

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

FINANCIAL REPORT

June 30, 2011



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine, and its subsidiary (the "College") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the College at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 15, 2011

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**
CONSOLIDATED STATEMENTS of FINANCIAL POSITION
as of JUNE 30, 2011 and 2010 (in thousands)

ASSETS	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:		
Operating cash	\$ 19,822	\$ 8,057
Risk Retention Group cash	4,773	4,507
Accounts receivable, net:		
Patients	6,890	7,268
Grants, contracts and other	8,368	7,551
Drexel University, tuition and other	5,507	4,285
Tenet Healthcare Corporation	981	2,175
Total accounts receivable, net	<u>21,746</u>	<u>21,279</u>
Contributions receivable, net	2,125	983
Other assets	3,119	4,834
Deposits with bond trustees	2,178	4,275
Beneficial interests in trusts	19,495	16,762
Investments	163,510	140,131
Student loans receivable, net	14,426	16,099
Buildings, property and equipment, net	<u>59,857</u>	<u>55,010</u>
Total assets	<u>\$ 311,051</u>	<u>\$ 271,937</u>
 LIABILITIES		
Accounts payable	\$ 10,227	\$ 10,209
Accrued expenses	44,127	39,457
Deposits and deferred revenue	15,421	5,520
Capital lease, affiliate	2,683	2,841
Government advances for student loans	13,018	12,721
Bonds payable	<u>21,913</u>	<u>22,372</u>
Total liabilities	<u>107,389</u>	<u>93,120</u>
 NET ASSETS		
Unrestricted	29,590	17,052
Temporarily restricted	61,694	54,666
Permanently restricted	<u>112,378</u>	<u>107,099</u>
Total net assets	<u>203,662</u>	<u>178,817</u>
 Total liabilities and net assets	<u>\$ 311,051</u>	<u>\$ 271,937</u>

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**
CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2011 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE				
Patient care activities	\$ 95,595			\$ 95,595
Affiliate tuition and fees (net of discounts of \$4,222)	62,174			62,174
Government grants and contracts	24,515			24,515
Private grants and contracts	5,038			5,038
State appropriations	10,622			10,622
Contributions	680	\$ 2,917		3,597
Endowment payout under spending formula	572	5,054	\$ 42	5,668
Investment income, net	1,987	74		2,061
Other revenue	18,016			18,016
Net assets released from restrictions	10,303	(10,301)	(2)	
Total operating revenue	229,502	(2,256)	40	227,286
OPERATING EXPENSE				
Patient care activities	110,959			110,959
Education and general:				
Instruction	23,032			23,032
Research and public service	27,122			27,122
Academic support	6,885			6,885
Student services	2,247			2,247
Institutional support	28,877			28,877
Scholarships and fellowships	3,684			3,684
Total education and general	91,847			91,847
Depreciation and amortization	7,199			7,199
Operation and maintenance	15,729			15,729
Interest	998			998
Total operating expense	226,732			226,732
Change in net assets from operating activities	2,770	(2,256)	40	554
NON-OPERATING ACTIVITY				
Contributions			1,849	1,849
Realized/unrealized gain on investments, net of endowment payout	9,844	9,284	3,390	22,518
Other non-operating expense	(76)			(76)
Change in net assets from non-operating activities	9,768	9,284	5,239	24,291
Change in net assets	12,538	7,028	5,279	24,845
Net assets at beginning of year	17,052	54,666	107,099	178,817
Net assets at end of year	\$ 29,590	\$ 61,694	\$ 112,378	\$ 203,662

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY**
CONSOLIDATED STATEMENT of ACTIVITIES for the year ended JUNE 30, 2010 (in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE				
Patient care activities	\$ 91,118			\$ 91,118
Affiliate tuition and fees (net of discounts of \$4,523)	59,719			59,719
Government grants and contracts	22,254			22,254
Private grants and contracts	5,208			5,208
State appropriations	10,483			10,483
Contributions	407	\$ 4,438		4,845
Endowment payout under spending formula	661	5,727	\$ 49	6,437
Investment income, net	1,575	67		1,642
Other revenue	17,249			17,249
Net assets released from restrictions	10,819	(10,819)		
Total operating revenue	219,493	(587)	49	218,955
OPERATING EXPENSE				
Patient care activities	108,875			108,875
Education and general:				
Instruction	18,924			18,924
Research and public service	24,913			24,913
Academic support	9,030			9,030
Student services	2,095			2,095
Institutional support	24,545			24,545
Scholarships and fellowships	4,799			4,799
Total education and general	84,306			84,306
Depreciation and amortization	7,498			7,498
Operation and maintenance	15,153			15,153
Interest	883			883
Total operating expense	216,715			216,715
Change in net assets from operating activities	2,778	(587)	49	2,240
NON-OPERATING ACTIVITY				
Contributions			513	513
Realized/unrealized gain on investments, net of endowment payout	1,057	5,156	1,612	7,825
Other non-operating expense	(88)			(88)
Change in net assets from non-operating activities	969	5,156	2,125	8,250
Change in net assets	3,747	4,569	2,174	10,490
Cumulative effect of accounting change (Note 1)	1,455			1,455
Net assets at beginning of year	11,850	50,097	104,925	166,872
Net assets at end of year	\$ 17,052	\$ 54,666	\$ 107,099	\$ 178,817

See notes to consolidated financial statements.

**PHILADELPHIA HEALTH & EDUCATION CORPORATION -
DREXEL UNIVERSITY COLLEGE OF MEDICINE and SUBSIDIARY
CONSOLIDATED STATEMENTS of CASH FLOWS
for the years ended JUNE 30, 2011 and 2010 (in thousands)**

	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 24,845	\$ 10,490
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization on property	7,041	7,340
Provision for uncollectible accounts	363	705
Loss on disposal of equipment	4	
Contributions for long-term investment	(1,849)	(513)
Actuarial change on annuity liabilities	270	266
Realized/unrealized gain on investments	(27,196)	(13,092)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(1,990)	5,335
Other assets	1,715	3,828
Accounts payable and accrued expenses	4,052	826
Deposits and deferred revenue	9,901	(9,005)
Net cash provided by operating activities	<u>17,156</u>	<u>6,180</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(98,536)	(50,835)
Proceeds from sales and maturities of investments	99,620	51,681
Proceeds from student loan collections	2,414	2,135
Student loans issued	(723)	(1,194)
Purchase of buildings, property and equipment	(11,547)	(12,224)
Use of deposits with bond trustees	2,097	5,477
Net cash used in investing activities	<u>(6,675)</u>	<u>(4,960)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	1,849	513
Payments on annuity obligations	(137)	(146)
Government advances (refunds) for student loans	297	(171)
Repayment of long-term debt	(459)	(445)
Net cash provided by (used in) financing activities	<u>1,550</u>	<u>(249)</u>
Net increase in cash and cash equivalents	12,031	971
Cash and cash equivalents at beginning of year	<u>12,564</u>	<u>11,593</u>
Cash and cash equivalents at end of year	<u>\$ 24,595</u>	<u>\$ 12,564</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 1,044	\$ 1,093
Amortization of capital lease	\$ 158	\$ 158
Amounts accrued for purchase of buildings, property and equipment	\$ 1,358	\$ 855

See notes to consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended June 30, 2011 and 2010**

1. Organization and Summary of Significant Accounting Policies

Organization:

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

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

At June 30, 2011, total assets and ownership equity of the RRRG amounted to \$32,671,000 and \$5,138,000, respectively, and were \$32,290,000 and \$4,446,000, respectively, at June 30, 2010. The balances and activities of the RRRG, including the noncontrolling interest, are included in the accompanying consolidated financial statements. Changes in unrestricted net assets attributable to the controlling and noncontrolling interests for the years ended June 30, 2011 and 2010 were as follows:

	(in thousands)		
	Total	Controlling Interest	Noncontrolling Interest
2011			
Beginning balance	\$ 4,446	\$ 2,991	\$ 1,455
Revenue	1,173	1,008	165
Expense	(481)	(403)	(78)
Ending balance	\$ 5,138	\$ 3,596	\$ 1,542
2010			
Beginning balance	\$ 3,052	\$ 1,691	\$ 1,361
Revenue	1,008	877	131
Expense	(1,251)	(1,088)	(163)
Contributions	1,637	1,511	126
Ending balance	\$ 4,446	\$ 2,991	\$ 1,455

Affiliations and Agreements - The College is party to an Academic Affiliation Agreement with Tenet Healthcare Corporation ("Tenet") intended to establish a relationship to foster continued coordination and integration between the College and Tenet hospitals. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms. Under the terms of the agreement, the College commits to furnish administrative, supervisory, and teaching services to Tenet at budgeted levels through June 30, 2022 (see Note 14).

The College is party to an agreement to provide teaching and administrative services to Drexel for the education of Drexel's medical students and students in the health professions. The agreement, which automatically renews annually, is effective until June 30, 2012. In addition, the College has engaged Drexel to provide service and personnel for its administrative and academic operations (see Note 14).

Significant Accounting Policies:

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

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

Temporarily Restricted - Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the College in accordance with those stipulations or by the passage of time. The College classifies gifts to acquire long-lived assets as temporarily restricted net assets. The release of restriction occurs when the asset is placed in service.

Unrestricted - Net assets not subject to donor-imposed restrictions. These net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Expenses are shown as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless explicit donor stipulation or law restricts their use.

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

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payors for services rendered. The College provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement. In 2011 and 2010, revenue from Medicare and Medicaid programs combined and from managed care payors accounted for 20% and 53%, respectively, and 17% and 54%, respectively, of the College's gross patient service revenue.

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

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

Beneficial Interests in Trusts - The College is the beneficiary of the income of these funds but has neither possession nor control of the investments. Beneficial interests in trusts are recorded at the present value of their expected future cash flows (see Note 3).

Fair Value of Financial Instruments - The College applies fair value measurements to contributions receivable, beneficial interests in trusts, endowment investments, self-insurance escrow funds, deposits with bond trustees 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 5). See Notes 2, 3, 6 and 10 for additional fair value disclosures.

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

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

Recent Accounting Pronouncements - In September 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-12 *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 amends Accounting Standards Codification ("ASC") Topic 820 for Fair Value Measurements and Disclosures to: (1) permit a reporting entity, in certain situations as a practical expedient, to measure the fair value of an alternative investment on the basis of the net asset value per share of the investment and (2) require additional disclosures for such investments. The changes related to this update are effective for periods ending after December 15, 2009. The College adopted this guidance for the year ended June 30, 2010 (see Note 3).

Effective July 1, 2010, the College adopted ASC 810, *Not-for-Profit Entities: Mergers and Acquisitions* that provides guidance on the combination of not-for-profit entities and identifies certain presentation and disclosure requirements for entities with noncontrolling (formerly minority) interests in consolidated subsidiaries. The noncontrolling interest in the RRRG of \$1,542,000 and \$1,455,000 at June 30, 2011 and 2010, respectively, is incorporated in the College's consolidated financial statements (see Notes 1 and 11).

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

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 College on June 30, 2011 and the required disclosures related to student loans receivable are included in Note 5 to the financial statements.

2. Investments and Investment Return

At June 30, the carrying value of investments included the following:

	(in thousands)	
	2011	2010
Equity securities	\$ 77,755	\$ 68,581
Fixed income securities and bond funds	14,737	14,270
Mutual funds	2,785	
Alternative investments	23,683	19,052
Real estate and real assets	12,089	7,121
Money market funds	4,141	6,228
Total endowment investments	135,190	115,252
Self-insurance escrow funds (Note 12)	10,320	8,879
RRRG guaranteed investment contract (Note 12)	18,000	16,000
Total investments	\$ 163,510	\$ 140,131

The following summarizes the College's total investment return and its classification in the financial statements for the years ended June 30, 2011 and 2010:

	(in thousands)			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>2011</u>				
Dividends and interest	\$ 572	\$ 418		\$ 990
Net realized and unrealized gain	9,844	13,920	\$ 3,432	27,196
Return on endowment investments	10,416	14,338	3,432	28,186
Interest on other investments	1,987	74		2,061
Total return on investments	12,403	14,412	3,432	30,247
Investment return designated for current operations	(2,559)	(5,128)	(42)	(7,729)
Investment return in excess of amounts designated for current operations	\$ 9,844	\$ 9,284	\$ 3,390	\$ 22,518
<u>2010</u>				
Dividends and interest	\$ 661	\$ 576		\$ 1,237
Net realized and unrealized gain	1,057	10,374	\$ 1,661	13,092
Return on endowment investments	1,718	10,950	1,661	14,329
Interest on other investments	1,575			1,575
Total return on investments	3,293	10,950	1,661	15,904
Investment return designated for current operations	(2,236)	(5,794)	(49)	(8,079)
Investment return in excess of amounts designated for current operations	\$ 1,057	\$ 5,156	\$ 1,612	\$ 7,825

3. Fair Value of Financial Instruments

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

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

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

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

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

Level 3 - Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of partnership investments in hedge funds, alternative and private equities, annuity liabilities and contributions receivable (see Note 6).

The College assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in the valuation methodologies. At June 30, 2011, one investment transferred from Level 3 to Level 2 as a result of an increase in liquidity due to the release of restrictions for redemption. The College's policy is to recognize such transfers at the end of the reporting period.

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

	(in thousands)				
	2011	Total	Level 1	Level 2	Level 3
Assets at Fair Value:					
Deposits with bond trustees	\$ 2,178	\$ 2,178			
Beneficial interests in trusts	19,495	19,495			
Investments:					
Equity securities	77,755	77,755			
Fixed income securities and bond funds	14,737	9,809	\$ 4,928		
Mutual funds	2,785		2,785		
Alternative investments	23,683		3,124	\$ 20,559	
Real estate and real assets	12,089	6,378			5,711
Money market funds	4,141	4,141			
Investments held in endowment	135,190	98,083	10,837		26,270
Self-insurance escrow funds (Note 12)	10,320	10,320			
Total investments at fair value	145,510	\$ 108,403	\$ 10,837		\$ 26,270
Investments at Cost:					
RRRG guaranteed investment contract (Note 12)	18,000				
Total investments	163,510				
Total assets	\$ 185,183				
Liabilities at Fair Value:					
Annuities	\$ 1,376				\$ 1,376

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

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

	(in thousands)		Redemption Frequency (if currently eligible)	Redemption Notice Period (if applicable)
	Fair Value	Unfunded Commitments		
2011				
Multi-Strategy Hedge Funds (a)	\$ 4,215		Quarterly	65 days
Distressed Debt Hedge Funds (b)	6,807		Quarterly/Annually	90 days
Fixed Income Hedge Funds (c)	3,124		Monthly	60 days
Private Capital Funds - Secondaries (d)	1,844	\$ 1,488		
Private Capital Funds - Venture Capital (e)	1,858			
Private Capital Funds - Distressed Debt (f)	1,558	1,219		
Real Asset Funds (g)	2,509	2,907		
Real Estate Funds (h)	1,614	931		
Long/Short Equity Hedge Funds (i)	4,993		Quarterly	45 days
Private Capital Funds - Hedge Fund Seeder (j)	727	1,775		
Private Capital Funds - Mezzanine Debt (k)	145	1,452		
Total	\$ 29,394	\$ 9,772		

	(in thousands)		Redemption Frequency (if currently eligible)	Redemption Notice Period (if applicable)
	Fair Value	Unfunded Commitments		
2010				
Multi-Strategy Hedge Funds (a)	\$ 5,938		Quarterly	65 days
Distressed Debt Hedge Funds (b)	6,263		Quarterly/Annually	90 days
Fixed Income Hedge Funds (c)	2,967		Monthly	60 days
Private Capital Funds - Secondaries (d)	384	\$ 2,809		
Private Capital Funds - Venture Capital (e)	1,998	50		
Private Capital Funds - Distressed Debt (f)	1,502	1,539		
Real Asset Funds (g)	1,029	2,745		
Real Estate Funds (h)	956	1,461		
Total	\$ 21,037	\$ 8,604		

- (a) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The composite portfolio includes approximately 57% in distressed investments with a liquidation period of 1 to 3 years, 21% arbitrage opportunities, 9% cash, 7% long/short equity and 6% in private equity investments which can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets in the portfolio. If these investments were held, it is estimated that the underlying assets would be liquidated over the next 1 to 3 years. As of June 30, 2010, this category included investments of approximately 57% in credit and distressed credit (with a liquidation period of 1 to 3 years), 19% arbitrage opportunities, 9% cash, 6% long/short equity and 9% private equity. If the private equity investments were held, it is estimated that the underlying assets would have been liquidated over the next 1 to 4 years.
- (b) This category includes investments in hedge funds that invest in debt of companies that are in or facing bankruptcy. The investment managers seek to liquidate these investments in 1 to 3 years. The fair value has been estimated using the net asset value per share of the investments. As of June 30, 2010, the liquidation period would have been the same (1 to 3 years) as the investment horizon was still 1 to 3 years.
- (c) This category includes investments in hedge funds that invest in publicly traded corporate bonds, sovereign debt and currency forward contracts of emerging market countries. The fair value has been estimated using the net asset value per share of the investments. There were no changes in this category from June 30, 2010.
- (d) This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If the investments were held, it is estimated that the underlying assets of the fund would be liquidated over 3 to 5 years. As of June 30, 2010, the estimated liquidation period would have been 3 to 6 years.

- (e) This category includes investments in private equity funds that invest primarily in technology and healthcare companies in the U.S. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the funds would be liquidated over 2 to 5 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 3 to 6 years.
- (f) This category includes investments in private equity funds that invest in legacy loans and securities which banks are otherwise unable to remove from their balance sheets. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 1 to 6 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 1 to 7 years.
- (g) This category includes investments in private equity funds that invest primarily in real assets (e.g. investments with intrinsic value, such as real estate or commodities). These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 6 to 10 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over 7 to 11 years.
- (h) This category includes investments in private equity funds that invest primarily in U.S. commercial real estate. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over the following time frames: approximately 12% in 2 to 4 years, 71% in 6 to 8 years and 17% in 9 to 11 years. As of June 30, 2010, if these investments were held, it is estimated that the underlying assets would be liquidated over the following time frames: approximately 12% in 2 to 5 years and approximately 88% in 7 to 9 years.
- (i) This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. The fair values of the investments have been estimated using the net asset value per share of the investments. Investments representing approximately 50% of the value of the investments cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 months after acquisition. The remaining restriction period for these investments was three months at June 30, 2011.
- (j) This category includes investments in private equity funds that invest in newly started hedge funds that pursue multiple strategies. The fund provides start-up funding to hedge funds of various strategies with the potential to share in the appreciation of the investment, as well as to share in the management fees gathered by the underlying start-up hedge funds. As of June 30, 2011, the fund's underlying investments were 62% long/short global equity, 21% macro and commodity trading and 17% in global event-driven opportunities. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets would be liquidated in 5 to 8 years.

- (k) This category includes investments in private equity funds that provide mezzanine debt financing to middle market firms. Mezzanine debt differs from mortgage debt in that the mezzanine debt is backed by equity interests in the borrowing firm, versus mortgage financing which is backed by the asset. These investments can never be redeemed with the funds. Instead, distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets would be liquidated over 5 to 8 years.

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

	(in thousands)	
	2011	2010
Asset balance, beginning of year	\$ 21,037	\$ 16,088
Net unrealized gain	2,241	1,811
Net realized loss	(344)	(385)
Purchases	10,457	4,938
Sales	(3,997)	(1,415)
Funds transferred to level 2	(3,124)	
Asset balance, end of year	\$ 26,270	\$ 21,037
Liability balance, beginning of year	\$ 1,243	\$ 1,123
Actuarial change on annuity liabilities	270	266
Payment on annuity liabilities	(137)	(146)
Liability balance, end of year	\$ 1,376	\$ 1,243

4. Endowment Funds

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

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

The College's endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as endowments (quasi endowments). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated temporarily restricted endowment funds represent donor-restricted funds which the Board has earmarked for endowment purposes. The earnings on these funds are utilized by the College in a manner consistent with specific donor restrictions on the original contributions.

For the years ended June 30, 2011 and 2010, the College had an endowment spending rule that limited the spending of endowment resources to 5% of the average fair value of the pooled endowment portfolio for the prior three fiscal years. To the extent that current yield is inadequate to meet the spending rule, a portion of cumulative realized net gains is available for current use.

Interpretation of Relevant Law – The Board of Trustees of the College has interpreted Pennsylvania Act 141 (“PA Act 141”) as requiring the preservation of the fair value of the original gift as specified in the individual trust instruments. As a result of this interpretation, the College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by PA Act 141.

Endowment net asset composition by type of fund is as follows:

	(in thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
Donor-restricted endowment funds	\$ (2,919)	\$ 23,107	\$ 88,574	\$ 108,762
Board-designated endowment funds	7,397	15,700		23,097
Total net assets	\$ 4,478	\$ 38,807	\$ 88,574	\$ 131,859
2010				
Donor-restricted endowment funds	\$ (10,130)	\$ 13,824	\$ 86,356	\$ 90,050
Board-designated endowment funds	5,897	15,920		21,817
Total net assets	\$ (4,233)	\$ 29,744	\$ 86,356	\$ 111,867

Changes in endowment net assets are as follows:

	(in thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011				
Endowment net assets, beginning of year	\$ (4,233)	\$ 29,744	\$ 86,356	\$ 111,867
Investment return:				
Investment income (loss), net of fees	84	906	(42)	948
Net realized gain	207	2,231	50	2,488
Net unrealized gain	1,682	18,452	358	20,492
Reclassification for funds with deficiencies	7,211	(7,211)		
Total investment return	9,184	14,378	366	23,928
Contributions			1,849	1,849
Use of endowment assets:				
Annual transfer for operations	(572)	(5,096)		(5,668)
Other transfers	99	(219)	3	(117)
Total uses	(473)	(5,315)	3	(5,785)
Endowment net assets, end of year	\$ 4,478	\$ 38,807	\$ 88,574	\$ 131,859

	(in thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2010				
Endowment net assets, beginning of year	\$ (7,320)	\$ 27,021	\$ 85,446	\$ 105,147
Investment return:				
Investment income (loss), net of fees	99	1,071	(22)	1,148
Net realized (loss) gain	(3)	(29)	31	(1)
Net unrealized gain	906	9,892	180	10,978
Reclassification for funds with deficiencies	2,281	(2,281)		
Total investment return	3,283	8,653	189	12,125
Contributions		140	513	653
Use of endowment assets:				
Annual transfer for operations	(661)	(5,776)		(6,437)
Other transfers	465	(294)	208	379
Total uses	(196)	(6,070)	208	(6,058)
Endowment net assets, end of year	<u>\$ (4,233)</u>	<u>\$ 29,744</u>	<u>\$ 86,356</u>	<u>\$ 111,867</u>

Endowment Funds with Deficiencies – From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets maintain or exceed the level required. In accordance with generally accepted accounting principles, the aggregate amount of these deficiencies is reported in unrestricted net assets on the consolidated statement of activities. Subsequent investment gains will be used to restore the balances to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies were \$2,919,000 and \$10,130,000 at June 30, 2011 and 2010, respectively.

5. Accounts and Loans Receivable

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 individual accounts. The allowance for doubtful accounts is estimated based on the College's historical losses and periodic review of individual accounts. Interest is not accrued on the balances. Accounts receivable, net of allowances, were as follows:

	(in thousands)	
	2011	2010
Accounts receivable:		
Patient, net of contractual allowances	\$ 12,780	\$ 12,592
Grants, contracts and other	8,710	8,078
Drexel University tuition and other	5,507	4,285
Tenet Healthcare Corporation	981	2,175
	<u>27,978</u>	<u>27,130</u>
Less allowance for doubtful accounts	(6,232)	(5,851)
Accounts receivable, net	<u>\$ 21,746</u>	<u>\$ 21,279</u>

Student loans are disbursed based on financial need and include loans granted by the College 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 College. Student loans are uncollateralized and carry default risk. At June 30, 2011 and 2010, student loans represented 5% and 6% of total assets, respectively.

The availability of funds for loans under federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of \$13,018,000 and \$12,721,000 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loans and a decrease in the liability to the government. Student loans consisted of the following:

	<u>(in thousands)</u>	
	<u>2011</u>	<u>2010</u>
Student loans:		
Federal government loan programs:		
Perkins loan program	\$ 7,743	\$ 9,348
Health Professions Student Loans and Loans for Disadvantaged Students	<u>5,593</u>	<u>5,613</u>
Federal government loan programs	13,336	14,961
Institutional loan programs	<u>2,728</u>	<u>2,794</u>
	<u>16,064</u>	<u>17,755</u>
Less allowance for doubtful accounts:		
Balance, beginning of year	(1,656)	(1,312)
(Decrease) increase in provision for doubtful accounts	<u>18</u>	<u>(344)</u>
Balance, end of year	<u>(1,638)</u>	<u>(1,656)</u>
Student loans receivable, net	<u>\$14,426</u>	<u>\$16,099</u>

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 College 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.

