

***Temple University - Of The
Commonwealth System of
Higher Education***

*Consolidated Financial Statements
as of and for the years ended
June 30, 2009 and 2008, and
Independent Auditors' Report*

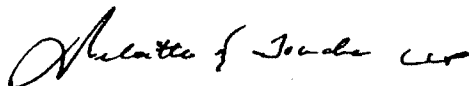
INDEPENDENT AUDITORS' REPORT

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 subsidiaries (the "University") as of June 30, 2009 and 2008, 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, 2009 and 2008, 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.



October 27, 2009

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

	June 30, 2009	June 30, 2008
Current assets:		
Cash and cash equivalents	\$254,536	\$256,700
Investments and self-insurance trust funds	597,116	712,208
Accounts, loans and contributions receivable, net	261,339	312,159
Inventories and other assets	30,434	25,566
Deposits with trustees	5,263	6,902
Total current assets	1,148,688	1,313,535
Non-current assets:		
Accounts, loans and contributions receivable, net	87,039	81,864
Other assets	25,397	32,034
Investments and self-insurance trust funds	444,954	440,232
Deposits with trustees	94,992	103,630
Property, plant and equipment, net	1,275,318	1,136,809
Funds held in trust by others	53,805	67,625
Total non-current assets	1,981,505	1,862,194
Total assets	\$3,130,193	\$3,175,729
Current liabilities:		
Accounts payable and accrued expenses	\$283,155	\$284,371
Deferred revenue	51,043	51,110
Short-term debt	125,318	125,246
Current portion of long-term debt	13,465	16,441
Current portion of accrued pensions and postretirement benefits	19,759	18,274
Total current liabilities	492,740	495,442
Non-current liabilities:		
Accrued expenses and other liabilities	211,686	218,427
Long-term debt	718,026	740,342
Refundable federal student loans	50,800	50,303
Accrued pensions and postretirement benefits	136,397	101,286
Total non-current liabilities	1,116,909	1,110,358
Total liabilities	1,609,649	1,605,800
Net assets:		
Unrestricted	1,238,991	1,242,661
Temporarily restricted	63,796	106,143
Permanently restricted	217,757	221,125
Total net assets	1,520,544	1,569,929
Total liabilities and net assets	\$3,130,193	\$3,175,729

See notes to consolidated financial statements

Temple University
Of The Commonwealth System of Higher Education
Consolidated Statement of Activities
For the Year Ended June 30, 2009
(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 \$70,050)	\$501,598			\$501,598
Commonwealth of Pennsylvania appropriation	164,963			164,963
Federal grants and contracts	71,515			71,515
Commonwealth of Pennsylvania grants and contracts	15,252			15,252
Local grants and contracts	5,045			5,045
Private grants and contracts	26,552			26,552
Contributions for operations and endowments	12,926	\$9,257	\$10,113	32,296
Investment return	50,665	503		51,168
Sales of educational activities	5,354			5,354
Auxiliary enterprises	71,804			71,804
Patient care activities	1,084,119			1,084,119
Other sources	28,436	7		28,443
Net assets released from restrictions	10,994	(10,984)	(10)	
Total revenues	<u>2,049,223</u>	<u>(1,217)</u>	<u>10,103</u>	<u>2,058,109</u>
Expenses:				
Educational and general:				
Instruction	379,802			379,802
Research	93,416			93,416
Public service	23,970			23,970
Academic support	143,520			143,520
Student services	64,254			64,254
Institutional support	96,654			96,654
Student aid	8,409			8,409
Total educational and general	<u>810,025</u>	<u>0</u>	<u>0</u>	<u>810,025</u>
Auxiliary enterprises	88,206			88,206
Patient care activities	1,173,935			1,173,935
Total expenses	<u>2,072,166</u>	<u>0</u>	<u>0</u>	<u>2,072,166</u>
(Deficit)/excess of revenues over expenses	<u>(22,943)</u>	<u>(1,217)</u>	<u>10,103</u>	<u>(14,057)</u>
Other changes in net assets:				
Investment return	(7,302)	(14,693)	(13,471)	(35,466)
Commonwealth grants for property, plant and equipment (PP&E)	46,272			46,272
Contributions for PP&E	3,964	4,648		8,612
Loss on disposal of PP&E	(1,681)			(1,681)
Other comprehensive loss	(53,470)			(53,470)
TUHS gain from discontinued operations, net	33			33
Other	372			372
Net assets released from restrictions for PP&E	31,085	(31,085)		
Total other changes in net assets	<u>19,273</u>	<u>(41,130)</u>	<u>(13,471)</u>	<u>(35,328)</u>
Decrease in net assets	<u>(3,670)</u>	<u>(42,347)</u>	<u>(3,368)</u>	<u>(49,385)</u>
Net assets July 1, 2008	<u>1,242,661</u>	<u>106,143</u>	<u>221,125</u>	<u>1,569,929</u>
Net assets June 30, 2009	<u>\$1,238,991</u>	<u>\$63,796</u>	<u>\$217,757</u>	<u>\$1,520,544</u>

See notes to consolidated financial statements

Temple University
Of The Commonwealth System of Higher Education
Consolidated Statement of Activities
For the Year Ended June 30, 2008
(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 \$64,068)	\$456,415			\$456,415
Commonwealth of Pennsylvania appropriation	172,917			172,917
Federal grants and contracts	65,531			65,531
Commonwealth of Pennsylvania grants and contracts	22,250			22,250
Local grants and contracts	4,979			4,979
Private grants and contracts	21,687			21,687
Contributions for operations and endowments	17,500	\$14,841	\$19,809	52,150
Investment return	70,271	858	2	71,131
Sales of educational activities	5,092			5,092
Auxiliary enterprises	72,329			72,329
Patient care activities	1,057,980			1,057,980
Other sources	31,524	17		31,541
Net assets released from restrictions	8,877	(8,870)	(7)	
Total revenues	<u>2,007,352</u>	<u>6,846</u>	<u>19,804</u>	<u>2,034,002</u>
Expenses:				
Educational and general:				
Instruction	352,344			352,344
Research	84,465			84,465
Public service	25,482			25,482
Academic support	136,294			136,294
Student services	62,509			62,509
Institutional support	96,211			96,211
Student aid	10,021			10,021
Total educational and general	<u>767,326</u>	<u>0</u>	<u>0</u>	<u>767,326</u>
Auxiliary enterprises	84,692			84,692
Patient care activities	1,132,778			1,132,778
Total expenses	<u>1,984,796</u>	<u>0</u>	<u>0</u>	<u>1,984,796</u>
Excess of revenues over expenses	<u>22,556</u>	<u>6,846</u>	<u>19,804</u>	<u>49,206</u>
Other changes in net assets:				
Investment return	26,892	(8,378)	(5,757)	12,757
Commonwealth grants for property, plant and equipment (PP&E)	78,052			78,052
Contributions for PP&E	3,036	5,943		8,979
Loss on disposal of PP&E	(2,597)			(2,597)
Other comprehensive loss	(7,506)			(7,506)
TUHS loss on extinguishment of debt	(3,307)			(3,307)
TUHS gain on distribution from Health Partners	41,099			41,099
TUHS gain from discontinued operations, net	53,303			53,303
Other	(1,650)			(1,650)
Net assets released from restrictions for PP&E	17,574	(17,574)		
Total other changes in net assets	<u>204,896</u>	<u>(20,009)</u>	<u>(5,757)</u>	<u>179,130</u>
Increase/(decrease) in net assets	<u>227,452</u>	<u>(13,163)</u>	<u>14,047</u>	<u>228,336</u>
Net assets July 1, 2007	<u>1,015,209</u>	<u>119,306</u>	<u>207,078</u>	<u>1,341,593</u>
Net assets June 30, 2008	<u>\$1,242,661</u>	<u>\$106,143</u>	<u>\$221,125</u>	<u>\$1,569,929</u>

See notes to consolidated 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)

	2009	2008
Cash flows from operating activities:		
Change in net assets	(\$49,385)	\$228,336
Gain from discontinued operations, net	(33)	(53,303)
Change in net assets from continuing operations	(49,418)	175,033
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Currency translation adjustment	618	(233)
Provision for bad debts	32,641	35,371
Depreciation	96,962	88,506
Amortization of deferred financing costs	(1,482)	(5)
Realized and unrealized loss/(gain) on investments	17,694	(26,588)
Other comprehensive loss	53,470	7,506
Estimated asset impairment	18,578	
Loss on disposal of property, plant and equipment	1,681	2,597
Gain on settlement of SWAP		(1,883)
Loss on extinguishment of debt		3,307
Contributions, grants and investment income of and for property, plant and equipment and for long-term investment	(61,489)	(107,743)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(8,712)	(64,273)
Inventories and other assets	785	411
Accounts payable and accrued expenses	5,577	34,435
Deferred revenue	(67)	3,192
Accrued pensions and postretirement benefits	(3,523)	(1,224)
Net cash provided by operating activities	103,315	148,409
Net cash used by operating activities - discontinued operations		(12,546)
Cash flows from investing activities:		
Purchases of investments, deposits with trustees and self-insurance trusts	(570,815)	(607,448)
Sales and maturities of investments, deposits with trustees and self-insurance trusts	687,588	620,793
Purchases of property, plant and equipment	(276,749)	(233,192)
Proceeds from sale of property, plant and equipment	292	39
Loans to students	(9,177)	(9,157)
Proceeds from collections on student loans	5,767	6,785
Net cash used by investing activities	(163,094)	(222,180)
Net cash provided by investing activities - discontinued operations	33	15,334
Cash flows from financing activities:		
Proceeds from contributions, Commonwealth grants and investment income restricted to property, plant and equipment and long-term investment	85,810	79,935
Refundable federal student loans	497	382
Change in split interest agreements	(1,307)	(992)
Proceeds from long-term debt, net	1,508	227,386
Increase in short-term borrowings, net	697	565
Payments to retire long-term debt	(29,026)	(194,614)
Payment of deferred financing costs	(36)	(1,010)
Proceeds from sale of SWAP		1,883
Payments related to debt refinancing, net		(703)
Net cash provided by financing activities	58,143	112,832
Net cash used by financing activities - discontinued operations		(25,562)
Exchange rate adjustments	(561)	328
Net (decrease)/increase in cash and cash equivalents	(2,164)	16,615
Cash and cash equivalents at beginning of the year	256,700	240,085
Cash and cash equivalents at end of the year	\$254,536	\$256,700
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$41,704	\$38,942
Property, plant and equipment acquired through capital leases	\$3,570	\$12,768
Accrued property, plant and equipment	\$13,757	\$40,709

See notes to consolidated financial statements

TEMPLE UNIVERSITY
Of The Commonwealth System of Higher Education
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

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 in accordance with generally accepted accounting principles 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 Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 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 when the asset is placed in service.

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.

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 expenses and transfers. TUP activity is included in Clinical Faculty Practice Plans in the supplemental information on unrestricted net assets presented at the end of these statements.

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, the School of Dentistry 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 increased by \$6,612,000 and \$6,255,000 for 2009 and 2008, respectively, related to the final settlement of prior years' TUHS cost reports.

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 incurred to provide charity care, including the estimated unreimbursed cost of services in excess of payments from Medical Assistance programs were \$168,462,000 and \$160,827,000, for 2009 and 2008, respectively. The University received Commonwealth of Pennsylvania grants and other support of \$83,336,000 and \$91,598,000 resulting in net costs of \$85,126,000 and \$69,229,000, for 2009 and 2008, 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.

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. Cash and cash equivalents are carried at cost, which approximates market value.

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 investments, including debt and equity securities, at fair value based upon quoted market values. 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 also invests in various limited partnerships which are private equity funds. Such investments are accounted for on the equity basis of accounting, which approximates fair value as determined by the fund managers and financial information provided by the limited partnership. This financial information includes assumptions and methods that were reviewed by the University. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. These investments vary as to their level of liquidity, with differing requirements for notice prior to redemption or withdrawal.

Note A. Summary of Significant Accounting Policies (continued)

TU 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 such 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.

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: For the year ended June 30, 2009, the University adopted Statement of Financial Accounting Standards 157, "Fair Value Measurements" (SFAS 157), which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements (Note H).

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.

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

Asset Impairment: The University reviews long-lived assets 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. During fiscal year ended June 30, 2009 as a result of the closure of Northeastern Hospital as an acute care facility at TE, TUHS recognized a non cash impairment charge of \$18,578,000 related to the write-down of property, plant and equipment. The amount is included in patient care expense on the statement of activities. The fair value of the property, plant and equipment was determined by management in consultation with an independent appraiser. There were no loss adjustments recognized by which the carrying value exceeded the fair value for the fiscal year ended June 30, 2008.

Note A. Summary of Significant Accounting Policies (continued)

Asset Retirement Obligations: The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with SFAS143, "Accounting for Asset Retirement Obligations" and FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement 143", if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period using discount rates between 4.63% and 6.75%, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. At June 30, 2009 and 2008, the recorded asset retirement obligation liability is \$16,232,000 and \$16,019,000, respectively. Depreciation and accretion costs for 2009 and 2008 were \$1,186,000 and \$734,000, respectively.

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.

Defined Benefit Pension and Other Postretirement Plans: The University recognizes the over funded or underfunded status of its defined benefit and postretirement plans as an asset or liability in its balance sheets and recognizes changes in the funded status of the plans that arise during the period, but are not recognized as components of net periodic benefit cost, as other comprehensive loss in the statement of activities.

Accounting for Uncertainty in Income Taxes: Substantially all of the individual members of the University are nonprofit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The University adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes, (FIN 48) on July 1, 2007. FIN 48 sets forth a recognition threshold and measurement attribute for financial statement recognition of positions taken or expected to be taken in income tax returns. Only tax positions meeting a "more-likely-than-not" threshold of being sustained should be recognized under FIN 48. FIN 48 also provides guidance on derecognizing, classification of interest and penalties and accounting and disclosures for annual and interim financial statements. The impact of adoption was not material to the University's financial position, results of operations, or cash flows.

Recently Issued Accounting Pronouncements: Effective July 1, 2008, the University adopted SFAS 157. In accordance with SFAS 157 the University has categorized its assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation (Note H).

Note A. Summary of Significant Accounting Policies (continued)

For the year ended June 30, 2008, the University implemented SFAS 158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans”. SFAS 158 requires that assets derived for all overfunded plans be aggregated and recognized as an asset, and liabilities derived from all underfunded plans be aggregated and recognized as a liability. The pension asset or liability equals the difference between the fair value of the plan’s assets and its projected benefit obligation. SFAS 158 also included a requirement that the measurement date for plan asset and liabilities must coincide with the sponsor’s year end, which is effective for, and was adopted in, the fiscal year ended June 30, 2009 (Note D).

In February 2007, the FASB issued SFAS 159 “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement 115”. SFAS 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for organizations with fiscal years beginning after November 15, 2007. SFAS 159 did not have a material impact on the University’s financial position or results of operations. Accordingly, the University chose not to elect the fair value option.

In August 2008, the FASB issued Staff Position (FSP) 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds”. This FSP 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 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 (Note I).

In April 2009, the FASB issued FASB Staff Position (FSP) 115-2 and 124-2 “Recognition and Presentation of Other-Than-Temporary Impairments”. FSP 115-2/124-2 amends the other-than-temporary impairment guidance for debt securities. Under the revised guidance, an entity must recognize an other-than-temporary impairment charge (OTTI) on its statement of activities if it intends to sell a debt security or if it is more likely than not it will be required to sell a debt security before the recovery of its amortized cost basis. FSP 115-2/124-2 is effective for periods ended after June 15, 2009 and has been adopted by the University for the year ended June 30, 2009. The University recorded other-than-temporarily impairment charges on certain investments in debt and equity securities of \$11,805,000 and \$1,977,000, in revenues on the statement of activities for the fiscal years 2009 and 2008 respectively.

In May 2009, the FASB issued SFAS 165 “Subsequent Events” to establish principles and requirements for events occurring after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 provides guidance to determine the period through which an entity should evaluate events or transactions that may require disclosure, the circumstances under which an entity should recognize such events or transactions and the related disclosures for such events or transactions. SFAS 165 did not result in significant changes in the evaluation and disclosure of subsequent events as it is establishing principles that are consistent with current generally accepted auditing standards. SFAS 165 is effective for periods ending after June 15, 2009 and has been adopted by the University for the year ended June 30, 2009 (Note N).

Note A. Summary of Significant Accounting Policies (continued)

In June 2009, the FASB issued SFAS 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement 162”, to establish codification as the single source of authoritative U.S. GAAP. SFAS 168 is effective for periods ending after September 15, 2009. SFAS 168 will have no impact on the financial condition, results of operations or cash flows of the University.

Use of Estimates: The preparation of financial statements 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, 2009</u>	<u>June 30, 2008</u>
Investments:		
Bonds and notes	\$ 80,222,000	\$ 64,380,000
U.S. government securities	664,409,000	807,900,000
Money market funds	41,767,000	56,009,000
Equity funds and securities	185,507,000	155,516,000
Limited partnerships	36,315,000	44,370,000
Other	17,627,000	5,590,000
	<u>\$ 1,025,847,000</u>	<u>\$ 1,133,765,000</u>
Self-insurance trust funds:		
Bonds and notes	\$ 6,898,000	\$ 11,036,000
U.S. government securities	8,392,000	6,071,000
Money market funds	933,000	1,568,000
	<u>\$ 16,223,000</u>	<u>\$ 18,675,000</u>

Investment return reported in the statement of activities is as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 33,396,000	\$ 57,142,000
Realized and unrealized (losses)/gains, net	<u>(17,694,000)</u>	<u>26,746,000</u>
	<u>\$ 15,702,000</u>	<u>\$ 83,888,000</u>

Note C. Accounts, Loans and Contributions Receivable

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Gross accounts receivable:		
Student	\$ 16,152,000	\$ 15,447,000
Health care programs and patients	160,483,000	166,952,000
Grants and contracts	21,633,000	22,861,000
Commonwealth construction	19,177,000	46,108,000
Other	<u>57,578,000</u>	<u>74,103,000</u>
	275,023,000	325,471,000
Less: Allowance for doubtful accounts	<u>(32,389,000)</u>	<u>(35,309,000)</u>
Net accounts receivable	<u>\$ 242,634,000</u>	<u>\$ 290,162,000</u>
Loans to students:	\$ 61,154,000	\$ 57,749,000
Less: Allowance for doubtful accounts	<u>(7,820,000)</u>	<u>(7,382,000)</u>
Net loans receivable	<u>\$ 53,334,000</u>	<u>\$ 50,367,000</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, 2009 and 2008, the University had net accounts receivable from Medicare of \$16,640,000 and \$15,701,000, respectively, and from Medical Assistance of \$38,300,000 and \$40,818,000, respectively.

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, 2009</u>	<u>June 30, 2008</u>
Less than one year	\$ 14,384,000	\$ 16,798,000
One to five years	19,594,000	19,705,000
More than five years	<u>36,735,000</u>	<u>36,297,000</u>
	70,713,000	72,800,000
Less:		
Allowance for uncollectible contributions	(1,315,000)	(1,711,000)
Present value discount	<u>(16,988,000)</u>	<u>(17,595,000)</u>
Net contributions receivable	<u>\$ 52,410,000</u>	<u>\$ 53,494,000</u>

The rates used to calculate the present value discount are tied to U.S. Government treasury notes and were between .96% and 5.21% for the years ended June 30, 2009 and 2008. The University recognized \$12,457,000 in contribution revenue from new pledges and collected \$2,006,000 of those pledges during the fiscal year ended June 30, 2009. The University considers these discount rates as Level 3 inputs within the SFAS 157 hierarchy.

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. Pension expense for these plans was \$44,161,000 and \$42,156,000 in 2009 and 2008, 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 \$5,829,000 and \$3,333,000 in 2009 and 2008, 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" and with SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". Certain University 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 original measurement date for the pension plan assets and obligations was March 31. Under SFAS 158 the measurement date must coincide with the end of the employer's fiscal year. Accordingly the measurement dates for the pension plans were changed to June 30, while the measurement dates for the postretirement plans remained June 30. The net periodic benefit cost was determined for the three month period between the March 31, 2008 and June 30, 2008 measurement dates and for the full year July 1, 2008 through June 30, 2009. Changes in the benefit obligation due to remeasurement at March 31, 2008 are reported as other comprehensive loss in the statement of activities. The activity of the pension and postretirement benefits plans for the years ended June 30, 2009 and 2008 are as follows:

Benefit Obligations and Funded Status

	Pensions			Postretirement Benefits	
	06/30/08 to 06/30/09	03/31/08 to 06/30/08	03/31/07 to 03/31/08	2009	2008
Change in benefit obligation:					
Benefit obligation, beginning of period	\$ 129,455,000	\$ 130,061,000	\$ 137,323,000	\$ 287,972,000	\$ 274,288,000
Service cost	592,000		650,000	12,416,000	11,574,000
Interest cost	9,098,000	281,000	8,286,000	17,702,000	17,243,000
Plan participant contributions	218,000		159,000	2,714,000	2,766,000
Actuarial loss/(gain)	5,670,000	(717,000)	(11,361,000)	(9,315,000)	(3,429,000)
Benefits paid	(5,600,000)	(170,000)	(4,996,000)	(13,077,000)	(14,470,000)
Benefit obligation, end of period	139,433,000	129,455,000	130,061,000	298,412,000	287,972,000

Note D. Pensions and Postretirement Benefits (continued)

Benefit Obligations and Funded Status

	Pensions			Postretirement Benefits	
	06/30/08 to 06/30/09	03/31/08 to 06/30/08	03/31/07 to 03/31/08	2009	2008
Change in plan assets:					
Fair value of plan assets, beginning of period	144,991,000	145,492,000	147,686,000	169,266,000	158,018,000
Actual return on plan assets	(16,881,000)	(321,000)	(2,753,000)	(12,930,000)	471,000
Employer contributions	3,866,000		5,853,000	16,338,000	22,481,000
Plan participant contributions	219,000		159,000	2,714,000	2,766,000
Plan expenses	(1,355,000)	(12,000)	(457,000)		
Benefits paid	(5,600,000)	(170,000)	(4,996,000)	(13,077,000)	(14,470,000)
Fair value of plan assets, end of period	125,240,000	144,989,000	145,492,000	162,311,000	169,266,000
Funded status at end of period	<u>\$ (14,193,000)</u>	<u>\$ 15,534,000</u>	<u>\$ 15,431,000</u>	<u>\$ (136,101,000)</u>	<u>\$ (118,706,000)</u>
Amounts recognized in the balance sheets consist of:					
Noncurrent assets	\$ 5,862,000	\$ 1,042,000	\$ 16,285,000		
Noncurrent (liabilities)	(20,055,000)	(151,000)	(854,000)	\$ (136,101,000)	\$ (118,706,000)
Net amount recognized	<u>\$ (14,193,000)</u>	<u>\$ 891,000</u>	<u>\$ 15,431,000</u>	<u>\$ (136,101,000)</u>	<u>\$ (118,706,000)</u>
Accumulated amounts recognized in other changes in net assets consist of:					
Prior service cost	\$ 67,000	\$ 70,000	\$ 83,000		
Net loss	62,544,000	3,107,000	25,345,000	\$ 74,996,000	\$ 59,038,000
Net amount recognized	<u>\$ 62,611,000</u>	<u>\$ 3,177,000</u>	<u>\$ 25,428,000</u>	<u>\$ 74,996,000</u>	<u>\$ 59,038,000</u>
Weighted-average assumptions used to determine the benefit obligations:					
Discount rate	6.40% -6.50%	6.85%	6.60% - 6.90%	6.35%	6.85%
Rate of compensation increase	3.25%	3.25%	3.25% - 4.50%	N/A	N/A
Health care cost trend rate				10.40%	11.00%
Ultimate rate				5.00%	5.00%
Year that ultimate rate is reached				2018	2018

Note D. Pensions and Postretirement Benefits (continued)

	Net Periodic Cost				
	Pensions			Postretirement Benefits	
	06/30/08 to 06/30/09	03/31/08 to 06/30/08	03/31/07 to 03/31/08	2009	2008
Components of net periodic cost:					
Service cost	\$ 592,000		\$ 650,000	\$ 12,416,000	\$ 11,574,000
Interest cost	9,098,000	\$ 281,000	8,286,000	17,702,000	17,243,000
Expected return on plan assets	(14,171,000)	(404,000)	(12,486,000)	(13,764,000)	(12,987,000)
Amortization	14,000	3,000	16,000	1,421,000	5,146,000
Recognized net actuarial loss	410,000		691,000		0
Net periodic (benefit)/cost	\$ (4,057,000)	\$ (120,000)	\$ (2,843,000)	\$ 17,775,000	\$ 20,976,000
Weighted-average assumptions used to determine net periodic cost:					
Discount rate	6.85%	6.85%	6.00% - 6.25%	6.85%	6.25%
Expected return on plan assets	8.50%	8.50%	8.50%	8.00%	8.00%
Rate of compensation increase	3.25%	3.25%	3.25% - 4.50%	N/A	N/A
Health care cost trend rate				11.00%	10.15%
Ultimate rate				5.00%	4.75%
Year that ultimate rate is reached				2018	2011

Assumed health care cost trend rates have a significant effect on amounts reported for the postretirement benefits 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, 2009:

	Increase	Decrease
Effect on service cost and interest cost components of net periodic postretirement benefits cost	\$ 3,590,000 11.92%	\$ (3,007,000) (9.99)%
Effect on benefit obligation, end of year	\$ 32,379,000 10.85%	\$ (27,591,000) (9.25)%

Plan Assets

The long-term investment strategy for pension and postretirement benefits 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 both the pension and 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:

Asset class	Pensions		Postretirement Benefits	
	2009	2008	2009	2008
Stocks	31%	43%	42%	46%
Fixed income and cash	69%	57%	58%	54%

Note D. Pensions and Postretirement Benefits (continued)

Cash Flows

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

	<u>Pensions</u>	<u>Postretirement Benefits</u>
Expected contributions for next fiscal year:		
Employer		\$ 25,021,000
Employee	\$ 160,000	2,888,000
Estimated future benefit payments reflecting expected future service for fiscal years ending:		
6/30/2010	\$ 6,260,000	\$ 17,831,000
6/30/2011	6,533,000	18,975,000
6/30/2012	6,862,000	19,681,000
6/30/2013	7,484,000	20,687,000
6/30/2014	8,008,000	21,854,000
6/30/2015 – 6/30/2018	47,992,000	123,750,000

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 \$3,015,000 and \$3,282,000 at June 30, 2009 and 2008, 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 \$263,000 and \$354,000 at June 30, 2009 and 2008, 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 and debt repayment. These deposits are primarily invested in U.S. Government securities and money market funds. See Note G for abbreviations.

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

	<u>Construction Funds</u>	<u>Debt Repayment Funds</u>
<u>June 30, 2009</u>		
PHEFA, First Series of 2006	\$ 49,802,000	\$ 2,000
THHEFAP, First Series of 2007 (TUHS)		28,751,000
THHEFAP, First Series of 2005 (TUHS)		8,233,000
THHEFAP, First Series of 1993 (TUH)		13,467,000
	<u>\$ 49,802,000</u>	<u>\$ 50,453,000</u>
<u>June 30, 2008</u>		
PHEFA, First Series of 2006	\$ 57,238,000	\$ 8,000
THHEFAP, First Series of 2007 (TUHS)		37,110,000
THHEFAP, First Series of 1993 (TUH)		16,176,000
	<u>\$ 57,238,000</u>	<u>\$ 53,294,000</u>

Note F. Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Land and land improvements	\$ 61,828,000	\$ 69,924,000
Land - Commonwealth of Pennsylvania	12,445,000	12,445,000
Buildings	1,080,334,000	930,771,000
Buildings - Commonwealth of Pennsylvania	234,378,000	234,378,000
Equipment and library books	711,082,000	650,970,000
Equipment - Commonwealth of Pennsylvania	36,163,000	36,163,000
Construction in progress	223,953,000	248,307,000
	<u>2,360,183,000</u>	<u>2,182,958,000</u>
Less accumulated depreciation	(1,084,865,000)	(1,046,149,000)
Property, plant and equipment, net	<u>\$ 1,275,318,000</u>	<u>\$ 1,136,809,000</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; leasehold improvements, the lesser of the asset life or term of the lease; and equipment and library books, between 5 and 20 years. Depreciation expense was \$96,962,000 and \$88,506,000 in 2009 and 2008, respectively. Construction in progress includes \$63,731,000 and \$105,201,000 at June 30, 2009 and 2008, respectively related to expenditures made by the Commonwealth on behalf of the University. Formal title to property passes to the University upon completion of the project.

Note G. Debt

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Short-term debt:		
University Funding Obligation, Series of 2009, due April 2010, at an effective interest rate of .41%	\$ 120,817,000	
University Funding Obligation, Series of 2008, paid April 2009		\$ 120,913,000
Temple Educational Support Services (TESS) line of credit	4,501,000	4,333,000
Total short-term debt	<u>\$ 125,318,000</u>	<u>\$ 125,246,000</u>
Long-term debt:		
EH Episcopal Hospital Foundation loan due November 2011 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), paid July 2008		276,000
PHEFA Temple University Revenue Bonds, First Series of 1998, net of unamortized discount – 2009, \$55,000; 2008, \$64,000, with varying amounts due between 2010 and 2021 with stated rates between 5.00% and 5.25% at an effective rate for 2009 of 5.18%	32,675,000	32,851,000
PHEFA Temple University Revenue Bonds, First Series of 2006, net of unamortized premium – 2009, \$6,964,000; 2008, \$7,440,000 with varying amounts due between 2010 and 2036 with stated rates between 4.50% and 5.00% at an effective rate for 2009 of 4.72%	345,224,000	354,121,000

Note G. Debt (continued)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
THHEFAP TUHS Hospital Revenue Bonds, Series A and B of 2007, net of unamortized discount –2009, \$878,000; 2008, \$932,000, at fixed interest rates of 5.00% and 5.50% , due in installments through 2035**	218,352,000	220,038,000
THHEFAP Temple Hospital Revenue Bonds, Series of 1993, net of unamortized discount –2009, \$793; 2008, \$975,000, at a fixed interest rate of 6.63%, due in installments through 2035 **	107,942,000	122,436,000
TUHS note payable to the Pennsylvania Industrial Development Corporation due in April 2011 at a fixed interest rate of 2.50%**	13,000,000	13,000,000
Capital leases	<u>7,798,000</u>	<u>7,561,000</u>
Total long-term debt	<u>\$ 731,491,000</u>	<u>\$ 756,783,000</u>
Total debt	<u>\$ 856,809,000</u>	<u>\$ 882,029,000</u>

Bond Issues

* TU Bond Issues

The University has previously defeased bonds by placing U.S. Government securities in irrevocable trusts to be used solely for satisfying both principal and interest of the indebtedness. The outstanding balances were \$1,573,000 and \$1,868,000 at June 30, 2009 and 2008, respectively. These debts along with related trust funds do not appear on the balance sheets of the University.

The Pennsylvania Higher Educational Facilities Authority, Temple University Revenue Bonds, First Series of 1998, and First Series of 2006, are secured by a pledge of gross revenues of the University, excluding all revenues of TUHS, and an insurance policy issued by MBIA Insurance Corporation (MBIA).

** TUHS Bond Issues

In August 2007, TUHS issued, through THHEFAP, \$220,970,000 of Revenue Bonds consisting of \$150,830,000 Series 2007A and \$70,140,000 Series 2007B. The proceeds were used to defease the Authority's outstanding TUH 1997 and Series 2003A bonds, TUCMC Series 1999A bonds, and TUHS Series 2005A, 2005B and 2005C bonds. The aggregate amount of the bonds defeased was \$202,995,000, resulting in a loss of approximately \$4,670,000, of which \$3,307,000 has been reported in non-operating losses and \$1,363,000 has been reported in loss from discontinued operations for 2008.

With the issuance of the 2007 Bonds TUHS defeased the 2005 Bonds which allowed TUHS to terminate its letters of credit agreements with participating banks aggregating \$110,000,000 that it had entered into when it issued the 2005 Bonds. Additionally, TUHS terminated an interest rate swap arrangement it had entered into with a third party, concurrent with the 2005 bond issuance. TUHS recognized a gain of \$1,883,000 from the termination of the swap, which is reflected as a component of other income at June 30, 2008.

In October 2007, TUHS reached a settlement with the plaintiffs in its litigation which resulted in the settlement of the Series 1999 GPSHC III bonds payable liability and accrued interest (Note M).

Note G. Debt (continued)

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group, consisting of TUHS (parent), TUH, JH, T3 and TPI as members, and are subject to various financial covenants. TUHS has complied with all debt covenants for fiscal years 2009 and 2008.

The THHEFAP bonds are non-recourse to TU.

Leases

Property, plant and equipment with respect to capital leases had a net book value of \$7,128,000 and \$6,971,000 as of June 30, 2009 and 2008, respectively. Total expense for operating leases was \$25,039,000 and \$23,765,000 for the years ended June 30, 2009 and 2008, respectively.

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>
2010	\$ 2,374,000	\$ 22,254,000
2011	2,407,000	11,224,000
2012	2,389,000	9,726,000
2013	660,000	9,318,000
2014	224,000	8,946,000
Thereafter		93,902,000
Total minimum lease payments	<u>8,054,000</u>	<u>\$ 155,370,000</u>
Amounts representing interest on capital leases	(354,000)	
Present value of net minimum capital lease payments	<u>\$ 7,700,000</u>	

Interest

Total interest cost was \$40,828,000 and \$43,788,000 for the years ended June 30, 2009 and 2008, respectively. The University capitalizes interest cost on qualifying assets. The University increased the basis of its plant assets by \$3,410,000 and \$1,942,000 in 2009 and 2008, 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 \$2,439,000 and \$3,767,000 for 2009 and 2008, respectively.

Fair Value and Maturity

The fair value of long-term debt at June 30, 2009 is approximately \$733,176,000. Long-term debt matures in varying amounts through 2036. The aggregate amount of principal payments, excluding capital leases, required through June 30, 2014 is as follows: June 30, 2010, \$11,181,000; June 30, 2011, \$30,539,000; June 30, 2012, \$17,297,000; and June 30, 2013, \$19,028,000; and June 30, 2014, \$19,847,000.

Note H. Fair Value Measurements

SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

SFAS 157 classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the University's own assumptions.

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis as of June 30, 2009:

<u>June 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Bonds and notes		\$ 80,222,000		\$ 80,222,000
U.S. government securities	\$ 609,113,000	55,296,000		664,409,000
Money market funds	35,981,000	5,786,000		41,767,000
Equity funds and securities and mutual funds	178,659,000		\$ 6,848,000	185,507,000
Limited partnerships			36,315,000	36,315,000
Mortgage backed securities		11,887,000		11,887,000
Other	766,000	1,721,000		2,487,000
	<u>\$ 824,519,000</u>	<u>\$ 154,912,000</u>	<u>\$ 43,163,000</u>	<u>1,022,594,000</u>
Investments carried at equity				<u>3,253,000</u>
				<u>\$1,025,847,000</u>
Self-insurance trust funds:				
Bonds and notes		\$ 6,898,000		\$ 6,898,000
U.S. government securities	\$ 6,685,000	1,707,000		8,392,000
Money market funds	94,000	839,000		933,000
	<u>\$ 6,779,000</u>	<u>\$ 9,444,000</u>	<u>\$ 0</u>	<u>\$ 16,223,000</u>
Deposits with Trustees:				
U.S. government securities	\$ 34,649,000			\$ 34,649,000
Money market funds	65,606,000			65,606,000
	<u>\$ 100,255,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 100,255,000</u>

Note H. Fair Value Measurements (continued)

<u>June 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Funds held in trust with others:				
Bonds and notes		\$ 8,445,000		\$ 8,445,000
U.S. government securities	\$ 1,988,000	6,377,000		8,365,000
Money market funds	2,612,000	1,269,000		3,881,000
Equity funds and securities	32,111,000			32,111,000
Alternative investments			\$ 1,003,000	1,003,000
	<u>\$ 36,711,000</u>	<u>\$ 16,091,000</u>	<u>\$ 1,003,000</u>	<u>\$ 53,805,000</u>

Investments in securities for which significant unobservable inputs (Level 3) were used in determining fair value are as follows:

Beginning Balance	\$ 55,286,000
Purchases	740,000
Withdrawals	(5,272,000)
Investment loss	(4,229,000)
Realized and unrealized losses, net	(2,359,000)
Ending Balance	<u>\$ 44,166,000</u>

Note I. Endowments

In accordance with Pennsylvania state law, unless otherwise specifically directed in the trust instrument, the University has adopted an investment policy seeking a total return for donor and board designated endowment assets. As such, the return is derived from capital appreciation, earnings or distributions with respect to capital or both. Annually, the board selects a percentage that is consistent with the long term preservation of the real value of the assets, but in no event shall the percentage be less than 2% nor more than 7% per year. The amount realized from the spending rule distribution is available in accordance with the donor or board designation. The adopted spending rule for 2009 and 2008 is 4.5% (Note A).

The University recognizes the original donor corpus and all explicit additions as permanently restricted net assets and the excess or shortfall of the spending rule as temporarily restricted net assets. Occasionally due to unfavorable market fluctuations, 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. The aggregate amount of deficiencies reported in unrestricted net assets at June 30, 2009 and 2008 was \$10,736,000 and \$1,015,000, respectively. Subsequent investment gains will be used to restore the balances to the fair market value of the original amount of the gift. Board designated endowment assets and the excess or shortfall of the spending rule on these assets are recognized in unrestricted net assets.

Note I. Endowments (continued)

The University's endowment balances by net asset classification and the changes in endowment assets for the fiscal years ended June 30, 2009 and 2008, respectively are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2009				
Donor-restricted endowment funds	\$(10,736,000)	\$ 25,604,000	\$ 184,517,000	\$ 199,385,000
Board-designated endowment funds	44,170,000			44,170,000
Total	<u>\$ 33,434,000</u>	<u>\$ 25,604,000</u>	<u>\$ 184,517,000</u>	<u>\$ 243,555,000</u>
June 30, 2008				
Donor-restricted endowment funds	\$ (1,015,000)	\$ 39,564,000	\$ 179,252,000	\$ 217,801,000
Board-designated endowment funds	50,519,000			50,519,000
Total	<u>\$ 49,504,000</u>	<u>\$ 39,564,000</u>	<u>\$ 179,252,000</u>	<u>\$ 268,320,000</u>
2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 49,504,000	\$ 39,564,000	\$ 179,252,000	\$ 268,320,000
Investment return:				
Investment income	1,125,000	3,570,000	293,000	4,988,000
Net realized and unrealized depreciation	(16,096,000)	(10,692,000)	(5,063,000)	(31,851,000)
Total investment return	<u>(14,971,000)</u>	<u>(7,122,000)</u>	<u>(4,770,000)</u>	<u>(26,863,000)</u>
Contributions	958,000	743,000	10,045,000	11,746,000
Appropriation of endowment assets for Expenditure (spending rule)	(2,369,000)	(7,559,000)		(9,927,000)
Other changes:				
Release of restrictions	32,000	(22,000)	(10,000)	0
Other transfers	280,000			280,000
Total other changes	<u>312,000</u>	<u>(22,000)</u>	<u>(10,000)</u>	<u>280,000</u>
Endowment net assets, end of the year	<u>\$ 33,434,000</u>	<u>\$ 25,604,000</u>	<u>\$ 184,517,000</u>	<u>\$ 243,555,000</u>
2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 49,672,000	\$ 51,151,000	\$ 161,591,000	\$ 262,414,000
Investment return:				
Investment income	1,374,000	4,466,000	167,000	6,007,000
Net realized and unrealized depreciation	(2,993,000)	(6,545,000)	(2,308,000)	(11,846,000)
Total investment return	<u>(1,619,000)</u>	<u>(2,079,000)</u>	<u>(2,141,000)</u>	<u>(5,839,000)</u>
Contributions	1,476,000	307,000	19,809,000	21,592,000
Appropriation of endowment assets for Expenditure (spending rule)	(2,125,000)	(6,814,000)		(8,939,000)
Other changes:				
Release of restrictions		(3,001,000)	(7,000)	(3,008,000)
Other transfers	2,100,000			2,100,000
Total other changes	<u>2,100,000</u>	<u>(3,001,000)</u>	<u>(7,000)</u>	<u>(908,000)</u>
Endowment net assets, end of the year	<u>\$ 49,504,000</u>	<u>\$ 39,564,000</u>	<u>\$ 179,252,000</u>	<u>\$ 268,320,000</u>

Note J. Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Unrestricted net assets	<u>\$ 1,238,991,000</u>	<u>\$ 1,242,661,000</u>
Temporarily restricted net assets		
Contributions and endowment income for instruction, research and support	\$ 41,277,000	\$ 57,666,000
Term endowments and life income funds	12,669,000	13,419,000
Contributions for property, plant and equipment	9,850,000	35,058,000
	<u>\$ 63,796,000</u>	<u>\$ 106,143,000</u>
Permanently restricted net assets		
Corpus of contributions for endowments	\$ 202,019,000	\$ 201,886,000
Corpus of contributions for student loans	200,000	200,000
Beneficial interest in Episcopal Healthcare Foundation	15,538,000	19,039,000
	<u>\$ 217,757,000</u>	<u>\$ 221,125,000</u>
Total net assets	<u>\$ 1,520,544,000</u>	<u>\$ 1,569,929,000</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 \$15,538,000 and \$19,039,000 at June 30, 2009 and 2008, respectively.

Note K. 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 \$176,896,000 and \$191,653,000 as of June 30, 2009 and 2008, respectively. The discount rate used to determine the actuarially determined liability claims was 2.75% and 4.50% in 2009 and 2008, respectively. The University also participates in the Commonwealth of Pennsylvania MCare Fund established under Act 111 and subsequently modified under Act 135, and maintains excess liability coverage through a commercial insurance carrier.

Note L. Commitments and Contingencies

The nature of the educational and health care industries 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 M. Discontinued Operations

GPHSC III ceased operations in 2003. In October 2007 a settlement relating to the Series 1999 bonds payable (Note G) and accrued interest resulted in a gain from discontinued operations. The assets of these discontinued operations are included in the consolidated financial statements for both 2009 and 2008 at their estimated net realizable value. The assets and liabilities of these discontinued operations are as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Current assets	\$ 50,000	\$ 52,000
Current liabilities	<u>\$ 4,701,000</u>	<u>\$ 5,367,000</u>

Temple University Children's Medical Center (TUCMC)

The University and TUHS entered into an agreement in October 2007 with a local health care provider for a long-term academic affiliation to provide pediatric training to the University's medical school students and TUH's residents. Under the arrangement, TUHS agreed to the discontinuation of inpatient and outpatient pediatric services at TUCMC. On November 13, 2007 TUCMC ceased operations. The assets, liabilities and net deficit of TUCMC were merged into TUH on May 31, 2008. All costs associated with the cessation of TUCMC operations and close down activities were substantially paid out by June 30, 2008 and were recorded as a loss from discontinued operations. The assets and liabilities of TUCMC at the date of the merger are as follows:

	<u>May 31, 2008</u>
Current assets	\$ 4,827,000
Noncurrent assets	13,863,000
Total assets	<u>\$ 18,690,000</u>
Current liabilities	\$ 2,176,000
Noncurrent liabilities	24,506,000
Total liabilities	<u>\$ 26,682,000</u>
Unrestricted net assets	\$ (8,049,000)
Temporarily restricted net assets	57,000
Net deficit	<u>\$ (7,992,000)</u>

Note N. Subsequent Events

On July 31, 2009, the University sold its 45% ownership in Fresenius Temple Outpatient Dialysis Services, LLC (Fresenius) to Bio-Medical Applications of Pennsylvania, Inc., who holds the remaining 55% interest in Fresenius. The amount of the sale was \$5,327,000 resulting in a \$2,896,000 gain which was recorded in fiscal 2010.

Except as identified above, the University has evaluated subsequent events through October 19, 2009 and determined that there are no subsequent events requiring adjustment or disclosure in the financial statements.

Note O. 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 certain School of Dentistry clinical activities. Other long-term net assets include the net book value of property, plant and equipment and net assets set aside to retire debt and University matching of federal loan programs, net of the effect of the unfunded liability for pensions and postretirement benefits.

Note O. 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, 2009
(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)	Educational 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 \$70,050)		\$25,348		\$476,250					\$476,250		\$501,598	
Commonwealth of Pennsylvania appropriation				164,963					164,963		164,963	
Grants and contracts				24,121			\$94,243		118,364		118,364	
Contributions for operations and endowments				1,038	\$958		10,930		12,926		12,926	
Investment return	\$15,115		\$334	18,753			10,511	\$3,069	\$2,883	35,550	50,665	
Sales of educational activities				5,354						5,354	5,354	
Auxiliary enterprises				71,804						71,804	71,804	
Patient care activities	963,171		118,528	2,420						120,948	1,084,119	
Other sources	23,651			7,217			1,637			8,854	28,436	
Net assets released from restrictions	1,333						9,661			9,661	10,994	
Total revenues	1,003,270	25,348	118,862	771,920	958	126,982	3,069	2,883	1,024,674	(4,069)	2,049,223	
Expenses:												
Educational and general		24,456		615,217			109,505	8,971	52,876	786,569	(1,000)	810,025
Auxiliary enterprises				67,355			259	2,499	18,093	88,206		88,206
Patient care activities	1,042,808		128,906	4,679			(3)		123	133,705	(2,578)	1,173,935
Total expenses	1,042,808	24,456	128,906	687,251	0	109,761	11,470	71,092	1,008,480	(3,578)	2,072,166	
Transfers:												
Property, plant and equipment (PP&E) acquisitions			(639)	(9,422)			(1,464)	(169,353)	180,878			
Retirement of indebtedness			1	(20,991)				(209)	21,199			
Capital replacement and expansion				(67,317)			(954)	68,271				
Other transfers			5,618	3,386	313	(14,053)	1,329	3,407				
Total transfers	0	0	4,980	(94,344)	313	(16,471)	(99,962)	205,484	0	0	0	
Excess/(deficit) of revenues over expenses	(39,538)	892	(5,064)	(9,675)	1,271	750	(108,363)	137,275	16,194	(491)	(22,943)	
Other changes in net assets:												
Investment return	(2,127)			2,053	(6,605)	(20)	464	(1,067)	(5,175)		(7,302)	
Commonwealth grants for PP&E							46,272		46,272		46,272	
Contributions for PP&E							3,608	356	3,964		3,964	
Loss on disposal of PP&E	(24)	(13)						(1,644)	(1,644)		(1,681)	
Other comprehensive loss	(37,161)							(16,309)	(16,309)		(53,470)	
Transfer from TUHS	(16,158)		1,731	13,541					15,272	886		
TUHS gain from discontinued operations, net	33										33	
Other	990	(618)									372	
Net assets released from restrictions for PP&E	1,222						29,863		29,863		31,085	
Total other changes in net assets	(53,225)	(631)	1,731	15,594	(6,605)	(20)	80,207	(18,664)	72,243	886	19,273	
Increase (decrease) in net assets	(92,763)	261	(3,333)	5,919	(5,334)	730	(28,156)	118,611	88,437	395	(3,670)	
Net assets July 1, 2008	335,174	(4,396)	21,461	173,702	49,504	49,644	119,861	498,497	912,669	(786)	1,242,661	
Net assets June 30, 2009	\$242,411	(\$4,135)	\$18,128	\$179,621	\$44,170	\$50,374	\$91,705	\$617,108	\$1,001,106	(\$391)	\$1,238,991	

Note O. 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, 2008
(thousands of dollars)

	Unrestricted Net Assets									Consolidating Eliminations (10)	Total Unrestricted Net Assets (11)	
	Temple University Health System Inc. (1)	Temple Educational Support Services (2)	University						Total University (9)			
			Clinical Faculty Practice Plans (3)	Education and General (4)	Quasi - Endowment (5)	Externally Sponsored Activities (6)	Unexpended Capital (7)	Other Long-term (8)				
Revenues:												
Tuition and fees (net of discounts of \$64,068)		\$21,758		\$435,657				\$435,657		(\$1,000)	\$456,415	
Commonwealth of Pennsylvania appropriation				172,917				172,917			172,917	
Grants and contracts				22,926			\$91,521	114,447			114,447	
Contributions for operations and endowments				2,350	\$1,477		13,673	17,500			17,500	
Investment return	\$30,937		\$868	22,484			9,720	\$4,838	\$1,424		70,271	
Sales of educational activities				5,092				5,092			5,092	
Auxiliary enterprises				72,329				72,329			72,329	
Patient care activities	937,146		118,339	2,495				120,834			1,057,980	
Other sources	25,425			6,888			1,837		1	8,726	31,524	
Net assets released from restrictions	718			38			8,030		91	8,159	8,877	
Total revenues	994,226	21,758	119,207	743,176	1,477	124,781	4,838	1,516	994,995	(3,627)	2,007,352	
Expenses:												
Educational and general		22,532		588,714			104,865	6,149	46,066	745,794	(1,000)	767,326
Auxiliary enterprises				65,960			448	808	17,476	84,692		84,692
Patient care activities	1,007,055		125,113	4,683			3		139	129,938	(4,215)	1,132,778
Total expenses	1,007,055	22,532	125,113	659,357	0	105,316	6,957	63,681	960,424	(5,215)	1,984,796	
Transfers:												
Property, plant and equipment (PP&E) acquisitions			(259)	(9,606)			(2,706)	(147,707)	160,278			
Retirement of indebtedness				(21,956)				(1,081)	23,037			
Capital replacement and expansion				(60,217)			(29)	60,246				
Other transfers			3,657	5,699	2,100	(11,955)	(1,146)	1,645				
Total transfers	0	0	3,398	(86,080)	2,100	(14,690)	(89,688)	184,960	0	0	0	
Excess/(deficit) of revenues over expenses	(12,829)	(774)	(2,508)	(2,261)	3,577	4,775	(91,807)	122,795	34,571	1,588	22,556	
Other changes in net assets:												
Investment return	1,658			23,843	(3,745)	26	459	4,651	25,234		26,892	
Commonwealth grants for PP&E							78,052		78,052		78,052	
Contributions for PP&E							2,419	617	3,036		3,036	
Loss on disposal of PP&E	(1,344)	(3)						(1,250)	(1,250)		(2,597)	
Other comprehensive gain/(loss)	(4,871)							(2,635)	(2,635)		(7,506)	
Transfer from TUHS	(16,091)		2,950	14,335					17,285	(1,194)		
TUHS loss on early extinguishment of debt	(3,307)										(3,307)	
TUHS gain on distribution from limited partnership	41,099										41,099	
TUHS loss from discontinued operations, net	53,303										53,303	
Other	(1,883)	233									(1,650)	
Net assets released from restrictions for PP&E	1,718						15,856		15,856		17,574	
Total other changes in net assets	70,282	230	2,950	38,178	(3,745)	26	96,786	1,383	135,578	(1,194)	204,896	
Increase (decrease) in net assets	57,453	(544)	442	35,917	(168)	4,801	4,979	124,178	170,149	394	227,452	
Net assets July 1, 2007	277,721	(3,852)	21,019	137,785	49,672	44,843	114,882	374,319	742,520	(1,180)	1,015,209	
Net assets June 30, 2008	\$335,174	(\$4,396)	\$21,461	\$173,702	\$49,504	\$49,644	\$119,861	\$498,497	\$912,669	(\$786)	\$1,242,661	

**Temple University and
Subsidiary Organizations
As of June 30, 2009**

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)

Temple University School of Podiatric Medicine, Inc. (TUSPMI), exempt

Temple University Physicians and Surgeons, Inc., exempt (inactive)

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 University Children's Medical Center (TUCMC), exempt, (ceased operations in November 2007 and was merged into TUH on May 31, 2008)

Temple East, Inc. (TE), exempt (doing business as Northeastern Hospital) (ceased operations on June 29, 2009. On the same date, TUH began operations on the TE campus doing business as the Northeastern Ambulatory Care Center ("NACC") providing outpatient health care services)

Temple East Real Estate, Inc. (TERE), exempt

Jeanes Hospital (JH), exempt

Temple Healthcare Services, Inc., exempt (dissolved June 6, 2008)

Episcopal Hospital (EH), exempt

Episcopal Long Term Care, exempt

Greater Philadelphia Health Services Corporation (GPHSC), exempt, (discontinued, ceased operations in September 2002 and was dissolved June 2008)

Greater Philadelphia Health Services II Corporation (GPHSC II), exempt, (discontinued, ceased operations in June 2002 and was dissolved November 1, 2008)

Greater Philadelphia Health Services III Corporation (GPHSC III), exempt, (discontinued, ceased operations in February 2003)

TUHS Insurance Co., Ltd. (TUHIC), non-exempt (Bermuda)

Temple Health System Transport Team, Inc. (T3), exempt