855
Real estate and real assets	173,799	148,959
Money market funds	12,211	7,817
Total endowment investments	**544,241**	**511,990**
Self-insurance escrow funds (Note 12)	10,174	11,367
Balanced index fund (Notes 12 and 14)	26,373	21,022
Real estate	299	317
Total investments	**$ 581,087**	**$ 544,696**

Note 5: Investments and Investment Return, continued …

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2012 and 2011:

(in thousands)

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

	2011			
Dividends and interest	$ 3,780			$ 3,780
Net realized and unrealized (loss) gain	28,308	$ 49,032	$ 3,516	80,856
Return on endowment investments	32,088	49,032	3,516	84,636
Interest on other investments	2,796	1,074		3,870
Total return on investments	34,884	50,106	3,516	88,506
Investment return designated for current operations	(6,576)	(19,144)	(126)	(25,846)
Investment return net of amounts designated for current operations	**$ 28,308**	**$ 30,962**	**$ 3,390**	**$ 62,660**

Note 6: Fair Value of Financial Instruments

The three-level hierarchy for fair value measurements is based on observable and unobservable inputs to the valuation of an asset or liability at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants 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.

Note 6: Fair Value of Financial Instruments, continued…

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 fair values of alternative investments represent the University's ownership interest in the net asset value (NAV) of the respective fund. Investments held by the fund consist of marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities held that do not have readily determinable fair values are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issue, and subsequent developments concerning the companies to which the securities relate.

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies. During 2012, the University determined that its beneficial interests in trusts were more appropriately classified as Level 2 in the fair value hierarchy. On June 30, 2012, the College transferred the assets totaling $43,889,000, from Level 1 to Level 2. At June 30, 2011, one investment was 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:

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

2011	Total	Level 1	Level 2	Level 3
Assets at Fair Value:				
Deposits with bond trustees	$ 101,566	$ 101,566		
Beneficial interests in trusts	38,939	38,939		
Investments:				
Equity securities	224,581	224,581		
Fixed income securities and bond funds	43,569	28,784	$ 14,785	
Mutual Funds			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
Total assets	**$ 685,201**	**$ 453,850**	**$ 144,335**	**$ 87,016**
Liabilities at Fair Value:				
Interest rate swaps (Note 1)	$ 3,308		$ 3,308	
Annuities	5,746			$ 5,746
Total liabilities	**$ 9,054**		**$ 3,308**	**$ 5,746**

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	Redemption
		Unfunded	Frequency	Notice Period
2012	**Fair Value**	**Commitments**	**(if currently eligible)**	**(if applicable)**
Multi-Strategy Hedge Funds (a)	$ 15,108		Annual/Quarterly	45-60/65 days
Distressed Debt Hedge Funds (b)	11,665		Annual/Quarterly	90 days
Fixed Income and Related Hedge Funds (c)	25,690		Monthly/Quarterly	10-60/65 days
Private Capital Funds - Secondaries (d)	9,250	$ 3,559		
Private Capital Funds - Venture Capital (e)	5,614	1,342		
Private Capital Funds - Distressed Debt (f)	3,247	559		
Private Capital Funds - Buy-out (g)	4,157	1,001		
Real Asset Funds (h)	12,297	16,911		
Real Estate Funds (i)	14,250	3,657		
Long/Short Equity Hedge Funds (j)	10,977		Annual/Quarterly	60/45 days
Private Capital Funds - Hedge Fund Seeder (k)	3,514	3,795		
Private Capital Funds - Mezzanine Debt (l)	1,722	3,000		
Total	**$ 117,491**	**$ 33,824**		
2011				
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		
Total	**$ 96,732**	**$ 32,592**		

Note 6: Fair Value of Financial Instruments, continued…

a. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. As of June 30, 2012, the composite portfolio includes approximately 45% in distressed investments with a liquidation period of 1 to 3 years, 17% arbitrage opportunities, 29% cash, 3% 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, 2011, this category included investments of approximately 57% in credit and distressed credit (with a liquidation period of 1 to 3 years), 21% arbitrage opportunities, 9% cash, 7% long/short equity and 6% private equity. If the private equity investments were held, it is estimated that the underlying assets would have been liquidated over the next 1 to 3 years.

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, 2011, 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 investment in hedge funds that invest in: U.S. mortgage backed securities, publicly traded corporate bonds, and sovereign debt and currency forward contracts of emerging market countries. The fair value has been estimated using the net asset value per share of the investments. This category also includes investments in global bond funds whose valuation is determined in accordance with an established procedure prior to releasing the final valuation.

d. This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2012, if the investments were held, it is estimated that the underlying assets of the fund would be liquidated over 2 to 5 years. As of June 30, 2011, the estimated liquidation period would have been 3 to 5 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. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets of the funds would be liquidated over 1 to 4 years. As of June 30, 2011, if these investments were held, it is estimated that the underlying assets would be liquidated over 2 to 5 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. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 5 years. As of June 30, 2011, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 6 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. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 2 years. As of June 30, 2011, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 3 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. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 12 years. As of June 30, 2011, if these investments were held, it is estimated that the underlying assets would be liquidated over 6 to 10 years. A new investment was added in 2012 that has a 12 year term, extending the overall liquidation period.

i. This category includes investments in private equity funds that invest 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. As of June 30, 2012, if these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the following time frames: approximately 4% in 1 to 3 years, 75% in 5 to 7 years and 21% in 8 to 10 years. As of June 30, 2011, 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 4 years, 71% in 6 to 8 years, and 17% in 9 to 11 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.

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, 2012 the fund's underlying investments were 56% long/short global equity, 11% macro and commodity trading, 15% in diversified credit, 10% in arbitrage opportunities, and 9% 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 3 to 7 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 of the fund would be liquidated over 4 to 8 years.

Note 6: Fair Value of Financial Instruments, continued…

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

	(in thousands)	
	2012	2011
Assets, beginning of year	**$ 87,016**	**$ 69,804**
Net unrealized gain	969	5,761
Net realized (loss) gain	(1,336)	680
Purchases	26,765	32,078
Sales	(25,427)	(11,591)
Funds transferred to Level 2		(9,716)
Assets, end of year	**$ 87,987**	**$ 87,016**

	(in thousands)	
	2012	2011
Annuities, beginning of year	**$ 5,746**	**$ 5,837**
Actuarial change on annuity liabilities	(847)	569
Payments on annuity liabilities	(557)	(660)
Annuities, end of year	**$ 4,342**	**$ 5,746**

Academy of Natural Sciences' change in Level 3 assets and liabilities included the following:

	(in thousands)
	2012
Assets, beginning of year	**$ 19,484**
Total gain or losses (realized and unrealized)	624
Dividends and interest income	85
Purchases and sales	(129)
Assets, end of year	**$ 20,064**

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.

Note 7: Endowment Funds, continued…

For the year ended June 30, 2012, the University had an endowment spending rule that limited the spending of endowment resources to 4.75% of the average fair value of the pooled endowment portfolio for the prior seven fiscal years. For the year ended June 30, 2011, the University had an endowment spending rule that limited the spending of the endowment resources to 5% of the average 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.

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

	(in thousands)			
2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 17,957	$ 60,949	$ 242,383	$ 321,289
Board-designated endowment funds	187,121	26,040		213,161
Total net assets	**$ 205,078**	**$ 86,989**	**$ 242,383**	**$ 534,450**
2011				
Donor-restricted endowment funds	$ 21,607	$ 72,357	$ 197,281	$ 291,245
Board-designated endowment funds	195,017	28,183		223,200
Total net assets	**$ 216,624**	**$ 100,540**	**$ 197,281**	**$ 514,445**

Note 7: Endowment Funds, continued…

Changes in the University's endowment net assets (excluding ANS, see below) for the years ended June 30, 2012 and 2011 were as follows:

	(in thousands)			
2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 216,624**	**$ 100,540**	**$ 197,281**	**$ 514,445**
Investment return:				
Investment income (loss), net of fees	2,701	3,545	(36)	6,210
Net realized gain	566	1,963	23	2,552
Net unrealized loss	(2,685)	(7,208)	(102)	(9,995)
Reclassification for funds with deficiencies	(4,295)	4,295		
Total investment return	(3,713)	2,595	(115)	(1,233)
Contributions		522	5,570	6,092
Use of endowment assets:				
Annual transfer for operations	(9,152)	(14,300)		(23,452)
Other transfers	(163)	(6,425)	(495)	(7,083)
Total uses	(9,315)	(20,725)	(495)	(30,535)
Endowment net assets, end of year	**$ 203,596**	**$ 82,932**	**$ 202,241**	**$ 488,769**
2011				
Endowment net assets, beginning of year	**$ 165,764**	**$ 70,305**	**$ 181,151**	**$ 417,220**
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)		
Total investment return	37,095	45,009	557	82,661
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
Total uses	13,745	(15,044)	290	(1,009)
Endowment net assets, end of year	**$ 216,624**	**$ 100,540**	**$ 197,281**	**$ 514,445**

Note 7: Endowment Funds, continued…

Changes in the Academy of Natural Sciences' endowment net assets for the 6 month period ended June 30, 2012 were as follows:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(in thousands)			
Endowment net assets, beginning of period	**$ 2,762**	**$ 3,857**	**$ 39,175**	**$ 45,794**
Investment return:				
Investment income, net of fees	38		238	276
Net appreciation (realized and unrealized)	197	200	1,814	2,210
Total investment return	235	200	2,052	2,486
Contributions			152	152
Endowment and Board Designated expenditures	(1,515)		(1,237)	(2,752)
Total uses	(1,515)		(1,237)	(2,752)
Endowment net assets, end of period	**$ 1,482**	**$ 4,057**	**$ 40,142**	**$ 45,681**

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 $8,564,000 and $4,269,000 as of June 30, 2012 and 2011, 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.

The University determined that there were legal obligations to retire certain facilities and equipment. The total asset retirement cost and obligation was $743,000 and $3,176,000 at June 30, 2012 and $864,000 and $3,509,000 at June 30, 2011, respectively, and is included in buildings and improvements and accrued expenses, respectively, on the consolidated statements of financial position. In 2012 and 2011, depreciation and accretion expense amounted to $150,000 and $69,000, respectively, and $104,000 and $161,000, respectively.

Note 8: Land, Buildings and Equipment, continued

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

	(in thousands)	
	2012	2011
Works of art	$ 10,589	$ 10,504
Land and improvements	70,104	69,828
Buildings and improvements	704,955	608,219
Equipment, software and library books	180,989	161,166
Construction in progess	66,455	85,667
	1,033,092	**935,384**
Less accumulated depreciation	(326,983)	(290,550)
Total land, buildings and equipment	**$ 706,109**	**$ 644,834**

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)
2013	$ 16,003
2014	15,465
2015	12,086
2016	10,680
2017	10,375
Thereafter	51,370
Total minimum lease payments	**$ 115,979**

Total rent expense for operating leases amounted to $14,830,000 and $14,366,000 for the years ended June 30, 2012 and 2011, respectively.

The University leases educational and medical office space from Tenet under an operating lease expiring June 30, 2022 at a rate of $19.50 per rentable square foot.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 2012 or 2011. Estimated costs for the required improvements amounted to $2,993,000 and $3,087,000 at June 30, 2012 and 2011, respectively. These costs have been capitalized and a comparable capital lease liability recorded.

Note 10: Bonds and Notes Payable

Description	Project	Maturity	Interest Rate	2012	2011
Dormitory Bonds of 1965	Kelly Hall	2012-2015	3.00 - 3.50%	$ 320	$ 420
Dormitory Bonds of 1969	Calhoun Hall	2012-2019	3.00%	490	550
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2012-2015	3.00%	299	402
Pennsylvania Higher Educational Facilities Authority Revenue Bonds:					
First Series of 1993					
Convertible Series	Athletic field acquisition	2012	8.55%		70
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%	11,950	12,050
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%	20,659	23,770
Series A of 2005	Capital improvements & equipment	2012-2034	3.20-5.00%	29,043	29,261
Series B of 2005	Advance refunding (1997 & 1999)	2019-2030	variable	29,625	29,825
Series A of 2007	New laboratory,	2030-2037	4.50-5.00%	95,800	95,942
Series B of 2007	dormitory & Wellness Center; capital improvements & equipment	2012-2037	variable	28,295	28,890
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%	158,774	160,299
TD Bank Loan	3501 Market & 3401 Filbert Street buildings	2012-2014	3.83%	5,842	12,353
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements & equipment	2012-2037	3.75-5.00%	21,438	21,913
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	ODP Evening College renovations	2012-2013	3.00%	76	139
Total bonds and notes payable				**$ 467,251**	**$ 480,524**

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 $460,224,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was $474,231,000 at June 30, 2012, 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, 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:

	(in thousands)		
	Maturities	Remarketed Debt	Total Debt
2013	$ 12,144	$ 620	$ 12,764
2014	7,166	650	7,816
2015	9,878	680	10,558
2016	10,253	710	10,963
2017	11,293	745	12,038
Thereafter	293,957	119,155	413,112
			$ 467,251

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, 2013, 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, 2012 and 2011.

Total unsecured Revolving Credit Facilities ("Facilities") of $55,000,000 mature on April 1, 2013, 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, 2012 and 2011, 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

Defined Benefit and Defined Contribution 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 $28,853,000 and $26,999,000 in 2012 and 2011, respectively.

Through December 31, 2009, ANS offered participation in either a defined benefit pension plan or a defined contribution pension plan which are currently frozen to new members. These plans cover all full-time employees with a minimum of one year of service. The defined contribution plan is managed and administered by the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). Annual pension benefits are based upon a percentage of preretirement compensation. For the defined benefit pension plan, this percentage increases with years of service and the annual payment is adjusted based upon social security benefits. The ANS's funding policy is to contribute annually an amount as required by the Employee Retirement Income Security Act of 1974. For the defined contribution pension plan, contributions are based on a flat eight (8%) percent of annual compensation. ANS makes required contributions to the frozen defined benefit plan annually.

Effective January 1, 2010, ANS established a new defined contribution 403(b) Retirement Plan for all eligible ANS employees. The new plan replaces both the defined benefit and TIAA-CREF plans for all new employees with a minimum of one year of service who are not otherwise eligible for the previous plans. The new defined contribution plan does not provide for a predefined employer contribution.

The assumptions for the ANS defined benefit plan and estimated pension liabilities, Accumulated Benefit Obligation, Projected Benefit Obligation, and change in Plan Assets for the nine months ended June 30, 2012 are as follows:

(In Thousands)	2012
Weighted Average Assumptions as of June 30, 2012:	
Discount rate	4.40%
Expected return on plan assets	6.75%
Change in Benefit Obligation:	
Net benefit obligation at September 30, 2011	-
Service costs	$ 66
Interest costs	525
Actuarial (gain)/loss	981
Acquisitions	14,347
Gross benefits paid	(451)
Projected benefit /accumulated benefit obligation	15,468

Note 11: Retirement Plans, continued

(In Thousands)	2012
Change in Plan Assets:	
Fair value of plan assets at September 30, 2011	-
Actual return on plan assets	$ 629
Employer contributions	387
Acquisitions	8,080
Gross benefits paid	(451)
Fair value of plan assets at June 30, 2012	$ 8,645
Funded Status:	
Accrued pension benefit liability June 30, 2012	$(6,823)
Net actuarial (gain)/loss	784
Expected Cash Flows:	
2012 employer contributions	$ 546
Expected Benefit Payments:	
2013	$ 634
2014	678
2015	713
2016	751
2017	816
2018-2022	4,752

As of June 30, 2012, the assets held in the ANS pension plan measured at fair value for each hierarchy level were as follows:

2012	Total (in thousands)	Level 1	Level 2	Level 3
Assets at Fair Value:				
Cash equivalents	$ 208	$ 208		
Mutual funds	5,403	5,403		
Alternative investments	3,034			$ 3,034
Total assets at fair value	**$ 8,645**	**$ 5,611**		**$ 3,034**

The change in the ANS pension plan Level 3 assets for the 6 month period ended June 30, 2012 included the following:

	(in thousands)
Assets, beginning of period	$ 3,002
Net unrealized gain	159
Purchases	16
Sales	(143)
Assets, end of period	**$ 3,034**

Note 11: Retirement Plans, continued …

Post-Retirement Benefits

In addition to retirement plan benefits, the University also provides postretirement benefits to retirees in the form of group life insurance, major medical insurance and tuition remission. 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 $6,424,000 and $206,000 respectively, for the years ended 2012 and 2011 and are reflected in the consolidated statements of activities and included in postretirement benefits in the consolidated statements of financial position.

	(in thousands)	
	2012	2011
Benefit obligation	$ 45,017	$ 35,826
Fair value of plan assets		
Funded status	$ 45,017	$ 35,826
Accrued benefit cost recognized in the consolidated statements of financial position	$ 45,017	$ 35,826
Discount rate	4.00%	5.40%

For measurement purposes, a 10.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 grading down to ultimate rates of 5.0% in the year 2025 and thereafter.

	(in thousands)	
	2012	2011
Benefit cost	$ 4,569	$ 3,691
Employer contribution	1,802	1,723
Plan participant contributions	588	606
Benefits paid	2,390	2,329

Estimated future benefit payments:

	(in thousands)
2013	$ 2,183
2014	2,231
2015	2,287
2016	2,352
2017	2,420
2018 to 2022	13,351

A one-percentage-point change in the assumed health care cost trend rates would not have a significant impact on the net periodic postretirement benefit service and interest costs or the benefit obligation at June 30, 2012.

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 is $5,000,000.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2012 and 2011, the University, PHEC and the RRRG recorded gross combined reserves of $35,073,000 and $37,531,000, respectively, and related recoveries from third party insurers of $6,164,000 and $6,413,000, respectively. For fiscal years 2012 and 2011, the reserves were discounted at 6.25% and 7%, respectively, for the RRRG retained layer and 2% for the layers retained by University, PHEC and excess carriers. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying 2012 consolidated statements of financial position. In 2011, the liability, net of the reinsurance recovery, is recorded in accrued expenses (see recent accounting pronouncements above). At June 30, 2012 and 2011, escrow funds of $10,174,000 and $11,367,000, respectively, and the RRRG guaranteed investment contract of $26,373,000 and $21,022,000 at June 30, 2012 and 2011, 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.

Note 13: Commitments and Contingencies, continued …

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, 2013 and March 15, 2013, respectively, and are renewed annually. There were no amounts outstanding as of June 30, 2012 or 2011.

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, 2013 and is renewed annually. There were no amounts outstanding as of June 30, 2012 or 2011.

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 14, 2013. The agreements are renewable annually. As of June 30, 2012 and 2011, 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, 2012 and 2011 were $12,571,000 and $12,862,000, 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 $21,287,000 and $20,552,000 for the years ended June 30, 2012 and 2011, 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 year ended June 30, 2011. The University renewed the contract for three additional years with interest rates of 6.75%, 6.5%, and 6.25% effective January 2012, January 2013, and January 2014, respectively. The fair value of $26,373,000 and $21,022,000 at June 30, 2012 and 2011, 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)	
	2012	2011
College programs	$ 32,665	$ 31,984
Research and public service	20,958	17,326
Academic support	5,401	5,137
Student services	11,031	10,851
Institutional support	7,178	5,832
Auxiliary enterprises	19,690	17,718
Patient care activities	3,149	3,089
Total	**$ 100,072**	**$ 91,937**

Note 16: Academy of Natural Sciences Acquisition

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

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

The affiliation agreement with ANS was accounted for using the acquisition method of accounting as set forth in ASC topic 958-805, *Not-for Profit Business Combinations,* and therefore assets acquired and liabilities assumed were recorded at estimated fair value. Accordingly, an independent appraisal of ANS's land and buildings was obtained whereby an adjustment of $5,869,233 was recorded to increase these assets to fair value. Fair values are preliminary and may be retrospectively adjusted as additional information relative to closing date fair value becomes available.

Note 16: Academy of Natural Sciences Acquisition, continued…

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

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

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

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

Note 16: Academy of Natural Sciences Acquisition, continued…

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

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

THE ACADEMY OF NATURAL SCIENCES OF PHILADELPHIA
FINANCIAL HIGHLIGHTS
FOR THE NINE MONTHS ENDED JUNE 30, 2012

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

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

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

Note 17: Subsequent Events

The University evaluated events subsequent to June 30, 2012 through October 8, 2012 and determined that, except as noted below, there were no additional events requiring adjustment to or disclosure in the consolidated financial statements.

The University is currently planning to refinance its Series 2002A and Series 2003 fixed rate bonds on November 1, 2012. This is being accomplished by issuing new Series 2012 fixed rate bonds for $29,925,000 that will maintain the existing debt maturity at a lower interest rate currently estimated at 4.48%.

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DREXEL UNIVERSITY and SUBSIDIARIES

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

Supplemental Consolidating Schedule of Financial Position

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

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

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

Supplemental Consolidating Schedule of Financial Position

	Drexel University, API and DeL	PHEC and RRRG	Elimination Adjustments	Total
ASSETS				
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	72,865	21,746	(5,507)	89,104
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	587,660	59,857	(2,683)	644,834
Total assets	**$ 1,335,926**	**$ 311,051**	**$ (8,190)**	**$ 1,638,787**
LIABILITIES				
Accounts payable	$ 34,399	$ 10,227		$ 44,626
Accrued expenses	48,224	44,127		92,351
Payable to affiliates	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	458,611	21,913		480,524
Total liabilities	**687,426**	**107,389**	**(8,190)**	**786,625**
NET ASSETS				
Unrestricted	364,967	29,590		394,557
Temporarily restricted	171,555	61,694		233,249
Permanently restricted	111,978	112,378		224,356
Total net assets	**648,500**	**203,662**		**852,162**
Total liabilities and net assets	**$ 1,335,926**	**$ 311,051**	**$ (8,190)**	**$ 1,638,787**

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

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

Supplemental Consolidating Schedule of Statement of Activities

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

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

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

Supplemental Consolidating Schedule of Statement of Activities

	Drexel University, API and DeL	PHEC	Elimination Adjustments	Total
OPERATING REVENUE				
Tuition and fees	$ 546,244	$ 66,396	$ (2,454)	$ 610,186
Less: institutional financial aid	(133,505)	(4,222)		(137,727)
Net student revenue	412,739	62,174	(2,454)	472,459
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
Total operating revenue	**700,624**	**227,286**	**(30,954)**	**896,956**
OPERATING EXPENSE				
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
Total education and general	**535,113**	**91,847**	**(30,796)**	**596,164**
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
Total operating expense	**603,282**	**226,732**	**(30,954)**	**799,060**
Change in net assets from operating activities	**97,342**	**554**		**97,896**
NON-OPERATING ACTIVITY				
Endowment and other gifts	13,469	1,849		15,318
Realized/unrealized net gain on investments, net of endowment payout	40,142	22,518		62,660
Other non-operating expense	(9,404)	(76)		(9,480)
Change in net assets from non-operating activities	**44,207**	**24,291**		**68,498**
Change in net assets	**141,549**	**24,845**		**166,394**
Net assets at beginning of year	**506,951**	**178,817**		**685,768**
Net assets at end of year	**$ 648,500**	**$ 203,662**	**$ -**	**$ 852,162**

See notes to consolidated financial statements.