

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

*Consolidated Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
and Independent Auditors' Report*

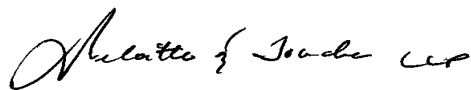
INDEPENDENT AUDITORS' REPORT

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, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



October 25, 2010

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

	June 30, 2010	June 30, 2009
Current assets:		
Cash and cash equivalents	\$257,281	\$254,536
Investments and self-insurance trust funds	644,711	597,116
Accounts, loans and contributions receivable, net	317,427	261,339
Inventories and other assets	31,284	30,434
Deposits with trustees	122,180	5,263
Total current assets	1,372,883	1,148,688
Non-current assets:		
Accounts, loans and contributions receivable, net	92,060	87,039
Other assets	16,784	25,397
Investments and self-insurance trust funds	462,206	444,954
Deposits with trustees	115,607	94,992
Property, plant and equipment, net	1,296,907	1,275,318
Funds held in trust by others	56,918	53,805
Total non-current assets	2,040,482	1,981,505
Total assets	\$3,413,365	\$3,130,193
Current liabilities:		
Accounts payable and accrued expenses	\$290,144	\$283,155
Deferred revenue	55,904	51,043
Short-term debt	125,553	125,318
Current portion of long-term debt	37,519	13,465
Current portion of accrued pensions and postretirement benefits	20,878	19,759
Total current liabilities	529,998	492,740
Non-current liabilities:		
Accrued expenses and other liabilities	224,957	211,686
Long-term debt	847,722	718,026
Refundable federal student loans	51,207	50,800
Accrued pensions and postretirement benefits	168,998	136,397
Total non-current liabilities	1,292,884	1,116,909
Total liabilities	1,822,882	1,609,649
Net assets:		
Unrestricted	1,290,619	1,238,991
Temporarily restricted	64,275	63,796
Permanently restricted	235,589	217,757
Total net assets	1,590,483	1,520,544
Total liabilities and net assets	\$3,413,365	\$3,130,193

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, 2010
(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 \$75,983)	\$537,712			\$537,712
Commonwealth of Pennsylvania appropriation	164,974			164,974
Federal grants and contracts	84,943			84,943
Commonwealth of Pennsylvania grants and contracts	27,998			27,998
Local grants and contracts	4,205			4,205
Private grants and contracts	21,244			21,244
Contributions for operations and endowments	14,605	\$9,451	\$14,902	38,958
Investment return	51,629	429	2	52,060
Sales of educational activities	6,500			6,500
Auxiliary enterprises	77,408			77,408
Patient care activities	1,084,554			1,084,554
Other sources	29,827	15		29,842
Net assets released from restrictions	11,173	(11,173)		
Total revenues	<u>2,116,772</u>	<u>(1,278)</u>	<u>14,904</u>	<u>2,130,398</u>
Expenses:				
Educational and general:				
Instruction	385,221			385,221
Research	105,943			105,943
Public service	18,060			18,060
Academic support	146,247			146,247
Student services	64,049			64,049
Institutional support	98,405			98,405
Student aid	8,593			8,593
Total educational and general	<u>826,518</u>	<u>0</u>	<u>0</u>	<u>826,518</u>
Auxiliary enterprises	88,683			88,683
Patient care activities	1,154,015			1,154,015
Total expenses	<u>2,069,216</u>	<u>0</u>	<u>0</u>	<u>2,069,216</u>
Excess/(deficit) of revenues over expenses	<u>47,556</u>	<u>(1,278)</u>	<u>14,904</u>	<u>61,182</u>
Other changes in net assets:				
Investment return	17,188	5,462	2,928	25,578
Commonwealth grants for property, plant and equipment (PP&E)	11,727			11,727
Contributions for PP&E	11,514	1,794		13,308
Loss on disposal of PP&E	(3,572)			(3,572)
Loss on extinguishment of debt	(299)			(299)
Other comprehensive loss	(37,396)			(37,396)
Currency translation adjustment	(589)			(589)
Net assets released from restrictions for PP&E	5,499	(5,499)		
Total other changes in net assets	<u>4,072</u>	<u>1,757</u>	<u>2,928</u>	<u>8,757</u>
Increase in net assets	<u>51,628</u>	<u>479</u>	<u>17,832</u>	<u>69,939</u>
Net assets July 1, 2009	<u>1,238,991</u>	<u>63,796</u>	<u>217,757</u>	<u>1,520,544</u>
Net assets June 30, 2010	<u>\$1,290,619</u>	<u>\$64,275</u>	<u>\$235,589</u>	<u>\$1,590,483</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, 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	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 Statements of Cash Flows
For the Years Ended June 30
(thousands of dollars)

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$69,939	(\$49,385)
Gain from discontinued operations, net		(33)
Change in net assets from continuing operations	69,939	(49,418)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Currency translation adjustment	589	618
Provision for bad debts	38,999	32,641
Depreciation	104,517	96,962
Amortization of deferred financing costs	(1,432)	(1,482)
Realized and unrealized (gain)/loss on investments	(38,976)	17,694
Other comprehensive loss	37,396	53,470
Estimated asset impairment	4,384	18,578
Loss on disposal of property, plant and equipment	3,572	1,681
Loss on extinguishment of debt	299	
Contributions, grants and investment income of and for property, plant and equipment and for long-term investment	(50,593)	(61,489)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(114,111)	(8,712)
Inventories and other assets	9,086	785
Accounts payable and accrued expenses	28,991	5,577
Deferred revenue	4,861	(67)
Accrued pensions and postretirement benefits	(1,830)	(3,523)
Net cash provided by operating activities	95,691	103,315
Cash flows from investing activities:		
Purchases of investments, deposits with trustees and self-insurance trusts	(1,411,426)	(570,815)
Sales and maturities of investments, deposits with trustees and self-insurance trusts	1,244,913	687,588
Purchases of property, plant and equipment	(133,477)	(276,749)
Proceeds from sale of property, plant and equipment	1,186	292
Loans to students	(6,386)	(9,177)
Proceeds from collections on student loans	7,762	5,767
Net cash used by investing activities	(297,428)	(163,094)
Net cash provided by investing activities - discontinued operations		33
Cash flows from financing activities:		
Proceeds from contributions, Commonwealth grants and investment income restricted to property, plant and equipment and long-term investment	56,579	85,810
Refundable federal student loans	407	497
Change in split interest agreements	242	(1,307)
Proceeds from long-term debt	193,905	1,508
Increase in short-term borrowings, net	965	697
Payments to retire long-term debt	(47,068)	(29,026)
Payment of deferred financing costs		(36)
Net cash provided by financing activities	205,030	58,143
Exchange rate adjustments	(548)	(561)
Net increase/(decrease) in cash and cash equivalents	2,745	(2,164)
Cash and cash equivalents at beginning of the year	254,536	256,700
Cash and cash equivalents at end of the year	\$257,281	\$254,536
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$39,269	\$41,704
Property, plant and equipment acquired through capital leases	\$9,981	\$3,570
Accrued property, plant and equipment	\$2,748	\$13,757

See notes to consolidated financial statements

TEMPLE UNIVERSITY
Of The Commonwealth System of Higher Education
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 such that net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

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 unrestricted net assets detail 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 \$6,229,000 and \$6,612,000 for 2010 and 2009, 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 \$179,588,000 and \$168,462,000, for 2010 and 2009, respectively. The University received Commonwealth of Pennsylvania grants, Access to care program and other support of \$108,523,000 and \$83,336,000 resulting in net costs of \$71,065,000 and \$85,126,000, for 2010 and 2009, 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 fair 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. 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. The fair value of such investments is determined by the fund managers and financial information provided by the limited partnership (Note H). 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 fair 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 as investment return in revenues. TUHS unrealized gains or losses are reported as investment return in 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.

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

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 Assets and Liabilities: 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).

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.

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. During fiscal year ended June 30, 2010, based on further review related to changes in the market affecting the fair value of the TE property, the Health System recognized an additional non-cash impairment charge of \$4,384,000. These amounts are included in patient care expense on the statements of activities. The fair value of the property, plant and equipment was determined by management in consultation with an independent appraiser.

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 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, 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, 2010 and 2009, the recorded asset retirement obligation liability is \$16,408,000 and \$16,232,000, respectively. Accretion costs for 2010 and 2009 were \$1,104,000 and \$1,186,000, 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.

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's federal Exempt Organization Business Income Tax Returns for 2010, 2009, 2008, and 2007 remain subject to examination by the Internal Revenue Service.

Recovery of FICA Taxes Paid in Prior Years - During 2010, TUHS recognized a \$10,800,000 recovery of the employer portion of Federal Insurance Contributions Act ("FICA") taxes paid by TUHS during the years 1995 through 2005 on the compensation of its medical residents. The recovery was recognized as a reduction to patient care expense.

Recently Issued Accounting Pronouncements: The University adopted Statement of Financial Accounting Standards (SFAS) No. 168, The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles — A Replacement of FASB Statement No. 162, on September 15, 2009. This statement modified the hierarchy of accounting principles generally accepted in the United States of America (GAAP) by establishing two levels of GAAP, authoritative and non-authoritative literature. Effective July 2009, the ASC is considered the single authoritative source of GAAP. The ASC is meant to simplify user access to all authoritative guidance by reorganizing GAAP pronouncements into accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. SFAS No. 168 had no impact on the financial condition, results of operations or cash flows of the University.

The University adopted ASC 820-10 Fair Value Measurements and Disclosure on July 1, 2008 and the deferred items (pensions and other postretirement benefits) of ASC 820-10 on July 1, 2009. This statement clarifies the definition of fair value. ASC 820-10 did not have a material impact on the University's financial statements (Note H).

Note A. Summary of Significant Accounting Policies (continued)

In April 2009, the FASB issued guidance on mergers and acquisitions regarding not-for-profit entities that is now incorporated into ASC Topic 958, which will be effective for fiscal years beginning after December 15, 2009, and will be adopted by the University in fiscal 2011. ASC Topic 958 changes the accounting for (1) combinations involving two or more not-for-profit entities and (2) combinations in which a not-for-profit entity acquires a for-profit business or a nonprofit activity. The impact of adopting ASC Topic 958 will be dependent on any future mergers and acquisitions that the University may pursue after its effective date.

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

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 which is guidance regarding improved disclosures about fair value measures and amends FASB ASC Topic 820 and FASB ASC Topic 715. Specifically, the ASU requires entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfers in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify certain existing disclosure requirements. The ASU amends ASC 820 to clarify that reporting entities are required to provide fair value disclosures for each class of assets or liabilities and information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2009, and will be adopted by the University in fiscal 2011. The University is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23 which is guidance regarding measuring charity care for disclosure and is incorporated into FASB ASC Topic 954-605. The ASU requires that management's policy for providing charity care, as well as the level of charity care provided, is disclosed in the financial statements. Such disclosures shall be measured based on the provider's direct and indirect costs of providing charity care services. The ASU is effective for fiscal years beginning after December 15, 2010, and will be adopted by the University in fiscal 2012. The University is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

Note A. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU No. 2010-24 which is guidance regarding the presentation of insurance claims and related insurance recoveries and is incorporated into FASB ASC Topic 954-450 and FASB ASC Topic 954-720. The ASU requires that the ultimate costs of malpractice claims or similar contingent liability shall be accrued when the incidents that give rise to the claims occur. In addition, an entity shall evaluate its exposure to losses arising from claims and recognize a liability, if appropriate. Also, an entity with a retrospectively rated insurance policy whose ultimate premium is based primarily on the entity's loss experience shall account for the minimum premium as an expense over the period of coverage under the policy. Insurance recoveries shall not be recognized until the estimated losses exceed the stipulated maximum premium. The ASU is effective for fiscal years beginning after December 15, 2010, and will be adopted by the University in fiscal 2012. The University is currently assessing the impact the adoption of the ASU will have on its consolidated financial statement.

Note B. Investments and Self-Insurance Trust Funds

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Investments:		
Corporate bonds and notes	\$ 350,327,000	\$ 80,222,000
U.S. government securities	475,638,000	676,296,000
Money market funds	41,845,000	41,767,000
Equity funds and securities	177,800,000	185,507,000
Limited partnerships	39,430,000	36,315,000
Other	4,171,000	5,740,000
	<u>\$ 1,089,211,000</u>	<u>\$ 1,025,847,000</u>
Self-insurance trust funds:		
Corporate bonds and notes	\$ 4,605,000	\$ 6,898,000
U.S. government securities	12,463,000	8,392,000
Money market funds	638,000	933,000
	<u>\$ 17,706,000</u>	<u>\$ 16,223,000</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 38,662,000	\$ 33,396,000
Realized and unrealized gains/(losses), net	<u>38,976,000</u>	<u>(17,694,000)</u>
	<u>\$ 77,638,000</u>	<u>\$ 15,702,000</u>

Note C. Accounts, Loans and Contributions Receivable

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Gross accounts receivable:		
Student	\$ 23,248,000	\$ 16,152,000
Patients	181,151,000	160,483,000
Health care programs	32,317,000	35,706,000
Grants and contracts	35,297,000	21,633,000
Commonwealth construction	2,813,000	19,177,000
Other	63,194,000	21,872,000
	<u>338,020,000</u>	<u>275,023,000</u>
Less: Allowance for doubtful accounts	(35,048,000)	(32,389,000)
Net accounts receivable	<u>\$ 302,972,000</u>	<u>\$ 242,634,000</u>
Loans to students:	\$ 59,778,000	\$ 61,154,000
Less: Allowance for doubtful accounts	(8,035,000)	(7,820,000)
Net loans receivable	<u>\$ 51,743,000</u>	<u>\$ 53,334,000</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, 2010 and 2009, the University had net accounts receivable from Medicare of \$17,929,000 and \$16,640,000, respectively, and from Medical Assistance of \$42,501,000 and \$38,300,000, 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, 2010</u>	<u>June 30, 2009</u>
Less than one year	\$ 13,313,000	\$ 14,384,000
One to five years	22,368,000	19,594,000
More than five years	38,171,000	36,735,000
	<u>73,852,000</u>	<u>70,713,000</u>
Less:		
Allowance for uncollectible contributions	(2,251,000)	(1,315,000)
Present value discount	(16,829,000)	(16,988,000)
Net contributions receivable	<u>\$ 54,772,000</u>	<u>\$ 52,410,000</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, 2010 and 2009. The University recognized \$13,454,000 and \$12,547,000 in contribution revenue from new pledges and collected \$1,747,000 and \$2,006,000 of those pledges in 2010 and 2009, respectively.

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 \$44,187,000 and \$44,161,000 in 2010 and 2009, respectively.

Note D. Pensions and Postretirement Benefits (continued)

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 \$4,262,000 and \$5,829,000 in 2010 and 2009, respectively.

The University maintains postretirement benefits and defined benefit pension plans covering certain University and TUHS employees and makes contributions to the plans that comply with the funding provisions of the Internal Revenue Code. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years of service.

The activity of the pension and postretirement benefits plans for the years ended June 30, 2010 and 2009 are as follows:

	Benefit Obligations and Funded Status			
	Pensions		Postretirement Benefits	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation, beginning of period	\$ 139,433,000	\$ 129,455,000	\$ 298,412,000	\$ 287,972,000
Service cost	612,000	592,000	14,864,000	12,416,000
Interest cost	8,992,000	9,098,000	17,732,000	17,702,000
Plan participant contributions	96,000	218,000	2,781,000	2,714,000
Actuarial loss/(gain)	24,681,000	5,670,000	27,855,000	(9,315,000)
Benefits paid	(5,344,000)	(5,600,000)	(16,076,000)	(13,077,000)
Settlement	(827,000)			
Benefit obligation, end of period	<u>167,643,000</u>	<u>139,433,000</u>	<u>345,568,000</u>	<u>298,412,000</u>
Change in plan assets:				
Fair value of plan assets, beginning of period	125,240,000	144,991,000	162,311,000	169,266,000
Actual return on plan assets	13,123,000	(16,881,000)	22,234,000	(12,930,000)
Employer contributions	2,668,000	3,866,000	20,744,000	16,338,000
Plan participant contributions	96,000	219,000	2,781,000	2,714,000
Plan expenses	(1,125,000)	(1,355,000)		
Benefits paid	(5,344,000)	(5,600,000)	(16,076,000)	(13,077,000)
Settlement	(827,000)			
Fair value of plan assets, end of period	<u>133,831,000</u>	<u>125,240,000</u>	<u>191,994,000</u>	<u>162,311,000</u>
Funded status	<u>\$ (33,812,000)</u>	<u>\$ (14,193,000)</u>	<u>\$ (153,574,000)</u>	<u>\$ (136,101,000)</u>
Amounts recognized in the balance sheets consist of:				
Noncurrent assets	\$ 2,490,000	\$ 5,862,000		
Noncurrent (liabilities)	(36,302,000)	(20,055,000)	\$ (153,574,000)	\$ (136,101,000)
Net amount recognized	<u>\$ (33,812,000)</u>	<u>\$ (14,193,000)</u>	<u>\$ (153,574,000)</u>	<u>\$ (136,101,000)</u>
Accumulated amounts recognized in other changes in net assets consist of:				
Prior service cost	\$ 54,000	\$ 67,000		
Net loss	86,140,000	62,544,000	\$ 88,809,000	\$ 74,996,000
Net amount recognized	<u>\$ 86,194,000</u>	<u>\$ 62,611,000</u>	<u>\$ 88,809,000</u>	<u>\$ 74,996,000</u>

Note D. Pensions and Postretirement Benefits (continued)

	Pensions		Postretirement Benefits	
	2010	2009	2010	2009
Weighted-average assumptions used to determine the benefit obligations:				
Discount rate	5.25% -5.40%	6.40% -6.50%	5.20%	6.35%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Health care cost trend rate			9.80%	10.40%
Ultimate rate			5.00%	5.00%
Year that ultimate rate is reached			2018	2018

	Net Periodic Cost			
	Pensions		Postretirement Benefits	
	2010	2009	2010	2009
Components of net periodic cost:				
Service cost	\$ 612,000	\$ 592,000	\$ 14,864,000	\$ 12,416,000
Interest cost	8,992,000	9,098,000	17,732,000	17,702,000
Expected return on plan assets	(12,357,000)	(14,171,000)	(13,428,000)	(13,764,000)
Amortization	14,000	14,000	5,237,000	1,421,000
Recognized net actuarial loss	1,164,000	410,000		
Net periodic (benefit)/cost	\$ (1,575,000)	\$ (4,057,000)	\$ 24,405,000	\$ 17,775,000

Weighted-average assumptions used to determine net periodic cost:				
Discount rate	6.40% -6.50%	6.85%	6.35%	6.85%
Expected return on plan assets	7.50% -8.50%	8.50%	8.00%	8.00%
Rate of compensation increase	3.25%	3.25%	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

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, 2010:

	Increase	Decrease
Effect on service cost and interest cost components of net periodic postretirement benefits cost	\$ 3,698,000 11.35%	\$ (3,099,000) (9.51)%
Effect on benefit obligation, end of year	\$ 41,698,000 12.07%	\$ (35,275,000) (10.21)%

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 the pension plan investment portfolio is stocks 40% to 95% and fixed income and cash 5% to 60%. The target ranges for the postretirement benefits plan investment portfolio is 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>	Pensions		Postretirement Benefits	
	2010	2009	2010	2009
Stocks	57%	31%	55%	42%
Fixed income and cash	43%	69%	45%	58%

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		\$ 28,919,000
Employee	\$ 99,000	2,924,000
Estimated future benefit payments reflecting expected future service for fiscal years ending:		
6/30/2011	\$ 6,850,000	\$ 18,272,000
6/30/2012	7,178,000	19,076,000
6/30/2013	7,756,000	19,957,000
6/30/2014	8,244,000	21,129,000
6/30/2015	8,715,000	22,904,000
6/30/2016 – 6/30/2020	51,871,000	123,944,000

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 \$2,868,000 and \$3,015,000 at June 30, 2010 and 2009, 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 \$266,000 and \$263,000 at June 30, 2010 and 2009, 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 bond descriptions. A summary of these deposits stated at fair value and the related debt is as follows:

	<u>Construction Funds</u>	<u>Debt Repayment Funds</u>
<u>June 30, 2010</u>		
PHEFA, First Series of 2010A	\$ 17,367,000	
PHEFA, First Series of 2010B	140,697,000	
PHEFA, First Series of 2006	26,986,000	\$ 1,000
THHEFAP, First Series of 2007 (TUHS)		28,771,000
THHEFAP, First Series of 1993 (TUH)		13,632,000
Pennsylvania Industrial Development Corporation notes payable (TUHS)		10,333,000
	<u>\$ 185,050,000</u>	<u>\$ 52,737,000</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 1993 (TUH)		13,467,000
Pennsylvania Industrial Development Corporation notes payable (TUHS)		8,233,000
	<u>\$ 49,802,000</u>	<u>\$ 50,453,000</u>

Note F. Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Land and land improvements	\$ 62,772,000	\$ 61,828,000
Land - Commonwealth of Pennsylvania	12,445,000	12,445,000
Buildings	1,295,062,000	1,080,334,000
Buildings - Commonwealth of Pennsylvania	234,378,000	234,378,000
Equipment and library books	777,244,000	711,082,000
Equipment - Commonwealth of Pennsylvania	36,163,000	36,163,000
Construction in progress	42,685,000	223,953,000
	<u>2,460,749,000</u>	<u>2,360,183,000</u>
Less accumulated depreciation	(1,163,842,000)	(1,084,865,000)
Property, plant and equipment, net	<u>\$ 1,296,907,000</u>	<u>\$ 1,275,318,000</u>

Property, plant and equipment owned by the University are stated at cost or, if acquired by gift, at the fair 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 3 and 20 years. Depreciation expense was \$104,340,000 and \$96,962,000 in 2010 and 2009, respectively.

Note G. Debt

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Short-term debt:		
University Funding Obligation, Series of 2010, due April 2011, at an effective interest rate of .36%	\$ 121,109,000	
University Funding Obligation, Series of 2009, paid April 2010		\$ 120,817,000
Temple Educational Support Services (TESS) line of credit	4,444,000	4,501,000
Total short-term debt	<u>\$ 125,553,000</u>	<u>\$ 125,318,000</u>
Long-term debt:		
EH Episcopal Hospital Foundation loan due November 2011 with a stated rate of 5.00%**	\$ 6,500,000	\$ 6,500,000
PHEFA Temple University Revenue Bonds, First Series of 1998, paid April 2010*		32,675,000
PHEFA Temple University Revenue Bonds, First Series of 2006, net of unamortized premium – 2010, \$6,494,000; 2009, \$6,964,000 with varying amounts due between 2010 and 2036 with stated rates between 4.50% and 5.00% at an effective rate for 2010 of 4.70% *	336,023,000	345,224,000
PHEFA Temple University Revenue Bonds, First Series of 2010A, net of unamortized premium – 2010, \$3,666,000; with varying amounts due between 2010 and 2021 with stated rates between 4.00% and 5.00% at an effective rate for 2010 of 3.26%*	50,331,000	
PHEFA Temple University Revenue Bonds, First Series of 2010B, with varying amounts due between 2010 and 2040 with stated rates between 4.21% and 6.29% at an effective rate for 2010 of 4.58%*	143,590,000	

Note G. Debt (continued)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
THHEFAP TUHS Hospital Revenue Bonds, Series A and B of 2007, net of unamortized discount –2010, \$833,000; 2009, \$878,000, with stated rates of 5.00% and 5.50% at an effective rate for 2010 of 5.80%, due in installments through 2035**	216,622,000	218,352,000
THHEFAP Temple Hospital Revenue Bonds, Series of 1993, net of unamortized discount –2010, \$704; 2009, \$793,000, with a stated rate of 6.63% at an effective rate for 2010 of 5.90%, due in installments through 2035 **	108,031,000	107,942,000
TUHS note payable to the Pennsylvania Industrial Development Corporation due in April 2011 at an effective rate for 2010 of 2.54%, with a stated rate of 2.50%**	12,500,000	13,000,000
Capital leases	11,644,000	7,798,000
Total long-term debt	<u>\$ 885,241,000</u>	<u>\$ 731,491,000</u>
Total debt	<u>\$ 1,010,794,000</u>	<u>\$ 856,809,000</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 \$1,258,000 and \$1,573,000 at June 30, 2010 and 2009, respectively. These debts along with related trust funds do not appear on the balance sheets of the University.

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

Pennsylvania Higher Educational Facilities Authority, Temple University Revenue Bonds, First Series of 2010A, which are also 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).

Pennsylvania Higher Educational Facilities Authority, Temple University Revenue Bonds, First Series of 2010B, which are also secured by a pledge of gross revenues of the University, excluding all revenues of TUHS, and an insurance policy issued by MBIA. The 2010B bonds are federally taxable “Build America Bonds”, as authorized by the American Recovery and Reinvestment Act of 2009. The University will receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the 2010B bonds. In fiscal 2010, the University recognized tax credits of \$571,000 in other sources in the statement of activities.

** TUHS Bond Issues

The TUHS bond issues consist of the Hospitals and Higher Education Facilities Authority of Philadelphia (THHEFAP), TUHS Hospital Revenue Bonds, Series A and B of 2007 and the THHEFAP, Temple Hospital Revenue Bonds, Series of 1993. The THHEFAP bond issues are non-recourse to TU. The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group and are subject to various financial covenants. The TUHS Obligated Group includes TUHS, TUH, JH, TPI and T3.

The University has complied with all debt covenants for fiscal 2010 and 2009.

Note G. Debt (continued)

Leases

Property, plant and equipment with respect to capital leases had a net book value of \$10,621,000 and \$7,128,000 as of June 30, 2010 and 2009, respectively. Total expense for operating leases was \$29,077,000 and \$25,039,000 for the years ended June 30, 2010 and 2009, 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>
2011	\$ 4,035,000	\$ 22,633,000
2012	3,662,000	12,039,000
2013	2,009,000	11,164,000
2014	1,634,000	10,555,000
2015	560,000	9,904,000
Thereafter.....	0	86,485,000
Total minimum lease payments	<u>11,900,000</u>	<u>\$ 152,780,000</u>
Amounts representing interest on capital leases	(256,000)	
Present value of net minimum capital lease payments	<u>\$ 11,644,000</u>	

Interest

Total interest cost was \$40,396,000 and \$40,828,000 for the years ended June 30, 2010 and 2009, respectively. The University capitalizes interest cost on qualifying assets. The University increased the basis of its plant assets by \$516,000 and \$3,410,000 in 2010 and 2009, respectively, for interest expense capitalized. In the accompanying statements of activities, the University offsets certain interest income prior to its allocation to the functional expense categories. Such offsets amounted to \$2,496,000 and \$2,439,000 for 2010 and 2009, respectively.

Fair Value and Maturity

The fair value of long-term debt is based on quoted market prices or is estimated using discounted cash flow analyses for similar types of borrowing arrangements based on incremental borrowing rates. The fair value of long-term debt at June 30, 2010 is approximately \$852,758,000. Long-term debt matures in varying amounts through 2040. The aggregate amount of principal payments, excluding capital leases, required through June 30, 2015 is as follows: June 30, 2011, \$33,755,000; June 30, 2012, \$20,161,000; June 30, 2013, \$21,971,000; June 30, 2014, \$22,915,000; and June 30, 2015, \$23,910,000.

Note H. Fair Value Measurements

Fair value is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, the University uses 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).

Note H. Fair Value Measurements (continued)

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 tables set forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis as of June 30, 2010 and June 30, 2009:

<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Corporate bonds and notes		\$ 350,327,000		\$ 350,327,000
U.S. government securities	\$ 278,668,000	196,970,000		475,638,000
Money market funds	41,845,000			41,845,000
Equity funds and securities	170,636,000		\$ 7,164,000	177,800,000
Limited partnerships			39,430,000	39,430,000
Other		2,461,000		2,461,000
	<u>\$ 491,149,000</u>	<u>\$ 549,758,000</u>	<u>\$ 46,594,000</u>	<u>1,087,501,000</u>
Investments carried at equity				<u>1,710,000</u>
				<u>\$ 1,089,211,000</u>
Self-insurance trust funds:				
Corporate bonds and notes		\$ 4,605,000		\$ 4,605,000
U.S. government securities	\$ 8,591,000	3,872,000		12,463,000
Money market funds	638,000			638,000
	<u>\$ 9,229,000</u>	<u>\$ 8,477,000</u>	<u>\$ 0</u>	<u>\$ 17,706,000</u>
Deposits with Trustees:				
Corporate bonds and notes		\$ 10,930,000		\$ 10,930,000
U.S. government securities		136,833,000		136,833,000
Money market funds	\$ 90,024,000			90,024,000
	<u>\$ 90,024,000</u>	<u>\$ 147,763,000</u>	<u>\$ 0</u>	<u>\$ 237,787,000</u>
Funds held in trust with others:				
Corporate bonds and notes		\$ 8,710,000		\$ 8,710,000
U.S. government securities	\$ 1,884,000	5,395,000		7,279,000
Money market funds	2,987,000			2,987,000
Equity funds and securities	35,117,000			35,117,000
Other		873,000	\$ 1,952,000	2,825,000
	<u>\$ 39,988,000</u>	<u>\$ 14,978,000</u>	<u>\$ 1,952,000</u>	<u>\$ 56,918,000</u>

Note H. Fair Value Measurements (continued)

<u>June 30, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pension Plans:				
Fixed income mutual funds	\$ 10,610,000			\$ 10,610,000
U.S. government securities	21,595,000	\$ 20,441,000		42,036,000
Money market funds	4,333,000			4,333,000
Equity funds and securities	50,895,000	25,957,000		76,852,000
	<u>\$ 87,433,000</u>	<u>\$ 46,398,000</u>	<u>\$ 0</u>	<u>\$ 133,831,000</u>
Postretirement Plans:				
U.S. government securities	\$ 37,333,000	\$ 38,751,000		\$ 76,084,000
Money market funds	8,078,000			8,078,000
Equity funds and securities	104,922,000			104,922,000
Contribution receivable	2,910,000			2,910,000
	<u>\$ 153,243,000</u>	<u>\$ 38,751,000</u>	<u>\$ 0</u>	<u>\$ 191,994,000</u>
<u>June 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Corporate bonds and notes		\$ 80,222,000		\$ 80,222,000
U.S. government securities	\$ 609,113,000	67,183,000		676,296,000
Money market funds	35,981,000	5,786,000		41,767,000
Equity funds and securities	178,659,000		\$ 6,848,000	185,507,000
Limited partnerships			36,315,000	36,315,000
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:				
Corporate 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>
Funds held in trust with others:				
Corporate 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:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Beginning Balance	\$ 44,166,000	\$ 55,286,000
Purchases	1,262,000	740,000
Withdrawals	(3,772,000)	(5,272,000)
Investment income/(loss)	3,264,000	(4,229,000)
Realized and unrealized gains/(losses), net	3,626,000	(2,359,000)
Ending Balance	<u>\$ 48,546,000</u>	<u>\$ 44,166,000</u>

The fair values of Level 3 investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

Note H. Fair Value Measurements (continued)

Detailed information for assets valued using net asset value or its equivalent as of June 30, 2010 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (a)	\$ 24,793,000		Quarterly/Tri-annual	45-100 days
Distressed debt hedge funds (b)	3,924,000		Quarterly*/Annual	65-90 days
Long/Short hedge funds (c)	5,357,000		Tri-annual	10 days
Private equity funds (d)	2,965,000	\$ 1,793,000	Quarterly	90 days
Stock funds (e)	4,764,000		Monthly *	
Global/Macro hedge funds (f)	5,845,000		Monthly/Quarterly *	10-90 days
Real asset fund (g)	898,000	931,000	Quarterly	90 days
	<u>\$ 48,546,000</u>	<u>\$ 2,724,000</u>		

* Redemption is at the discretion of the fund manager

- (a) This category includes investments in hedge funds that use a variety of strategies. These may include long/short equity, event-driven, capital structure arbitrage, fixed income arbitrage, credit of distressed companies, and restructuring and underpriced companies. Investments representing approximately 58 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first three years. The remaining restriction period for these investments ranged from three to twelve months.
- (b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies.
- (c) This category includes investments in hedge funds that invest with managers or private investment funds that take short positions and long positions in equity securities and use leverage to augment the effects of stock selection. Investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first three years.
- (d) This category includes investments in private equity partnerships whose strategy is to add 5% in value comparable public investments and that will be in the top 25% of comparable private equity managers. Investments in this category cannot be redeemed until November 2020 subject to two one year extensions.
- (e) This category includes investments (typically through traditional, long-only stock managers) that maintain (beta) exposure to stocks and achieve (alpha) value added of at least 2% per year over a passive portfolio.
- (f) This category includes investments in a broad diversity of asset classes and geographic markets. They may invest in the equity, global fixed income, currency and commodity sectors.
- (g) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation. Investments in this category cannot be redeemed until the termination of the funds. These termination dates range from January 2013 to December 2015.

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 2010 and 2009 is 4.5% (Note A).

Note I. Endowments (continued)

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 were \$6,170,000 and \$10,736,000 at June 30, 2010 and 2009, respectively. Subsequent investment gains will be used to restore the balances to the fair 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.

The University's endowment balances by net asset classification and the changes in endowment assets for the fiscal years ended June 30, 2010 and 2009, respectively are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>June 30, 2010</u>				
Donor-restricted endowment funds	\$ (6,170,000)	\$ 31,562,000	\$ 200,489,000	\$ 225,881,000
Board-designated endowment funds	48,020,000			48,020,000
	<u>\$ 41,850,000</u>	<u>\$ 31,562,000</u>	<u>\$ 200,489,000</u>	<u>\$ 273,901,000</u>
<u>June 30, 2009</u>				
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
	<u>\$ 33,434,000</u>	<u>\$ 25,604,000</u>	<u>\$ 184,517,000</u>	<u>\$ 243,555,000</u>
<u>2010</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	\$ 33,434,000	\$ 25,604,000	\$ 184,517,000	\$ 243,555,000
Investment return:				
Investment income	13,000	4,335,000	54,000	4,402,000
Net realized and unrealized appreciation	9,028,000	9,724,000	1,321,000	20,073,000
Total investment return	9,041,000	14,059,000	1,375,000	24,475,000
Contributions	743,000	466,000	14,597,000	15,806,000
Appropriation of endowment assets for Expenditure (spending rule)	(1,368,000)	(8,567,000)		(9,935,000)
Endowment net assets, end of the year	<u>\$ 41,850,000</u>	<u>\$ 31,562,000</u>	<u>\$ 200,489,000</u>	<u>\$ 273,901,000</u>

Note I. Endowments (continued)

<u>2009</u>	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	<u>(16,096,000)</u>	<u>(10,692,000)</u>	<u>(5,063,000)</u>	<u>(31,851,000)</u>
Total investment return	(14,971,000)	(7,122,000)	(4,770,000)	(26,863,000)
Contributions	958,000	743,000	10,045,000	11,746,000
Appropriation of endowment assets for Expenditure (pending rule)	(2,369,000)	(7,559,000)		(9,927,000)
Other changes:				
Release of restrictions	32,000	(22,000)	(10,000)	
Other transfers	<u>280,000</u>			<u>280,000</u>
Total other changes	312,000	(22,000)	(10,000)	280,000
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>

Note J. 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 \$197,815,000 and \$176,896,000 as of June 30, 2010 and 2009, respectively. The discount rate used to determine the actuarially determined liability claims was 2.00% and 2.75% in 2010 and 2009, 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 K. 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 L. Discontinued Operations

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current assets	<u>\$ 0</u>	<u>\$ 50,000</u>
Current liabilities	<u>\$ 4,684,000</u>	<u>\$ 4,701,000</u>

Note M. Subsequent Events

The University has evaluated subsequent events through October 25, 2010 and has determined that there are no subsequent events requiring adjustment or disclosure.

Note N. Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Unrestricted net assets	<u>\$ 1,290,619,000</u>	<u>\$ 1,238,991,000</u>
Temporarily restricted net assets		
Contributions and endowment income for instruction, research and support	\$ 44,303,000	\$ 41,277,000
Term endowments and life income funds	13,636,000	12,669,000
Contributions for property, plant and equipment	<u>6,336,000</u>	<u>9,850,000</u>
	<u>\$ 64,275,000</u>	<u>\$ 63,796,000</u>
Permanently restricted net assets		
Corpus of contributions for endowments	\$ 219,076,000	\$ 202,019,000
Corpus of contributions for student loans	203,000	200,000
Beneficial interest in Episcopal Healthcare Foundation	<u>16,310,000</u>	<u>15,538,000</u>
	<u>\$ 235,589,000</u>	<u>\$ 217,757,000</u>
Total net assets	<u>\$ 1,590,483,000</u>	<u>\$ 1,520,544,000</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 \$16,310,000 and \$15,538,000 at June 30, 2010 and 2009, respectively.

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.

Unrestricted Net Assets
For the Year Ended June 30, 2010
(thousands of dollars)

Revenues:

Tuition and fees (net of discounts of \$75,983)
Commonwealth of Pennsylvania appropriation
Grants and contracts
Contributions for operations and endowments
Investment return
Sales of educational activities
Auxiliary enterprises
Patient care activities
Other sources
Net assets released from restrictions
Total revenues

Expenses:

Educational and general
Auxiliary enterprises
Patient care activities
Total expenses

Transfers:

Property, plant and equipment (PP&E) acquisitions
Retirement of indebtedness
Capital replacement and expansion
Other transfers
Total transfers

(Deficit)/excess of revenues over expenses

Other changes in net assets:

Investment return
Commonwealth grants for PP&E
Contributions for PP&E
Loss on disposal of PP&E
Loss on extinguishment of debt
Other comprehensive loss
Transfer from TUHS
Currency translation adjustment
Net assets released from restrictions for PP&E
Total other changes in net assets

(Decrease)/increase in net assets

Net assets July 1, 2009
Net assets June 30, 2010

Temple University Health System Inc. (1)	Temple Educational Support Services (2)	Unrestricted Net Assets							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)			
	\$26,013		\$512,699						\$512,699	(\$1,000)	\$537,712
			164,974						164,974		164,974
			26,109			\$112,281			138,390		138,390
			796		\$754	13,055			14,605		14,605
\$20,572		\$17	15,637			10,348	\$2,504	\$2,551	31,057		51,629
			6,500						6,500		6,500
			76,908				500		77,408		77,408
928,900		152,451	3,203						155,654		1,084,554
23,503			7,358			1,054	525	572	9,509	(\$3,185)	29,827
822						10,351			10,351		11,173
973,797	26,013	152,468	814,184	754	147,089	3,529	3,123		1,121,147	(4,185)	2,116,772
	24,960		623,177		109,906	7,863	61,612		802,558	(1,000)	826,518
			68,371		334	836	19,142		88,683		88,683
989,313		164,418	4,781				150		169,349	(4,647)	1,154,015
989,313	24,960	164,418	696,329	0	110,240	8,699	80,904		1,060,590	(5,647)	2,069,216
		(1,581)	(12,636)		(2,379)	(52,718)	69,314				
			(22,766)			(98)	22,864				
		(2)	(111,769)		(24)	111,795					
		7,193	19,221		(30,100)	909	2,777				
0	0	5,610	(127,950)	0	(32,503)	59,888	94,955		0	0	0
(15,516)	1,053	(6,340)	(10,095)	754	4,346	54,718	17,174		60,557	1,462	47,556
		2,800	11,948	3,096		(1,356)	5,261		21,749		17,188
(4,561)						11,727			11,727		11,727
						3,665	7,849		11,514		11,514
760	(4)	(81)				12	(4,259)		(4,328)		(3,572)
							(299)		(299)		(299)
(26,536)			(3)				(10,606)		(10,609)	(251)	(37,396)
(14,275)		1,553	13,542						15,095	(820)	
	(589)										(589)
249						5,250			5,250		5,499
(44,363)	(593)	4,272	25,487	3,096	0	19,298	(2,054)		50,099	(1,071)	4,072
(59,879)	460	(2,068)	15,392	3,850	4,346	74,016	15,120		110,656	391	51,628
242,411	(4,135)	18,128	179,621	44,170	50,374	91,705	617,108		1,001,106	(391)	1,238,991
\$182,532	(\$3,675)	\$16,060	\$195,013	\$48,020	\$54,720	\$165,721	\$632,228		\$1,111,762	\$0	\$1,290,619

Unrestricted Net Assets
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)	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 \$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	(4,069)
Total revenues	1,003,270	25,348	118,862	771,920	958	126,982	3,069	2,883	1,024,674	(4,069)
Expenses:										
Educational and general		24,456		615,217		109,505	8,971	52,876	786,569	(1,000)
Auxiliary enterprises				67,355		259	2,499	18,093	88,206	
Patient care activities	1,042,808		128,906	4,679		(3)		123	133,705	(2,578)
Total expenses	1,042,808	24,456	128,906	687,251	0	109,761	11,470	71,092	1,008,480	(3,578)
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
(Deficit)/excess of revenues over expenses	(39,538)	892	(5,064)	(9,675)	1,271	750	(108,363)	137,275	16,194	(491)
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)
TUHS gain from discontinued operations	33									33
Transfer from TUHS	(16,158)		1,731	13,541					15,272	886
Currency translation adjustment	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
(Decrease)/increase in net assets	(92,763)	261	(3,333)	5,919	(5,334)	730	(28,156)	118,611	88,437	395
Net assets July 1, 2008	335,174	(4,396)	21,461	173,702	49,504	49,644	119,861	498,497	912,669	(786)
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)

**Temple University and
Subsidiary Organizations
As of June 30, 2010**

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 Professional Associates (“TPA”), exempt
Temple East, Inc. (TE), exempt (doing business as
 Northeastern Ambulatory Care Center (“NACC”))
 Temple East Real Estate, Inc. (TERE), exempt
Jeanes Hospital (JH), exempt
Episcopal Hospital (EH), exempt
 Episcopal Long Term Care, exempt
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