Thomas Jefferson University and Affiliates

Consolidated Financial Statements
June 30, 2013 and 2012
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**June 30, 2013 and 2012**

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Independent Auditor’s Report

To the Board of Trustees
Thomas Jefferson University:

We have audited the accompanying consolidated financial statements of Thomas Jefferson University (TJU) which comprise the balance sheets as of June 30, 2013 and June 30, 2012 and the related consolidated statements of activities, of changes in net assets and of cash flows for the years then ended.

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

Auditor’s Responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in the accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TJU’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is significant and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the TJU at June 30, 2013 and 2012, and changes in its net assets and in its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

September 16, 2013
The accompanying notes are an integral part of these consolidated financial statements.
Thomas Jefferson University and Affiliates  
Consolidated Statements of Activities and Changes in Net Assets  
For the Years Ended June 30, 2013 and 2012

(All amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted revenues, gains and other support:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient service revenue, net of contractual allowance</td>
<td>$284,863</td>
<td>$271,503</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>(19,068)</td>
<td>(17,351)</td>
</tr>
<tr>
<td>Net patient service revenue less provision for bad debts</td>
<td>265,795</td>
<td>254,152</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>100,494</td>
<td>115,795</td>
</tr>
<tr>
<td>Tuition and fees, net</td>
<td>107,183</td>
<td>104,273</td>
</tr>
<tr>
<td>Sales and services of auxiliary activities</td>
<td>63,634</td>
<td>60,923</td>
</tr>
<tr>
<td>State appropriations</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>TJUH reimbursement for physician services</td>
<td>152,431</td>
<td>144,104</td>
</tr>
<tr>
<td>Investment income</td>
<td>11,676</td>
<td>11,628</td>
</tr>
<tr>
<td>Contributions</td>
<td>2,242</td>
<td>4,134</td>
</tr>
<tr>
<td>Other</td>
<td>13,748</td>
<td>15,595</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>19,570</td>
<td>19,748</td>
</tr>
<tr>
<td><strong>Total unrestricted revenues, gains and other support</strong></td>
<td>737,773</td>
<td>731,352</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional activities</td>
<td>344,951</td>
<td>333,259</td>
</tr>
<tr>
<td>Instruction</td>
<td>135,148</td>
<td>135,941</td>
</tr>
<tr>
<td>Research and other sponsored programs</td>
<td>95,057</td>
<td>105,557</td>
</tr>
<tr>
<td>Auxiliary activities</td>
<td>66,636</td>
<td>65,603</td>
</tr>
<tr>
<td>Student services</td>
<td>8,674</td>
<td>8,556</td>
</tr>
<tr>
<td>Institutional support</td>
<td>30,946</td>
<td>31,033</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>20,622</td>
<td>19,269</td>
</tr>
<tr>
<td>Academic support</td>
<td>24,716</td>
<td>22,219</td>
</tr>
<tr>
<td>Other</td>
<td>2,878</td>
<td>2,999</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>729,628</td>
<td>724,436</td>
</tr>
<tr>
<td><strong>Operating gain</strong></td>
<td>8,145</td>
<td>6,916</td>
</tr>
<tr>
<td><strong>Nonoperating changes in unrestricted net assets, net:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain (loss) on investments, net</td>
<td>25,270</td>
<td>(11,614)</td>
</tr>
<tr>
<td>Investment income, net of amounts classified as operating revenue</td>
<td>(8,578)</td>
<td>(8,239)</td>
</tr>
<tr>
<td>Reclassification of net assets</td>
<td>(1,317)</td>
<td>(1,321)</td>
</tr>
<tr>
<td>Government grants for capital projects</td>
<td>4,473</td>
<td>6,933</td>
</tr>
<tr>
<td>TJUH capital transfers</td>
<td>3,667</td>
<td>-</td>
</tr>
<tr>
<td>Defined benefit plan, net actuarial gain (loss)</td>
<td>14,701</td>
<td>(18,903)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in unrestricted net assets from nonoperating activities</strong></td>
<td>38,216</td>
<td>(33,144)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in unrestricted net assets</strong></td>
<td>$46,361</td>
<td>($26,228)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
Thomas Jefferson University and Affiliates  
Consolidated Statements of Activities and Changes in Net Assets, continued  
For the Years Ended June 30, 2013 and 2012  

(in thousands)  

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues, gains and other support</td>
<td>$737,773</td>
<td>$731,352</td>
</tr>
<tr>
<td>Expenses</td>
<td>(729,628)</td>
<td>(724,436)</td>
</tr>
<tr>
<td>Nonoperating changes in unrestricted net assets, net</td>
<td>38,216</td>
<td>(33,144)</td>
</tr>
<tr>
<td>Change in unrestricted net assets</td>
<td>46,361</td>
<td>(26,228)</td>
</tr>
<tr>
<td><strong>Temporarily restricted net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>11,961</td>
<td>5,209</td>
</tr>
<tr>
<td>Gain/(loss) on investments, net</td>
<td>15,041</td>
<td>(4,688)</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,524</td>
<td>2,680</td>
</tr>
<tr>
<td>Reclassification of net assets</td>
<td>44</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(19,570)</td>
<td>(19,748)</td>
</tr>
<tr>
<td>Change in temporarily restricted net assets</td>
<td>10,000</td>
<td>(16,547)</td>
</tr>
<tr>
<td><strong>Permanently restricted net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>7,324</td>
<td>4,530</td>
</tr>
<tr>
<td>Net gain (loss) on externally held trusts</td>
<td>2,135</td>
<td>(1,823)</td>
</tr>
<tr>
<td>Reclassification of net assets</td>
<td>1,273</td>
<td>1,321</td>
</tr>
<tr>
<td>Change in permanently restricted net assets</td>
<td>10,732</td>
<td>4,028</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>67,093</td>
<td>(38,747)</td>
</tr>
<tr>
<td><strong>Net assets, beginning of the year</strong></td>
<td>526,086</td>
<td>564,833</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$593,179</td>
<td>$526,086</td>
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</table>

The accompanying notes are an integral part of these consolidated financial statements.
## Thomas Jefferson University and Affiliates
### Consolidated Statements of Cash Flows
#### For the Years Ended June 30, 2013 and 2012

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in net assets</td>
<td>$67,093</td>
<td>($38,747)</td>
</tr>
<tr>
<td>Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>30,296</td>
<td>25,463</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>19,788</td>
<td>17,975</td>
</tr>
<tr>
<td>Net (gain) loss on long-term investments</td>
<td>(42,446)</td>
<td>18,125</td>
</tr>
<tr>
<td>Contributions, grants and TJUH transfers designated for acquisition of long-term assets</td>
<td>(13,531)</td>
<td>(4,705)</td>
</tr>
<tr>
<td>Defined benefit plan net actuarial (gain) loss</td>
<td>(14,701)</td>
<td>18,903</td>
</tr>
<tr>
<td>Provision for uncollectible pledges</td>
<td>521</td>
<td>485</td>
</tr>
<tr>
<td>Change in obligations under split interest agreements</td>
<td>(74)</td>
<td>(895)</td>
</tr>
<tr>
<td>Increase (decrease) due to changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient and other receivables</td>
<td>(18,159)</td>
<td>(23,652)</td>
</tr>
<tr>
<td>Due from TJUH</td>
<td>(2,176)</td>
<td>(4,509)</td>
</tr>
<tr>
<td>Inventory</td>
<td>574</td>
<td>(208)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(1,287)</td>
<td>1,583</td>
</tr>
<tr>
<td>Accrued pension</td>
<td>169</td>
<td>(6,461)</td>
</tr>
<tr>
<td>Pledges receivable</td>
<td>(6,543)</td>
<td>139</td>
</tr>
<tr>
<td>Insurance receivable</td>
<td>9,998</td>
<td>(97,021)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>3,810</td>
<td>6,380</td>
</tr>
<tr>
<td>Grant and contract advances</td>
<td>(1,526)</td>
<td>(1,818)</td>
</tr>
<tr>
<td>Accrued professional liability claims</td>
<td>(14,747)</td>
<td>103,303</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(3,267)</td>
<td>2,544</td>
</tr>
<tr>
<td><strong>Net cash and cash equivalents provided by operating activities</strong></td>
<td>13,792</td>
<td>16,883</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of land, buildings, and equipment</td>
<td>(57,431)</td>
<td>(60,742)</td>
</tr>
<tr>
<td>(Increase) decrease in assets whose use is limited</td>
<td>(13,287)</td>
<td>48,761</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(620,926)</td>
<td>(258,276)</td>
</tr>
<tr>
<td>Sale of investments</td>
<td>632,944</td>
<td>258,322</td>
</tr>
<tr>
<td>Decrease (increase) in cash collateral</td>
<td>4,653</td>
<td>(550)</td>
</tr>
<tr>
<td>Student loans issued</td>
<td>(3,371)</td>
<td>(3,777)</td>
</tr>
<tr>
<td>Student loans repaid</td>
<td>4,337</td>
<td>4,204</td>
</tr>
<tr>
<td><strong>Net cash and cash equivalents used in investing activities</strong></td>
<td>(53,081)</td>
<td>(12,058)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions, grants and TJUH transfers designated for acquisition of long-term assets</td>
<td>13,531</td>
<td>4,705</td>
</tr>
<tr>
<td>Proceeds from long-term obligations</td>
<td>45,634</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of long-term obligations</td>
<td>(15,104)</td>
<td>(6,080)</td>
</tr>
<tr>
<td>Increase (decrease) in federal student loan advances</td>
<td>211</td>
<td>(20)</td>
</tr>
<tr>
<td>Deferred financing fees</td>
<td>(562)</td>
<td>-</td>
</tr>
<tr>
<td>(Decrease) increase in cash collateral payable</td>
<td>(4,653)</td>
<td>550</td>
</tr>
<tr>
<td><strong>Net cash and cash equivalents provided by (used in) by financing activities</strong></td>
<td>39,057</td>
<td>(845)</td>
</tr>
<tr>
<td><strong>Net (decrease) increase in cash and cash equivalents</strong></td>
<td>(232)</td>
<td>3,980</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents, beginning of year</strong></td>
<td>68,476</td>
<td>64,496</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of year</strong></td>
<td>$68,244</td>
<td>$68,476</td>
</tr>
</tbody>
</table>

### Supplemental disclosure:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable related to buildings and equipment</td>
<td>$2,313</td>
<td>$4,113</td>
</tr>
<tr>
<td>Interest paid</td>
<td>$10,481</td>
<td>$9,335</td>
</tr>
</tbody>
</table>

### Non-cash activity

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and building purchase</td>
<td>$3,840</td>
<td>$0</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Thomas Jefferson University (“University”) is an independent, non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code (the “Code”). It conducts research and offers undergraduate and graduate instruction through the Jefferson Medical College, and the Jefferson Schools of Nursing, Pharmacy, Health Professions, Population Health, and Graduate Biomedical Sciences. The University has approximately 3,666 students and is located in Philadelphia, Pennsylvania. The University maintains an academic affiliation with both TJUH System, Inc. (“TJUH”), an integrated healthcare organization that provides healthcare services for residents of the greater Philadelphia region, and the Jefferson Health System.

Jefferson University Physicians (“JUP”) is a non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and is recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Code. It consists of 17 clinical departments with approximately 622 physician members. The University does not provide professional physician services. Therefore, JUP was formed to allow faculty of the University to conduct clinical practices while supporting the educational and research activities of the University. It acts as an integrated multi-specialty group practice with net patient service revenue less provision for bad debt for years 2013 and 2012 of approximately $264.5 million and $254.1 million, respectively.

Principle of Consolidation
The consolidated financial statements of the University include the accounts of JUP, 1100 Walnut Associates (an owner and operator of a medical office building), and Walnut Assurance Company (a captive insurance company). Walnut Assurance Company was dissolved in 2012. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation
The accompanying consolidated financial statements have been prepared on an accrual basis.

The University classifies net assets as follows:

Unrestricted Net Assets are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by board designation.

Temporarily Restricted Net Assets are subject to legal or donor imposed restrictions that will be met by actions of the University and/or the passage of time. These net assets include gifts donated for specific purposes and capital appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.
Permanently Restricted Net Assets are subject to donor-imposed restrictions that require the original contribution be maintained in perpetuity by the University, but permits the use of the investment earnings for general or specific purposes.

The University’s measure of operations in the consolidated statements of activities and changes in net assets includes revenues from patient services, grants and contracts, tuition and fees, auxiliary activities, TJUH reimbursement for physician services, unrestricted contributions, net assets released from restriction, distribution of investment returns based on the University’s spending policy and other sources. Operating expenses are presented on a functional basis, after allocating costs for depreciation and interest.

Non-operating activities presented in the consolidated statements of activities and changes in net assets includes investment returns net of amounts classified as operating revenue in accordance with the University’s spending policy, gains and losses on derivative financial instruments, governmental grants for capital projects, TJUH capital transfers and the net actuarial gain or loss of the defined benefit plan.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes contractual allowances and provisions for bad debt; estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension obligations. Management relies on historical experience and other assumptions believed to be reasonable relative to the circumstances in making judgments and estimates. Actual results could differ from those estimates.
Loans Receivable from Students
The carrying value of student loans receivable approximate fair value and are valued at Level 2 on the fair value hierarchy table. Such loans include federally sponsored student loans with mandated interest rates and repayment terms.

The University records an allowance for doubtful accounts related to student loans receivable as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federally-sponsored student loans</td>
<td>$10,723</td>
<td>$11,718</td>
</tr>
<tr>
<td>Other student loans</td>
<td>20,022</td>
<td>20,160</td>
</tr>
<tr>
<td>Related allowance</td>
<td>(4,259)</td>
<td>(3,543)</td>
</tr>
<tr>
<td>Net</td>
<td>15,763</td>
<td>16,617</td>
</tr>
<tr>
<td>Total</td>
<td>$26,486</td>
<td>$28,335</td>
</tr>
</tbody>
</table>

The University assesses the adequacy of the allowance for doubtful accounts related to student loans receivable by performing evaluations of the student loan portfolio, including a review of the aging of the student loan receivable balances and of the default rate by loan program in comparison to prior years. The level of allowance is adjusted based on the results of this analysis. The federally-sponsored student loans receivable represents amounts due from current and former students under various Federal Government loan programs. For the student loans it is the University’s policy to reserve 100% of a loan when the loan is delinquent 2 years or more; a reserve of 85% is recorded for loans delinquent more than 270 days and less than 2 years. The University considers the allowance recorded at June 30, 2013 and 2012 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with maturity of three months or less when purchased and are carried at cost, which approximates fair value, except that any such investments purchased with funds on deposit with bond trustees or with funds held in self-insurance trust arrangements are classified as assets whose use is limited or purchased by investment managers of the University’s pooled investment fund are classified as investments.
Contributions
Contributions, including unconditional promises to donate, cash and other assets, are recognized at fair value on the date of receipt, recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions of cash restricted by the donor for the purchase of long-lived assets implies a time restriction on the use of such contributed assets that expires over the assets’ expected useful lives. Accordingly, the contributions received are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the assets useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

The University capitalizes works of art, historical treasures, or similar assets (collectively, Collections). Collections are recorded at fair value at the date of the contribution. Collections of approximately $5.6 million are included in other assets on the consolidated balance sheet at June 30, 2013 and 2012.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue from a single third-party payor accounted for approximately 23% of the net patient revenue for the fiscal years 2013 and 2012. Revenue from the Medicare program accounted for approximately 17% of the net patient service revenue for the fiscal years 2013 and 2012.

Provision for Bad Debts
The provision for bad debt expense is based upon management’s assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payer category, including those amounts not covered by insurance and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, JUP follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by JUP. Accounts receivable are written off after collections efforts have been followed in accordance with JUP policies.
Grants and Contracts
Grant and contract revenue primarily represents research activity sponsored by governmental and private sources. The University recognized operating revenues based on direct expenditures and related facilities and administrative cost as follows for the years ended June 30;

<table>
<thead>
<tr>
<th></th>
<th>Direct Expenditures</th>
<th>F&amp;A Cost</th>
<th>2013 Total</th>
<th>2012 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal agencies</td>
<td>$48,335</td>
<td>$18,521</td>
<td>$66,856</td>
<td>$78,760</td>
</tr>
<tr>
<td>Non-federal agencies</td>
<td>29,512</td>
<td>4,126</td>
<td>33,638</td>
<td>37,035</td>
</tr>
<tr>
<td>Total</td>
<td>$77,847</td>
<td>$22,647</td>
<td>$100,494</td>
<td>$115,795</td>
</tr>
</tbody>
</table>

The University’s primary source of federal sponsored support is the Department of Health and Human Services. Facilities and administrative costs recovered on federally sponsored programs are generally based on predetermined rates negotiated with the Federal Government while recovery on all other sponsored projects is based on rates negotiated with the respective sponsor. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Tuition and Fees
The University provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of $10.1 million and $9.2 million at 2013 and 2012, respectively.

TJUH Reimbursement for Physician Services
Hospital reimbursement for physicians’ services represents payments for professional physician services rendered to TJUH. Revenue is recorded in the period the related services are rendered.

Sales and Services of Auxiliary Activities
Auxiliary activities represent revenues and expenses associated with the operations of the parking facilities, residence halls, bookstore and corporate services that the University provides to TJUH. Revenue is recorded in the period the related services are rendered.
Investments
Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. These investments are valued at the latest available nonaudited net asset value of the investments. The University reviews the values as provided by the investment managers and believes that the carrying amount of these investments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Act governs the investment, use and management of the University’s endowment funds. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure an investment policy that seeks the long-term preservation of the real value of the investments. In accordance with the Pennsylvania Act, the objectives of the University’s investment policy is to provide a level of spendable income which is sufficient to meet the current and future budgetary requirements of the University and which is consistent with the goal of protecting the purchasing power of the investments. The calculation of spendable income is based on 75% of the prior year spendable income and 25% of the calculated two year moving average of the portfolio’s market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor.

The University’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by University personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits.

Split Interest Agreements
The University’s split-interest agreements consist of charitable gift annuities, pooled income funds, charitable remainder trusts and a charitable lead trust. Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments. Contribution revenue for pooled income funds is recognized upon establishment of the agreement at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.
Land, Buildings, and Equipment, net
Land, buildings, and equipment are carried at cost on date of acquisition or fair value on the
date of donation in the case of gifts. Depreciation expense is computed on a straight-line
basis over the estimated useful lives of the assets, excluding land. All gifts of land, buildings,
and equipment are recorded as unrestricted nonoperating activities unless explicit donor
stipulations specify how the donated assets must be used. Interest expense on borrowed funds
used for construction, net of interest income earned on unexpended amounts, is capitalized
during the construction period.

Conditional Asset Retirement Obligation
A conditional asset retirement obligation is a legal obligation to perform an asset retirement
activity in which the timing and/or method of settlement are conditional on a future event that
may or may not be within the control of the entity. A conditional asset retirement obligation
of $1.0 million as of June 30, 2013 and 2012 is included within other liabilities in the
consolidated balance sheet.

Allocation of Certain Expenses
The consolidated statements of activities and changes in net assets present expenses by
functional classification. Depreciation is allocated to the functional classifications based on
square footage and interest expense is allocated to the functional classifications of the activity
that benefited from the proceeds of the debt.

Reclassifications
Certain amounts in the prior year have been reclassified to conform to the current year
presentation.

Charity Care
Of JUP’s $346 million and $333 million of total operating expenses reported for the years
ended June 30, 2013 and 2012, respectively, an estimated $1.1 million and $914,000 arose
from providing services to charity patients for the years ended June 30, 2013 and 2012,
respectively. The estimated costs of providing charity services are based on a calculation
which applies a ratio of costs to charges to the gross uncompensated charges associated with
providing care to charity patients. The ratio of cost to charges is calculated based on JUP’s
total operating expenses divided by gross professional activity revenue.

New Accounting Standards
In 2011, the FASB issued a standard, Measuring and Disclosing Fair Value. This guidance
clarifies the FASB’s intent about the application of existing fair value measurements and
requires TJU to provide enhanced disclosures, most significantly related to unobservable
inputs used in a fair value measurement that is categorized within Level 3 of the fair value
hierarchy. In addition, the guidance requires a sensitivity analysis to be performed and
disclosed regarding those inputs. The University adopted this guidance on July 1, 2012.
New disclosures for multiemployer pension plans - In September 2011, new guidance was issued revising the disclosures in order to increase transparency about an employer’s participation in a multiemployer pension plan. The disclosures provide details on commitments and risks involved with participating in multiemployer plan. The University included additional disclosures on the plan effective for 2013.

Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Healthcare entities - In July 2011, new guidance was issued requiring bad debts relating to patient service revenue to be separately disclosed in the statement of operations and reported as a component of net patient service revenue. The University adopted this guidance on July 1, 2011.

Presentation of Insurance Claims and Related Insurance Recoveries - In August 2010, new guidance was issued for the presentation of insurance claims and associated insurance recoveries for healthcare organizations. Under the new guidance, healthcare entities are required to reflect their "gross" exposure to claims liabilities with a corresponding receivable for insurance recoveries in order to be consistent with other industries. This guidance became effective for the University on July 1, 2011.

Charity Care Disclosure - In August 2010, new guidance was issued regarding the measurement basis used in the disclosure of charity care. The guidance requires that the disclosures related to the level of charity care provided should be based on a healthcare organization's estimated direct and indirect costs of providing the services and that a healthcare organization should separately disclose the amount of charity care reimbursed by third parties. In addition, disclosure of the method used to identify or determine such costs is required. This guidance became effective for the University on July 1, 2011.
2. NET ASSETS

Restricted net assets as of June 30, 2013 and 2012 are categorized as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges</td>
<td>$5,305</td>
<td>$1,645</td>
</tr>
<tr>
<td>Gifts restricted for</td>
<td>58,110</td>
<td>56,580</td>
</tr>
<tr>
<td>operating or capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>purposes and loan funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undistributed net gains</td>
<td>60,790</td>
<td>55,980</td>
</tr>
<tr>
<td>on permanently restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total – Temporarily</td>
<td>124,205</td>
<td>114,205</td>
</tr>
<tr>
<td>restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>151,675</td>
<td>140,943</td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total restricted net assets</td>
<td>$275,880</td>
<td>$255,148</td>
</tr>
</tbody>
</table>

Temporarily restricted net assets are available for the following purposes at June 30, 2013 and 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$7,336</td>
<td>$6,526</td>
</tr>
<tr>
<td>Education</td>
<td>96,784</td>
<td>92,537</td>
</tr>
<tr>
<td>Research</td>
<td>20,085</td>
<td>15,142</td>
</tr>
<tr>
<td>Total temporarily</td>
<td>$124,205</td>
<td>$114,205</td>
</tr>
<tr>
<td>restricted net assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2013 and 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>$8,467</td>
<td>$8,467</td>
</tr>
<tr>
<td>Education</td>
<td>110,872</td>
<td>101,613</td>
</tr>
<tr>
<td>Research</td>
<td>32,336</td>
<td>30,863</td>
</tr>
<tr>
<td>Total permanently</td>
<td>$151,675</td>
<td>$140,943</td>
</tr>
<tr>
<td>restricted net assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include assets held by trustees under indenture agreements and self-insurance trust arrangements. The composition of assets limited as to use at June 30, 2013 and 2012 is as follows (in thousands):

<table>
<thead>
<tr>
<th>Held by trustee under bond indenture agreement:</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$14,715</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Self-insurance trust arrangements:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>599</td>
<td>2,027</td>
</tr>
</tbody>
</table>

Total                                              | $15,314| $2,027|

4. INVESTMENTS

A summary of the University’s portion of investments held in pooled funds at June 30, 2013 and 2012 is as follows (in thousands):

<table>
<thead>
<tr>
<th>Cash and cash equivalents</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,935</td>
<td>$15,452</td>
<td></td>
</tr>
</tbody>
</table>

Equity securities:

| Domestic                                          | 6      | 47,598 |
| International                                     | -      | 6,184  |

Fixed income securities:

| U.S. Treasuries                                  | 12,436 | 4,835  |
| Domestic                                          | -      | 71,065 |

Funds:

| Domestic equity                                   | -      | 44,099 |
| International equity                              | -      | 55,762 |
| Global equity                                     | 192,359| 7,735  |
| Fixed income                                     | 66,609 | -      |
| Real asset                                        | -      | 17,641 |
| Private equity                                    | 37,938 | 34,526 |
| Real estate funds                                 | 19,386 | 13,516 |
| Hedge funds                                       | 83,283 | 70,565 |

Total                                              | $415,952| $388,978|
The University pools funds for investment with TJUH. The University had 69% and 70% of
the total market value of the pooled funds at June 30, 2013 and 2012, respectively.

The University’s direct investments in equity and fixed income securities are considered
liquid assets because they are traded on established markets with enough participants to
absorb sale transactions without materially impacting the current price of the asset. The
underlying assets in the University’s investments in equity and fixed income funds are traded
on established markets with enough participants to absorb sale transactions without materially
impacting the current price. The funds are priced daily and provide next day availability on
all transaction requests. The University’s investment in real asset funds provide for monthly
liquidity on transaction requests.

The University has made commitments to various private equity and real asset limited
partnerships. The total amount of unfunded commitments is $31.2 million and $29.6 million
at June 30, 2013 and June 30, 2012, respectively, which represents 7.5% and 7.8% of the
value of the University’s pooled investments at June 30, 2013 and June 30, 2012. The
University expects these funds to be called over the next 3 to 5 years.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity</td>
<td>$30,025</td>
<td>$28,165</td>
</tr>
<tr>
<td>Real estate</td>
<td>1,153</td>
<td>1,424</td>
</tr>
<tr>
<td></td>
<td><strong>$31,178</strong></td>
<td><strong>$29,589</strong></td>
</tr>
</tbody>
</table>

The University’s pooled investments at June 30, 2013 include $83.3 million of hedge fund
investments. These funds provide for quarterly or annual redemptions and require between 60
and 90 day notice periods, limiting the University’s ability to respond quickly to changes in
market conditions.

Also included in investments at June 30, 2013 and 2012 were the following non-pooled
investments at June 30, 2013 and 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term investments</td>
<td>$96,454</td>
<td>$95,113</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td>41,445</td>
<td>39,206</td>
</tr>
<tr>
<td>Split interest agreements</td>
<td>7,596</td>
<td>7,493</td>
</tr>
<tr>
<td>Other</td>
<td>3,287</td>
<td>3,516</td>
</tr>
<tr>
<td></td>
<td><strong>$148,782</strong></td>
<td><strong>$145,328</strong></td>
</tr>
</tbody>
</table>
Short-term investments are comprised of debt instruments with maturities greater than three months when purchased. Beneficial interests in perpetual trusts, which are administered by independent trustees, are mainly comprised of domestic and international equity securities and domestic fixed income securities.

A summary of investments held under split-interest agreements is as follows at June 30, 2013 and 2012, respectively (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable gift annuities</td>
<td>$3,015</td>
<td>$2,890</td>
</tr>
<tr>
<td>Pooled income funds</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Charitable lead trust</td>
<td>1,524</td>
<td>1,619</td>
</tr>
<tr>
<td>Charitable remainder trusts</td>
<td>3,046</td>
<td>2,972</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$7,596</td>
<td>$7,493</td>
</tr>
</tbody>
</table>

At June 30, 2013 and 2012, investment securities with an aggregate fair value of $1.7 million and $6.2 million, respectively, were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 102% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

A summary of the University’s total investment return for the years ended June 30, 2013 and 2012 is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>$5,622</td>
<td>$6,069</td>
</tr>
<tr>
<td>Realized and unrealized gain/(loss)</td>
<td>42,446</td>
<td>(18,125)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$48,068</td>
<td>($12,056)</td>
</tr>
</tbody>
</table>
5. **ENDOWMENT FUNDS**

The University’s endowments consist of 350 individual funds established for purposes specified by donors, 21 externally held trusts where the University has a perpetual interest and 261 funds established by the University. Net assets associated with each of these groups of funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-restricted funds</td>
<td>$ -</td>
<td>$56,197</td>
<td>$144,095</td>
<td>$200,292</td>
</tr>
<tr>
<td>Quasi-endowment funds</td>
<td>136,365</td>
<td>-</td>
<td>-</td>
<td>136,365</td>
</tr>
<tr>
<td><strong>Total funds</strong></td>
<td><strong>$136,365</strong></td>
<td><strong>$56,197</strong></td>
<td><strong>$144,095</strong></td>
<td><strong>$336,657</strong></td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the fiscal year ended June 30, 2013, consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$127,916</td>
<td>$50,657</td>
<td>$135,579</td>
<td>$314,152</td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>365</td>
<td>400</td>
<td>-</td>
<td>765</td>
</tr>
<tr>
<td>Net appreciation (realized and unrealized)</td>
<td>13,217</td>
<td>14,061</td>
<td>2,120</td>
<td>29,398</td>
</tr>
<tr>
<td><strong>Total investment gain</strong></td>
<td><strong>13,582</strong></td>
<td><strong>14,461</strong></td>
<td><strong>2,120</strong></td>
<td><strong>30,163</strong></td>
</tr>
<tr>
<td>Contributions</td>
<td>34</td>
<td>68</td>
<td>5,094</td>
<td>5,196</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(7,043)</td>
<td>(8,113)</td>
<td>-</td>
<td>(15,156)</td>
</tr>
<tr>
<td>Transfers of University resources and matching gifts</td>
<td>1,876</td>
<td>(876)</td>
<td>1,302</td>
<td>2,302</td>
</tr>
<tr>
<td><strong>Endowment net assets, end of year</strong></td>
<td><strong>$136,365</strong></td>
<td><strong>$56,197</strong></td>
<td><strong>$144,095</strong></td>
<td><strong>$336,657</strong></td>
</tr>
</tbody>
</table>
At June 30, 2012, the endowment net asset composition by type of fund consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-restricted funds</td>
<td>$ -</td>
<td>$50,657</td>
<td>$135,579</td>
<td>$186,236</td>
</tr>
<tr>
<td>Quasi-endowment funds</td>
<td>127,916</td>
<td>-</td>
<td>-</td>
<td>127,916</td>
</tr>
<tr>
<td>Total funds</td>
<td>$127,916</td>
<td>$50,657</td>
<td>$135,579</td>
<td>$314,152</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the following (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$138,231</td>
<td>$61,871</td>
<td>$131,923</td>
<td>$332,025</td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>513</td>
<td>571</td>
<td>-</td>
<td>1,084</td>
</tr>
<tr>
<td>Net appreciation (realized and unrealized)</td>
<td>(4,612)</td>
<td>(4,286)</td>
<td>(1,810)</td>
<td>(10,708)</td>
</tr>
<tr>
<td>Total investment gain</td>
<td>(4,099)</td>
<td>(3,715)</td>
<td>(1,810)</td>
<td>(9,624)</td>
</tr>
<tr>
<td>Contributions</td>
<td>51</td>
<td>370</td>
<td>4,145</td>
<td>4,566</td>
</tr>
<tr>
<td>Appropriation of endowment assets for expenditure</td>
<td>(7,009)</td>
<td>(7,869)</td>
<td>-</td>
<td>(14,878)</td>
</tr>
<tr>
<td>Transfers of University resources and matching gifts</td>
<td>742</td>
<td>-</td>
<td>1,321</td>
<td>2,063</td>
</tr>
<tr>
<td>Endowment net assets, end of year</td>
<td>$127,916</td>
<td>$50,657</td>
<td>$135,579</td>
<td>$314,152</td>
</tr>
</tbody>
</table>
6. FAIR VALUE MEASUREMENT

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are not currently observable.

Inputs are used in applying the various valuations techniques and broadly refer to the assumption that market participants use to make valuation decisions. An investment level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment. The categorization of an investment within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the University’s perceived risk of that instrument.

Level 1 - Investments whose values are based on quoted market prices in active markets, are therefore classified within Level 1. Typically, securities traded on the NYSE, AMEX, NASDAQ and other major exchanges will be classified as Level 1. These assets include active listed equities, certain U.S. government obligations, mutual funds and certain money market securities. For investments regularly traded on any recognized securities or commodities exchange, the closing price on such exchange (or, if applicable, as reported on the consolidated transactions reporting system) on the last trading date at the end of the fiscal year is used. In the case of securities regularly traded in the over-the-counter market, the closing bid quotations for long positions and the closing asked quotation for short positions on the trading date ending on or preceding the end of the fiscal year is used.

Level 1 Liquidity – Daily based on quoted market value at time of transaction or at daily NAV
Level 2 - Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. They include investment- common trust equity and fixed income funds, corporate grade bonds, high yield bonds and certain mortgage products. These assets are valued based on quoted market prices in active markets or dealer quotations and are categorized as Level 2. There were no transfers between Levels 1 and 2 during 2013 and 2012.

Level 2 Liquidity – Daily based on quoted market value at time of transaction or at daily NAV.

Level 3- Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The University uses the "market approach value" valuation technique to value its investments in private equity and real estate ("private investments") and hedge funds.

The University estimates the fair value of an investment company at the measurement date using the reported net asset value ("NAV"). Adjustment is required if the University expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles. The University uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where the University commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit subscriptions by new or existing investors. Accordingly, the University generally holds interests in such funds for which there is no active market, although in some situations, a transaction may occur in the "secondary market" where an investor purchases a limited partner’s existing interest and remaining commitment. The fund managers may value the underlying private investment based on an appraised value, discounted cash flow. Industry comparables or some other method. The University values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.
Unlike private investment funds, hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). The fund managers invest in a variety of securities which may not be quoted in an active market. Illiquid investments may be valued based on appraise value, discounted cash flow, industry comparables or some other method.

The methods described above may produce a fair value calculation that may not be indicative of a net realized value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Liquidity (Private investments and hedge funds)

Private Investments - Private investment funds do not liquidity or redemption options. Liquidity for private investments can be accomplished via a secondary sale transaction. When available, distributions typically take place on a quarterly basis.

Hedge funds – Hedge funds provide quarterly liquidity with (90) notice prior to the quarters end. Liquidity of individual hedge funds vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, the University does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, the University considers the significance of the holdback, its impact on the overall valuation and the associated risk that the holdback amount will not be fully realized based on a prior history of adjustments to the initially reported NAV. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the year are available, the valuations will be based on the most recent capital account statement (monthly/quarterly), adjusted for interim cash flow activity (contributions, distributions, fees). Substantially all of the University’s investments in such funds have been classified within Level 3.
The fair value of the University’s interest rate swaps related to its debt obligations and natural gas hedge are based on third-party valuations independent of the counterparties.

The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2013 (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$82,931</td>
<td>$9,617</td>
<td>$-</td>
<td>$92,548</td>
</tr>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>3,077</td>
<td>-</td>
<td>-</td>
<td>3,077</td>
</tr>
<tr>
<td>Fixed income securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>42,363</td>
<td>-</td>
<td>-</td>
<td>42,363</td>
</tr>
<tr>
<td>Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td>-</td>
<td>192,359</td>
<td>-</td>
<td>192,359</td>
</tr>
<tr>
<td>Fixed income</td>
<td>-</td>
<td>127,690</td>
<td>-</td>
<td>127,690</td>
</tr>
<tr>
<td>Real asset</td>
<td>-</td>
<td>5,694</td>
<td>-</td>
<td>5,694</td>
</tr>
<tr>
<td>Other mutual funds</td>
<td>6,072</td>
<td>-</td>
<td>-</td>
<td>6,072</td>
</tr>
<tr>
<td>Private equity</td>
<td>-</td>
<td>-</td>
<td>37,938</td>
<td>37,938</td>
</tr>
<tr>
<td>Real estate</td>
<td>-</td>
<td>-</td>
<td>13,693</td>
<td>13,693</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>-</td>
<td>-</td>
<td>83,283</td>
<td>83,283</td>
</tr>
<tr>
<td>External trusts</td>
<td>-</td>
<td>-</td>
<td>42,941</td>
<td>42,941</td>
</tr>
<tr>
<td>Total</td>
<td>$134,443</td>
<td>$335,360</td>
<td>$177,855</td>
<td>$647,658</td>
</tr>
</tbody>
</table>

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2013 (in thousands):

<table>
<thead>
<tr>
<th>Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swap</td>
<td>-</td>
<td>$6,844</td>
<td>-</td>
<td>$6,844</td>
</tr>
</tbody>
</table>
The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$75,877</td>
<td>$22,284</td>
<td>$ -</td>
<td>$98,161</td>
</tr>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>50,637</td>
<td>-</td>
<td>-</td>
<td>50,637</td>
</tr>
<tr>
<td>International</td>
<td>6,315</td>
<td>-</td>
<td>-</td>
<td>6,315</td>
</tr>
<tr>
<td>Fixed income securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td>-</td>
<td>4,833</td>
<td>-</td>
<td>4,833</td>
</tr>
<tr>
<td>Domestic</td>
<td>-</td>
<td>153,465</td>
<td>-</td>
<td>153,465</td>
</tr>
<tr>
<td>Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equity</td>
<td>-</td>
<td>44,099</td>
<td>-</td>
<td>44,099</td>
</tr>
<tr>
<td>International equity</td>
<td>-</td>
<td>55,762</td>
<td>-</td>
<td>55,762</td>
</tr>
<tr>
<td>Global equity</td>
<td>-</td>
<td>7,735</td>
<td>-</td>
<td>7,735</td>
</tr>
<tr>
<td>Real asset</td>
<td>-</td>
<td>17,641</td>
<td>-</td>
<td>17,641</td>
</tr>
<tr>
<td>Other mutual funds</td>
<td>5,873</td>
<td>-</td>
<td>-</td>
<td>5,873</td>
</tr>
<tr>
<td>Private equity</td>
<td>-</td>
<td>-</td>
<td>34,526</td>
<td>34,526</td>
</tr>
<tr>
<td>Real estate</td>
<td>-</td>
<td>-</td>
<td>13,516</td>
<td>13,516</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>-</td>
<td>-</td>
<td>70,565</td>
<td>70,565</td>
</tr>
<tr>
<td>External trusts</td>
<td>-</td>
<td>-</td>
<td>40,825</td>
<td>40,825</td>
</tr>
<tr>
<td>Total</td>
<td>$138,702</td>
<td>$305,819</td>
<td>$159,432</td>
<td>$603,953</td>
</tr>
</tbody>
</table>

The following table presents the other assets carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas hedge</td>
<td>-</td>
<td>$50</td>
<td>-</td>
<td>$50</td>
</tr>
</tbody>
</table>

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swap</td>
<td>-</td>
<td>$10,369</td>
<td>-</td>
<td>$10,369</td>
</tr>
</tbody>
</table>
The following tables includes a roll-forward of the amounts for the year ended June 30, 2013 and 2012 (in thousands) for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

<table>
<thead>
<tr>
<th></th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Hedge Funds</th>
<th>External Trusts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2012</td>
<td>$34,525</td>
<td>$13,517</td>
<td>$70,565</td>
<td>$40,825</td>
<td>$159,432</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>84,510</td>
<td>1,472</td>
<td>8,509</td>
<td>-</td>
<td>94,491</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(103,056)</td>
<td>(1,545)</td>
<td>-</td>
<td>-</td>
<td>(104,601)</td>
</tr>
<tr>
<td>Realized gain/(loss), net</td>
<td>21,653</td>
<td>(1,201)</td>
<td>-</td>
<td>-</td>
<td>20,452</td>
</tr>
<tr>
<td>Unrealized gain/(loss), net</td>
<td>306</td>
<td>1,450</td>
<td>4,209</td>
<td>2,116</td>
<td>8,081</td>
</tr>
<tr>
<td>Balance at June 30, 2013</td>
<td>$37,938</td>
<td>$13,693</td>
<td>$83,283</td>
<td>$42,941</td>
<td>$177,855</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Hedge Funds</th>
<th>External Trusts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2011</td>
<td>$31,572</td>
<td>$11,556</td>
<td>$60,957</td>
<td>$42,953</td>
<td>$147,038</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>8,618</td>
<td>2,318</td>
<td>33,385</td>
<td>-</td>
<td>44,321</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(8,764)</td>
<td>(5,813)</td>
<td>(22,051)</td>
<td>-</td>
<td>(36,628)</td>
</tr>
<tr>
<td>Realized gain/(loss), net</td>
<td>1,076</td>
<td>(1,067)</td>
<td>2,122</td>
<td>-</td>
<td>2,131</td>
</tr>
<tr>
<td>Unrealized gain/(loss), net</td>
<td>2,023</td>
<td>6,523</td>
<td>(3,848)</td>
<td>(2,128)</td>
<td>2,570</td>
</tr>
<tr>
<td>Balance at June 30, 2012</td>
<td>$34,525</td>
<td>$13,517</td>
<td>$70,565</td>
<td>$40,825</td>
<td>$159,432</td>
</tr>
</tbody>
</table>

All net realized and unrealized losses in the tables above are reflected in the accompanying consolidated statements of activities and changes in net assets.

## 7. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2013 and 2012, respectively (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconditional promises expected to be collected in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>$5,822</td>
<td>$3,764</td>
</tr>
<tr>
<td>One year to five years</td>
<td>7,903</td>
<td>3,316</td>
</tr>
<tr>
<td>Over five years</td>
<td>50</td>
<td>152</td>
</tr>
<tr>
<td></td>
<td>13,775</td>
<td>7,232</td>
</tr>
<tr>
<td>Less: unamortized discount and allowance for doubtful accounts</td>
<td>(1,868)</td>
<td>(1,348)</td>
</tr>
<tr>
<td></td>
<td>$11,907</td>
<td>$5,884</td>
</tr>
</tbody>
</table>

The discount rate ranges from 4.0% to 5.5%.
8. LAND, BUILDINGS AND EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$42,947</td>
<td>$31,721</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>481,234</td>
<td>425,396</td>
</tr>
<tr>
<td>Equipment</td>
<td>182,650</td>
<td>173,885</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>19,803</td>
<td>35,632</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(390,617)</td>
<td>(361,377)</td>
</tr>
<tr>
<td>Total Land, Buildings and Equipment, net</td>
<td>$336,017</td>
<td>$305,257</td>
</tr>
</tbody>
</table>

The University recorded $30.5 million and $25.4 million of depreciation expense for the year ended June 30, 2013 and 2012, respectively.

Included in the amount of depreciation expense allocated to the line item professional activities on the consolidated statements of activities and changes in net assets for the fiscal year ended June 30, 2013 is additional depreciation of $3.5 million associated with an electronic medical record information system. Management has determined that it is probable that the existing system will be replaced prior to the end of its previously estimated useful life.

The University uses straight-line depreciation over the assets’ estimated lives, which are as follows:

- Land improvements: 10-20 years
- Buildings and building improvements: 20-40 years
- Equipment: 5-10 years
## 9. LONG-TERM OBLIGATIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>June 30, 2013</th>
<th>June 30, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue bonds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984 Commercial Revenue Bonds, due in 2014 and 2015; average interest rate</td>
<td>$1,200</td>
<td>$1,800</td>
</tr>
<tr>
<td>往来 1.43% in 2013 and 2012. Monthly interest payments, principal due annually</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in December.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002 Revenue Bonds average interest rate was 4.47% in 2013 and 5.09% in 2012</td>
<td>-</td>
<td>10,015</td>
</tr>
<tr>
<td>2006 Series A Revenue Bonds, due in varying amounts from 2032 to 2040;</td>
<td>25,500</td>
<td>25,500</td>
</tr>
<tr>
<td>average interest rate was 4.73% in 2013 and 2012. Semi-annual interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006 Series B Revenue Bonds, due in varying amounts from 2014 to 2032;</td>
<td>49,905</td>
<td>53,545</td>
</tr>
<tr>
<td>average interest rate was 4.18% in 2013 and 4.11% in 2012. Semi-annual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>interest payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008 Series A Revenue Bonds, due in varying amounts from 2032 to 2034;</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>average interest rate was 3.39% in 2013 and 2.91% in 2012. Monthly interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008 Series B Revenue Bonds, due in varying amounts from 2014 to 2031;</td>
<td>43,110</td>
<td>43,905</td>
</tr>
<tr>
<td>average interest rate was 3.36% in 2013 and 2.91% in 2012. Monthly interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010 Series Revenue Bonds, due in varying amounts from 2021 to 2040;</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>average interest rate was 4.89% in 2013 and 2012. Semi-annual interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012 Series Revenue Bonds, due in varying amounts from 2014 to 2042;</td>
<td>42,195</td>
<td>-</td>
</tr>
<tr>
<td>average interest rate was 3.92% in 2013. Semi-annual interest payments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue bonds</td>
<td>261,910</td>
<td>234,765</td>
</tr>
<tr>
<td>Original issue premiums</td>
<td>6,538</td>
<td>3,551</td>
</tr>
<tr>
<td>Capital lease obligations</td>
<td>29</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td>$268,477</td>
<td>$238,400</td>
</tr>
</tbody>
</table>
All Revenue bonds were issued by certain financing authorities as limited obligations of the authorities payable from amounts received under loan agreements with the University. The bonds are subject to optional redemption by the University prior to maturity on specified dates at a price equal to 100% of the principal amount, plus any accrued interest. The University is required, among other things, to generate net revenue (as defined) at least equal to 110% of maximum annual debt service requirements. The University was in compliance with such requirements at June 30, 2013 and 2012, respectively.

The 2012 Revenue Bonds were issued in October 2012. The proceeds provided funds for certain renovation projects and to refinance part of the 2002 Revenue Bonds.

The fair value of the University’s debt obligation was $264.9 million and $250.5 million at June 30, 2013 and 2012, respectively. The fair value represents the quoted market value for Revenue bonds (Level 2) and carrying amounts for all other debt, which approximates fair value.

Maturities for long-term debt for each of the next five years are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6,520</td>
</tr>
<tr>
<td>2015</td>
<td>5,905</td>
</tr>
<tr>
<td>2016</td>
<td>5,265</td>
</tr>
<tr>
<td>2017</td>
<td>5,330</td>
</tr>
<tr>
<td>2018</td>
<td>6,285</td>
</tr>
<tr>
<td>Thereafter</td>
<td>232,605</td>
</tr>
</tbody>
</table>

The University had available unsecured lines of credit from various banks of $30.7 million and $30.1 million at June 30, 2013 and 2012, respectively, under which there were no borrowings at June 30, 2013 and 2012. These arrangements do not have termination dates and are reviewed periodically. No compensating balances are required or maintained.
10. DERIVATIVE FINANCIAL INSTRUMENTS

The University entered into derivative transactions for the purpose of reducing the cost of utilities under the terms of futures contracts for natural gas that expired in 2013 and impact of fluctuations in interest rates under the terms of interest rate swap agreements that expire in 2034 on total notional amounts of $68.1 million executed with the 2008 Series A and B Revenue Bonds. The University has the option of terminating the interest rate swap agreements on a semi-annual basis commencing in 2020. The fair value of derivative instruments at June 30 in the consolidated balance sheets is as follows (in thousands):

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Line Item</th>
<th>Fair value 2013</th>
<th>Fair value 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas contract</td>
<td>Other assets</td>
<td>$-</td>
<td>$50</td>
</tr>
<tr>
<td>Interest rate contracts,</td>
<td>Other liabilities</td>
<td>($6,844)</td>
<td>($10,369)</td>
</tr>
<tr>
<td>variable to fixed rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The effects of derivative instruments on the consolidated statement of activities and changes in net assets for years ended June 30, 2013 and 2012 are as follows (in thousands):

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Line Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate contracts, variable to fixed rate</td>
<td>Gain/(loss) on investments, net</td>
<td>$3,526</td>
<td>($3,812)</td>
</tr>
<tr>
<td>Natural gas contract</td>
<td>Gain/(loss) on investments, net</td>
<td>($50)</td>
<td>$17</td>
</tr>
</tbody>
</table>

The University paid net settlements to counterparties for interest rate swap agreements and natural gas contracts of $2.0 million and $2.6 million for the years ended June 30, 2013 and 2012, respectively.
11. OPERATING LEASES

The University leases office space and equipment under various operating leases. Lease expense charged to operations was approximately $16.6 million and $14.5 million during 2013 and 2012, respectively.

At June 30, 2013 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$12,760</td>
</tr>
<tr>
<td>2015</td>
<td>11,269</td>
</tr>
<tr>
<td>2016</td>
<td>10,682</td>
</tr>
<tr>
<td>2017</td>
<td>10,311</td>
</tr>
<tr>
<td>2018</td>
<td>10,074</td>
</tr>
<tr>
<td>Thereafter</td>
<td>5,927</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$61,023</strong></td>
</tr>
</tbody>
</table>

12. PENSION PLANS

Retirement benefits are provided for academic employees and certain administrative personnel of the University through direct payments to various funds. Benefits are based upon a percentage of eligible employees’ salaries. Contributions to these funds amount to approximately $13.5 million and $13.8 million for the years ended June 30, 2013 and 2012, respectively.

JUP has a defined contribution plan for employees who work at least 1,000 hours a year. JUP makes contributions to the plan based on a percentage of compensation and years of service within limits established by the IRS. Employees become fully vested after one year of service. Contributions to the plan were approximately $11.9 million and $11.3 million for the years ended June 30, 2013 and 2012, respectively.

The University has a non-contributory defined benefit pension plan for substantially all other full-time employees. Benefits under the plan are based on the employee’s years of service and compensation during the years preceding retirement. Contributions to the plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. In July 2013, the University approved a change to the plan effective January 1, 2014 that will freeze the plan to new employees as well as certain current employees. The University will account for the freeze in fiscal year 2014.
The accounting guidance for defined benefit pension plans requires employers to recognize the overfunded or underfunded projected benefit obligation (“PBO”) of a defined benefit pension plan as an asset or liability in the statement of financial position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through unrestricted net assets.

The components of the net pension plan financial position on the consolidated balance sheets are as follows (in thousands):

<table>
<thead>
<tr>
<th>Component</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit obligation, beginning of year</td>
<td>$146,900</td>
<td>$122,961</td>
</tr>
<tr>
<td>Service cost</td>
<td>4,951</td>
<td>4,235</td>
</tr>
<tr>
<td>Interest cost</td>
<td>6,233</td>
<td>6,587</td>
</tr>
<tr>
<td>Net experience (gain)/loss</td>
<td>(12,702)</td>
<td>17,119</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,210)</td>
<td>(4,002)</td>
</tr>
<tr>
<td>Projected benefit obligation, end of year</td>
<td>$141,172</td>
<td>$146,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets, beginning of year</td>
<td>$117,340</td>
<td>$105,843</td>
</tr>
<tr>
<td>Actual return of plan assets</td>
<td>6,917</td>
<td>4,939</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>6,096</td>
<td>10,560</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(4,210)</td>
<td>(4,002)</td>
</tr>
<tr>
<td>Fair value of plan assets, end of year</td>
<td>$126,143</td>
<td>$117,340</td>
</tr>
</tbody>
</table>

| Plan funded status                           | ($15,029)| ($29,561)|

Amounts recognized in unrestricted net assets consist of:

<table>
<thead>
<tr>
<th>Component</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial loss</td>
<td>$41,013</td>
<td>$55,714</td>
</tr>
</tbody>
</table>
The accumulated benefit obligation was $130.4 million and $136.7 million at June 30, 2013 and June 30, 2012, respectively.

The components of pension expense for the plan were as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$4,951</td>
<td>$4,235</td>
</tr>
<tr>
<td>Interest cost</td>
<td>6,233</td>
<td>6,587</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(8,893)</td>
<td>(9,064)</td>
</tr>
<tr>
<td>Amortization of net actuarial loss</td>
<td>3,975</td>
<td>2,341</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>6,266</td>
<td>4,099</td>
</tr>
</tbody>
</table>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial (gain)/loss</td>
<td>(10,726)</td>
<td>21,244</td>
</tr>
<tr>
<td>Amortization of net actuarial gain</td>
<td>(3,975)</td>
<td>(2,341)</td>
</tr>
<tr>
<td>Total recognized in unrestricted net assets</td>
<td>(14,701)</td>
<td>18,903</td>
</tr>
</tbody>
</table>

Total recognized in net periodic benefit cost and unrestricted net assets

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($8,435)</td>
<td>$23,002</td>
</tr>
</tbody>
</table>

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $2.5 million.

Actuarial assumptions used to estimate the June 30 pension obligation were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.89%</td>
<td>4.32%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>7.50%</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

Actuarial assumptions used to determine periodic benefit costs for years ended June 30 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.32%</td>
<td>5.47%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.00%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>7.75%</td>
<td>8.25%</td>
</tr>
</tbody>
</table>
For their defined benefit pension plans, the University and TJUH pool funds for investment and utilize the unitization method of accounting for investments in pooled funds. The University had 34.3% and 35.4% of the total shares of the pooled funds at June 30, 2013 and June 30, 2012, respectively. A summary of the plans’ targeted and actual asset allocations are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0-5%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Bonds</td>
<td>35-40%</td>
<td>39%</td>
<td>41%</td>
</tr>
<tr>
<td>Global equity</td>
<td>40-50%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Real estate and other</td>
<td>10-20%</td>
<td>19%</td>
<td>22%</td>
</tr>
</tbody>
</table>

The portfolio utilizes a long-term asset allocation strategy that allows management to rebalance the asset allocation back to target levels on a monthly basis. Short-term compliance with the target ranges can be impacted by the severity of market conditions.

The expected long-term rate of return for the plan’s assets are based on the historical return of each of the above categories, weighted based on the target allocations for each class.

The assets of the defined benefit pension plan are invested in a manner that is intended to preserve the purchasing power of the plan’s assets and provide payments to beneficiaries. Thus, a rate of return objective of inflation plus 5% is targeted.

The University made a contribution of $6.1 million during fiscal year 2013 and expects to contribute an additional $3.3 million during fiscal year 2014.

Projected benefit payments for the next ten years are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$ 5,476</td>
</tr>
<tr>
<td>2015</td>
<td>5,841</td>
</tr>
<tr>
<td>2016</td>
<td>6,273</td>
</tr>
<tr>
<td>2017</td>
<td>6,835</td>
</tr>
<tr>
<td>2018</td>
<td>7,385</td>
</tr>
<tr>
<td>2019-2023</td>
<td>43,619</td>
</tr>
<tr>
<td></td>
<td><strong>$75,429</strong></td>
</tr>
</tbody>
</table>
The following tables present the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2013 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ -</td>
<td>$2,271</td>
<td>$ -</td>
<td>$2,271</td>
</tr>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td>23</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global equity</td>
<td></td>
<td>53,143</td>
<td></td>
<td>53,143</td>
</tr>
<tr>
<td>Fixed income</td>
<td></td>
<td>45,157</td>
<td></td>
<td>45,157</td>
</tr>
<tr>
<td>Hedge funds</td>
<td></td>
<td></td>
<td>20,721</td>
<td>20,721</td>
</tr>
<tr>
<td>Private equity</td>
<td></td>
<td></td>
<td>1,374</td>
<td>1,374</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td>383</td>
<td>383</td>
</tr>
<tr>
<td>Total</td>
<td>$3,094</td>
<td>$100,571</td>
<td>$22,478</td>
<td>$126,143</td>
</tr>
</tbody>
</table>

The following table presents the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2012 (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ -</td>
<td>$4,476</td>
<td>$ -</td>
<td>$4,476</td>
</tr>
<tr>
<td>Equity securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td>11,252</td>
<td></td>
<td>11,252</td>
</tr>
<tr>
<td>Fixed income securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td>2,097</td>
<td></td>
<td>2,097</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td>23,857</td>
<td></td>
<td>23,857</td>
</tr>
<tr>
<td>Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equity</td>
<td></td>
<td>15,231</td>
<td></td>
<td>15,231</td>
</tr>
<tr>
<td>International equity</td>
<td></td>
<td>9,127</td>
<td></td>
<td>9,127</td>
</tr>
<tr>
<td>Global equity</td>
<td></td>
<td>5,910</td>
<td></td>
<td>5,910</td>
</tr>
<tr>
<td>Fixed income</td>
<td></td>
<td>21,658</td>
<td></td>
<td>21,658</td>
</tr>
<tr>
<td>Hedge funds</td>
<td></td>
<td></td>
<td>17,778</td>
<td>17,778</td>
</tr>
<tr>
<td>Private equity</td>
<td></td>
<td>38</td>
<td>1,835</td>
<td>1,873</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>3,224</td>
<td>857</td>
<td>4,081</td>
</tr>
<tr>
<td>Total</td>
<td>$11,252</td>
<td>$85,618</td>
<td>$20,470</td>
<td>$117,340</td>
</tr>
</tbody>
</table>
The following tables include a roll-forward of the amounts for the years ended June 30, 2013 and 2012 (in thousands) for plan assets classified within Level 3. The classification of plan assets within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no significant transfers between Levels 1 and 2 during 2013 and 2012.

<table>
<thead>
<tr>
<th></th>
<th>Hedge Funds</th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2012</td>
<td>$17,778</td>
<td>$1,835</td>
<td>$857</td>
<td>$20,470</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>2,184</td>
<td>40,804</td>
<td>22</td>
<td>43,010</td>
</tr>
<tr>
<td>Dispositions</td>
<td>-</td>
<td>(46,324)</td>
<td>(118)</td>
<td>(46,442)</td>
</tr>
<tr>
<td>Realized gain (loss), net</td>
<td>-</td>
<td>5,148</td>
<td>(146)</td>
<td>5,002</td>
</tr>
<tr>
<td>Unrealized gain, net</td>
<td>758</td>
<td>(89)</td>
<td>(232)</td>
<td>437</td>
</tr>
<tr>
<td>Balance at June 30, 2013</td>
<td>$20,721</td>
<td>$1,374</td>
<td>$383</td>
<td>$22,478</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Hedge Funds</th>
<th>Private Equity</th>
<th>Real Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at July 1, 2011</td>
<td>$11,818</td>
<td>$2,264</td>
<td>$929</td>
<td>$15,011</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>10,351</td>
<td>(24)</td>
<td>111</td>
<td>10,438</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(6,084)</td>
<td>(632)</td>
<td>(95)</td>
<td>(6,811)</td>
</tr>
<tr>
<td>Realized gain (loss), net</td>
<td>341</td>
<td>57</td>
<td>(301)</td>
<td>97</td>
</tr>
<tr>
<td>Unrealized gain, net</td>
<td>1,352</td>
<td>170</td>
<td>213</td>
<td>1,735</td>
</tr>
<tr>
<td>Balance at June 30, 2012</td>
<td>$17,778</td>
<td>$1,835</td>
<td>$857</td>
<td>$20,470</td>
</tr>
</tbody>
</table>

### Participation in Multiemployer Defined Benefit Pension Plan

The University is a participating employer in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the Pension Fund), a jointly-trusted multiemployer defined benefit pension plan. The Pension Fund is operated for the benefit of Chapter 1199C of the American Federation of State, County and Municipal Employees (the Union). Information about the Pension Fund and the University’s participation is summarized below.

The employer identification number for the Pension Fund is 23-2627428.

The University contributions to the Pension Fund were approximately $508,000 and $438,000 for each of the years ended June 30, 2013 and 2012, respectively. These contributions represent less than 5% of the total contributions made to the plan by all contributing employers for each of the plan years ended December 31, 2012 and 2011. There have been no significant changes that affect the comparability of the 2013 and 2012 contributions. At the date the financial statements were issued Form 5500 was not available for the plan years ending in 2013.

A six year collective-bargaining agreement was approved by the Union effective July 1, 2012.
The University’s contribution as a percentage of covered payroll to the Pension Fund over the term of the agreement is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>12.50%</td>
</tr>
<tr>
<td>2014</td>
<td>14.00%</td>
</tr>
<tr>
<td>2015</td>
<td>15.50%</td>
</tr>
<tr>
<td>2016</td>
<td>17.25%</td>
</tr>
<tr>
<td>2017</td>
<td>18.75%</td>
</tr>
<tr>
<td>2018</td>
<td>20.50%</td>
</tr>
</tbody>
</table>

For the Plan Years beginning January 1, 2011 and January 1, 2012, the Pension Fund was determined to be in critical status (also referred to as red zone status) under the Pension Protection Act of 2006. Accordingly, the Pension Fund is subject to a funding improvement plan. The zone status is based on information that the University received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65 percent funding.

At January 1, 2012, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $214,382,614.

### 13. PROFESSIONAL LIABILITY CLAIMS

The University and JUP maintain professional liability insurance under both self-insured and alternative risk financing insurance programs for the distinct services each provides. For all self-insured programs the University and JUP accrue for estimated retained risk liability arising from both asserted and unasserted claims. The estimate of liability is based upon an analysis of historical claims data as prepared by an independent actuary. Accrued professional liability claims of $154.0 million and $168.8 million were included in the consolidated balance sheets at June 30, 2013 and 2012, respectively, using discount rates of 3%. Pursuant to the requirements of accounting guidance for Presentation of Insurance Claims and Related Insurance Recoveries included in accrued professional liability claims is $84.2 and $93.6 million at June 30, 2013 and 2012, respectively, related to estimated liabilities that have been transferred to third parties. A corresponding receivable of $84.2 and $93.6 million is included in insurance receivable in the consolidated balance sheet at June 30, 2013 and 2012, respectively.

Professional liability expense of $27.0 million and $46.8 million is included in the consolidated statement of activities for the years ended June 30, 2013 and 2012, respectively.

Effective July 1, 2005, the University and JUP, for the distinct services each provides, maintain professional liability insurance through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. (“RRG”) which is owned by Jefferson Health System (JHS). For the professional liability coverage only, the RRG is 100% reinsured by a JHS sponsored, non-profit captive protected cell insurance company, Five Pointe Insurance Company, domiciled in Delaware.
JUP participates in the Medical Availability and Reduction of Error Fund (“MCARE Fund”), which is a Pennsylvania governmentally authorized entity that consists of coverage with limits of $500,000 per medical incident and a $1.5 million annual aggregate per physician.

The annual assessments for MCARE Fund coverage are based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as the University’s portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

While management continues to monitor the factors used in making these estimates, the ultimate liability for professional and general liability claims could differ from current estimates due to the inherent uncertainties involved in making such estimates.

TJUH has agreed to partially fund certain JUP payments for professional liability settlements in excess of primary and MCARE coverage limits. Pursuant to these agreements, $1.7 million and $12.0 million is included in the consolidated statement of activities for the years ended June 30, 2013 and 2012, respectively, as hospital reimbursement for physician services and $16.7 million and $21.9 million is included in the consolidated balance sheets as due from TJUH at June 30, 2013 and 2012, respectively.

14. COMMITMENTS AND CONTINGENCIES

Letters of Credit
At June 30, 2013 and 2012, the University had open letters of credit aggregating $69.4 million and $70.8 million, respectively. The letters of credit provide additional security for the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984 Commercial Revenue Bonds (Expiration 3/31/2015)</td>
<td>$1,249</td>
<td>$1,874</td>
</tr>
<tr>
<td>2008 Series A Revenue Bonds (Expiration 3/31/2015)</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>2008 Series B Revenue Bonds (Expiration 3/31/2015)</td>
<td>43,110</td>
<td>43,905</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$69,359</strong></td>
<td><strong>$70,779</strong></td>
</tr>
</tbody>
</table>
Litigation
The University and JUP are involved in litigation and regulatory investigations arising in the ordinary course of business. Based on the information currently available, in the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, changes in net assets or cash flows of the University and JUP.

15. RELATED PARTY

The University provides to TJUH the following services: physician and non-physician personnel and other support necessary to preserve and maintain the tertiary care capacity of TJUH, administrative, finance, human resource, information systems, maintenance and security services. Amounts charged to TJUH were $198.3 million and $187.1 million for the years ended June 30, 2013 and 2012, respectively.

TJUH provides the University with certain office and clinical space, materiels management, information systems services, telecommunications and ancillary services. Expenses incurred from TJUH for these services aggregated approximately $11.4 million and $10.3 million in 2013 and 2012, respectively. At June 30, 2013 and 2012, net receivables from TJUH amounted to $27.4 million and $25.7 million, respectively.

16. SUBSEQUENT EVENTS

The University monitored subsequent events from the date of the consolidated balance sheet through September 16, 2013 for material items that would require and adjustment to or disclosure in the consolidated financial statements.