Philadelphia Health & Education Corporation

Drexel University College of Medicine and Subsidiary

Consolidated Financial Statements

June 30, 2013 and 2012

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Drexel University College of Medicine and Subsidiary
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June 30, 2013 and 2012

Independent Auditor's Report

To the Board of Trustees
Philadelphia Health and Education Corporation:

We have audited the accompanying consolidated financial statements of Philadelphia Health and Education Corporation, doing business as Drexel University College of Medicine, and its subsidiary, (the "College") which comprise the consolidated statement of financial position as of June 30, 2013 and the related consolidated statements of activities and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the College's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Philadelphia Health and Education Corporation, doing business as Drexel University College of Medicine, and its subsidiary at June 30, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the College as of June 30, 2012 and for the year then ended were audited by other auditors whose report, dated September 18, 2012 expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

November 26, 2013

Philadelphia Health & Education Corporation
Drexel University College of Medicine and Subsidiary
Consolidated Statements of Financial Position
As of June 30, 2013 and 2012 (in thousands)

	2013	2012
Assets		
Cash and cash equivalents		
Operating cash	$ 20,327	$ 11,539
Risk Retention Group cash	6,072	3,961
Accounts receivable, net		
Patients	8,537	6,281
Grants, contracts and other	16,777	14,915
Drexel University, tuition and other	2,452	7,373
Tenet Healthcare Corporation	3,119	3,105
Total accounts receivable, net	30,885	31,674
Contributions receivable, net	1,657	1,949
Other assets	3,577	3,811
Deposits with bond trustees	1,491	1,491
Beneficial interests in trusts	29,369	18,256
Investments	165,649	159,024
Student loans receivable, net	10,864	12,563
Buildings, property and equipment, net	58,540	58,247
Total assets	$ 328,431	$ 302,515
Liabilities		
Accounts payable	$ 8,497	$ 11,226
Accrued expenses	41,152	45,011
Deposits and deferred revenue	16,911	8,433
Capital lease, affiliate	2,368	2,526
Government advances for student loans	13,757	13,453
Bonds payable	20,943	21,438
Total liabilities	103,628	102,087
Net assets		
Unrestricted	32,336	25,626
Unrestricted - noncontrolling interest	2,629	1,987
Total unrestricted	34,965	27,613
Temporarily restricted	67,915	59,869
Permanently restricted	121,923	112,946
Total net assets	224,803	200,428
Total liabilities and net assets	$ 328,431	$ 302,515

The accompanying notes are an integral part of these consolidated financial statements.

Philadelphia Health & Education Corporation

Drexel University College of Medicine and Subsidiary

Consolidated Statement of Activities

For the Year Ended June 30, 2013 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Patient care activities	$ 101,991			$ 101,991
Affiliate tuition and fees (net of discounts of $4,984)	64,038			64,038
Government grants and contracts	18,284			18,284
Private grants and contracts	3,657			3,657
State appropriations	3,458			3,458
Contributions	584	$ 5,075		5,659
Endowment payout under spending formula	590	5,273	$ 43	5,906
Investment income, net	2,353	36		2,389
Other revenue	28,333			28,333
Net assets released from restrictions	6,727	(6,753)	26	-
Total operating revenue	230,015	3,631	69	233,715
Operating expense				
Patient care activities	116,473			116,473
Education and general				
Instruction	22,647			22,647
Research and public service	26,109			26,109
Academic support	6,979			6,979
Student services	1,964			1,964
Institutional support	26,349			26,349
Scholarships and fellowships	3,639			3,639
Total education and general	87,687	-	-	87,687
Depreciation and amortization	8,337			8,337
Operation and maintenance	13,408			13,408
Interest	964			964
Total operating expense	226,869	-	-	226,869
Change in net assets from operating activities	**3,146**	**3,631**	**69**	**6,846**
Nonoperating activity				
Contributions			7,158	7,158
Realized/unrealized net gain on investments, net of endowment payout	4,212	4,415	1,750	10,377
Other nonoperating expense	(6)			(6)
Change in net assets from nonoperating activities	**4,206**	**4,415**	**8,908**	**17,529**
Changes in net assets (including noncontrolling interest of $642)	**7,352**	**8,046**	**8,977**	**24,375**
Net assets				
Beginning of year	**27,613**	**59,869**	**112,946**	**200,428**
End of year	**$ 34,965**	**$ 67,915**	**$ 121,923**	**$ 224,803**

The accompanying notes are an integral part of these consolidated financial statements.

Philadelphia Health & Education Corporation
Drexel University College of Medicine and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2012 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue				
Patient care activities	$ 96,538			$ 96,538
Affiliate tuition and fees (net of discounts of $4,573)	63,617			63,617
Government grants and contracts	22,145			22,145
Private grants and contracts	5,009			5,009
State appropriations	2,457			2,457
Contributions	1,122	$ 3,262		4,384
Endowment payout under spending formula	576	5,404	$ 44	6,024
Investment income, net	2,211	155		2,366
Other revenue	26,261			26,261
Net assets released from restrictions	6,636	(6,636)		-
Total operating revenue	226,572	2,185	44	228,801
Operating expense				
Patient care activities	110,182			110,182
Education and general				
Instruction	19,235			19,235
Research and public service	28,141			28,141
Academic support	6,338			6,338
Student services	2,071			2,071
Institutional support	29,098			29,098
Scholarships and fellowships	3,733			3,733
Total education and general	88,616	-	-	88,616
Depreciation and amortization	7,570			7,570
Operation and maintenance	15,828			15,828
Interest	983			983
Total operating expense	223,179	-	-	223,179
Change in net assets from operating activities	**3,393**	**2,185**	**44**	**5,622**
Nonoperating activity				
Contributions	-	-	1,579	1,579
Realized/unrealized net loss on investments, net of endowment payout	(4,231)	(4,010)	(1,055)	(9,296)
Other nonoperating expense	(1,139)			(1,139)
Change in net assets from nonoperating activities	**(5,370)**	**(4,010)**	**524**	**(8,856)**
Changes in net assets (including noncontrolling interest of $445)	**(1,977)**	**(1,825)**	**568**	**(3,234)**
Net assets				
Beginning of year	**29,590**	**61,694**	**112,378**	**203,662**
End of year	**$ 27,613**	**$ 59,869**	**$ 112,946**	**$ 200,428**

The accompanying notes are an integral part of these 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, 2013 and 2012 (in thousands)

	2013	2012
Cash flow from operating activities		
Increase (decrease) in net assets	$ 24,375	$ (3,234)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization on property	8,337	7,413
Provision for uncollectible accounts	(292)	(573)
Loss on disposal of equipment	7	23
Contributions for long-term investment	(6,665)	(1,579)
Noncash contributions received	(598)	-
Actuarial change on annuity liabilities	116	(355)
Realized/unrealized net loss(gain) on investments	(15,178)	3,922
Deposits	7,732	-
Changes in operating assets and liabilities		
Accounts and contributions receivable	1,230	(9,270)
Other assets	234	(692)
Accounts payable and accrued expenses	(5,378)	2,076
Deferred revenue	746	(6,988)
Net cash provided by (used in) operating activities	14,666	(9,257)
Cash flow from investing activities		
Purchase of investments	(50,516)	(72,623)
Proceeds from sales and maturities of investments	47,992	74,426
Proceeds from student loan collections	2,076	2,280
Student loans issued	(234)	(326)
Purchase of buildings, property and equipment	(9,971)	(5,674)
Use of deposits with bond trustees		687
Net cash used in investing activities	(10,653)	(1,230)
Cash flow from financing activities		
Contributions restricted for endowments	6,665	1,579
Proceeds from sales of donated securities	562	-
Payments on annuity obligations	(150)	(147)
Government advances for student loans	304	435
Repayment of long-term debt	(495)	(475)
Net cash provided by financing activities	6,886	1,392
Change in cash and cash equivalents	10,899	(9,095)
Cash and cash equivalents		
Beginning of year	15,500	24,595
End of year	$ 26,399	$ 15,500
Supplemental information		
Cash paid for interest	$ 997	$ 1,015
Amortization of capital lease	158	158
Amounts accrued for purchase of buildings, property and equipment	458	1,944
Donated securities	598	

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

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

Merger

In the spring of 2012 President John Fry appointed an internal task force to assess the advantages and disadvantages of continuing to maintain a legal and practical separation between Drexel University (“Drexel”) and the Philadelphia Health & Education Corporation (“PHEC”) d/b/a Drexel University College of Medicine (“DUCOM”), colloquially known as the “Firewall.” The task force recommended eliminating the Firewall by merging PHEC into Drexel (“Recommendation”). The Recommendation of a merger of PHEC with and into Drexel was adopted by resolutions of the PHEC Board of Trustees on February 7, 2013 and the Drexel Board of Trustees on February 20, 2013.

In accordance with the resolutions, PHEC will merge with and into Drexel, and the separate existence of PHEC will cease, effective July 1, 2014. Drexel shall continue its existence under the Pennsylvania Nonprofit Corporation Law of 1988 as the surviving corporation. Drexel will succeed to and take possession of all PHEC property and assets of every kind, whether real, personal or mixed and will be responsible and liable for all of the liabilities, debts and obligations of PHEC.

The merger is subject to the following preconditions: (i) there is no order or injunction of a court of competent jurisdiction preventing Drexel or PHEC from consummating the merger; (ii) that no governmental action, statute, rule or regulation shall have been enacted or adopted which would prohibit or make the consummation of the merger illegal; and (iii) approval for transfer PHEC endowment funds has been obtained from the Philadelphia Court of Common Pleas Orphans’ Court Division. At this time, PHEC is not aware of any preconditions that would preclude the consummation of the merger.

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 (Note 13).

At June 30, 2013 and 2012, assets of the RRRG totaled $36,771,000 and $35,654,000, respectively, and ownership equity was $12,393,000 and $8,109,000, respectively. 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 year ended June 30, 2013 were as follows:

(in thousands)	Controlling Interest	Noncontrolling Interest	Total
Unrestricted net assets at June 30, 2012	$ 25,626	$ 1,987	$ 27,613
Change in net assets attributable to the RRRG	3,641	642	4,283
Change in net assets attributable to the College (excluding RRRG)	3,069		3,069
Total change in net assets	6,710	642	7,352
Unrestricted net assets at June 30, 2013	$ 32,336	$ 2,629	$ 34,965

On September 17, 2004, the RRRG entered into a Guaranteed Investment Contract ("GIC") with Drexel. The RRRG initially deposited $3,000,000 into the investment account in September 2004. After the initial deposit, the RRRG may deposit additional funds with Drexel in the amount of not less than $10,000. Drexel shall accrue interest on the daily outstanding balance of the invested money at a rate of 6.75% per annum calculated on the basis of twelve (12) thirty (30) day months in a 360-day year. Interest is payable on the first business day of each January, April, July, and October, and on the maturity date. The invested monies are to be repaid on the earlier to occur of (a) the seventh anniversary of the initial deposit, or (b) the date when the remaining balance of the invested monies is withdrawn. The GIC was renewed as of January 1, 2012, for the three year period ending December 31, 2014. The interest rates for these periods are 6.75% for calendar year 2012, 6.50% for calendar year 2013, and 6.25% for calendar year 2014. The balance of the GIC was $22,000,000 at December 31, 2012 and 2011.

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 and physician support and services to Tenet at budgeted levels through June 30, 2022 (Note 15).

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, 2014. In addition, the College has engaged Drexel to provide services and personnel for its administrative and academic operations (Note 15).

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.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days. Included in cash and cash equivalents are amounts which are limited in use by agency agreements, such as Federal government loan programs and Board mandated self-insurance liability funding. Amounts restricted as of June 30, 2013 and 2012 were $4,004,000 and $4,272,000, respectively.

Contributions Receivable

Contributions and unconditional pledges are recorded at the present value of their expected future cash flows.

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 (Note 3) and are primarily composed of equity and fixed income securities. The primary unobservable inputs used in the fair value measurement of the trusts are the underlying securities held by the trust. Significant fluctuation in the securities utilized in this calculation could result in a material change in fair value.

Fair Value of Financial Instruments

The College applies fair value measurements to contributions receivable in the year of receipt, 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 cannot be sold and can only be assigned to the U.S. Government or its designees. These loans are recorded at cost, less allowance for doubtful accounts and the carrying value of the loans receivable from students under PHEC's loan programs approximate fair value. See Notes 2, 3, 7 and 11 for additional fair value disclosures.

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 include patient service revenue and other physician service activities.

Patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered. The College provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide payment for covered services at agreed-upon rates under certain fee schedules and various discounts. Provisions have been made in the consolidated financial statements to estimate contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement.

Nonoperating Activities

Nonoperating activities include permanently restricted contributions, loss on the disposal of equipment, (loss) gain on investments net of the endowment spending rule, and severences.

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 May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with Accounting Principles Generally Accepted in the United States 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 applied prospectively. The College adopted this standard in these consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosures of Patient Service Revenue Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities,* requiring that health care entities must reclassify their provisions for bad debts associated with patient services revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This guidance is effective for fiscal years beginning after December 15, 2011. The College does not meet the criteria of a health care entity as outlined in Accounting Codification ASC 954-10-15 and, as such, is not applicable to the College.

In October 2012, the FASB issued ASU No. 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows,* to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows for not-for-profit entities. This guidance is effective for fiscal years beginning after June 15, 2013, with early adoption permitted. The College has adopted this guidance early within its statement of cash flows for the fiscal year ended June 30, 2013.

2. Investments and Investment Return

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

	(in thousands)	
	2013	**2012**
Equity securities	$ 77,121	$ 70,893
Fixed income securities and bond funds	18,451	15,522
Mutual funds		2,669
Alternative investments	21,115	22,000
Real estate and real asset funds	13,952	16,158
Money market funds	3,035	645
Total endowment investments	133,674	127,887
Self-insurance escrow funds (Note 13)	9,975	9,137
RRRG guaranteed investment contract (Note 13)	22,000	22,000
Total investments	$ 165,649	$ 159,024

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

(in thousands)

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 590	$ 551	$ -	$ 1,141
Net realized and unrealized gain	4,212	9,137	1,793	15,142
Return on investments	4,802	9,688	1,793	16,283
Interest income	2,352	36		2,388
Total return on investments	7,154	9,724	1,793	18,671
Investment return designated for current operations	(2,942)	(5,309)	(43)	(8,294)
Investment return net of amounts designated for current operations	$ 4,212	$ 4,415	$ 1,750	$ 10,377

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 576	$ 74	$ -	$ 650
Net realized and unrealized (loss) gain	(4,231)	1,320	(1,011)	(3,922)
Return on investments	(3,655)	1,394	(1,011)	(3,272)
Interest income	2,211	156	-	2,367
Total return on investments	(1,444)	1,550	(1,011)	(905)
Investment return designated for current operations	(2,787)	(5,560)	(44)	(8,391)
Investment return net of amounts designated for current operations	$ (4,231)	$ (4,010)	$ (1,055)	$ (9,296)

3. 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 ("exit price") 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 nonexchange-traded fixed income securities, structured products, certain bond investments and real estate and real assets 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, contributions receivable and real estate and real assets fund (Note 7).

As a practical expedient, the College is permitted to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). The fair values of alternative investments represent the College’s ownership interest in the 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 (only if it approximates fair value), 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 and industries to which the securities relate.

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. During 2012, the College determined that its beneficial interests in trusts were more appropriately classified as Level 2 in the fair value hierarchy on June 30, 2012. During 2013, upon further review, the College’s beneficial interests in trusts were determined to be a Level 3 in the fair value hierarchy and were reclassified from Level 2. Additional assessments of the College’s Level 1 real assets and equities funds determined that an active market price could not be found for the real assets and some of the equities funds. The real assets underlying investments were passive, very liquid and actively traded. As a result, these funds were changed from a Level 1 to a Level 2 classification. The College’s policy is to recognize such transfers at the end of the reporting period and therefore these hierarchy level changes were recognized on June 30, 2013.

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

	(in thousands)			
	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Deposits with bond trustees	$ 1,491	$ -	$ -	$ 1,491
Beneficial interests in trusts			29,369	29,369
Investments				
Equity securities	68,793	8,328	-	77,121
Fixed income securities and bond funds	3,129	15,322	-	18,451
Mutual funds	-	-	-	-
Alternative investments	-	-	20,298	20,298
Real estate and real assets	-	7,516	7,253	14,769
Money market funds	3,035	-	-	3,035
Investments held in endowment	74,957	31,166	27,551	133,674
Self-insurance escrow funds (Note 13)	9,975	-	-	9,975
Total investments at fair value	84,932	31,166	27,551	143,649
Investments at cost				
RRRG guaranteed investment contract (Note 13)				22,000
Total investments	$ 86,423	$ 31,166	$ 56,920	$ 196,509
Liabilities at fair value				
Annuities	$ -	$ -	$ 841	$ 841

	2012			
2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Deposits with bond trustees	$ 1,491	$ -	$ -	$ 1,491
Beneficial interests in trusts		18,256		18,256
Investments				
Equity securities	70,893		-	70,893
Fixed income securities and bond funds	10,387	5,135	-	15,522
Mutual funds	-	2,669	-	2,669
Alternative investments	-	3,035	18,922	21,957
Real estate and real assets	9,794	-	6,407	16,201
Money market funds	645	-	-	645
Investments held in endowment	91,719	10,839	25,329	127,887
Self-insurance escrow funds (Note 13)	9,137	-	-	9,137
Total investments at fair value	100,856	10,839	25,329	137,024
Subtotal assets	$ 102,347	$ 29,095	$ 25,329	156,771
Investments at cost				
RRRG guaranteed investment contract (Note 13)				22,000
Total assets				$ 178,771
Liabilities at fair value				
Annuities	$ -	$ -	$ 874	$ 874

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)

2013	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Long/Short Equity Hedge Funds (a)	$ 2,330	$ -	Quarterly	45 days
Multi-Strategy Hedge Funds (b)	3,859		Quarterly	65 days
Distressed Debt Hedge Funds (c)	3,635		Quarterly	90 days
Fixed Income Hedge Funds (d)	4,395		Quarterly	65 days
Private Capital Funds - Secondaries (e)	3,059	3,274		
Private Capital Funds - Venture Capital (f)	418			
Private Capital Funds - Hedge Fund Seeder (h)	1,422	1,129		
Private Capital Funds - Mezzanine Debt (i)	1,180	2,113		
Real Asset Funds (j)	4,543	3,773		
Real Estate Funds (k)	2,710	860		
	$ 27,551	$ 11,149		

2012	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Long/Short Equity Hedge Funds (a)	$ 2,251	$ -	Quarterly	45 days
Multi-Strategy Hedge Funds (b)	3,554	-	Quarterly	65 days
Distressed Debt Hedge Funds (c)	3,462	-	Quarterly	90 days
Fixed Income Hedge Funds (d)	7,295	-	Monthly/Quarterly	60/65 days
Private Capital Funds - Secondaries (e)	2,619	953		
Private Capital Funds - Venture Capital (f)	1,048	-		
Private Capital Funds - Distressed Debt (g)	1,136	195		
Private Capital Funds - Hedge Fund Seeder (h)	1,171	1,265		
Private Capital Funds - Mezzanine Debt (i)	558	990		
Real Asset Funds (j)	3,498	5,005		
Real Estate Funds (k)	1,772	783		
	$ 28,364	$ 9,191		

a. This category includes investments in hedge funds that invest primarily in U.S. common stocks with both long and short strategies. 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 hedge fund.

b. This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. At June 30, 2013 and 2012, respectively, the composite portfolio includes approximately 48% and 45% in distressed investments with a liquidation period of 1 to 3 years, 23% and 17% in arbitrage opportunities, 17% and 29% in cash, 9% and 3% in long/short equity and 3% 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. The fair value has been estimated using the net asset value per share of the hedge fund.

c. 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 hedge fund.

d. 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 hedge fund.

e. 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 2 to 12 years at June 30, 2013 (2 to 5 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the private capital fund.

f. 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 1 to 3 years at June 30, 2013 (1 to 4 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the private capital fund.

g. 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 4 years at June 30, 2013 (1 to 5 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the private capital fund.

h. 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, 2013 and 2012, respectively, the fund's underlying investments were 53% and 56% in long/short global equity, 10% and 11% in macro and commodity trading, 13% and 15% in diversified credit, 12% and 10% in arbitrage opportunities, and 12%and 8% 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 2 to 7 years at June 30, 2013 (3 to 7 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the private capital fund.

i. 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. 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 3 to 8 years at June 30, 2013 (4 to 8 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the private capital fund.

j. 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 4 to11 years at June 30, 2013 (5 to 12 years at June 30, 2012). The fair value has been estimated using the net asset value per share of the real asset fund.

k. This category includes investments in private equity funds that invest in U.S. commercial real estate. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. At June 30, 2013 and 2012, respectively, the fund's underlying investments would be liquidated over the following time frames: 1% and 4% in 1 to 3 years, 74% and 75% in 5 to 7 years and 25% and 21% in 8 to 10 years. The fair value has been estimated using the net asset value per share of the real estate fund.

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) 2013	2012
Asset balances at beginning of year	$ 25,329	$ 26,270
Net unrealized (loss) gain	2,487	(231)
Net realized loss	(1,514)	(216)
Purchases	2,969	7,713
Sales	(1,720)	(8,207)
Funds transferred from level 2	29,369	
Asset balances at end of year	$ 56,920	$ 25,329
Liability balances at beginning of year	$ 874	$ 1,376
Actuarial change on annuity liabilities	117	(355)
Payment on annuity liabilities	(150)	(147)
Liability balances at end of year	$ 841	$ 874
Unrealized gain (loss) on level 3 assets	$ 2,023	(464)

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, 2013 and 2012, the College 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. 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)			
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,796)	$ 39,191	$ 88,927	$ 124,322
Board-designated endowment funds	7,352	-	-	7,352
Total net assets	$ 3,556	$ 39,191	$ 88,927	$ 131,674

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (6,570)	$ 19,097	$ 89,716	$ 102,243
Board-designated endowment funds	6,813	15,616	-	22,429
Total net assets	$ 243	$ 34,713	$ 89,716	$ 124,672

Changes in endowment net assets are as follows:

(in thousands) 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 243	$ 34,713	$ 89,716	$ 124,672
Investment return				
Investment income, net of fees	98	1,041		1,139
Net realized gain	171	1,829		2,000
Net unrealized gain	873	9,633		10,506
Reclassification for funds with deficiencies	2,774	(2,774)		-
Total investment return	3,916	9,729		13,645
Contributions			1,156	1,156
Use of endowment assets				
Annual transfer for operations	(590)	(5,316)		(5,906)
Other transfers	(13)	65	(1,945)	(1,893)
Total uses	(603)	(5,251)	(1,945)	(7,799)
Endowment net assets at end of year	$ 3,556	$ 39,191	$ 88,927	$ 131,674

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 4,478	$ 38,807	$ 88,574	$ 131,859
Investment return				
Investment income (loss), net of fees	57	611	(36)	632
Net realized gain	133	1,423	23	1,579
Net unrealized loss	(406)	(4,248)	(102)	(4,756)
Reclassification for funds with deficiencies	(3,651)	3,651	-	-
Total investment return	(3,867)	1,437	(115)	(2,545)
Contributions	-	-	1,575	1,575
Use of endowment assets				
Annual transfer for operations	(576)	(5,448)	-	(6,024)
Other transfers	208	(83)	(318)	(193)
Total uses	(368)	(5,531)	(318)	(6,217)
Endowment net assets at end of year	$ 243	$ 34,713	$ 89,716	$ 124,672

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 accounting principles generally accepted in the United States, the aggregate amount of the deficiencies is reported as a reduction 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 $3,796,000 and $6,570,000 at June 30, 2013 and 2012, 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, as of June 30 were as follows:

	(in thousands) 2013	2012
Accounts receivable		
Patient, net of contractual allowances	$ 13,811	$ 11,568
Grants, contracts and other	17,021	15,204
Drexel University tuition and other	2,452	7,373
Tenet Healthcare Corporation	3,202	3,279
	36,486	37,424
Less: Allowance for doubtful accounts	(5,601)	(5,750)
Accounts receivable, net	$ 30,885	$ 31,674

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, 2013 and 2012, student loans represented 3% and 4%, respectively, 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 $13,757,000 and $13,453,000 at June 30, 2013 and 2012, 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:

	(in thousands)	
	2013	**2012**
Student loans		
Federal government loan programs		
Perkins loan program	$ 4,755	$ 6,101
Health professions student loans and loans for disadvantaged students	4,961	5,507
Federal government loan programs	9,716	11,608
Institutional loan programs	2,552	2,502
	12,268	14,110
Less: Allowance for doubtful accounts		
Balances at beginning of year	(1,547)	(1,638)
Decrease in provision for doubtful accounts	143	91
Balances at end of year	(1,404)	(1,547)
Student loans receivable, net	$ 10,864	$ 12,563

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.

The College 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, 2013 and 2012 is as follows:

	(in thousands)				
2013	**< 30 Days**	**30–59 Days**	**60–89 Days**	**>= 90 Days**	**Total**
Student loans receivable					
Federal government loan programs	$ 6,649	$ 6	$ 7	$ 3,054	$ 9,716
Institutional loan programs	1,279	4	3	1,266	2,552
Total student loans receivable	7,928	10	10	4,320	12,268
Allowance for doubtful accounts					
Federal government loan programs			(1)	(808)	(809)
Institutional loan programs				(595)	(595)
Total allowance for doubtful accounts	-	-	(1)	(1,403)	(1,404)
Student loans receivable, net	$ 7,928	$ 10	$ 9	$ 2,917	$ 10,864

2012	**< 30 Days**	**30–59 Days**	**60–89 Days**	**>= 90 Days**	**Total**
Student loans receivable					
Federal government loan programs	$ 9,582	$ 20	$ 6	$ 2,000	$ 11,608
Institutional loan programs	1,303	35	-	1,164	2,502
Total student loans receivable	10,885	55	6	3,164	14,110
Allowance for doubtful accounts					
Federal government loan programs	-	-	(1)	(778)	(779)
Institutional loan programs	-	-	-	(768)	(768)
Total allowance for doubtful accounts	-	-	(1)	(1,546)	(1,547)
Student loans receivable, net	$ 10,885	$ 55	$ 5	$ 1,618	$ 12,563

6. Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable are recorded net of a discount based on current yields for two-to-ten year U.S. Treasury notes, which averaged 1.2% and 1.3% at June 30, 2013 and 2012, respectively. The College considers these discount rates to be a Level 3 input in the context of FASB ASC 820-10 (Note 3).

Net contributions receivable as of June 30 were as follows:

	(in thousands)	
	2013	**2012**
Amounts due in		
Less than one year	$ 660	$ 1,073
One to five years	927	790
Greater than five years	110	110
Gross contributions receivable	1,697	1,973
Less: Discount to present value	(40)	(24)
Total contributions receivable, net	$ 1,657	$ 1,949

Outstanding conditional pledges are dependent upon the fulfillment of certain conditions and amounted to $8,120,000 and $6,715,000 at June 30, 2013 and 2012, respectively. Conditional pledges are not included in the consolidated financial statements.

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

	(in thousands)	
	2013	2012
Balances at beginning of year	$ 1,949	$ 2,125
New pledges	440	609
Collections on pledges	(716)	(826)
(Increase) decrease in discount to present value	(16)	41
Balances at end of year	$ 1,657	$ 1,949

7. Retirement Plan

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

For the years ended June 30, 2013 and 2012, the College contributed $8,656,000 and $8,269,000 respectively, to the Retirement Plan, reported as institutional support in the consolidated statements of activities.

8. Buildings, Property and Equipment

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

The College determined that it has legal obligations related to the retirement of certain facilities and equipment. At June 30, 2013 and 2012, the asset retirement costs totaled $69,000 and $73,000, respectively, and the related obligation totaled $245,000 and $233,000, respectively. The asset retirement costs and related obligations are included in buildings and improvements and accrued expenses, respectively, in the consolidated statements of financial position.

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

	(in thousands) 2013	2012
Works of art	$ 1,659	$ 1,659
Land and improvements	2,068	2,040
Leasehold improvements	36,425	31,725
Buildings and improvements	25,440	24,953
Equipment and software	55,880	53,122
Construction in progress	8,079	7,977
	129,551	121,476
Less: Accumulated depreciation and amortization	(71,011)	(63,229)
Buildings, property and equipment, net	$ 58,540	$ 58,247

The depreciation expense for the years ended June 30, 2013 and 2012 was $8,337,000 and $7,570,000, respectively.

9. Leases

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

(in thousands)

2014	$ 10,323
2015	10,096
2016	9,929
2017	9,878
2018	9,562
Thereafter	38,294
Total minimum lease payments	$ 88,082

Total rent expense for operating leases amounted to $11,567,000 and $12,869,000 for the years ended June 30, 2013 and 2012, respectively.

The College leases educational, research, and medical office space from Tenet under an operating lease expiring June 30, 2022. The future minimum payments are included in the table above. The total rent expense for the Tenet operating lease was $7,991,000 for each of the years ended June 30, 2013 and 2012.

On July 1, 2003, the College entered into an agreement with Drexel to lease a building at 2900 Queen Lane, Philadelphia, Pennsylvania, for the sum of $1 annually for a period of 25 years. The proportional cost of the leased property, net of depreciation, has been capitalized and amounted to $2,368,000 and $2,526,000 at June 30, 2013 and 2012, respectively. A capital lease liability has been recorded for the same amount.

10. Bonds and Notes Payable

The Pennsylvania Higher Educational Facilities Authority, Drexel University College of Medicine Revenue Bonds, Series of 2007, was issued during fiscal 2008 in the amount of $21,985,000. The proceeds (1) refunded a mortgage loan; (2) financed capital improvements and equipment for the College's Medical Office Building located at 219 North Broad Street, Philadelphia, Pennsylvania, and other facilities used by the College and (3) funded capitalized interest, a debt service reserve fund and other associated costs. Interest accrues at fixed rates from 3.75% to 5% through the 2037 maturity date. The bonds are secured by a security interest in the College's unrestricted revenues, and Drexel has guaranteed to replenish the debt service reserve fund in the event the College fails to do so. At June 30, 2013, the outstanding bonds, including premium, amounted to $20,943,000 and had a fair value of $20,680,000. At June 30, 2012, the outstanding bonds, including premium, amounted to $21,438,000 and had a fair value of $21,874,000. The bonds are considered to be a Level 2 liability.

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

(in thousands)

2014	$ 510
2015	530
2016	550
2017	565
2018	585
Thereafter	18,203
	$ 20,943

The College has entered into a term note – line of credit of $3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available through June 30, 2014, 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, 2013 or 2012.

In addition, the College maintains an unsecured $10,000,000 Revolving Credit Facility (the "Facility") that accrues interest based on Libor (subject to a floor of 1.00%) plus .25% and matures on June 30, 2014. It can be extended annually based upon the mutual agreement of the College and the bank maintaining the Facility. There were no amounts outstanding at June 30, 2013 or 2012.

11. Net Assets

Net assets as of June 30 were as follows:

	(in thousands) 2013	2012
Unrestricted		
Undesignated	$ (25,164)	$ (28,055)
Designated for colleges, departments and student loans	12,282	12,832
Physical plant	41,663	40,606
Quasi-endowment funds	7,351	6,813
Reclassification for endowments with deficiencies	(3,796)	(6,570)
Total unrestricted - College	32,336	25,626
Noncontrolling interest in RRRG	2,629	1,987
Total unrestricted	34,965	27,613
Temporarily restricted		
Funds for instruction, scholarships and capital expenditures		
Unexpended	44,413	40,772
Endowment realized and unrealized gain	19,706	12,527
Reclassification for endowments with deficiencies	3,796	6,570
Total temporarily restricted	67,915	59,869
Permanently restricted		
Endowment funds	88,927	89,716
Beneficial interests in trusts	29,017	19,286
Student loans and others	3,979	3,944
Total permanently restricted	121,923	112,946
Total net assets	$ 224,803	$ 200,428

12. Professional Liability Insurance

The College maintained commercial, occurrence-based insurance coverage for professional liability claims that occurred from November 10, 1998 through November 10, 2003. Beginning on November 10, 2003, the College purchased primary and excess insurance coverage from the RRRG on a claims-made basis. The RRRG provides primary coverage of $500,000 for physicians and midwives and up to $1,000,000 for other health professions and entity coverage. 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, the College self insures a layer of excess of up to $2,000,000 above the Mcare Fund. The RRRG provides excess coverage above the self-insured layer of $5,000,000.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2013 and 2012, the College and the RRRG recorded gross combined reserves of $30,948,000 and $34,207,000, respectively, and related recoveries from third party insurers of $5,300,000 and $6,164,000, respectively. For fiscal years 2013 and 2012, the reserves were discounted at 6.25% for the RRRG retained layer and 2% for the self-insured layer. Such reserves and reinsurance recoveries are included in accrued expenses and grants, contracts and other receivables, respectively, in the accompanying consolidated statements of financial position. At June 30, 2013 and 2012, escrow funds of $12,209,000 and $10,941,000, respectively, and the RRRG guaranteed investment contract of $22,000,000 are available to fund these liabilities (Note 1).

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 changes in net assets or cash flow.

Management believes that the College is in compliance with applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Litigation

The nature of the educational and healthcare industries is such that, from time to time, claims will be presented against the College on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and healthcare services at a large institution. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters will not have a materially adverse effect on the College's financial condition or results of operations.

Other Commitments and Contingencies

The College maintains a letter of credit in the amount of $260,000 for the benefit of Pennsylvania Manufacturer's Association associated with workers' compensation insurance. The letter of credit expires on March 14, 2014 and is renewed annually. There was no amount outstanding as of June 30, 2013 or 2012.

The College also maintains a letter of credit in the amount of $225,000 required by the Department of Environmental Protection related to the disposal of nuclear medical waste. It expires on May 14, 2014 and is renewed annually. There was no amount outstanding as of June 30, 2013 or 2012.

14. Related Party Transactions

The College has various operating agreements with Tenet and Drexel. Under these agreements, the College acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2013 and 2012 were $12,269,000 and $12,571,000, respectively. These services include charges for various personnel, administrative and support services related to operating the College and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs and services and support provided by physicians to support hospital operations. The charges to Tenet for these services amounted to $23,836,000 and $21,287,000 for the years ended June 30, 2013 and 2012, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

The College has entered into a General and Administrative Services Agreement engaging Drexel to provide services and personnel for administrative and academic operations. The agreement, which automatically renews annually, is effective until June 30, 2014. Under this agreement, Drexel provided services valued at approximately $13,570,000 and $13,483,000, respectively, for the years ended June 30, 2013 and 2012. The College paid the full cost of the services for each year, reported as institutional support expense in the accompanying consolidated statements of activities. In addition, Drexel provided $13,570,000 and $13,483,000 to the College in fiscal years 2013 and 2012, respectively, for operations, reported as other revenue.

Separately, Drexel funded $3,084,401 and $2,918,000 of the College's Retirement Plan in fiscal years 2013 and 2012, respectively, which is reported as other revenue in the accompanying consolidated statements of activities.

In September 2004, Drexel 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. Drexel 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. Principal balance of $22,000,000 at June 30, 2013 and 2012 is included in investments in the consolidated statements of financial position (Note 2).

15. Operating Expenses

Expenses for the operation and maintenance of plant, depreciation and interest are not included in the College's patient care and 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) 2013	2012
Patient care activities	$ 2,932	$ 3,148
Instruction	7,931	8,515
Research and public service	8,076	8,671
Academic support	3,140	3,371
Student services	533	572
Institutional support	97	104
	$ 22,709	$ 24,381

16. Subsequent Events

The College evaluated events subsequent to June 30, 2013 through November 26, 2013 and determined that there were no additional events requiring adjustment to or disclosure in the consolidated financial statements.