

***Temple University – Of the
Commonwealth System of
Higher Education***

*Consolidated Financial Statements for the
Years Ended June 30, 2005 and 2004 and
Independent Auditors' Report*



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INDEPENDENT AUDITORS' REPORT

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To the Board of Trustees
Temple University—Of the Commonwealth System
of Higher Education
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Temple University – Of the Commonwealth System of Higher Education and its subsidiaries (the “University”) as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University at June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 7, 2005

Temple University
Of the Commonwealth System of Higher Education
Consolidated Balance Sheets
(thousands of dollars)

	June 30, 2005	June 30, 2004
Current assets:		
Cash and cash equivalents	\$190,648	\$161,601
Investments and self-insurance trust funds	695,555	614,999
Accounts, loans and contributions receivable, net	256,514	275,947
Inventories and other assets	22,294	21,508
Deposits with trustees	72,828	21,435
Total current assets	1,237,839	1,095,490
Non-current assets:		
Accounts, loans and contributions receivable, net	77,225	74,916
Other assets	27,666	35,417
Investments and self-insurance trust funds	407,563	316,739
Deposits with trustees	27,061	131,842
Property, plant and equipment, net	855,020	774,763
Funds held in trust by others	69,336	68,429
Total non-current assets	1,463,871	1,402,106
Total assets	\$2,701,710	\$2,497,596
Current liabilities:		
Accounts payable and accrued expenses	\$262,219	\$255,730
Deferred revenue	40,745	39,452
Short-term debt	125,216	125,088
Current portion of long-term debt	107,720	82,689
Current portion of accrued postretirement benefits	13,230	12,932
Total current liabilities	549,130	515,891
Non-current liabilities:		
Accrued expenses and other liabilities	191,909	155,247
Long-term debt	603,371	598,688
Refundable federal student loans	48,297	46,953
Accrued pensions and postretirement benefits	84,481	68,760
Total non-current liabilities	928,058	869,648
Total liabilities	1,477,188	1,385,539
Net assets:		
Unrestricted	961,158	869,107
Temporarily restricted	89,788	80,871
Permanently restricted	173,576	162,079
Total net assets	1,224,522	1,112,057
Total liabilities and net assets	\$2,701,710	\$2,497,596

See notes to financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated Statements of Activities
For the Year Ended June 30, 2005
(thousands of dollars)

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
Revenues:				
Tuition and fees (net of discounts of \$49,747)	\$364,528			\$364,528
Commonwealth of Pennsylvania appropriation	169,989			169,989
Federal grants and contracts	75,514			75,514
Commonwealth of Pennsylvania grants and contracts	13,602			13,602
Local grants and contracts	5,615			5,615
Private grants and contracts	23,006			23,006
Contributions for operations and endowments	11,144	\$11,708	\$9,536	32,388
Investment return	49,325	655	2	49,982
Sales of educational activities	4,908			4,908
Auxiliary enterprises	58,916			58,916
Patient care activities	1,000,460			1,000,460
Other sources	21,548			21,548
Net assets released from restrictions	11,566	(11,525)	(41)	
Total revenues	<u>1,810,121</u>	<u>838</u>	<u>9,497</u>	<u>1,820,456</u>
Expenses:				
Educational and general:				
Instruction	318,447			318,447
Research	75,324			75,324
Public service	31,333			31,333
Academic support	107,648			107,648
Student services	42,992			42,992
Institutional support	77,976			77,976
Student aid	7,363			7,363
Total educational and general	<u>661,083</u>	<u>0</u>	<u>0</u>	<u>661,083</u>
Auxiliary enterprises	72,289			72,289
Patient care activities	1,001,877			1,001,877
Total expenses	<u>1,735,249</u>	<u>0</u>	<u>0</u>	<u>1,735,249</u>
Excess of revenues over expenses	<u>74,872</u>	<u>838</u>	<u>9,497</u>	<u>85,207</u>
Other changes in net assets:				
Investment return	36,355	8,674	2,000	47,029
Commonwealth grants for property, plant and equipment (PP&E)	1,809			1,809
Contributions for PP&E	303	4,371		4,674
Loss on disposal of PP&E	(951)			(951)
Minimum pension liability adjustment	(18,852)			(18,852)
TUHS gain from discontinued operations, net	1,853			1,853
Loss on defeasance of debt	(2,542)			(2,542)
Other	(5,762)			(5,762)
Net assets released from restrictions for PP&E	4,966	(4,966)		
Total other changes in net assets	<u>17,179</u>	<u>8,079</u>	<u>2,000</u>	<u>27,258</u>
Increase in net assets	<u>92,051</u>	<u>8,917</u>	<u>11,497</u>	<u>112,465</u>
Net assets July 1, 2004	<u>869,107</u>	<u>80,871</u>	<u>162,079</u>	<u>1,112,057</u>
Net assets June 30, 2005	<u>\$961,158</u>	<u>\$89,788</u>	<u>\$173,576</u>	<u>\$1,224,522</u>

See notes to financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated Statements of Activities
For the Year Ended June 30, 2004
(thousands of dollars)

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
Revenues:				
Tuition and fees (net of discounts of \$44,367)	\$338,213			\$338,213
Commonwealth of Pennsylvania appropriation	164,941			164,941
Federal grants and contracts	72,952			72,952
Commonwealth of Pennsylvania grants and contracts	10,496			10,496
Local grants and contracts	6,338			6,338
Private grants and contracts	23,643			23,643
Contributions for operations and endowments	12,013	\$10,410	\$8,379	30,802
Investment return	40,921	496	1	41,418
Sales of educational activities	4,378			4,378
Auxiliary enterprises	60,297			60,297
Patient care activities	945,232			945,232
Other sources	33,493	44		33,537
Net assets released from restrictions	8,717	(8,704)	(13)	
Total revenues	<u>1,721,634</u>	<u>2,246</u>	<u>8,367</u>	<u>1,732,247</u>
Expenses:				
Educational and general:				
Instruction	302,863			302,863
Research	63,832			63,832
Public service	31,682			31,682
Academic support	102,232			102,232
Student services	39,107			39,107
Institutional support	72,390			72,390
Student aid	7,194			7,194
Total educational and general	<u>619,300</u>	<u>0</u>	<u>0</u>	<u>619,300</u>
Auxiliary enterprises	73,083			73,083
Patient care activities	952,956			952,956
Total expenses	<u>1,645,339</u>	<u>0</u>	<u>0</u>	<u>1,645,339</u>
Excess of revenues over expenses	<u>76,295</u>	<u>2,246</u>	<u>8,367</u>	<u>86,908</u>
Other changes in net assets:				
Investment return	(31,763)	394	(2,104)	(33,473)
Commonwealth grants for property, plant and equipment (PP&E)	1,842			1,842
Contributions for PP&E	1,757	14,781		16,538
Loss on disposal of PP&E	(1,811)			(1,811)
Minimum pension liability adjustment	7,746			7,746
TUHS gain from discontinued operations, net	1,336			1,336
Other	80			80
Net assets released from restrictions for PP&E	2,469	(2,469)		
Total other changes in net assets	<u>(18,344)</u>	<u>12,706</u>	<u>(2,104)</u>	<u>(7,742)</u>
Increase in net assets	<u>57,951</u>	<u>14,952</u>	<u>6,263</u>	<u>79,166</u>
Net assets July 1, 2003	<u>811,156</u>	<u>65,919</u>	<u>155,816</u>	<u>1,032,891</u>
Net assets June 30, 2004	<u>\$869,107</u>	<u>\$80,871</u>	<u>\$162,079</u>	<u>\$1,112,057</u>

See notes to financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated - Statements of Cash Flows
For the Years Ended June 30
(thousands of dollars)

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$112,465	\$79,166
Gain from discontinued operations, net	(1,853)	(1,336)
Increase in net assets from continuing operations	110,612	77,830
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Currency translation adjustment	53	(80)
Depreciation and amortization	82,466	76,461
Realized and unrealized (gain)/loss on investments	(50,255)	30,079
Minimum pension liability adjustment	18,852	(7,746)
(Gain)/loss on disposal of property, plant and equipment	903	(1,455)
Fair value adjustment of interest swap	595	-
Loss on defeasance of debt	2,542	-
Contributions, grants and investment income of and for property, plant and equipment and for long-term investment	(18,090)	(28,431)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	13,969	(24,157)
Inventories and other assets	(4,734)	2,199
Accounts payable and accrued expenses	38,479	41,664
Deferred revenue	86	3,822
Accrued pensions and postretirement benefits	(390)	(4,925)
Net cash provided by operating activities	195,088	165,261
Net cash used in operating activities - discontinued operations	(291)	(2,137)
Cash flows from investing activities:		
Purchases of investments, deposits with trustees and self-insurance trusts	(384,621)	(593,744)
Sales of investments, deposits with trustees and self-insurance trusts	316,212	472,989
Purchases of property, plant and equipment	(151,586)	(97,784)
Proceeds from sale of property, plant and equipment	2,594	5,664
Loans to students	(15,841)	(12,683)
Proceeds from collections on student loans	10,981	11,890
Cash provided by discontinued operations	74	1,595
Net cash used by investing activities	(222,187)	(212,073)
Cash flows from financing activities:		
Proceeds from contributions, Commonwealth grants and investment income restricted to property, plant and equipment and long-term investment	25,008	8,623
Refundable federal student loans	1,344	1,165
Proceeds from long-term debt	109,714	15,375
Increase/(decrease) in short-term borrowings, net	1,923	(734)
Payments to retire long-term debt	(80,095)	(22,942)
Payment of deferred financing costs	(1,379)	-
Net cash provided by financing activities	56,515	1,487
Exchange rate adjustments	(78)	141
Net increase/(decrease) in cash and cash equivalents	29,047	(47,321)
Cash and cash equivalents at beginning of the year	161,601	208,922
Cash and cash equivalents at end of the year	\$190,648	\$161,601
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$34,739	\$34,696
Property, plant and equipment acquired through capital leases	\$50	\$4,500
Accrued property, plant and equipment	\$15,510	-

See notes to financial statements

- TEMPLE UNIVERSITY -
Of the Commonwealth System of Higher Education
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

Note A. Summary of Significant Accounting Policies

Organization and Basis of Financial Statements: Temple University – Of the Commonwealth System of Higher Education (the University) is comprised of Temple University (TU), the academic division of the University, which is a state-related comprehensive research university with its headquarters and largest campus located in Philadelphia, Pennsylvania, and Temple University Health System, Inc. (TUHS), a Pennsylvania not-for-profit corporation of which the University is the sole member. TUHS is the parent of many health care subsidiaries in the Philadelphia area and serves principally to coordinate the activities of these subsidiaries. The financial statements have been prepared on the accrual basis of accounting and include TU, TUHS and the University's other subsidiaries, whose abbreviations used throughout these notes, are listed at the end of this report.

Basis of Accounting: The University's financial statements are presented in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." The statement requires that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted: net assets not subject to donor-imposed restrictions. These net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Expenses are shown as decreases in unrestricted net assets.

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. Contributions and income from endowments for which restrictions have been met in the same fiscal year as their receipt are combined and reported with unrestricted revenues. The University classifies contributions to acquire long-lived assets as temporarily restricted net assets. The release of restrictions occurs as acquisition or construction cost is incurred.

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

Reclassification of Prior Year Financial Statements: Certain amounts in the 2004 financial statements have been reclassified to conform to 2005 classifications.

Temple University Physicians (TUP): Effective July 1, 1986, the Board of Trustees established the School of Medicine Designated Fund to account for unrestricted net assets generated by the excess of TUP revenues over expenditures and transfers.

Note A. Summary of Significant Accounting Policies (continued)

Patient Care Activity: Included are patient service revenues of TUHS as well as TU revenues from the clinical activities of TUP and the School of Podiatric Medicine. The University has agreements with third-party payors that provide for payments to the University at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge and per-diem payments, and to a lesser extent reimbursed costs and discounted charges. In addition, the University receives Medical Assistance payments for the reimbursement of services for charity and uncompensated care services (Disproportionate Share Payments). The federal funding of such costs is subject to an upper payment limit and retrospective settlement.

Patient care activity revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered or when known, and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient care activity revenue includes \$909,000 and \$13,151,000 for 2005 and 2004, respectively, related to the favorable final settlement of prior years' TUHS cost reports.

Cash and Cash Equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less from the date of purchase.

Investments: Investments are comprised of the assets of the University's endowment, certain temporarily restricted funds, funds designated by the Board of Trustees to be invested as endowments, certain funds set aside to retire long-term debt, other plant-related funds and other unrestricted funds held for operating purposes. The University reports all investments, including debt and equity securities, at fair value based upon quoted market values provided by external investment custodians. Investments established for endowments, and certain investments set aside to retire long-term debt are classified as non-current assets. All other investments are classified as current assets.

The University has adopted, for endowments and funds designated by the Board of Trustees to be invested as endowments, a spending rule based on 4.5% of the market value of the investments, computed as a moving average over the past twelve quarters. For these investments the spending rule amount is reported as investment return in revenues, and the excess or shortfall of total return over the spending rule amount is reported as investment return in other changes in net assets in the statement of activities. For all other TU investments, interest and dividend income is reported as investment return in revenues, and realized and unrealized gains or losses are reported as investment return in other changes in net assets in the statement of activities. TUHS interest, dividends and realized gains or losses are reported in revenues. TUHS unrealized gains or losses are reported as other changes in net assets in the statement of activities.

Investment return is reported as increases to unrestricted, temporarily restricted or permanently restricted net assets based upon the existence or absence of donor imposed restrictions. For endowments, the excess or deficit of total return over the spending amount is reported as increases or decreases in temporarily restricted net assets.

Note A. Summary of Significant Accounting Policies (continued)

Inventories: Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out or average cost method.

Funds Held In Trusts By Others: These are investments that, by direction of the donor, the University has neither possession nor control, but is a beneficiary of their income.

Self-Insurance: The University self-insures or maintains deductibles under its various insurance policies for property, casualty, automobile, general liability, medical malpractice, worker's compensation, certain health and welfare and other claims. Provisions are made for estimated losses (claims made and claims incurred but not reported) generally based on actuarial methods, which include discounting of loss provisions where required.

Fair Value of Financial Instruments: The fair value of financial instruments is determined by reference to various market data and other valuation considerations. A reasonable estimate of the fair value of loans receivable from students 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.

Charity Care: The University provides care without charge, or for amounts less than its established rates, to patients who meet certain criteria under the University's charity care policy. Some patients qualify for charity care based on federal poverty guidelines or their financial condition being such that requiring payment would impose a hardship on the patient. The University maintains detailed records to identify and monitor the level of charity care it provides to its patients. The estimated costs and expenses incurred to provide charity care, including the estimated unreimbursed cost of services in excess of payments from Medical Assistance programs, net of Commonwealth of Pennsylvania grants and other support of \$49,709,000 and \$50,411,000, were \$70,478,000 and \$35,153,000, for 2005 and 2004, respectively. Because the University does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient care activities revenue.

Asset Impairment: The University reviews long-lived assets, certain identifiable intangibles and goodwill, for impairment whenever events or changes indicate that the carrying value of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their expected future cash flows. If such assets are considered to be impaired, the impairment is measured by the amount the carrying value exceeds the fair value of the assets. Based on management's review, there were no adjustments required for impairment of long-lived assets for the fiscal years ended June 30, 2005 and 2004.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Note B. Investments and Self-Insurance Trust Funds

The market values of investments and self-insurance trust funds are as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Investments:		
Bonds and notes	\$ 96,142,000	\$ 56,689,000
U.S. government securities	819,901,000	696,819,000
Money market funds	24,629,000	44,073,000
Equity	103,177,000	96,303,000
Other	<u>43,162,000</u>	<u>25,908,000</u>
	<u>\$1,087,011,000</u>	<u>\$919,792,000</u>
 Self-insurance trust funds:		
Bonds and notes	\$ 1,593,000	\$ 7,715,000
U.S. government securities	13,465,000	2,302,000
Money market funds	<u>1,049,000</u>	<u>1,929,000</u>
	<u>\$ 16,107,000</u>	<u>\$ 11,946,000</u>

The following summarizes investment return reported in the statement of activities:

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 46,756,000	\$ 38,024,000
Realized and unrealized gains/(losses), net	<u>50,255,000</u>	<u>(30,079,000)</u>
	<u>\$ 97,011,000</u>	<u>\$ 7,945,000</u>

Note C. Accounts, Loans and Contributions Receivable

Accounts and loans receivable are shown net of allowances as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Gross accounts receivable:		
Student	\$ 17,843,000	\$ 15,394,000
Health care programs and patients	191,096,000	199,436,000
Grants and contracts	24,481,000	21,711,000
Other	<u>52,546,000</u>	<u>72,062,000</u>
	285,966,000	308,603,000
Less: Allowance for doubtful accounts	<u>(43,232,000)</u>	<u>(53,475,000)</u>
Net accounts receivable	<u>\$ 242,734,000</u>	<u>\$ 255,128,000</u>
 Loans to students:		
Less: Allowance for doubtful accounts	<u>(7,353,000)</u>	<u>(7,680,000)</u>
Net loans receivable	<u>\$ 51,505,000</u>	<u>\$ 46,587,000</u>

The University provides health care services primarily to area residents through its inpatient and outpatient care facilities in the Greater Philadelphia Metropolitan Area. As a function of its mission and location, the University serves a disproportionately high number of poor or indigent patients. This results in the University deriving a substantial portion of its patient care revenues from the Federal Government (Medicare) and the Commonwealth of Pennsylvania (Medical Assistance) programs. At June 30, 2005 and 2004, the University had net accounts receivable from Medicare of \$29,619,000 and \$27,174,000 respectively, and from Medical Assistance of \$46,304,000 and \$48,086,000, respectively.

Note C. Accounts, Loans and Contributions Receivable (continued)

Contributions receivable are unconditional promises to give, restricted by donors for scholarships, capital acquisitions and other operating purposes. They are expected to be realized in the following periods:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Less than one year	\$15,590,000	\$14,719,000
One to five years	19,454,000	32,369,000
More than five years	<u>13,216,000</u>	<u>10,747,000</u>
	48,260,000	57,835,000
Less:		
Allowance for uncollectible contributions	(1,166,000)	(882,000)
Present value discount	<u>(7,594,000)</u>	<u>(7,805,000)</u>
Net contributions receivable	<u>\$39,500,000</u>	<u>\$49,148,000</u>

The rates used to calculate the present value discount are tied to U.S. Government treasury notes and were between 1.59% and 4.87% for 2005 and 2004.

Note D. Pensions and Postretirement Benefits

Faculty, administration and certain clerical employees are offered pension benefits through the University's participation in the Teacher's Insurance and Annuity Association, the College Retirement Equities Fund, Fidelity Investments and other defined contribution pension plans. The policy of the University is to contribute its share of the annual amount accrued in connection with these plans; there are no unfunded benefits. Pension expense for these plans was \$34,579,000 and \$31,687,000 in 2005 and 2004, respectively.

Certain union employees are covered by multi-employer pension plans to which the University contributes. Under the Employee Retirement Income Security Act of 1974, as amended by the Multi-employer Pension Plan Amendments Act of 1980, a contributor to a multi-employer plan is liable, upon termination of the plan or its withdrawal from the plan, for its share of the plan's unfunded vested liabilities. Until either event occurs, the University's share, if any, of the unfunded vested liabilities cannot be determined. At present, the University has no plans to withdraw from the union multi-employer pension plans. Pension expense for these plans was \$2,136,000 and \$1,852,000 in 2005 and 2004, respectively.

The University maintains defined benefit pension plans covering certain employees and makes contributions to the plans that comply with the funding provisions of the Internal Revenue Code. The University accounts for health and life insurance cost for retirees in accordance with SFAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." Certain TU and TUHS employees may participate in the postretirement benefits plan. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years of service. The following table sets forth the activity of the pension and postretirement benefits plans for the years ended June 30, 2005 and 2004. Measurement dates were March 31, 2005 and 2004 (June 30, in the case of certain TUHS affiliates) for the pension plans and June 30, 2005 and 2004 for the postretirement benefit plan.

Note D. Pensions and Postretirement Benefits (continued)

Benefit Obligations and Funded Status

	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 129,189,000	\$ 125,128,000	\$ 210,822,000	\$ 195,743,000
Service cost	2,341,000	2,127,000	8,639,000	8,798,000
Interest cost	7,865,000	7,477,000	13,101,000	11,952,000
Plan participant contributions	137,000	135,000	2,481,000	2,233,000
Actuarial loss	22,928,000	(1,778,000)	24,626,000	2,291,000
Curtailement gain	(1,968,000)			
Benefits paid	<u>(4,156,000)</u>	<u>(3,900,000)</u>	<u>(11,022,000)</u>	<u>(10,195,000)</u>
Benefit obligation, end of year	156,336,000	129,189,000	248,647,000	210,822,000
Change in plan assets:				
Fair value of plan assets, beginning of year	110,735,000	93,914,000	93,959,000	74,525,000
Actual return on plan assets	9,043,000	16,726,000	14,730,000	5,880,000
Employer contributions	4,178,000	4,312,000	19,727,000	21,516,000
Plan participant contributions	137,000	135,000	2,481,000	2,233,000
Plan expenses	(512,000)	(452,000)		
Benefits paid	<u>(4,156,000)</u>	<u>(3,900,000)</u>	<u>(11,022,000)</u>	<u>(10,195,000)</u>
Fair value of plan assets, end of year	119,425,000	110,735,000	119,875,000	93,959,000
Net amount recognized:				
Funded status	(36,911,000)	(18,454,000)	(128,772,000)	(116,863,000)
Unrecognized actuarial loss	57,605,000	35,759,000	67,802,000	55,445,000
Unrecognized net liability	(7,000)	(9,000)		
Unrecognized prior service cost	196,000	211,000		
Net amount recognized	<u>\$ 20,883,000</u>	<u>\$ 17,507,000</u>	<u>\$ (60,970,000)</u>	<u>\$ (61,418,000)</u>
Amounts recognized in the balance sheets:				
Prepaid benefits cost	\$ 12,762,000	\$ 11,841,000		
Accrued benefit liability	(36,741,000)	(20,274,000)	\$ (60,970,000)	\$ (61,418,000)
Intangible asset	102,000	114,000		
Accumulated charges to unrestricted net assets	<u>44,760,000</u>	<u>25,826,000</u>		
Net amount recognized	<u>\$ 20,883,000</u>	<u>\$ 17,507,000</u>	<u>\$ (60,970,000)</u>	<u>\$ (61,418,000)</u>
Weighted-average assumptions used to determine the benefit obligations:				
Discount rate	5.75%-6.25%	6.00%-6.25%	5.25%	6.25%
Rate of compensation increase	3.25%-5.00%	3.25%-4.50%	N/A	N/A
Health care cost trend rate			9.54%	9.50%
Ultimate rate			4.75%	5.00%
Year that ultimate rate is reached			2010	2006

Net Periodic Cost

	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Components of net periodic cost:				
Service cost	\$ 2,341,000	\$ 2,127,000	\$ 8,639,000	\$ 8,798,000
Interest cost	7,865,000	7,477,000	13,101,000	11,952,000
Expected return on plan assets	(10,430,000)	(9,951,000)	(7,923,000)	(6,474,000)
Amortization	733,000	397,000	5,462,000	6,763,000
Recognized net actuarial loss	<u>371,000</u>	<u>335,000</u>		
Net periodic cost	<u>\$ 880,000</u>	<u>\$ 385,000</u>	<u>\$ 19,279,000</u>	<u>\$ 21,039,000</u>
Weighted-average assumptions used to determine net periodic cost:				
Discount rate	6.00%-6.25%	6.00%-6.25%	6.25%	6.00%
Expected return on plan assets	8.50%	8.50%	8.00%	8.00%
Rate of compensation increase	3.25%-5.00%	3.25%-5.00%	N/A	N/A
Health care cost trend rate assumed for current year			10.75%	10.00%
Ultimate rate			5.00%	5.00%
Year that ultimate rate is reached			2010	2006

Note D. Pensions and Postretirement Benefits (continued)

Assumed health care cost trend rates have a significant effect on amounts reported for the postretirement benefit plan. A one-percentage point change in the assumed healthcare trend rate would have the following effects for the year ended or as of June 30, 2005:

	<u>Increase</u>	<u>Decrease</u>
Effect on service cost and interest cost components of net periodic postretirement benefit cost	\$ 3,369,000 15.51%	\$ (2,792,000) (12.85)%
Effect on benefit obligation, end of year	\$31,785,000 12.79%	\$(29,930,000) (12.05)%

Plan Assets

The long-term investment strategy for pension and postretirement benefit plans assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk. The expected return on plan assets equals a weighted average of the individual expected returns for each asset category in the plans' portfolio. The target ranges for the pension plans investment portfolios are stocks 40% to 80% and fixed income and cash 20% to 60%. The target ranges for the postretirement benefits plan investment portfolios are stocks 40% to 60% and fixed income and cash 40% to 60%.

The actual asset allocation as of June 30 is as follows:

<u>Asset class</u>	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	2005	2004	2005	2004
Stocks	45%-71%	46%-69%	48.4%	46.4%
Fixed income and cash	29%-55%	31%-54%	51.6%	53.6%

Cash Flows

The following table shows expected cash flows of the pension and postretirement benefit plans.

	<u>Pensions</u>	<u>Postretirement Benefits</u>
Expected contributions for next fiscal year:		
Employer	\$ 3,277,000	\$19,775,000
Employee	150,000	2,842,000
Estimated future benefit payments reflecting expected future service for fiscal years ending:		
6/30/2006	\$ 4,664,000	\$11,872,000
6/30/2007	4,955,000	12,457,000
6/30/2008	5,346,000	13,419,000
6/30/2009	5,676,000	14,436,000
6/30/2010	6,122,000	15,457,000
6/30/2011 – 6/30/2015	39,698,000	90,080,000

Note D. Pensions and Postretirement Benefits (continued)

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law on December 8, 2003. The Act provides a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D. The University adopted the provisions of FASB Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which provides guidance on the accounting for the effects of the Act. The adoption of the FSP reduced the accumulated benefit obligation as of June 30, 2005 by approximately \$23,483,000 and the University's net periodic postretirement benefit cost for the year ended June 30, 2005 by approximately \$4,500,000.

During fiscal 2005 a restructuring of employee benefits allowed certain employees to move from a defined pension plan to a defined contribution plan resulting in a benefit freeze. Under the provisions of SFAS No. 88 "Accounting for Curtailments of Defined Pension Plan and for Termination Benefits," the decrease of \$1,968,000 relating to the decrease in the defined benefit plan obligation for future employer service cost was recognized as a curtailment gain.

The actuarial present value of accumulated plan benefits related to a non-active group annuity pension plan has neither been determined nor included above because a guarantee of payment to the plan's beneficiaries has been made by The Equitable Life Assurance Society of America. This plan had total net assets available for benefits of \$3,827,000 and \$4,017,000 at June 30, 2005 and 2004, respectively. The University authorized participants in a non-active Equitable pension plan to transfer their employee contributions, plus interest, to a separate pension plan. This plan had total net assets available for benefits of \$336,000 and \$407,000 at June 30, 2005 and 2004, respectively. These assets are 100% non-forfeitable to the plan participants. The University is not obligated to make additional contributions to this plan and acts solely as plan administrator.

Note E. Deposits with Trustees

The University has on deposit with trustees amounts established for construction, capitalized interest, debt reserve and debt escrow funds. These deposits, which consist primarily of U.S. Government securities, money market funds and collateralized guaranteed investment contracts, arose principally from the proceeds of certain bonds. Debt escrow fund proceeds originated from the Pennsylvania Higher Education Facilities Authority (PHEFA), First Series of 1986 Revenue Bonds. In accordance with the Supplemental Floating Rate Pledge and Escrow agreement, funds have been set-aside in a debt escrow account to pay principal payments of the PHEFA, First Series of 1984 Revenue Bonds. See Note G for abbreviations.

Note E. Deposits with Trustees (continued)

A summary of these deposits stated at market value and the related debt is as follows:

<u>June 30, 2005</u>	<u>Construction/ Capitalized Interest Funds</u>	<u>Debt Reserve Funds</u>	<u>Debt Escrow Funds</u>
PHEFA, First Series of 1984		\$ 5,045,000	\$ 31,032,000
PHEFA, First Series of 1986		6,185,000	10,605,000
PHEFA, First Series of 2001	\$ 11,236,000		
THHEFAP, First Series of 1993 (TUH)		15,777,000	
THHEFAP, First Series of 1997 (TUH)		3,231,000	
THHEFAP, First Series of 2004 (TUH)	3,287,000		42,000
THHEFAP Series 1999A (TUCMC)		2,440,000	
THHEFAP Series 1999B (TE)		<u>11,009,000</u>	
	<u>\$ 14,523,000</u>	<u>\$ 43,687,000</u>	<u>\$ 41,679,000</u>
 <u>June 30, 2004</u> 			
PHEFA, First Series of 1984		\$ 5,167,000	\$ 35,859,000
PHEFA, First Series of 1986		5,814,000	8,051,000
PHEFA, First Series of 2001	\$ 24,993,000		
THHEFAP, First Series of 1993 (TUH)		15,653,000	
THHEFAP, First Series of 1997 (TUH)		3,210,000	
THHEFAP, First Series of 2004 (TUH)	26,421,000		42,000
THHEFAP, First Series of 1993 (JH)		5,233,000	
THHEFAP, First Series of 1997 (JH)		3,062,000	
THHEFAP Series 1999A (TUCMC)		2,437,000	
THHEFAP Series 1999B (TE)		10,632,000	
THHEFAP GE Tax-exempt Conduit Financing (TUH)	<u>6,703,000</u>		
	<u>\$ 58,117,000</u>	<u>\$ 51,208,000</u>	<u>\$ 43,952,000</u>

Note F. Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Land and land improvements	\$ 54,210,000	\$ 46,945,000
Land - Commonwealth of Pennsylvania	12,445,000	12,445,000
Buildings	724,910,000	702,012,000
Buildings - Commonwealth of Pennsylvania	236,103,000	236,103,000
Equipment and library books	633,188,000	604,638,000
Equipment - Commonwealth of Pennsylvania	37,514,000	37,552,000
Construction in progress	<u>106,574,000</u>	<u>20,686,000</u>
	1,804,944,000	1,660,381,000
Less accumulated depreciation	<u>(949,924,000)</u>	<u>(885,618,000)</u>
Property, plant and equipment, net	<u>\$ 855,020,000</u>	<u>\$ 774,763,000</u>

Property, plant and equipment owned by the University are stated at cost or, if acquired by gift, at the fair market value at the date of acquisition. Property, plant and equipment owned by the Commonwealth of Pennsylvania, which has been constructed, purchased or acquired for use by the University, are stated at the Commonwealth's cost. Buildings and equipment are depreciated primarily by the straight-line method over their estimated useful lives. Estimated useful lives are as follows: land improvements, 15 years; buildings, between 20 and 40 years; and equipment and library books, between 5 and 20 years. Depreciation expense was \$83,633,000 and \$76,579,000 in 2005 and 2004, respectively. Construction in progress includes \$1,809,000 of Commonwealth assets.

Note G. Debt

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Short-term debt:		
University Funding Obligation, Series of 2005, due May 2006, at an effective interest rate of 2.80%	\$121,185,000	-
University Funding Obligation, Series of 2004, paid May 2005	-	\$120,975,000
Temple Educational Support Services (TESS) line of credit at an effective rate for 2005 of .72%	<u>4,031,000</u>	<u>4,113,000</u>
Total short-term debt	<u>\$125,216,000</u>	<u>\$125,088,000</u>
Long-term debt:		
TU mortgage payable through 2008 at an effective rate for 2005 of 9.50%	\$ 559,000	\$ 715,000
JH note payable through 2007 interest free	689,000	1,102,000
JH variable rate note payable through 2008 at an effective rate for 2005 of 1.68%	239,000	352,000
EH loan payable, paid in 2005	-	83,000
EH Episcopal Hospital Foundation loan due November 2005 at a fixed rate of 5.00%	6,500,000	6,500,000
GE Tax-exempt Conduit Financing through The Hospitals and Higher Education Facilities Authority of Philadelphia (THHEFAP), due in 60 monthly installments of principal and interest at 3.85%, from 2005 through 2008.	9,583,000	12,448,000
TPI Practice Acquisition note payable through 2008 at an effective rate of 4.50% for 2005.	225,000	300,000
Pennsylvania Higher Educational Facilities Authority (PHEFA), Temple University Floating Rate Daily Demand Revenue Bonds, First Series of 1984, with varying amounts due between 2005 and 2009 at an effective rate for 2005 of 1.72%*	36,075,000	41,025,000
PHEFA Temple University Revenue Bonds, First Series of 1986, net of unamortized discount – 2005, \$7,000; 2004, \$9,000, with varying amounts due between 2007 and 2010 with a stated rate of 7.40% at an effective rate for 2005 of 7.40% *	193,000	190,000
PHEFA Temple University Revenue Bonds, First Series of 1998, net of unamortized discount – 2005, \$409,000; 2004, \$376,000, with varying amounts due between 2005 and 2029 with stated rates between 5.00% and 5.25% at an effective rate for 2005 of 5.14% *	171,856,000	177,094,000
PHEFA Temple University Revenue Bonds, First Series of 2001, net of unamortized discount – 2005, \$492,000; 2004, \$570,000; with varying amounts due between 2005 and 2031 with stated rates between 3.25% and 5.38% at an effective rate for 2005 of 5.10% *	94,038,000	94,705,000
THHEFAP TUHS Hospital Revenue Bonds, Series A, B and C of 2005, net of unamortized discount –2005, \$356,000 with varying amounts due between 2005 and 2028, at an effective rate for 2005 of 2.25%**	109,644,000	-

Note G. Debt (continued)

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
THHEFAP Temple Hospital Revenue Bonds, Series of 1993, net of unamortized discount –2005, \$1,324,000; 2004, \$1,444,000, with varying amounts due between 2005 and 2023 with stated rates between 6.50% and 6.63% at an effective rate for 2005 of 6.82%**	134,181,000	137,616,000
THHEFAP Temple Hospital Revenue Bonds, Series of 1997, net of unamortized discount –2005, \$712,000; 2004, \$761,000, with varying amounts due between 2005 and 2027 with stated rates between 5.20% and 5.88% at an effective rate for 2005 of 5.94%**	34,353,000	35,049,000
THHEFAP Hospital Revenue Bonds (Temple University Hospital), Series A of 2004 with varying amounts due between 2011 and 2033, at an effective rate for 2005 of 2.53%**	33,750,000	33,750,000
THHEFAP Jeanes Hospital Revenue Refunding Bonds, Series of 1993, net of unamortized discount – 2004, \$176,000 with varying amounts due between 2005 and 2022 with stated rates between 6.60% and 6.85%, defeased in 2005.**	-	32,554,000
THHEFAP Jeanes Hospital Revenue Bonds, series of 1997, net of unamortized discount –2004, \$199,000 with varying amounts due between 2005 and 2017 with stated rates between 5.38% and 5.88%, defeased in 2005.**	-	14,646,000
THHEFAP Revenue Bonds Series 1999B (TE), due at a variable interest rate annually through 2014, defeased in 2005.**	-	10,450,000
THHEFAP Revenue Bonds, Series A of 1999 (TUCMC), net of unamortized discount – 2005, \$322,000; 2004, \$343,000, with varying amounts due between 2005 and 2029 with stated rates between 4.85% and 5.75% at an effective rate for 2005 of 5.75%**	26,603,000	27,122,000
Montgomery County Higher Education and Health Authority (MCHEHA) Revenue Bonds, Series 1999 (GPHSC III), due between 2005 and 2029 with stated rates between 5.50% and 6.75%**	48,135,000	48,135,000
Capital leases	<u>4,468,000</u>	<u>7,541,000</u>
Total long-term debt	<u>\$711,091,000</u>	<u>\$681,377,000</u>
Total debt	<u>\$836,307,000</u>	<u>\$806,465,000</u>

Bond Issues:*** University Bond Issues**

The PHEFA (TU) bond issues are secured by a pledge of gross revenues of the University, excluding all revenues of TUHS and are non-recourse to TUHS. Additionally, the PHEFA First Series of 1984 bonds are secured by an irrevocable direct draw letter of credit of \$37,039,000 and the PHEFA First Series of 1998 and First Series of 2001 bonds are secured by an insurance policy issued by MBIA Insurance Corporation.

In prior years, TU defeased previously issued bonds by placing U.S. Government securities in irrevocable trusts to be used solely for satisfying scheduled payments of both principal and interest of the indebtedness. The outstanding balance related to this indebtedness was \$2,900,000 at June 30, 2005. In accordance with generally accepted accounting principles at the time of the defeasance, these debts along with the related trust funds do not appear on the balance sheets of the University.

Note G. Debt (continued)

In October, 2005, TU instructed PHEFA to redeem all outstanding bonds from the 1984 and 1986 issues. Accordingly, \$36,275,000 of bonds payable is included in the current portion of long-term debt. In addition, \$52,867,000 of related deposits with trustees is included in current assets as of June 30, 2005.

**** TUHS Bond Issues**

With the exception of the tax-exempt debt issued by GPHSC III, all TUHS bond issues are generally secured and collateralized by the assets and gross revenues of the TUHS Obligated Group, consisting of TUHS (parent), TUH, TUCMC, JH, TE, T3 and TPI as members, and are subject to various financial covenants. The THHEFAP bonds are non-recourse to TU.

In December 2002 GPHSC III failed to make its regularly scheduled debt service payments and is in default on its MCHEHA Revenue Bonds, Series 1999. The bond trustee formally notified GPHSC III that payment of these bonds was accelerated. Accordingly, this debt is reported in the balance sheet as a current liability as of June 30, 2005 and 2004. The assets of GPHSC III are insufficient to satisfy the principal and interest outstanding on these bonds. Bondholders (collectively, the "Plaintiffs") filed a complaint against TUHS, TUH and certain named directors and officers of TUHS, TUH and GPHSC III (collectively, the "Defendants"). The complaint alleges that the Defendants are liable to Plaintiffs for various alleged breaches of duty and contract. TUHS and TUH contend that the bond documents explicitly state that neither the TUHS or any other TUHS affiliate, other than GPHSC III, have guaranteed or are otherwise liable for any payment on these bonds. TUHS, TUH and other defendants intend to vigorously defend against the Plaintiffs' claims.

In June 2005, TUHS issued, through THHEFAP, \$110,000,000 of Revenue Bonds consisting of \$60,000,000 Series 2005A, \$25,000,000 Series 2005B and \$25,000,000 Series 2005C. Interest payments are paid monthly. A portion of the proceeds of the bonds were used to defease all of the Authority's 1993 JH Revenue Refunding Bonds; 1997 JH Hospital Revenue Bonds, and 1999 TE Series B Bonds. The aggregate amount of the bonds defeased was \$55,960,000, resulting in a net loss of \$2,542,000, which has been reported in other changes in unrestricted net assets for 2005. To hedge its exposure to a future rise in interest costs on the variable rate Series 2005C Bonds, concurrent with the bond issuance, TUHS entered into an interest rate swap arrangement with a third party. Under this arrangement, TUHS swaps a variable rate based on a percent of LIBOR for a fixed rate of 3.268%, based on a notional value of \$25,000,000 for a term matching that of the Series 2005C Bonds. The swap is classified as a cash flow hedge and, at both inception and at June 30, 2005, was determined to represent an effective hedge of TUHS cash flows related to interest on the Series 2005C Bonds. Ongoing hedge effectiveness, as well as the fair value of the swap, will be determined quarterly. The fair value of the swap at June 30, 2005 is a liability of \$595,000, which has been reported in non-current liabilities. The fair value adjustment for 2005 has been reported within other changes in unrestricted net assets.

Leases

Property, plant and equipment with respect to capital leases had a net book value of \$5,985,000 and \$8,126,000 as of June 30, 2005 and 2004, respectively. Total expense for operating leases was \$14,840,000 and \$13,988,000 for the years ended June 30, 2005 and 2004, respectively.

Note G. Debt (continued)

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

	<u>Capital Leases</u>	<u>Non-cancelable Operating Leases</u>
2006	\$ 1,752,000	\$ 9,742,000
2007	816,000	7,491,000
2008	829,000	6,731,000
2009	1,148,000	5,734,000
2010	119,000	5,377,000
Thereafter	-	<u>79,854,000</u>
Total minimum lease payments	4,664,000	<u>\$114,929,000</u>
Amounts representing interest on capital leases	<u>(196,000)</u>	
Present value of net minimum capital lease payments	<u>\$ 4,468,000</u>	

In December 2004, TUHS entered into a fifteen-year agreement to lease 240,000 square feet of office space to consolidate all TUHS administrative offices. The property is currently undergoing major renovations by the landlord and the lease will commence upon TUHS occupancy of the building. Expected occupancy is spring of 2006. The future minimum payments (not included above) are as follows: Year 1, \$2,585,000; Year 2, \$2,634,000; Year 3, \$2,684,000; Year 4, \$2,735,000; Year 5, \$2,784,000; and \$30,581,000 thereafter.

Interest

Total interest cost was \$33,661,000 and \$32,875,000 for 2005 and 2004, respectively. In accordance with generally accepted accounting principles, the University capitalizes interest cost on qualifying assets. The University increased the basis of its plant assets by \$1,134,000 and \$533,000 in 2005 and 2004, respectively, for interest expense capitalized. In the accompanying statements of activities, TU offsets certain interest income prior to its allocation to the functional expense categories. Such offsets amounted to \$3,080,000 and \$3,151,000 for 2005 and 2004, respectively.

Fair Value and Maturity

The fair value of long-term debt is approximately \$669,354,000 (exclusive of the 1999 GPHSC III Bonds). The carrying amount of the 1999 GPHSC III Bonds is \$48,135,000 at June 30, 2005. The fair value of these bonds at June 30, 2005 could not be reasonably estimated by management due to GPHSC III's closure and insolvency. Long-term debt matures in varying amounts through 2031. The aggregate amount of principal payments, excluding capital leases, required through June 30, 2010 is as follows: June 30, 2006, \$105,775,000; June 30, 2007, \$15,679,000; June 30, 2008, \$16,700,000; June 30, 2009, \$13,708,000; and June 30, 2010, \$14,448,000.

Note H. Net Assets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Unrestricted net assets	<u>\$ 961,158,000</u>	<u>\$ 869,107,000</u>
Temporarily restricted net assets		
Contributions and endowment income for instruction, research and support	\$ 51,588,000	\$ 51,100,000
Term endowments and life income funds	12,604,000	11,685,000
Contributions for property, plant and equipment	<u>25,596,000</u>	<u>18,086,000</u>
	<u>\$ 89,788,000</u>	<u>\$ 80,871,000</u>
Permanently restricted net assets		
Corpus of contributions for endowments	\$ 154,469,000	\$ 143,619,000
Corpus of contributions for student loans	187,000	185,000
Beneficial interest in Episcopal Healthcare Foundation	<u>18,920,000</u>	<u>18,275,000</u>
	<u>\$ 173,576,000</u>	<u>\$ 162,079,000</u>
Total net assets	<u><u>\$1,224,522,000</u></u>	<u><u>\$1,112,057,000</u></u>

The Episcopal Healthcare Foundation (“the Foundation”) controls certain investments that, according to its organizational structure, are held for the benefit of TUH’s Episcopal campus operations. TUH has recognized the present value of future cash flows from the Foundation as an asset, (funds held in trust by others) and permanently restricted net assets of \$18,920,000 and \$18,275,000 at June 30, 2005 and 2004, respectively.

Note I. Professional Liability Insurance

The University purchases primary, commercial claims-made insurance coverage for professional liability claims from a commercial insurer, which in turn reinsures all of the risk with GSIC and TUHIC, wholly owned captive insurance companies domiciled in Bermuda. The carrying amount of the accrued asserted and unasserted actuarially determined professional liability claims included in accounts payable and accrued expenses was \$180,113,000 and \$145,712,000 as of June 30, 2005 and 2004, respectively. The discount rate used to determine the actuarially determined liability claims was 4.5% in 2005 and 2004. The University also participates in the Commonwealth of Pennsylvania Medical Care Availability and Reduction of Error Fund (“MCare Fund”) established under Act 111 and subsequently modified under Act 135, and maintains excess liability coverage through a commercial insurance carrier.

Note J. Commitments and Contingencies

The nature of the educational and health care industry is such that, from time to time, claims will be presented against the University 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 health care services at a large institution.

Note J. Commitments and Contingencies (continued)

Health Partners (HP)

TUH and Episcopal are participants in a Medicaid and Medicare HMO known as Health Partners (HP). Under these contracts, TUHS is responsible for allocated HP gains and losses based primarily on the number of HP members enrolled in the TUHS primary care physicians' network and other factors as approved by the HP board.

During fiscal years 2005 and 2004, TUHS recorded losses of \$2,770,000 and \$237,000, respectively, related to the HP contracts. The HP losses are included in the accompanying consolidated statements of activities as a component of patient care activities revenue.

Note K. Discontinued Operations - Nursing Home Facilities

GPHSC and GPHSC II ceased operations in 2002. GPHSC III ceased operations in 2003. The assets of these discontinued operations are included in the consolidated financial statements for both 2005 and 2004 at their estimated net realizable value. The assets and liabilities of these discontinued operations are as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	<u>\$ 78,000</u>	<u>\$ 2,769,000</u>
Current liabilities	<u>\$ 73,452,000</u>	<u>\$ 77,897,000</u>

Note L. Supplementary Information on Unrestricted Net Assets

The following schedules reflect the changes in unrestricted net assets for TU and its subsidiaries. The columnar classification reflects the various budgetary categories and operations of the University. Clinical Faculty Practice Plans include TUP and the School of Dentistry Oral Surgery practice. Other long-term net assets include the net book value of property, plant and equipment, net assets set aside to retire debt and University matching of federal student loan programs, net of the effect of the unfunded liability for pensions and postretirement benefits.

Note L. Supplementary information on unrestricted net assets

Temple University
Of the Commonwealth System of Higher Education
Consolidated Unrestricted Statement of Activities
For the Year Ended June 30, 2005
(thousands of dollars)

	Unrestricted Net Assets										
	Temple University Health System Inc. (1)	Temple Educational Support Services (2)	Clinical Faculty Practice Plans (3)	Educational and General (4)	Quasi - Endowment (5)	Externally Sponsored Activities (6)	Unexpended Capital (7)	Other Long-term (8)	Total University (9)	Consolidating Eliminations (10)	Total Unrestricted Net Assets (11)
Revenues:											
Tuition and fees (net of discounts of \$49,747)		\$15,248		\$349,758				\$349,758		(\$478)	\$364,528
Commonwealth of Pennsylvania appropriation				169,989				169,989			169,989
Grants and contracts				22,672		\$95,065		117,737			117,737
Contributions for operations and endowments	\$1,461			922	\$54	8,707		9,683			11,144
Investment return	18,804		\$185	17,165		6,965	\$962	\$5,244			49,325
Sales of educational activities				4,908				4,908			4,908
Auxiliary enterprises				58,916				58,916			58,916
Patient care activities	907,532		90,629	2,299				92,928			1,000,460
Other sources	18,780	30		4,844		1,443		6,400	(3,662)		21,548
Net assets released from restrictions	1,416					9,993		157			11,566
Total revenues	947,993	15,278	90,814	631,473	54	122,173	962	5,514	850,990	(4,140)	1,810,121
Expenses:											
Educational and general		15,889		496,035		105,922	3,824	39,891	645,672	(478)	661,083
Auxiliary enterprises				53,785		504	1,479	16,521	72,289		72,289
Patient care activities	914,632		87,649	3,226				426	91,301	(4,056)	1,001,877
Total expenses	914,632	15,889	87,649	553,046	0	106,426	5,303	56,838	809,262	(4,534)	1,735,249
Transfers:											
Property, plant and equipment (PP&E) acquisitions			(38)	(10,894)		(3,019)	(50,741)	64,692			
Retirement of indebtedness			(111)	(15,618)	(58)	(15)	(1,241)	17,043			
Capital replacement and expansion				(49,184)	(739)	(2,879)	54,479	(1,677)			
Other transfers			(310)	9,012	(12)	(8,847)		157			
Total transfers	0	0	(459)	(66,684)	(809)	(14,760)	2,497	80,215	0	0	0
Excess/(deficit) of revenues over expenses	33,361	(611)	2,706	11,743	(755)	987	(1,844)	28,891	41,728	394	74,872
Other changes in net assets:											
Investment return	9,096			15,323	3,750	(2)	(68)	8,256	27,259		36,355
Commonwealth grants for PP&E							1,809		1,809		1,809
Contributions for PP&E							49		303		303
Loss on disposal of PP&E		(56)						(895)	(895)		(951)
Minimum pension liability adjustment	(18,475)							(377)	(377)		(18,852)
Transfer from TUHS	(1,000)			1,000					1,000		
TUHS gain from discontinued operations, net	1,853										1,853
Loss on defeasance of debt	(2,542)										(2,542)
Other	(5,709)	(53)									(5,762)
Net assets released from restrictions for PP&E	4,012						954		954		4,966
Total other changes in net assets	(12,765)	(109)	0	16,323	3,750	(2)	2,744	7,238	30,053	0	17,179
Increase (decrease) in net assets	20,596	(720)	2,706	28,066	2,995	985	900	36,129	71,781	394	92,051
Net assets July 1, 2004	255,607	(3,184)	1,900	101,620	43,219	34,628	100,972	336,708	619,047	(2,363)	869,107
Net assets June 30, 2005	\$276,203	(\$3,904)	\$4,606	\$129,686	\$46,214	\$35,613	\$101,872	\$372,837	\$690,828	(\$1,969)	\$961,158

Note L. Supplementary information on unrestricted net assets

Temple University
Of the Commonwealth System of Higher Education
Consolidated Unrestricted Statement of Activities
For the Year Ended June 30, 2004
(thousands of dollars)

	Unrestricted Net Assets										
	Temple University Health System Inc. (1)	Temple Educational Support Services (2)	University						Consolidating Eliminations (10)	Total Unrestricted Net Assets (11)	
			Clinical Faculty Practice Plans (3)	Education and General (4)	Quasi - Endowment (5)	Externally Sponsored Activities (6)	Unexpended Capital (7)	Other Long-term (8)			Total University (9)
Revenues:											
Tuition and fees (net of discounts of \$44,367)		\$13,449		\$325,060					\$325,060	(\$296)	\$338,213
Commonwealth of Pennsylvania appropriation				164,941					164,941		164,941
Grants and contracts				21,365		\$92,064			113,429		113,429
Contributions for operations and endowments	\$1,602			948	\$76	9,387			10,411		12,013
Investment return	15,267	1	\$41	13,396		6,073	\$826	\$5,317	25,653		40,921
Sales of educational activities				4,378					4,378		4,378
Auxiliary enterprises				60,297					60,297		60,297
Patient care activities	864,223		78,823	2,186					81,009		945,232
Other sources	21,897	73		13,578		1,323		146	15,049	(3,526)	33,493
Net assets released from restrictions	593			3		8,061	10	50	8,124		8,717
Total revenues	903,582	13,523	78,864	606,152	76	116,908	838	5,513	808,351	(3,822)	1,721,634
Expenses:											
Educational and general		13,430		465,901		100,129	3,681	36,455	606,166	(296)	619,300
Auxiliary enterprises				56,883		579	534	15,087	73,083		73,083
Patient care activities	875,636		78,032	2,754				454	81,240	(3,920)	952,956
Total expenses	875,636	13,430	78,032	525,538	0	100,708	4,215	51,996	760,489	(4,216)	1,645,339
Transfers:											
Property, plant and equipment (PP&E) acquisitions			(152)	(13,132)		(1,692)	(26,572)	41,548			
Retirement of indebtedness			(100)	(15,930)		(29)	(1,112)	17,171			
Capital replacement and expansion				(34,751)		(54)	34,805				
Other transfers			(28)	9,506	(665)	(10,466)	1,321	332			
Total transfers	0	0	(280)	(54,307)	(665)	(12,241)	8,442	59,051	0	0	0
Excess/(deficit) of revenues over expenses	27,946	93	552	26,307	(589)	3,959	5,065	12,568	47,862	394	76,295
Other changes in net assets:											
Investment return	(5,415)		(477)	(17,485)	414	(2)	(412)	(8,386)	(26,348)		(31,763)
Commonwealth grants for PP&E								1,842	1,842		1,842
Contributions for PP&E							1,283	474	1,757		1,757
Loss on disposal of PP&E		(2)						(1,809)	(1,809)		(1,811)
Minimum pension liability adjustment	4,256							3,490	3,490		7,746
TUHS gain from discontinued operations, net	1,336										1,336
Transfer from TUHS	(1,000)			1,000					1,000		
Other		80									80
Net assets released from restrictions for PP&E	2,438						31		31		2,469
Total other changes in net assets	1,615	78	(477)	(16,485)	414	(2)	902	(4,389)	(20,037)	0	(18,344)
Increase (decrease) in net assets	29,561	171	75	9,822	(175)	3,957	5,967	8,179	27,825	394	57,951
Net assets July 1, 2003	226,046	(3,355)	1,825	91,798	43,394	30,671	95,005	328,529	591,222	(2,757)	811,156
Net assets June 30, 2004	\$255,607	(\$3,184)	\$1,900	\$101,620	\$43,219	\$34,628	\$100,972	\$336,708	\$619,047	(\$2,363)	\$869,107

**Temple University and
Subsidiary Organizations
As of June 30, 2005**

The following lists the University and its subsidiary organizations included in the consolidated financial statements and their tax-exempt status. Unless otherwise indicated, all exempt organizations are such under the Internal Revenue Code Section 501(c)(3).

Temple University-Of the Commonwealth System of Higher Education (TU), exempt
 Good Samaritan Insurance Co., Ltd. (GSIC), non-exempt (Bermuda)
 Temple Educational Support Services, Ltd. (TESS), non-exempt (Japan)
 The Sugar Loaf Club, Incorporated, non-exempt (discontinued January, 2005)
 Temple University School of Podiatric Medicine, Inc. (TUSPMI), exempt
 TUMP Offices, Inc., exempt 501(c)(2)
 Temple Corporation, non-exempt (inactive)
 VT Holdings, Inc., non-exempt (inactive)
 Virtual Temple, Inc., non-exempt (inactive)
 Global Technology Management Corp., non-exempt (inactive)

Temple University Health System, Inc. (TUHS), exempt
 Temple University Hospital, Inc. (TUH), exempt
 Temple University Health System Foundation (TUHSF), exempt
 Temple Physicians, Inc. (TPI), exempt
 Temple Professional Associates-BuxMont Region, exempt
 Temple Professional Associates-Northeastern Region, exempt (merged into TPI on
 7/1/05)
 Temple University Children's Medical Center (TUCMC), exempt
 Temple East, Inc. (TE), exempt (doing business as Northeastern Hospital)
 Temple East Real Estate, Inc. (TERE), exemption pending
 Jeanes Hospital (JH), exempt
 Temple Healthcare Services, Inc., exempt
 Episcopal Hospital (EH), exempt
 Episcopal Long Term Care, exempt
 Greater Philadelphia Health Services Corporation (GPHSC), exempt, (discontinued)
 Greater Philadelphia Health Services II Corporation (GPHSC II), exempt, (discontinued)
 Greater Philadelphia Health Services III Corporation (GPHSC III), exempt,
 (discontinued)
 Greater Philadelphia Housing Services V Corporation (GPHSC V), exempt (dissolved
 June 2005)
 TUHS Insurance Co., Ltd. (TUHIC), non-exempt (Bermuda)
 Temple Health System Transport Team, Inc. (T3), exempt