

Drexel University and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2010, and
Independent Auditors' Reports in Accordance With
Government Auditing Standards and Office of
Management and Budget Circular A-133

DREXEL UNIVERSITY AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Drexel University
Philadelphia, Pennsylvania

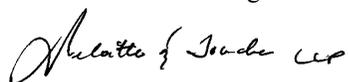
We have audited the accompanying consolidated statements of financial position of Drexel University and Subsidiaries (the "University") as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purposes of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2010 is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of the University's management. Such information has been subject to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2010 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



September 21, 2010

DREXEL UNIVERSITY and SUBSIDIARIES
CONSOLIDATED STATEMENTS of FINANCIAL POSITION

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

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

See notes to consolidated financial statements.

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

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

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENT of ACTIVITIES

for the year ended June 30, 2009 (in thousands)

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

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES

CONSOLIDATED STATEMENTS of CASH FLOWS

for the years ended June 30, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 12,316	\$ (114,783)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property	29,612	26,702
Provision for uncollectible accounts	792	(2,451)
Loss on disposal of property and equipment	126	336
(Increase) decrease in beneficial interests in trusts	(1,243)	6,840
Contributions for long-term investment	(2,516)	(9,430)
Actuarial change on annuity liabilities	843	1,165
Realized/unrealized (gain) loss on investments	(34,591)	155,451
Changes in operating assets and liabilities:		
Accounts receivable	(4,460)	(6,207)
Contributions receivable	16,977	(25,833)
Accounts payable and accrued expenses	2,184	1,765
Postretirement benefits	5,800	2,646
Other assets	20,596	(5,330)
Deposits and deferred revenue	(3,998)	12,148
	<u>42,438</u>	<u>43,019</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(96,394)	(348,628)
Proceeds from sale of investments	91,009	343,092
Proceeds from student loan collections	4,742	3,759
Student loans issued	(3,096)	(5,719)
Purchase of land, buildings and equipment	(87,137)	(123,840)
Use of deposits with bond trustees	54,357	62,824
	<u>(36,519)</u>	<u>(68,512)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	2,516	9,430
Payments on annuity obligations	(295)	(662)
Government advances for student loans	(194)	48
Proceeds from long-term borrowings		20,000
Repayment of short-term debt		(195)
Repayment of long-term debt	(12,756)	(6,363)
	<u>(10,729)</u>	<u>22,258</u>
Net decrease in cash and cash equivalents	(4,810)	(3,235)
Cash and cash equivalents at beginning of year	41,333	44,568
Cash and cash equivalents at end of year	\$ 36,523	\$ 41,333
SUPPLEMENTAL INFORMATION		
Gifts in kind	\$ 1,128	\$ 163
Cash paid for interest	\$ 14,088	\$ 16,015
Amounts accrued for purchase of property, plant and equipment	\$ 10,224	\$ 8,330

See notes to consolidated financial statements.

DREXEL UNIVERSITY and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the Years Ended June 30, 2010 and 2009

Note 1: Summary of Significant Accounting Policies

Basis of Financial Statements: Drexel University (the "University") is a private research university located in Philadelphia, Pennsylvania. The University is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. All revenues received and expenditures paid prior to the end of the fiscal year which relate to the following fiscal year are recorded and reflected as deferred revenues and deferred charges, respectively.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into the categories as shown below.

Permanently restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets. Such assets are included in the University's permanent endowment funds.

Temporarily restricted: Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the University in accordance with those stipulations or by the passage of time. Endowment income and contributions with donor-imposed restrictions are reported as temporarily restricted and are reclassified to unrestricted net assets when the donor-imposed restrictions have been met.

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

Philadelphia Health & Education Corporation: The University owns 100% of the Philadelphia Health & Education Corporation, doing business as Drexel University College of Medicine ("PHEC"). PHEC is party to an Academic Affiliation Agreement with Tenet HealthSystem Philadelphia, Inc. ("Tenet") intended to establish a relationship to foster continued coordination and integration between PHEC and the Tenet hospitals whereby PHEC agrees to provide administrative, supervisory and teaching services to Tenet at budgeted levels. This agreement, dated November 10, 1998 and subsequently amended on April 25, 2002, is effective until June 30, 2022 and may be renewed thereafter for separate and successive five-year terms (see Note 14).

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

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

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

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

Schuylkill Crossing Reciprocal Risk Retention Group: The Schuylkill Crossing Reciprocal Risk Retention Group (the "RRRG") operates to provide primary coverage for claims-made medical professional liability insurance for health care professionals employed by PHEC. Ownership of the RRRG is split 87% and 13% between PHEC and the University, respectively.

At June 30, 2010, the assets and ownership equity of the RRRG amounted to \$32,290,000 and \$4,446,000, respectively, and net investment income and the net operating deficit were \$1,008,000 and (\$1,251,000), respectively. At June 30, 2009, the assets and ownership equity of the RRRG amounted to \$38,683,000 and \$3,052,000, respectively, and net investment income and the net operating deficit were \$1,024,000 and (\$2,404,000), respectively. The balances and activities of the RRRG are included in the accompanying consolidated financial statements.

Cash and Cash Equivalents: Cash and cash equivalents represent demand deposits and other investments with an initial maturity date not exceeding 90 days.

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

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

Fair Value of Financial Instruments: The University applies fair value measurements to contributions receivable, beneficial interests in trusts, endowment investments, self-insurance escrow funds, real estate, deposits with bond trustees, interest rate swaps and annuities. A reasonable estimate of the fair value of student loans receivable under government loan programs and refundable federal student loans could not be made because the loans are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts. See Notes 4, 5, 6 and 10 for additional fair value disclosures.

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

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

Patient care activities represent amounts received and the estimated net realizable amounts due from patients and third-party payers for services rendered. PHEC provides care to patients under various reimbursement arrangements, including Medicare and Medicaid. These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement. In 2010 and 2009, revenue from Medicare and Medicaid programs combined and from managed care payers accounted for 17% and 54%, respectively, and 18% and 54%, respectively, of gross patient service revenue.

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

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

Recent Accounting Pronouncements: Effective for fiscal years ending after September 15, 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162*, as the sole source of authoritative accounting principles generally accepted in the United States of America for non-SEC registrants. Adoption of this guidance did not have a material effect on the financial statements. References in the footnotes have been updated to be consistent with the codification.

Effective July 1, 2008, the University implemented FASB Accounting Standards Codification ("ASC") 820-10, *Fair Value Measurements and Disclosures*, formerly SFAS No. 157, that defines fair value, requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements. ASC 820-10 clarifies that fair value should be based on assumptions about risk, risks inherent in valuation techniques and the inputs to valuations. It also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The impact of ASC 820-10 is limited to additional disclosures regarding fair value measurement (see Note 6).

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

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

Effective June 30, 2009, the University also adopted FASB Staff Position ("FSP") ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, formerly FSP 117-1. This ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization whether or not it is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") for the purpose of improving disclosures about both donor-restricted and board-designated endowment funds. The Commonwealth of Pennsylvania has not enacted UPMIFA as of the date of this report. Accordingly, the impact of ASC 958-205 is limited to additional disclosures regarding the endowment funds (see Note 7).

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

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

During fiscal year 2009, the University entered into a variable-to-fixed swap agreement with TD Bank, N.A., which converts the TD Bank loan to a fixed rate of 3.83% through the January 2014 termination date. The agreement resulted in losses of \$413,000 and \$120,000 in 2010 and 2009, respectively, reported as unrealized losses on investments in the consolidated statement of activities. The estimated fair value of the agreement was (\$533,000) and (\$120,000) at June 30, 2010 and 2009.

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

Note 2: Net Assets

Net assets consist of the following:

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

Note 3: Receivables

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

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

Note 4: Contributions Receivable

Unconditional pledges are reported as contributions receivable and revenue in the appropriate net asset category. Contributions receivable are recorded net of a discount based on the current yields for two-to-ten year U.S. Treasury notes, which averaged 2% and 2.3% at June 30, 2010 and 2009, respectively. The University considers these discount rates to be a Level 3 input in the context of ASC 820-10 (see Note 6).

Net contributions receivable at June 30 consist of the following:

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

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

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

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

Note 5: Investments and Investment Return

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

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

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

For the years ended June 30, 2010 and 2009, the University had an endowment spending rule that limited the spending of endowment resources to 5% of the average fair value of the pooled endowment portfolio for the prior three fiscal years. To the extent that current yield is inadequate to meet the spending rule, a portion of cumulative realized net gains is available for current use.

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

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

The following summarizes the University's total investment return and its classification in the financial statements for the years ended June 30, 2010 and 2009:

	(in thousands)			
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 3,701			\$ 3,701
Net realized and unrealized gain	3,253	\$ 29,381	\$ 1,957	34,591
Return on endowment investments	6,954	29,381	1,957	38,292
Interest on other investments	1,790	1,038		2,828
Total return on investments	8,744	30,419	1,957	41,120
Investment return designated for current operations	(5,491)	(21,317)	(345)	(27,153)
Investment return in excess of amounts designated for current operations	\$ 3,253	\$ 9,102	\$ 1,612	\$ 13,967

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

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

6. Fair Value of Financial Instruments

ASC 820-10 establishes a three-level hierarchy for fair value measurements based on observable inputs to the valuation of an asset or liability at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

The University assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in valuation methodologies. There were no transfers between levels during the year ended June 30, 2010.

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

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

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

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

Detailed information for Level 3 investments as of June 30, 2010 follows. The fair values of these investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

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

- (a) This category includes investments in hedge funds that invest in a single hedge fund that runs several different strategies in-house that contribute to the total performance of the fund. Multi-strategy is different than a Fund of funds in that the money is kept in-house as opposed to being farmed out to external managers.

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

- (b) This category includes investments in hedge funds that invest in debt of companies that are in or facing bankruptcy. The fund manager buys company securities at a low price, assuming that the company will come out of bankruptcy and that the securities will appreciate.
- (c) This category includes investments in hedge funds that invest in corporate bonds, sovereign debt and currency forward contracts.
- (d) This category includes investments in private equity funds that invest in the secondary market. The private equity secondary market refers to the buying and selling of pre-existing investor commitments to private equity and other alternative investment funds.
- (e) This category includes investments in private equity funds that invest in venture capital. Venture capital funds pool and manage money from investors seeking private equity stakes in small and medium-size enterprises with strong growth potential.
- (f) This category includes investments in private equity funds that invest in debt of companies that are in or facing bankruptcy. The fund manager buys company securities at a low price, assuming that the company will come out of bankruptcy and that the securities will appreciate.
- (g) This category includes investments in private equity funds that invest in buy-outs. A buy-out is a purchase of a company or a controlling interest of a corporation's shares or product line or some business.
- (h) This category includes investments in private equity funds that invest in real assets (e.g. investments with intrinsic value, such as real estate or commodities).
- (i) This category includes investments in private equity funds that invest primarily in U.S. commercial real estate.

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

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

Note 7: Endowment Funds

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

Note 7: Endowment Funds, continued...

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

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

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

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

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

Note 7: Endowment Funds, continued...

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

Endowment Funds with Deficiencies - From time to time, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. In accordance with generally accepted accounting principles, the aggregate amount of these deficiencies is reported in unrestricted net assets in the consolidated statement of activities. Subsequent investment gains will be used to restore the balance to the fair market value of the original amount of the gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets. Aggregate deficiencies were \$13,817,000 and \$16,764,000 as of June 30, 2010 and 2009, respectively.

Note 8: Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if acquired by gift, at the appraised value on the date of acquisition. Amortization and depreciation is computed on a straight-line basis over the lesser of the estimated useful lives of the assets or term of the lease or depreciated over the following useful lives: for equipment, between 3 and 30 years; software, between 3 and 7 years; land and building improvements, between 5 and 25 years; and buildings, between 30 and 60 years. In 2006, the University began capitalizing library books. The books are depreciated on a straight-line basis over twenty years.

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

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

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

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

Note 9: Leases

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

	<u>(in thousands)</u>
2011	\$ 12,741
2012	12,401
2013	11,716
2014	11,442
2015	10,481
Thereafter	<u>69,575</u>
Total minimum lease payments	<u>\$ 128,356</u>

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

Under the terms of a twenty-year operating lease with Tenet for educational and medical office space that ends on June 30, 2022, payments equaled \$22.38 per rentable square foot through November 9, 2008, for all space except for special use space, defined as certain research space, which equaled \$27.38. Effective November 10, 2008, payments were reduced to a blended rate of \$19.50 per rentable square foot for the remainder of the lease. The future minimum payments are included in the table above.

During fiscal year 2009, the University entered into an agreement with the Commonwealth of Pennsylvania (the "Commonwealth") to lease space in the Armory Building (the "Armory") at no cost for an initial period of fifty years during which time the University agreed to complete certain improvements to the Armory at the University's expense. Thereafter, the lease may be renewed for two, additional twenty-year periods at fair value. In the event the Commonwealth should desire to sell the property during the initial or additional lease periods, the University has the option to purchase the Armory for \$1,700,000, adjusted for inflation. During fiscal year 2009, the University paid \$301,000 for architectural and engineering services connected with the improvement project. There were no expenditures for the required improvements in fiscal year 2010. The estimated costs for the required improvements amounted to \$3,119,000 and \$3,150,000 at June 30, 2010 and 2009, respectively. These costs have been capitalized, and a comparable capital lease liability has been recorded for the same amount.

Note 10: Bonds and Notes Payable

<u>Description</u>	<u>Project</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>(in thousands)</u>	
				<u>2010</u>	<u>2009</u>
Dormitory Bonds of 1965	Kelly Hall	2011-2018	3.00 - 3.50%	\$ 520	\$ 610
Dormitory Bonds of 1969	Calhoun Hall	2011-2019	3.00%	610	670
Philadelphia Industrial Development Corp.	Abbotts demolition/ parking lot	2011-2015	3.00%	505	604
Pennsylvania Higher Educational Facilities Authority Revenue Bonds:					
First Series of 1993					
Convertible Series	Athletic field acquisition	2011-2012	8.55%	130	185
1997 Bonds	Van Rensselaer renovation & advance refunding (1987 & 1990)	2011-2022	5.65 - 5.75%	7,755	10,790
First Series of 1998	North Hall	2011-2028	4.50 - 4.80%	30,835	32,145
Second Series of 1998	Advance refunding (1993 & 1996)	2011-2017	5.00 - 5.375%	4,720	5,130
Second Series of 2000	Capital improvements & equipment	2019-2026	variable	22,500	22,500
Series A of 2002	Matheson Hall improvements, new research center, advance refunding (2000-1)	2011-2032	4.05 - 5.20%	12,160	12,270
Series B of 2002	Matheson Hall improvements, new research center, other improvements	2015-2032	variable	42,140	42,140
Series A of 2003	Advance refunding (1993 tax-exempt bonds)	2011-2018	5.50%	26,680	26,790
Series B of 2003	Stiles Hall renovations, Queen Lane campus acquisition & renovations, capital improvements & equipment	2011-2033	variable	19,260	19,915
Series A of 2005	Capital improvements & equipment	2011-2034	3.00-5.00%	29,440	29,469
Series B of 2005	Advance refunding (1997 & 1999)	2019-2030	variable	29,825	30,325
Series A of 2007	New laboratory,	2030-2037	4.50-5.00%	96,080	96,329
Series B of 2007	dormitory & Wellness Center; capital improvements & equipment	2011-2037	variable	29,460	30,000
TD Bank Loan	3501 Market & 3401 Filbert Street buildings	2011-2014	3.83%	15,000	20,000
PHEC					
Pennsylvania Higher Educational Facilities Authority Revenue Bonds Series of 2007	Refund mortgage, capital improvements & equipment	2011-2037	3.75-5.00%	22,372	22,817
Academic Properties, Inc.					
Philadelphia Industrial Development Corp.	ODP Evening College renovations	2011-2013	3.00%	200	259
Total bonds and notes payable				\$ 390,192	\$ 402,948

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

The variable rates of interest on the bonds are based on the weekly rate determined by the remarketing or auction agent, not to exceed 16% per annum. The total market value of the \$373,357,000 Pennsylvania Higher Educational Facilities Authority Revenue Bonds was \$373,447,000 at June 30, 2010, based on a comparison to current interest rates.

The Dormitory bonds of 1965 - Kelly Hall and Dormitory bonds of 1969 - Calhoun Hall are collateralized by first mortgages on the associated buildings and first liens on, and pledges of, the net revenues derived from the building operations.

The 1993, 1997, 1998, 2000, 2002, 2003, 2005 and 2007 bonds are secured by a security interest in unrestricted gross revenues. The TD Bank loan is secured by a first property lien on the properties and an assignment of any rents and leases. The Philadelphia Industrial Development Corporation loans are secured by a mortgage lien on One Drexel Plaza.

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

	(in thousands)		
	Maturities	Remarketed Debt	Total Debt
2011	\$ 6,707	\$ 1,235	\$ 7,942
2012	11,743	1,275	13,018
2013	14,174	1,310	15,484
2014	11,192	1,355	12,547
2015	7,722	1,395	9,117
Thereafter	195,469	136,615	332,084
			<u>\$ 390,192</u>

The Second Series of 2000 and Series B of 2002, Series B of 2003, Series B of 2005 and Series B of 2007 bonds have remarketing terms and related standby letters of credit which could change the maturity dates to the fiscal years 2016, 2012, 2012 and 2013, respectively, based on the current expiration dates of the letters of credit. These issues have been included in the above table based on the stated maturity dates. The University is in compliance with the covenants contained in the various loan agreements.

Lines of Credit: PHEC entered into a term note - line of credit of \$3,500,000 for equipment purchases that accrues interest based on Libor plus 1.25%. Advances are available through July 5, 2011, with equal payments of principal and interest due sixty months thereafter. The line of credit is secured by a lien and security interest in deposits or other sums held by the lender or its affiliates. There was no amount outstanding at June 30, 2010 and 2009.

Total unsecured Revolving Credit Facilities ("Facilities") of \$55,000,000 mature on April 1, 2011, and accrue interest based on Libor (subject to a floor of 0.75%) for the University and Libor (subject to a floor of 1.00%) plus 0.25% for PHEC. They can be extended annually based upon the mutual agreement of the University and PHEC and the bank maintaining the Facilities. At June 30, 2010, the interest rates were 0.75% for the University and 1.25% for PHEC, and there was no amount outstanding. At June 30, 2009, the Facilities accrued interest at 0.75% for the University and 0.54% for PHEC, and there was no amount outstanding.

Note 11: Retirement Plans

The University and PHEC maintain contributory retirement plans administered by Teachers Insurance Annuity Association, the Vanguard Group and Fidelity Investments which provide for the purchase of annuity contracts and mutual funds for the majority of full-time faculty and certain non-academic employees. The University also participates in a contributory retirement plan which provides benefits for certain union employees. The policy is to fund pension costs accrued for these plans. Total retirement plan expense for all plans was \$25,594,000 and \$24,087,000 in 2010 and 2009, respectively.

In addition to retirement plan benefits, the University also provides postretirement benefits to retirees in the form of group life insurance, major medical insurance and tuition remission. Substantially all employees could become eligible when they reach retirement age while working for the University. The postretirement health care plan is contributory, and the life insurance plan is noncontributory.

The net periodic postretirement benefit costs and related funded status as of June 30 are shown below. Adjustments to the unfunded status amounted to \$4,807,000 and \$2,161,000, respectively, for the years ended 2010 and 2009 and are reflected in the consolidated statements of activities and included in postretirement benefits in the consolidated statements of financial position.

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

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

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

Note 11: Retirement Plans, continued...

Estimated future benefit payments:

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

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

Note 12: Professional Liability Insurance

PHEC maintained commercial, occurrence-based insurance coverage for professional liability claims that occurred from November 10, 1998 through November 10, 2003. Beginning on November 10, 2003, PHEC purchased primary and excess insurance coverage from the RRRG on a claims-made basis. The RRRG provides primary coverage of \$500,000 for physicians and midwives and up to \$1,000,000 for other health professions and entity coverage. In addition, PHEC's physicians and midwives participate in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare") that covers from \$500,000 to \$1,000,000. PHEC self insures a layer of excess of up to \$2,000,000 above the Mcare Fund, and the RRRG provides an additional \$9,000,000 for excess coverage.

For self-insured retention amounts for both reported claims and claims incurred but not reported at June 30, 2010 and 2009, respectively, the University, PHEC and the RRRG recorded total reserves of \$29,416,000 and \$28,068,000, net of estimated recoveries from purchased reinsurance of \$7,935,000 and \$15,451,000, respectively. For fiscal year 2010, the reserves were discounted at 7% for the RRRG coverage and 2% for the self-insured layer. For fiscal year 2009, the discount was 7% for the RRRG coverage and 4% for the self-insured layer. Such reserves are included in accrued expenses on the accompanying consolidated statements of financial position. The self-insurance escrow funds of \$9,798,000 and \$7,775,000 at June 30, 2010 and 2009, respectively, plus the RRRG guaranteed investment contract, invested in a balanced index fund, of \$15,749,000 and \$4,094,000 at June 30, 2010 and 2009, respectively, are available to fund these liabilities (see Note 5). In addition, in June 2009, the University established a cash reserve of \$9,000,000 for claims payable in July 2009 by liquidating a portion of the index fund.

Note 13: Commitments and Contingencies

Healthcare Legislation and Regulation: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements and reimbursement for patient services. Federal government activity has continued with respect to investigations and allegations concerning possible violation of billing regulations by healthcare providers. Violations of these regulations could result in the imposition of significant fines and penalties and have a significant effect on reported net income or cash flow.

Note 13: Commitments and Contingencies, continued...

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

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

Other Commitments and Contingencies: PHEC maintains two letters of credit in the amounts of \$50,000 and \$260,000 for the benefit of Liberty Mutual Insurance Company and Pennsylvania Manufacturer's Association, respectively, associated with workers' compensation insurance. The letters of credit expire on February 1, 2011 and March 15, 2011, respectively, and are renewed annually. There were no amounts outstanding under either of these letters of credit as of June 30, 2010 or 2009.

PHEC also maintains a letter of credit in the amount of \$225,000, as required by the Department of Environmental Protection, in connection with the disposal of nuclear medical waste. It expires on May 15, 2011 and is renewed annually. There was no amount outstanding under the letter of credit as of June 30, 2010 or 2009.

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

Note: 14: Related Party Transactions

PHEC has various operating agreements with Tenet. Under these agreements, PHEC acts both as a purchaser and provider of services. Total services purchased from Tenet for the years ended June 30, 2010 and 2009 were \$13,660,000 and \$15,045,000, respectively. These services include charges for various personnel, administrative and support services related to operating PHEC and rent. Services provided to Tenet include administrative, supervisory and teaching services connected with faculty physician and residency programs. Total charges to Tenet for these services amounted to \$20,416,000 and \$20,657,000 for the years ended June 30, 2010 and 2009, respectively, and are mainly included in patient care activities revenue in the accompanying consolidated statements of activities.

In September 2004, the University entered into a guaranteed investment contract ("GIC") with the RRRG that accrued interest at a rate of 7% for the years ended June 30, 2010 and 2009. The University intends to renew the contract at the current interest rate of 7% when the GIC matures in September 2010. The fair value of \$15,749,000 and \$4,094,000 at June 30, 2010 and 2009, respectively, is included in investments in the consolidated statements of financial position (see Notes 5 and 12).

Note 15: Operating Expenses

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

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

16. Subsequent Events

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

DREXEL UNIVERSITY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Grantor / Program Title	CFDA Number	Subrecipient Expenditures	Total Expenditures
Research and Development:			
National Science Foundation:			
Direct Awards	47.R&D	\$ 3,216,511	\$ 14,045,341
ARRA Funding	47.082	25,000	1,695,365
Pass Through Funds	Schedule A	-	593,499
		<u>3,241,511</u>	<u>16,334,205</u>
Department of Defense:			
Direct Awards	12.R&D	3,134,602	13,453,560
Pass Through Funds	Schedule A	-	1,972,305
		<u>3,134,602</u>	<u>15,425,865</u>
Department of Health and Human Services:			
Direct Awards	93.R&D	6,164,925	29,335,048
ARRA Funding	93.701	161,945	2,704,577
Pass Through Funds - ARRA	Schedule A	-	185,880
Pass Through Funds	Schedule A	105,388	4,842,876
		<u>6,432,258</u>	<u>37,068,381</u>
National Aeronautics and Space Administration:			
Direct Awards	43.R&D	5,298	1,093,257
Pass Through Funds	Schedule A	-	206,984
		<u>5,298</u>	<u>1,300,241</u>
National Foundation for Arts and the Humanities:			
Direct Awards	45.R&D	47,232	629,170
		<u>47,232</u>	<u>629,170</u>
Environmental Protection Agency:			
Direct Awards	66.R&D	78,136	442,031
Pass Through Funds	Schedule A	171,517	591,884
		<u>249,653</u>	<u>1,033,915</u>
Department of Energy:			
Direct Awards	81.R&D	485,422	1,596,975
Pass Through Funds	Schedule A	45,000	436,839
		<u>530,422</u>	<u>2,033,814</u>
Department of Agriculture:			
Direct Awards	10.R&D	65,994	466,409
Pass Through Funds	Schedule A	-	14,387
		<u>65,994</u>	<u>480,796</u>
Department of Transportation:			
Direct Awards	20.R&D	-	223,246
Pass Through Funds	Schedule A	-	152
		<u>-</u>	<u>223,398</u>
Department of Justice:			
Pass Through Funds	Schedule A	-	121,229
		<u>-</u>	<u>121,229</u>
Department of Interior:			
Pass Through Funds	Schedule A	-	5,857
		<u>-</u>	<u>5,857</u>
Department of Education:			
Direct Awards	84.R&D	18,346	98,402
Pass Through Funds	Schedule A	-	9,741
		<u>18,346</u>	<u>108,143</u>
Department of Veterans Affairs:			
Direct Awards	61.R&D	-	398,615
		<u>-</u>	<u>398,615</u>
Total Research and Development		<u>13,725,316</u>	<u>75,163,629</u>
Student Financial Assistance:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants	84.007	-	2,183,870
Federal Family Education Loan	84.032	-	206,237,799
Federal Work-Study Program (Including ARRA Funds)	84.033	-	2,319,774
Federal Perkins Loan Program	84.038	-	23,798,107
Federal Pell Grant Program (Including ARRA Funds)	84.063	-	9,733,709
Byrd Honors Scholarships	84.185	-	30,500
Loans for Disadvantaged Students	93.342	-	5,177,822
Primary Care Loans	93.342	-	492,658
Nursing Student Loan	93.364	-	42,392
ARRA - Scholarship for Disadvantaged Students	93.407	-	24,647
Total Student Financial Assistance		<u>-</u>	<u>250,041,278</u>

DREXEL UNIVERSITY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Grantor / Program Title	CFDA Number	Subrecipient Expenditures	Total Expenditures
Other Programs:			
Department of Education:			
TRIO_ Student Support Services	84.042	-	247,791
Fund for the Improvement of Postsecondary Education	84.116	44,500	105,853
Graduate Assistance in Areas of National Need	84.200	-	617,943
Transition to Teaching Program - National	84.350	604,225	1,543,672
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	-	775,218
Pass Through Funds	Schedule A	-	120,301
		648,725	3,410,778
Department of Health & Human Services:			
Advancing System Improvements to Support Targets for Healthy People 2010	93.088	(8,400)	645,043
Nurse Anesthetist Traineeships	93.124	-	22,108
Nursing Workforce Diversity	93.178	-	266,571
Research on Healthcare Costs, Quality and Outcomes	93.242	-	73,018
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	-	(306)
Alcohol National Research Service Awards for Research	93.272	-	22,958
Minority Health and Health Disparities Research	93.307	-	2,458
Advanced Education Nursing Traineeships	93.358	-	97,379
Nurse Education, Practice and Retention Grants	93.359	127,447	344,278
Blood Diseases and Resources Research	93.839	-	10,993
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	47,552
Biomedical Research and Research Training	93.859	-	30,588
Aging Research	93.866	-	41,083
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	-	752,629
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	-	56,209
Programs with No CFDA Number but Award Has a Contract or Grant Number	93.999	-	(16)
IPA Agreement	IPA792910	-	45,972
Pass Through Funds	Schedule A	55,296	6,799,263
		174,343	9,257,780
Department of Agriculture:			
Pass Through Funds	Schedule A	-	1,391,386
		-	1,391,386
Department of Defense:			
Basic and Applied Scientific Research	12.300	-	1,170
Military Medical Research and Development	12.420	-	10,420
Information Security Grant Program	12.902	-	(19,594)
IPA Agreement	IPA Agreement	-	258,306
Contract - No CFDA Number	W81XWH-08-1-0417	-	25,017
		-	275,319
National Science Foundation			
IPA Agreement	IIS-08492582	-	233,683
IPA Agreement	ECCS-0724390	-	166,447
		-	400,130
National Aeronautics and Space Administration:			
Pass Through Funds	Schedule A	-	(1,750)
National Institute of Standards and Technology			
Pass Through Funds	Schedule A	-	21,397
Department of Housing and Urban Development			
Pass Through Funds - ARRA	Schedule A	-	22,129
Corporation for National and Community Service			
Learn and Serve America_ Higher Education	94.005	110,927	115,963
Department of Homeland Security:			
(HS STEM) Career Development Program	97.104	98,130	214,945
Pass Through Funds	Schedule A	-	76,223
		98,130	291,168
Department of State:			
Summer Institute for European Students	S-ECAAE-08-GR-198(CS)	-	205,911
Undergrad Intensive English	S-ECAAE-08-GR-198	-	216,537
Pass Through Funds	Schedule A	-	86,799
		-	509,247
Total Other Programs		1,032,125	15,693,547
Total Federal Awards		\$ 14,757,441	\$ 340,898,454

DREXEL UNIVERSITY AND SUBSIDIARIES			
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - SCHEDULE A FOR THE YEAR ENDED JUNE 30, 2010			
Grantor / Pass-Through Grantor	Program Title	CFDA Number	Federal Expenditures
National Science Foundation - Research and Development Pass Through Funds:			
Science Applications International Corporation	Engineering Grants	47.041	20,655
Georgia Institute of Technology	Engineering Grants	47.041	106,954
Chesapeake Research Consortium	Engineering Grants	47.041	170,642
Virginia Polytechnic Institute	Engineering Grants	47.041	34,709
Washington State University	Engineering Grants	47.041	3,085
University of California, Davis	Mathematical and Physical Science	47.049	33,868
University of Texas at Austin	Geosciences	47.050	18,833
New Jersey Institute of Technology	Computer and Information Science and Engineering	47.070	183
Carnegie Mellon University	Computer and Information Science and Engineering	47.070	33,367
Computing Research Association	Computer and Information Science and Engineering	47.070	97,078
Villanova University	Biological Science	47.074	44,917
Burlington County College	Education and Human Resources	47.076	6,880
Y-Carbon	Trans-NSF Recovery Act Reasearch Support	47.082	14,265
National Girls' Collaborative Project	Science & Magic of Macy's	HRD-0631789	794
Zeomedix, Inc.	Controlled Topical Delivery	SRA DATED 5/6/10	7,269
			593,499
Department of Defense - Research and Development Pass Through Funds:			
Ohio State University	Basic and Applied Scientific Research	12.300	101,140
Massachusetts Institute of Technology	Basic and Applied Scientific Research	12.300	(567)
Princeton University	Basic and Applied Scientific Research	12.300	209,951
Techno Sciences, Inc.	Basic and Applied Scientific Research	12.300	30,784
Aerospace Mass Properties Analysis Inc.	Basic and Applied Scientific Research	12.300	1,902
University of South Carolina	Basic and Applied Scientific Research	12.300	2,279
University of Michigan	Military Medical Research and Development	12.420	38,590
Virginia Polytechnic Institute	Basic Scientific Research	12.431	212,617
Carnegie Mellon University	Basic Scientific Research	12.431	94,657
University of Miami	Basic Scientific Research	12.431	311,443
University of Texas at Austin	Basic, Applied, and Advanced Research in Science and Engineering	12.630	67,072
University of Southern California	Air Force Defense Research Sciences Program	12.800	103,837
Drakontis, LLC	Air Force Defense Research Sciences Program	12.800	25,626
Ohio State University	Air Force Defense Research Sciences Program	12.800	177,177
Princeton University	Air Force Defense Research Sciences Program	12.800	68,494
University of Massachusetts	Photonic Phase Locked Loop	2247 FA8750-05-C-026	166,893
SMI, Inc. (Structured Materials Industries, Inc)	Frequency-Agilem Ka-band Filters	41752-092508-03	23,857
Materials Modification, Inc.	STTR: Development of Novel Chem	PO 0130808	9,276
Lockheed Martin Energy	Software Producibility	PO TT0706980	99,696
SCHNABEL ENGINEERING	Lab Supplement to USACOE/APEX	SUBCONSULTANT 04151127.05	81
SOAR Technologies, Inc.	SOUSA Phase II	W15P7T-09-C-5301	26,190
SOAR Technologies, Inc.	SOUSA Phase II	W15P7T-09-C-5301	20,460
Ceramatec	Non-Thermal JP8 Plasma Reforming	W56HZV-07-C-0577	62,494
Operative Experience Inc.	Pre-Deployment Trauma Surg Training	W81XWH-09-C-0058	36,732
SMI, Inc. (Structured Materials Industries, Inc)	Fabrication Technology	41784-072009-03	35,044
SMI, Inc. (Structured Materials Industries, Inc)	STTR: Full Spectrum Zinc Oxide	N68335-09-C-0350	46,579
			1,972,305

DREXEL UNIVERSITY AND SUBSIDIARIES			
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - SCHEDULE A			
FOR THE YEAR ENDED JUNE 30, 2010			
Grantor / Pass-Through Grantor	Program Title	CFDA Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES - Research and Development Pass Through Funds:			
ARRA Funding:			
Boston University	Trans-NIH Recovery Act Research Support	93.701	38,806
Children's Hospital of Los Angeles	Trans-NIH Recovery Act Research Support	93.701	19,029
Children's Hospital of Philadelphia	Trans-NIH Recovery Act Research Support	93.701	60,944
DuPont	Trans-NIH Recovery Act Research Support	93.701	16,964
Institute for Hepatitis and Virus Research	Trans-NIH Recovery Act Research Support	93.701	25,000
Johns Hopkins University	Trans-NIH Recovery Act Research Support	93.701	25,137
			185,880
Other R&D Funding:			
Penn State University	Applied Toxicological Research and Testing	93.114	(2,898)
Children's Hospital of Philadelphia	Injury Prevention and Control Research and State and Community Based Programs	93.136	71,672
Oregon Research Institute	Mental Health Research Grants	93.242	14,666
Social and Scientific, Inc	Mental Health Research Grants	93.242	122,717
University of Medicine & Dentistry of New Jersey	Mental Health Research Grants	93.242	104,233
Johns Hopkins University	Drug Abuse and Addiction Research Programs	93.279	56,880
Temple University	Drug Abuse and Addiction Research Programs	93.279	50,595
Treatment Research Institute	Drug Abuse and Addiction Research Programs	93.279	17,620
University of Medicine & Dentistry of New Jersey	Drug Abuse and Addiction Research Programs	93.279	123,892
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279	8,806
Temple University	Mental Health National Research Service Awards for Research Training	93.282	136,978
John Hopkins Bloomberg	Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	74,403
Pennsylvania Department of Health	Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	100,936
Health Research Associates, Inc	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	100,755
University of Texas at Austin	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	48,043
Emory University	Nursing Research	93.361	18,742
The Regents of the University of California	National Center for Research Resources	93.389	18,830
Thomas Jefferson University	National Center for Research Resources	93.389	(2,627)
University of the Sciences	Academic Research Enhancement Award	93.390	20,230
East Virginia Medical School	Cancer Detection and Diagnosis Research	93.394	141,792
Fox Chase Cancer Center	Cancer Detection and Diagnosis Research	93.394	6,048
Immunotope, Inc.	Cancer Detection and Diagnosis Research	93.394	111,177
National Childhood Cancer Foundation	Cancer Treatment Research	93.395	45,424
Frontier Science & Technology Research Foundation	Cancer Control	93.399	68,355
Thomas Jefferson University	Heart and Vascular Diseases Research	93.837	156,713
University of Michigan	Heart and Vascular Diseases Research	93.837	41,842
John Hopkins University	Lung Diseases Research	93.838	(425)
New England Research Institute	Blood Diseases and Resources Research	93.839	7,214
Thomas Jefferson University	Blood Diseases and Resources Research	93.839	6,586
Temple University	Arthritis, Musculoskeletal and Skin Diseases Research	93.846	15,326
Baylor College of Medicine	Diabetes, Endocrinology and Metabolism Research	93.847	15,159
Children's Hospital of Philadelphia	Diabetes, Endocrinology and Metabolism Research	93.847	22,682
Baylor College of Medicine	Digestive Diseases and Nutrition Research	93.848	8,834
Rhode Island Hospital	Kidney Diseases Urology and Hematology Research	93.849	12,267
Tufts University	Kidney Diseases Urology and Hematology Research	93.849	23
University of Pennsylvania	Kidney Diseases Urology and Hematology Research	93.849	90,719
Children's Hospital of Philadelphia	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	65,426
Columbia University	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	(631)
Massachusetts General Hospital	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	4,355
University of Alaska, Fairbanks	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	113,411
University of Kentucky	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	3,399
University of Pennsylvania	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	372,465
University of Vermont	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	194,991

DREXEL UNIVERSITY AND SUBSIDIARIES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - SCHEDULE A
FOR THE YEAR ENDED JUNE 30, 2010**

Grantor / Pass-Through Grantor	Program Title	CFDA Number	Federal Expenditures
Duke University	Allergy, Immunology and Transplantation Research	93.855	(5,150)
Enantigen Therapeutics, Inc.	Allergy, Immunology and Transplantation Research	93.855	75,000
Institute for Hepatitis and Virus Research	Allergy, Immunology and Transplantation Research	93.855	2,124
Johns Hopkins University	Allergy, Immunology and Transplantation Research	93.855	6,059
Penn State University	Allergy, Immunology and Transplantation Research	93.855	25,745
Progenics Pharmaceuticals, Inc.	Allergy, Immunology and Transplantation Research	93.855	(15,892)
University of California, San Francisco	Allergy, Immunology and Transplantation Research	93.855	15,289
University of Pennsylvania	Allergy, Immunology and Transplantation Research	93.855	21,897
Leversense, LLC	Biomedical Research and Research Training	93.859	(7,188)
The Wistar Institute	Biomedical Research and Research Training	93.859	110,082
University of Pennsylvania	Biomedical Research and Research Training	93.859	70,224
Columbia University	Child Health and Human Development Extramural Research	93.865	82,192
Harvard School of Public Health	Child Health and Human Development Extramural Research	93.865	392,987
Loyola University, Chicago	Child Health and Human Development Extramural Research	93.865	8,480
University of Columbia	Child Health and Human Development Extramural Research	93.865	133,784
University of Pennsylvania	Child Health and Human Development Extramural Research	93.865	13,214
Boston University	Aging Research	93.866	252,759
Children's Hospital of Philadelphia	Aging Research	93.866	64,220
University of Pennsylvania	Aging Research	93.866	30,509
University of Pennsylvania	Center for Medical Rehabilitation Research	93.929	25,870
Pennsylvania Department of Health	Preventive Health and Health Services Block Grant	93.991	79,895
John Hopkins University	Contract	93.999	17,786
Mt. Sinai Medical Center	Future Revascularization Evaluation	1 R01 HL 071988-01A1	(500)
Solers Inc.	Ultrasound ID of Angiogenesis	1R43CA130257	1,071
John Hopkins University	Enable an EDRN BRL	2000500083/U01CA0849	125,427
University of Pennsylvania	Neural Basis of Generalized	5R01-NSO44266-05	(8,249)
The Wistar Institute	Antiviral Activity of PEG-IFN-a2A	AI65279	23,536
University of Texas, Southwestern	Pediatric Hydroxyurea Phase III	GM0601020	1,122
University of Texas, Southwestern	Pediatric Hydroxyurea Phase III	GMO 601020	1,852
CONRAD (Eastern Virginia Medical School)	In Vitro Evaluation of Test Agents	GMP-07-83	325,292
John Hopkins University	HIV RESEARCH NETWORK	HHSA29020060025C	103,231
Argos Therapeutics	HVDDT	HHSN2662006600019C, N01-A1-60019	174,686
University of Pennsylvania	Improved DNA Vaccines	HHSN27220800063C	73,645
New England Research Institute	Analysis of GP73	N01-DK-9-2328	(316)
New England Research Institute	TOPCAT	N01-HC-45207 TOPCAT	6,558
Johns Hopkins University	National Children's Health Study	PO2000297448/HHSN267	14,742
University of Columbia	Genomic and Proteomic Network	U01 HD050080	13,268
			4,842,876
National Aeronautics and Space Administration - Research and Development Pass Through Funds:			
Universities Space Research Association	Aerospace Education Services Program	43.001	29,724
Smithsonian Astrophysical Observatory	Aerospace Education Services Program	43.001	35,540
Jet Propulsion Laboratory (NASA)	Aerospace Education Services Program	43.001	64,084
Space Telescope Science Institute	Dynamical Evolution	HST-AR-11780.01-A	39,180
Jet Propulsion Laboratory (NASA)	Seeing the Unseen	RSA1365236	14,127
Jet Propulsion Laboratory (NASA)	SERVS: The Spitzer Extragalactic Su	NM0710076	1,633
Techno Sciences, Inc.	Upset Prevention & Recovery	NNX10CB28C/S350-10-D	22,696
			206,984
Environmental Protection Agency - Research and Development Pass Through Funds:			
Partnership for the Delaware Estuary	National Estuary Program	66.456	24,242
Michigan State University	Science To Achieve Results (STAR) Research Program	66.509	328,120
Water Environment Research Foundation	Office of Research and Development Consolidated Research/Training/Fellowships	66.511	239,522
			591,884
Department of Energy - Research and Development Pass Through Funds:			
Optra, Inc.	Office of Science Financial Assistance Program	81.049	970
University of Utah	Office of Science Financial Assistance Program	81.049	57,797
Oak Ridge National Laboratory/Dept of Energy	Renewable Energy Research and Development	81.049	39,528
Penn State University	Renewable Energy Research and Development	81.049	11,941
University of Pennsylvania	Renewable Energy Research and Development - Recovery	81.087	45,031
Oak Ridge National Laboratory/Dept of Energy	Energy Frontier Research Ctr	4000085877	76,486
Oak Ridge National Laboratory/Dept of Energy	Support for EFRC-FIRST	4000086424	45
Battelle Energy Alliance, LLC	Max Phases to Neutron Radiation	DE-AC07-05ID14517	132,093
Research and Development Solutions, LLC	Development and Testing of the Glid	PO#41817M3237	10
Optra, Inc.	STTR Phase 2	STTR PO 14119	71,907
Batelle	Advanced Damage Tolerant Ceramics	00098778	1,031
			436,839

DREXEL UNIVERSITY AND SUBSIDIARIES			
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - SCHEDULE A FOR THE YEAR ENDED JUNE 30, 2010			
Grantor / Pass-Through Grantor	Program Title	CFDA Number	Federal Expenditures
Department of Agriculture - Research and Development Pass Through Funds			
Rutgers University	Integrated Programs	10.303	(1,872)
Villanova University	Nanoscale Cellulose	2008-35100-04413	16,259
			14,387
Department of Transportation - Research and Development Pass Through Funds:			
Wiss, Janney & Elstner Associates	FHWA NDE-Center Research Project	DTFH61-02-C-0045	152
			152
Department of Justice - Research and Development Pass Through Funds:			
Drakontis, LLC	Criminal Justice Tech Centers	16.560	(287)
Drakontis, LLC	Crime in Virtual and Gaming Worlds	2005-WA-AX-0029	57,565
East Stroudsburg University	Hiding Crimes in Cyberspace	2008-DD-BX-K013	63,951
			121,229
Department of Interior - Research and Development Pass Through Funds:			
PA Fish and Boat Commission	Expanded Range Determination	4100040950	5,857
			5,857
Department of Education - Research and Development Pass Through Funds:			
East Stroudsburg University	Fund for the Improvement of Postsecondary Education	84.116	9,741
			9,741
Department of Education - Other Program Pass Through Funds:			
PA Department of Education	Learning Mathematics	71-60002	120,301
Department of Health & Human Services - Other Program Pass Through Funds:			
National Minority AIDS Council	Cooperative Agreements to Improve the Health Status of Minority Populations	93.004	123,172
The Auxillary to the National Medical Association, Inc.	Cooperative Agreements to Improve the Health Status of Minority Populations	93.004	55,711
American Academy of Pediatrics	Maternal and Child Health Federal Consolidated Programs	93.110	819
Pennsylvania Chapter, American Academy of Pediatrics	Maternal and Child Health Federal Consolidated Programs	93.110	11,788
Sickle Cell Disease Association of America	Maternal and Child Health Federal Consolidated Programs	93.110	9,494
Maternity Care Coalition	Community Programs to Improve Minority Health Grant Program	93.137	16,953
Family Planning Council	Coordinated Services and Access to Research for Women, Infants, Children and Yoth (Ryan White CARE Act Title IV Program)	93.153	3,329
Family Planning Council	Family Planning Services	93.217	38,553
Resources for Human Development, Inc.	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	1,231,127
Massachusetts General Hospital	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	800
University of New Mexico	Child Health and Human Development Extramural Research	93.865	51,216
New York University School of Medicine	Medical Library Assistance	93.879	5,457
Aids Activities Coordinating Office	HIV Emergency Relief Project Grants	93.914	1,502,173
Family Planning Council	HIV Emergency Relief Project Grants	93.914	(1,630)
Aids Activities Coordinating Office	HIV Care Formula Grants	93.917	94,606
Health Federation of Philadelphia	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	1,263
Aids Activities Coordinating Office	HIV Prevention Activities Health Department Based	93.940	73,420
City of Philadelphia	Block Grants for Prevention and Treatment of Substance Abuse	93.959	542,167
Children's Hospital of Philadelphia	Maternal and Child Health Services Block Grant to the States	93.994	(49)
Pennsylvania Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	803,731
Children's Hospital of Philadelphia	Maternal and Child Health Services Block Grant to the States	93.994	249,661
National Minority AIDS Council	Programs with No CFDA Number but Award Has a Contract or Grant Number	93.999	64,323
Pennsylvania Department of Health	PCEN Supplement	4000009219	16,689
Pennsylvania Department of Health	Adult FY10 Cystic Fibrosis	4100038365	72,324
Friends of The Congressional Glaucoma Caucus Foundation	Drexel Ophthalmology Outreach	1U50D900134-01	716
National Minority AIDS Council	Sixth National Conference	2-08/MPCMP051006	14,203
JBS International	Center of Excellence for Physician	263-01-D-0158	31,727
Beth Israel Deaconess Medical Center	NIR Wound Monitor Transaction	3R01DK076937-04S1	10,993
Aids Activities Coordinating Office	Rapid Testing Initiative	A0035	52,050
Duke Clinical Research Institute	CABANA	AGREEMENT DATED 7/16	14,592
Health Federation of Philadelphia	AIDS E&T Center	AGREEMENT DATED 7/16	18,466
University of South Florida	Natural History Study	Contract Dated 6/22/09	1,500
Argos Therapeutics	HIV Vaccine Design and Development	HHSN266200600019C	381,281
Susan B. Spencer, Inc.	Curricula for Domestic Violence Cou	HHSP233200601006P	24,305
Susan B. Spencer, Inc.	DV-Emerging Practices Project	HHSP233200800530P	2,675
John Snow Incorporated	Natl Women and Girls HIV/AIDS	Letter Dated 3/25/10	1,100
American Academy of Pediatrics	EPIC IC	Letter Dated 5/27/08	40,796
City of Philadelphia	OMH SAP Program FY05	Letter Dated 6/30/09	(74)
Family Planning Council	VARIOUS	Various	1,237,835
			6,799,283
Department of Agriculture - Other Program Pass Through Funds			
Philadelphia School District	Nutrition Outreach	10.555	1,391,386
Department of Homeland Security - Other Program Pass Through Funds			
International Association of Fire Chiefs, Inc.	Assistance to Firefighters Grant	97.044	76,223

DREXEL UNIVERSITY AND SUBSIDIARIES			
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - SCHEDULE A FOR THE YEAR ENDED JUNE 30, 2010			
Grantor / Pass-Through Grantor	Program Title	CFDA Number	Federal Expenditures
Department of State (USIA) - Other Program Pass Through Funds:			
Institute of International Education	2009 Fulbright Program	SA 6-1-2009	86,799
			86,799
National Aeronautics and Space Administration:			
United Negro College Fund Special Programs Corporation	Science	43.001	(1,750)
			(1,750)
National Institute of Standards and Technology			
Rutgers University	Technology Innovation Program (TIP)	11.616	21,397
			21,397
Department of Housing and Urban Development (ARRA):			
Philadelphia Housing Authority	Asthma Intervention and Assessment	14.908	22,129
			22,129
		Total	\$ 17,497,380
(concluded)			

DREXEL UNIVERSITY AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Drexel University and Subsidiaries (the "University") under programs of the federal government for the year ended June 30, 2010. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, revenues, expenses, and changes in net assets of the University.

For the purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies or departments of the federal government and all sub-awards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

Federally guaranteed loans issued to students of the University by various financial institutions and campus based loan programs, disclosed in Note 3, are also included in the Schedule.

2. BASIS OF ACCOUNTING

The Schedule is presented using the accrual basis of accounting.

3. FEDERAL STUDENT LOAN PROGRAMS

Federally guaranteed loans (including subsidized and nonsubsidized loans) issued to students of the University by various financial institutions during the year ended June 30, 2010, are summarized below:

	CFDA No.	
Federal Family Education Loans — Stafford	84.032	\$153,736,594
Parent Loans for Undergraduate Students	84.032	23,802,433
GRAD Plus Loans	84.032	<u>28,698,772</u>
		<u>\$206,237,799</u>

The University is responsible only for the performance of certain administrative duties with respect to the federally guaranteed student loan programs; therefore, the net assets and transactions for those programs are not included in the University's financial statements. The University administers and accounts for all aspects of certain loan programs made directly to students. Therefore, the University's financial statements include these programs' balances and transactions. Loans made to students during the year ended June 30, 2010, are summarized below:

	CFDA No.	
Federal Perkins Loan Program	84.038	\$ 25,833
Loans for Disadvantaged Students	93.342	9,074
Primary Care Loans	93.342	<u>272,471</u>
		<u>\$ 307,378</u>

Loan balances for these programs at June 30, 2010, are summarized below:

	CFDA No.	
Federal Perkins Loan Program	84.038	\$23,798,107
Loans for Disadvantaged Students	93.342	5,177,822
Primary Care Loans	93.342	492,658
Nursing Student Loan	93.364	<u>42,392</u>
		<u>\$29,510,979</u>

4. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to the statement of financial position date through March 30, 2011, the date that the financial statements were available to be issued, for potential recognition and disclosure. No significant events or transactions were identified which would require recognition or disclosure in the financial statements.

* * * * *

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Drexel University:

We have audited the consolidated financial statements of Drexel University and Subsidiaries (the "University") as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated September 21, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described above in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melanie J. Souder

September 21, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of Drexel University:

Compliance

We have audited the compliance of Drexel University and Subsidiaries (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of University management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

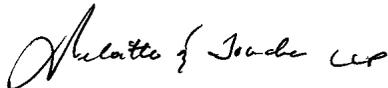
Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and

to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Michelle J. Jones" followed by a flourish.

March 30, 2011

DREXEL UNIVERSITY AND SUBSIDIARIES

INDEPENDENT AUDITORS' SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

PART I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

 Material weaknesses identified? _____yes X no

 Significant deficiencies identified? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

 Material weaknesses identified? _____yes X no

 Significant deficiencies identified? _____yes X none reported

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section
510 (a) of OMB Circular A-133? _____yes X no

Identification of major programs:

 Research and Development cluster with various CFDA numbers

 Student Financial Assistance cluster with various CFDA numbers

 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #
 93.918)

Dollar threshold used to distinguish between
Type A and Type B programs \$3,000,000

Auditee qualified as low-risk auditee? X yes _____no

PART II — FINANCIAL STATEMENT FINDINGS SECTION

The audit disclosed no items required to be reported in this section.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

None

PART IV — STATUS OF PRIOR YEAR FINDINGS

None