University of Pennsylvania

Consolidated Financial Statements
June 30, 2014 and 2013

University of Pennsylvania
Index
June 30, 2014 and 2013

Independent Auditor's Report

To the Trustees of the University of Pennsylvania:

We have audited the accompanying consolidated financial statements of the University of Pennsylvania (the "University"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities 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 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 misstatement 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 University'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 sufficient 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 University of Pennsylvania at June 30, 2014 and 2013, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 19, 2014

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University of Pennsylvania
(in thousands)

	June 30, 2014	June 30, 2013
Assets		
Cash and cash equivalents	$ 1,116,472	$ 1,241,370
Accounts receivable, net of allowances of $15,856 and $13,337	298,512	252,286
Patient receivables, net of allowances of $177,599 and $148,345	401,490	339,744
Contributions receivable, net	328,522	334,610
Loans receivable, net of allowances of $3,656 and $3,454	94,078	93,870
Other assets	181,646	133,881
Investments, at fair value	10,800,334	9,283,298
Plant, net of depreciation	4,781,561	4,369,373
Total assets	$ 18,002,615	$ 16,048,432
Liabilities		
Accounts payable	$ 186,556	$ 150,805
Accrued expenses and other liabilities	1,425,904	1,390,978
Deferred income	165,699	169,650
Deposits, advances, and agency funds	122,098	122,387
Federal student loan advances	79,938	79,040
Liabilities associated with investments	183,211	69,339
Accrued retirement benefits	881,787	830,996
Debt obligations	1,985,585	1,941,111
Total liabilities	5,030,778	4,754,306
Net assets		
Unrestricted	6,869,201	5,933,126
Temporarily restricted	2,960,272	2,433,998
Permanently restricted	3,142,364	2,927,002
	12,971,837	11,294,126
Total liabilities and net assets	$ 18,002,615	$ 16,048,432

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Activities

University of Pennsylvania
for the years ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Unrestricted		
Revenue and other support:		
Tuition and fees, net	$ 817,285	$ 797,144
Commonwealth appropriations	31,617	31,480
Sponsored programs	881,298	908,795
Contributions and donor support	175,580	178,766
Investment income	377,122	335,658
Net patient service revenue	3,705,148	3,287,168
Sales and services of auxiliary enterprises	112,446	108,382
Other income	445,190	480,256
Independent operations	64,836	63,384
	6,610,522	6,191,033
Expenses:		
Compensation and benefits	3,670,471	3,449,781
Depreciation and amortization	343,506	314,980
Interest on indebtedness	75,123	77,355
Other operating expenses	2,259,698	2,054,315
	6,348,798	5,896,431
Increase in net assets from operations	**261,724**	**294,602**
Nonoperating revenue, net gains, reclassifications and other:		
Gain on investments, net	614,487	412,443
Investment income, net of amounts classified as operating revenue	(80,486)	(59,540)
Pension and other postretirement plan adjustments	(39,856)	310,150
Contributions and donor support for capital related activities	180,206	61,560
Total nonoperating revenue, net gains, reclassifications and other	674,351	724,613
Increase in unrestricted net assets	936,075	1,019,215
Temporarily Restricted		
Contributions	149,856	207,651
Gain on investments, net	710,697	503,520
Investment income	28,198	42,351
Net assets released from restrictions	(362,477)	(337,068)
Increase in temporarily restricted net assets	526,274	416,454
Permanently Restricted		
Contributions	170,042	142,727
Gain on investments, net	44,589	21,011
Investment income	731	1,093
Increase in permanently restricted net assets	215,362	164,831
Increase in net assets from nonoperating and restricted revenue, net gains, reclassifications and other	**1,415,987**	**1,305,898**
Increase in total net assets	**1,677,711**	**1,600,500**
Net assets, beginning of year	11,294,126	9,693,626
Net assets, end of year	$ 12,971,837	$ 11,294,126

The accompanying notes are an integral part of these consolidated financial statements.

University of Pennsylvania
for the years ended June 30, 2014 and 2013
(in thousands)

	2014	2013
Cash flows from operating activities:		
Increase in net assets	$ 1,677,711	$ 1,600,500
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	343,506	314,980
Provision for bad debts	247,502	197,916
Gain on investments, net	(1,369,773)	(936,974)
Loss on disposal of plant, property and equipment	8,638	393
Donated equipment	(4,503)	(10,048)
Proceeds from split-interest agreements designated for operations	22,500	22,504
Receipt of contributed securities	(78,201)	(77,880)
Proceeds from contributed securities	25,099	16,497
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(320,245)	(159,016)
Pension and other postretirement plan adjustments	39,856	(310,150)
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(324,081)	(157,106)
Contributions receivable	10,379	(57,616)
Other assets	1,961	75,135
Accounts payable, accrued expenses and accrued retirement benefits	45,135	84,177
Deposits, advances and agency funds	(831)	(8,925)
Deferred income	(3,951)	(7,617)
Net cash provided by operating activities	320,702	586,770
Cash flows from investing activities:		
Purchase of investments	(9,021,417)	(9,589,906)
Proceeds from sale of investments	9,009,628	9,480,421
Purchase of plant, property and equipment	(575,857)	(498,735)
Cash acquired in Chester County Health System (TCCHHS) membership substitution	15,397	
Net cash used by investing activities	(572,249)	(608,220)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	161,260	154,698
Proceeds from contributed securities received designated for the acquisition of long-lived assets and long-term investment	43,031	57,539
Federal student loan advances	898	385
Repayment of long-term debt	(178,540)	(73,777)
Proceeds from issuances of long-term debt	100,000	
Net cash provided by financing activities	126,649	138,845
Net (decrease) increase in cash and cash equivalents	(124,898)	117,395
Cash and cash equivalents, beginning of year	1,241,370	1,123,975
Cash and cash equivalents, end of year	$ 1,116,472	$ 1,241,370
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 78,899	$ 79,876
Contributed securities received	78,201	77,880
Accrued plant, property and equipment acquisitions	165,233	121,481
Assets contributed under split-interest agreements	2,914	4,816
Assets acquired in TCCHHS membership substitution	275,183	
Liabilities assumed in TCCHHS membership substitution	118,883	
Contribution received in TCCHHS membership substitution	156,300	

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant Accounting Policies

Organization

The University Of Pennsylvania (the University), located in Philadelphia, Pennsylvania, is an independent, nonsectarian, not-for-profit institution of higher learning founded in 1740. The University Academic Component (Academic Component) provides educational services, primarily for students at the undergraduate, graduate, professional and postdoctoral levels and performs research, training and other services under grants, contracts and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government. The University also operates an integrated health care delivery system, the University of Pennsylvania Health System (UPHS). The University is a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and its subsidiaries, over which the University has a controlling financial interest or exercises control. All material transactions between the University and its subsidiaries are eliminated in consolidation. Investments in subsidiaries over which the University has the ability to exercise significant influence are reported using the equity method of accounting. Other investments in subsidiaries are reported using the cost method of accounting.

The net assets of the University are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted - Net assets that 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 appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.

Permanently restricted – The original value of donor restricted net assets, the use of which is limited to investment and can only be appropriated for expenditure by the University in accordance with the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act).

Expenses are reported as a decrease in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Donor-restricted resources intended for the acquisition or construction of long-lived assets are initially reported as temporarily restricted net assets and released from restrictions from temporarily restricted net assets to unrestricted net assets when the asset is placed in service.

Expirations of temporary restrictions on contributions and investment income are reported as net assets released from restrictions from temporarily restricted net assets. The corresponding amounts are included in the reported unrestricted Consolidated Statements of Activities as follows:

Temporarily Restricted

	2014	2013
Net assets released from restrictions	$ 362,477	$ 337,068

Unrestricted

	2014	2013
Contributions and donor support	$ 102,813	$ 80,389
Investment income	209,766	195,119
Contributions and donor support for capital related activities	49,898	61,560
Net assets released from restrictions	$ 362,477	$ 337,068

Gains on operating assets and liabilities, such as property, plant and equipment sales, license sales, contract settlements and debt retirements are reported in Other income. Losses on operating assets and liabilities are reported in the appropriate expense category. Gains or losses associated with investment activities are included in net gains (losses) on investments.

Certain reclassifications have been made to previously reported amounts in the consolidated financial statements and disclosures to conform to the current presentation.

The University monitors for material subsequent events that may require adjustment to or disclosure in the consolidated financial statements through September 19, 2014, the date the consolidated financial statements were available to be issued.

Fair Value

The University values certain financial and non-financial assets and liabilities by applying the Financial Accounting Standards Board (FASB) pronouncement on *Fair Value Measurements.* The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the University as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable.

Level 3: Unobservable inputs for the asset or liability.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The University is required by the pronouncement to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). The University considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument 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.

Assets and liabilities are disclosed in the Consolidated Notes to Financial Statements within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. The University's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy. The fair value of assets and liabilities using Level 3 inputs are generally determined by using pricing models, discounted cash flow methods or calculated net asset value per share, which all require significant management judgment or estimation.

As a practical expedient, the University is permitted under the pronouncement to estimate the fair value of an investment in 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 (US GAAP). The University's investments in private equity, natural resources, real estate and certain hedge funds in the absolute return portfolio are generally valued based on the most current NAV adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2014 and 2013.

The University performs additional procedures including due diligence reviews on its investments in investment companies and other procedures with respect to the capital account or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with the *Fair Value Measurement* standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and existence of certain redemption restrictions at the measurement date.

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments and are carried at cost which approximates fair value. Unrestricted short-term investments available for current operations with maturities of three months or less when purchased are classified as cash equivalents.

Loans Receivable

Student loans receivable are reported at their net realizable value. Such loans include donor-restricted and federally-sponsored student loans with mandated interest rates and repayment terms. Determination of the fair value of Student loans receivable is not practicable.

The University records an allowance for doubtful accounts related to Student loans receivable as follows (in thousands):

	2014		2013	
	Receivable Balance	**Related Allowance**	**Receivable Balance**	**Related Allowance**
Federally-sponsored student loans	$ 71,218		$ 70,915	
Other student loans	16,844	$ 3,452	16,561	$ 3,250
Total	$ 88,062	$ 3,452	$ 87,476	$ 3,250

Changes in the allowance for doubtful accounts related to Other student loans receivable as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
July 1	$ 3,250	$ 2,997
Add: Provisions	244	284
Less: Recoveries	(42)	(31)
June 30	$ 3,452	$ 3,250

The University regularly assesses the adequacy of the allowance for doubtful accounts related to Student loans receivable by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan program, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University also performs a detailed 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 the allowance is adjusted based on the results of this analysis. The University considers the allowance recorded at June 30, 2014 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

The federally-sponsored student loans receivable represents amounts due from current and former students under various Federal Government funded loan programs, including Perkins and other health professional programs offered to graduate and undergraduate students. Loans disbursed under these programs are able to be assigned to the Federal Government upon default by the borrower, and therefore, no related allowance is considered necessary. Funding received under these programs is ultimately refundable to the Federal Government in the event the University no longer participates and accordingly is reported as a liability in Federal student loan advances in the Consolidated Statements of Position.

Investments, at Fair Value

The University's Associated Investments Fund (AIF) is invested in accordance with the investment policies set out by an Investment Board which has been appointed by the Trustees. The Office of Investments is responsible for the day-to-day management of the portfolio including identifying, selecting and monitoring a variety of external investment managers to implement the strategic asset allocation set forth by the Investment Board. The University's investment portfolio may include marketable and not readily marketable securities that it intends to hold for an indefinite period of time. Changes in the fair value of investments are reported in Gains or losses on investment in the Consolidated Statements of Activities. The following is a summary of the investments held in the AIF by asset allocation as well as investment risk:

Short-Term

Short-term investments include cash equivalents and fixed income investments with maturities of less than one year. Short-term investments are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets. The majority of these short-term investments are held in a US Treasury money market account.

Equity

Equity investments consist of direct holdings of public securities in managed accounts as well as exchange traded funds, mutual funds, commingled funds and limited partnerships. The securities held in managed accounts, mutual funds and exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt

Debt investments consist of direct holdings of securities in managed accounts and a single limited partnership. Securities such as US Treasuries, held in managed accounts, are valued based on quoted market prices in active markets and are categorized as Level 1. Securities such as corporate bonds, high yield bonds and bank loans, also held in managed accounts, are valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3. A limited partnership interest in a fund dedicated to credit investments is valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified at Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Absolute Return

Absolute return investments are made up of allocations to partnerships. The fund managers invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Illiquid investments, if any, are generally designated as a side pocket by hedge fund managers and may be valued based on an appraised value, discounted cash flow, industry comparables or some other method. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3. Side pocket investments are classified as Level 3.

Private Equity

Investments in private equity are in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3.

Real Estate

Investments in real estate are primarily in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3. Real estate investments also include an open-ended real estate investment trust which is categorized as a Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Natural Resources

Investments in natural resources are made up of limited partnership interests, securities in a managed account and a commingled fund. The limited partnership fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3. The University directly holds the securities held in the managed account through a custodial relationship. The securities held in the managed account are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. The commingled fund is valued at NAV and is categorized as Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Derivatives

The University, in the normal course of business, utilizes derivative financial instruments in connection with its investment activity. Derivatives utilized by the University include futures, options, swaps and forward currency contracts and are reflected at fair value following the definition of Level 1 and 2 assets and liabilities as previously described. Investments in derivative contracts are subject to foreign exchange and equity price risks that can result in a loss of all or part of an investment. In addition, the University is also subject to additional counterparty risk should its counterparties fail to meet the terms of their contracts.

Investment Risks

The University's investing activities expose it to a variety of risks, including market, credit and liquidity risks and attempts to identify, measure and monitor risk through various mechanisms including risk management strategies and credit policies.

Market risk is the potential for changes in the fair value of the University's investment portfolio. Commonly used categories of market risk include currency risk (exposure to exchange rate differences between functional currency relative to other foreign currencies), interest rate risk (changes to prevailing interest rates or changes in expectations of futures rates) and price risk (changes in market value other than those related to currency or interest rate risk, including the use of NAV provided).

Credit risk is the risk that one party to a financial investment will cause a financial loss for the other party by failing to discharge an obligation (counterparty risk).

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities.

Endowment

The University's endowment consists of 5,539 donor-restricted permanent or term endowment funds and 844 unrestricted endowment funds established by management for a variety of purposes. The University reports all endowment investments at fair value. The majority of the endowment funds of the University have been pooled in the University's AIF, which is invested in equities, bonds, hedge funds, natural resources, private equity and real estate limited partnerships. The endowment funds not pooled in the AIF are primarily invested in equities and bonds.

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 does not require the preservation of the fair value of a donor's original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary. However, based on its interpretation of the Pennsylvania Act and relevant accounting literature, the University classifies as permanently restricted net assets for reporting purposes: (i) the original value of gifts donated to the permanent endowment; (ii) the original value of subsequent gifts to the permanent endowment; and (iii) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure between 2% and 7% of the endowment fair value, determined at least annually and averaged over a period of three or more preceding years.

In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board of Trustees has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2014, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds. The payout or allocation to operations exceeded actual income, net of expenses and net of income permanently reinvested, by $258,528,000 in 2014 and by $209,372,000 in 2013.

The University expects to use the current spending rule formula with no adjustments for Fiscal Year 2015.

Plant

Plant, including equipment, is reported net of related depreciation. Donated Plant is reported based on estimated fair value at the date of acquisition. Capital leases are categorized as buildings or equipment and are reflected at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. All other Plant, including land, is reported at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 50 years for buildings and improvements and 4 to 20 years for equipment or the shorter of the lease term or estimated useful life of the asset for capital lease assets. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting net gain or loss is included in other income or total expenses, respectively. Rare books and other collectibles, which appreciate in value, are not subject to depreciation.

Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, pooled income funds, perpetual trusts and charitable lead trusts. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

The University recognizes assets contributed to charitable remainder trusts, charitable gift annuities and pooled income funds, where it serves as trustee, at fair value, recognizes a liability to the beneficiaries based on the present value of the estimated future payments to beneficiaries to be made over the estimated remaining life of those beneficiaries using current market rates at the date of the contribution, and recognizes the difference as contribution revenue. Subsequently, the trust assets, invested in equity and debt securities, are measured at fair value at quoted market prices, and are categorized as Level 1, with the changes reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. Liabilities to beneficiaries are revalued based on current market rates, and are categorized as Level 2, with the changes reported as an adjustment to Liabilities associated with investments on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities.

Charitable remainder trust assets, where the University does not serve as trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution. The initially contributed assets are categorized as Level 3, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. The primary unobservable input used in the fair value measurement of the Charitable remainder trust assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value.

Perpetual trust assets are initially valued at the current fair value of the underlying assets using observable market inputs based on its beneficial interest in the trust. The initially contributed assets are categorized as Level 3 and are reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the trust. Significant fluctuation in the market value of these underlying securities could result in a material change in fair value.

Charitable lead trust assets contributed prior to July 1, 2010 were initially valued based on estimated future payments discounted to a single present value using current market rates at the date of the contribution, matched to the payment period of the agreement. Effective July 1, 2010, the University elected to fair value new charitable lead trust assets contributed under the FASB Fair Value Option standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, matched to the payment period of the agreement. The initially contributed assets are categorized as Level 3, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. The primary unobservable input used in the fair value measurement of the Charitable lead trust assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value.

Income Taxes

The University is a tax exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Most of its activities and income are related to its exempt purposes and are exempt from federal and state income taxes. None of its activities and income is subject to Pennsylvania income tax. Unrelated activities and income including certain sales of healthcare related products and services and certain sales of computer hardware and software are subject to federal "Unrelated Business Income Tax." Investments in certain partnerships are subject to state (other than Pennsylvania), where applicable, and federal "Unrelated Business Income Tax."

The University evaluates its tax position based on the FASB standard on Accounting for Uncertainty in Income Taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. The first step is recognition: the University determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the University presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Difference between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in an increase in a liability for income taxes payable or a reduction of an income tax refund receivable.

Income tax expense, including any related penalties and interest, for operating activities are reported in the same functional expense category as the activity. Income tax expense, including any related penalties and interest, for investing activities are reported with the associated investment activity in investment income or investment gains and losses.

Tuition and Fees

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. This policy provides financial aid to eligible students in the form of direct grants and employment during the academic year. The University maintains a no-loan policy whereby any qualified undergraduate student with demonstrated financial need receives a loan-free aid package. Students may still borrow at their discretion to supplement their aid packages. Tuition and fees have been reduced by certain grants and scholarships in the amount of $294,621,000 in 2014 and $280,189,000 in 2013.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2014 and 2013, grant and contract revenue earned from governmental sources totaled $724,989,000 and $764,155,000, respectively, of which revenue earned under the American Recovery and Reinvestment Act (ARRA) totaled $9,773,000 and $31,102,000. The University recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on federally-sponsored programs are generally based on predetermined reimbursement rates which are stated as a percentage and distributed based on the modified total direct costs incurred. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. 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.

Contributions

Unrestricted Contributions and donor support includes net assets released as a result of corresponding expenditures which met donor imposed restrictions. Contributions, including unconditional promises to donate, cash and other assets, are recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating revenue, net gains, reclassifications and other. Unconditional pledges received prior to July 1, 2010 are recognized at their estimated net present value using current market rates, at the date of the pledge, ranging from 2.69% to 5.82%, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category.

Effective July 1, 2010, the University elected to fair value new unconditional pledges received under the FASB Fair Value Option standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, ranging from 0.92% to 3.17%, matched to the payment period of the agreement, and accordingly categorizes these assets as Level 3. The primary unobservable input used in the fair value measurement of the University's Contributions receivable is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change.

Net Patient Service Revenue

Net patient service revenue is derived primarily from UPHS patient services and is accounted for at established rates on the accrual basis in the period the service is provided. Patient service revenue is net of charity care and community services. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

Allocation of Certain Expenses

The Functional Classification of Expenditures disclosure allocates operation and maintenance of plant and depreciation to functional classifications based on square footage. Interest expense is allocated to the functional classifications of the activity that directly benefited from the proceeds of the debt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by management include the valuation of alternative investments, the estimated net realizable value of patient and contributions receivables and the actuarially determined pension and other postretirement benefits, malpractice and self-insurance reserves. Actual results could differ from those estimates.

Recent Authoritative Pronouncements

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2016. University management is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2018.

2. University of Pennsylvania Health System - Summarized financial information

The Trustees of the University of Pennsylvania formed Penn Medicine, the governance structure which oversees the activities of UPHS and the University of Pennsylvania Perelman School of Medicine. The governing body operates, oversees and coordinates the academic, research and clinical missions of Penn Medicine.

UPHS is comprised of the Clinical Practices of the University of Pennsylvania, Clinical Care Associates, Hospital of the University of Pennsylvania, Penn Presbyterian Medical Center, Pennsylvania Hospital of the University of Pennsylvania Health System, Wissahickon Hospice of the University of Pennsylvania Health System, Franklin Casualty Insurance Company, a wholly owned Risk Retention Group, and Quaker Insurance Company Ltd., a wholly owned offshore captive insurance company, (collectively referred to as RRG/Captive). In September 2013, through a membership substitution, The Chester County Hospital and Health System (TCCHHS) became part of UPHS.

Effective September 1, 2013, UPHS has agreed to become the corporate member of TCCHHS, a non-profit health system located in West Chester, PA, under the terms of a membership substitution transaction. UPHS acquired $275,183,000 of total assets, consisting primarily of property, plant and equipment, and assumed $118,883,000 of total liabilities consisting primarily of long-term debt obligations. Net assets of $156,300,000 were recorded as a nonoperating Contribution on the Consolidated Statements of Activities in the respective net asset classes, of which $12,254,000 was temporarily restricted and $13,738,000 was permanently restricted.

Throughout the year, certain transactions are conducted between UPHS and the University. The effect of these transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services and support for the Perelman School of Medicine) is included in the summarized financial information of UPHS. The University owed UPHS $1,008,000 at June 30, 2014 and UPHS owed the University $119,000 at June 30, 2013. This represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers to the University of $110,926,000 and $87,354,000 in 2014 and 2013, respectively, to further the research and educational activities of the Perelman School of Medicine and $2,601,000 and $3,576,000 in 2014 and 2013, respectively, for other activities. In addition, UPHS recognized operating expenses of $21,411,000 and $21,966,000 in 2014 and 2013, respectively, to support academic operating activities in the clinical departments of the Perelman School of Medicine. These transfers are eliminated in the consolidated financial statements.

During 2012, UPHS received the initial payment of the incentive relating to Electronic Health Records (EHR), as part of ARRA. The Health Information Technology for Economic and Clinical Health Act provision within ARRA allowed for incentives of $19 billion to hospitals who implement and meaningfully use EHR technology by 2014. In accordance with FASB's standard on *Gain Contingencies*, when all contingencies have been met and the funds have been received, UPHS recognizes these incentives as Other revenue. UPHS received $15,432,000 and $23,974,000 as of June 30, 2014 and 2013, respectively.

Net Patient Service Revenue

Net patient service revenue, net of contractual allowances and discounts, excluding bad debt, is as follows for the year ending June 30, 2014:

	Third Party Payors	Self-Pay	Total All Payors
Net Patient Service Revenue	$ 3,714,037	$ 237,066	$ 3,951,103

Net patient service revenue for the years ending June 30, 2014 and 2013 is derived from the following payors:

	2014	2013
Medicare (including Managed Medicare)	26%	26%
Medicaid (including Managed Medicaid)	14%	15%
Managed Care	33%	33%
Independence Blue Cross	17%	17%
Commercial	4%	4%
Self Pay	6%	5%
	100%	100%

The provision for bad debt is based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. UPHS provides care to patients who do not have health insurance or meet the criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain amounts are deemed to be uncollectible. These amounts are classified in the Provision for bad debt in the UPHS summarized financial information below. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including 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 to establish an appropriate allowance for uncollectible accounts. No significant modifications were made for Fiscal Years 2014 or 2013. After satisfaction of amounts due from insurance and reasonable efforts to collect from patients have been exhausted, UPHS 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 UPHS. Account receivables are written off after collection efforts have been followed in accordance with UPHS' policy. UPHS' provision for bad debts totaled $239,649,000 and $191,479,000 for 2014 and 2013, respectively, which is reported as a reduction to Net patient service revenue in the table on page 16.

Third-Party Payors

During 2012, UPHS and Independence Blue Cross (IBC) reached agreement on terms of a four-year agreement effective July 1, 2012. Payments made for inpatient services provided to IBC traditional and managed care subscribers are effected on a per case rate basis for most services. Payment for outpatient services is principally based upon negotiated fee schedules. Hospital and physician rates also provide for annual inflationary increases. In addition, incentives are paid for high performance with regard to clinical outcomes and patient quality.

During 2010, UPHS and Aetna reached agreement on terms of a five-year agreement. The terms of the agreement provide payments for inpatient hospital services on a per case rate basis. Payments for outpatient services continue to be predominantly based upon negotiated fee schedules.

UPHS also has reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled. The 2014 and 2013 net patient service revenue was increased by $1,197,000 and $4,726,000, respectively, as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary.

Charity Care

UPHS provides services to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than UPHS' established rates. Because UPHS does not pursue collections, such amounts have been excluded from Net Patient service revenue.

In accordance with the FASB standard on *Measuring Charity Care for Disclosure,* UPHS estimates the costs of providing charity care services based on data derived from a combination of UPHS' cost accounting system and the ratio of costs to charges. Of the Total expenses reported by UPHS below, an estimated $10,680,000 and $8,530,000 were incurred as a result of providing services to charity patients for the years ended June 30, 2014 and 2013, respectively.

Summarized financial information for UPHS as of and for the years ended June 30, 2014 and 2013, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2014	2013
Net patient service revenue	$ 3,951,103	$ 3,487,651
Provision for bad debt	(239,649)	(191,479)
Net patient service revenue less bad debts	3,711,454	3,296,172
Other revenue	227,772	204,806
Total expenses	(3,647,836)	(3,315,846)
Excess of revenues over expenses from operations	291,390	185,132
Other unrestricted income, net	147,175	111,206
Excess of revenue over expenses	438,565	296,338
Nonoperating, net	66,241	141,822
Unrealized gain, net	57,911	36,192
Increase in net assets	$ 562,717	$ 474,352
Total current assets	$ 1,200,386	$ 1,158,609
Assets whose use is limited		
(including board designated funds of $1,147,562 and $975,684 and		
trustee held funds of $8,546 and $13,586 for 2014 and 2013, respectively)	1,818,089	1,557,413
Plant, net of depreciation	1,852,090	1,471,979
Investments and other assets	619,870	552,108
Total assets	$ 5,490,435	$ 4,740,109
Total current liabilities	$ 619,555	$ 613,214
Long-term debt, net of current portion	917,425	796,887
Other liabilities	1,350,198	1,289,468
Total liabilities	2,887,178	2,699,569
Net assets		
Unrestricted	2,057,377	1,581,325
Temporarily restricted	380,837	321,370
Permanently restricted	165,043	137,845
Total net assets	2,603,257	2,040,540
Total liabilities and net assets	$ 5,490,435	$ 4,740,109

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $15,856,000 and $13,337,000 at June 30, 2014 and 2013, respectively, are as follows (in thousands):

	2014	2013
Sponsored research	$ 115,251	$ 89,796
Malpractice	99,106	72,445
Student	16,266	13,575
Trade	33,895	31,233
Investment income	5,845	16,200
Other	28,149	29,037
Total Accounts receivable	$ 298,512	$ 252,286

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2014 and 2013 (in thousands):

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	$ 161,293	$ 146,793
One year to five years	191,781	214,847
Over five years	35,399	40,834
	388,473	402,474
Less: Discount	(24,987)	(32,863)
Less: Allowance for doubtful amounts	(34,964)	(35,001)
Total Contributions receivable, net	$ 328,522	$ 334,610

At June 30, 2014 and 2013, the University has outstanding unrecorded conditional promises to give, including non-legally binding bequests, of $213,487,000 and $212,552,000, respectively. When they become unconditional promises to give or are received in cash or kind, they will be recorded and generally will be restricted for operations, endowment and capital projects as stipulated by the donors.

5. Other Assets

The major components of other assets at June 30, 2014 and 2013, respectively, are as follows (in thousands):

	2014	2013
Goodwill	$ 24,888	$ 24,888
Inventory	33,624	27,239
Prepaid expenses	65,941	40,295
Deferred financing fees	12,302	12,778
FICA refund	2,209	4,820
Interest in partnerships	21,080	2,512
Other	21,602	21,349
Total Other assets	$ 181,646	$ 133,881

Goodwill of $24,888,000 at June 30, 2014 and 2013, respectively, associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into UPHS, is reviewed for impairment on an annual basis by comparing the reporting unit's carrying value to its fair value calculated using a discounted cash flow approach, which incorporates market participant data, or sooner if indicators of impairment arise. There were no goodwill impairments during Fiscal Year 2014.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical and dental residents are excepted from the Federal Insurance Contributions Act (FICA) taxes based on the student exception under the IRS Code section 3121(b)(10). The IRS started making payments to the University for tax and interest during Fiscal Year 2012. Other assets includes estimated payments due from the IRS of $2,209,000 and $4,820,000, at June 30, 2014 and 2013, respectively. Accrued expenses and other liabilities includes the estimated amounts payable to the residents of $931,000 and $44,989,000 at June 30, 2014 and 2013, respectively. Since the employer tax and interest was estimated in prior periods, the statements of activities for Fiscal Year 2014 and 2013 were not significantly impacted.

6. Investments, at Fair Value

A summary of investments, including the AIF, measured at fair value in accordance with the *Fair Value Measurements* standard, as of June 30, 2014 and 2013 is as follows (in thousands):

Assets	Level 1	Level 2	Level 3	2014
Short-term	$ 801,019			$ 801,019
Equity:				
US equities	1,158,554	$ 451,428	$ 313,465	1,923,447
International equities	442,956	658,309	178,891	1,280,156
Emerging market equities	113,801	485,870	284,068	883,739
Total Equity	1,715,311	1,595,607	776,424	4,087,342
Debt:				
US treasuries	1,258,771			1,258,771
Corporate bonds		40,763		40,763
High yield			1,225	1,225
Total Debt	1,258,771	40,763	1,225	1,300,759
Split-interest agreements	77,198		431,677	508,875
Absolute return		905,494	1,541,251	2,446,745
Real estate		45,228	410,214	455,442
Private equity			854,217	854,217
Natural resources	73,680	76,033	189,665	339,378
Derivative instruments	776	4,048		4,824
Other			1,733	1,733
Total assets	$ 3,926,755	$ 2,667,173	$ 4,206,406	$ 10,800,334

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 547,229			$ 547,229
Equity:				
US equities	1,243,598	$ 218,695	$ 224,440	1,686,733
International equities	324,845	716,858	135,138	1,176,841
Emerging market equities	111,698	338,487	73,132	523,317
Total Equity	1,680,141	1,274,040	432,710	3,386,891
Debt:				
US treasuries	1,199,303			1,199,303
Corporate bonds		42,717	1	42,718
High yield		29,422	1,947	31,369
Total Debt	1,199,303	72,139	1,948	1,273,390
Split-interest agreements	69,946		414,712	484,658
Absolute return		563,548	1,585,102	2,148,650
Real estate		40,984	410,649	451,633
Private equity			684,639	684,639
Natural resources	63,213	55,805	173,653	292,671
Derivative instruments	8,206	3,702		11,908
Other			1,629	1,629
Total assets	$ 3,568,038	$ 2,010,218	$ 3,705,042	$ 9,283,298

A summary of Liabilities associated with investments as of June 30, 2014 and 2013 is as follows (in thousands):

Liabilities	Level 1	Level 2	Level 3	2014
Securities sold, not yet purchased	$ 128,697	$ 10,642		$ 139,339
Derivative instruments	54	4,367		4,421
Split-interest agreements		36,607		36,607
Other	2,844			2,844
Total liabilities	$ 131,595	$ 51,616	$ -	$ 183,211

Liabilities	Level 1	Level 2	Level 3	2013
Securities sold, not yet purchased	$ 28,849			$ 28,849
Derivative instruments	746	$ 381		1,127
Split-interest agreements		38,756		38,756
Other	607			607
Total liabilities	$ 30,202	$ 39,137	$ -	$ 69,339

The liabilities depicted above include $30,579,000 segregated in this year's presentation for comparability to the June 30, 2014 presentation.

Included in Short-term investments is $3,053,000 and $7,470,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, Short-term investments include $86,485,000 and $72,480,000, respectively, of outstanding receivables from trading activities. At June 30, 2014 and 2013, Short-term investments include $65,813,000 and $57,152,000, respectively, of outstanding payables from trading activities.

Changes in the fair value of the University's Level 3 investments as of June 30, 2014 and 2013 are as follows (in thousands):

	June 30, 2013	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2014
Equity:								
US equities	$ 224,440		$ 37,860	$ 151,670		$ 50,724	$ (151,229)	$ 313,465
International equities	135,138	$ 10,702	43,884		$ (10,833)			178,891
Emerging market equities	73,132		71,061	166,700			(26,825)	284,068
Debt:								
Corporate bonds	1	(1)	1		(1)			-
High yield	1,947		562		(1,284)			1,225
Split-interest agreements	414,712	10,385	11,013	18,391	(22,824)			431,677
Absolute return	1,585,102	60,402	117,862	267,069	(193,947)	25,028	(320,265)	1,541,251
Real estate	410,649	35,404	22,126	76,474	(134,439)			410,214
Private equity	684,639	75,016	99,118	137,302	(140,380)	63	(1,541)	854,217
Natural resources	173,653	16,717	19,118	26,383	(46,206)			189,665
Other	1,629	(9)	131		(18)			1,733
Total	$ 3,705,042	$ 208,616	$ 422,736	$ 843,989	$ (549,932)	$ 75,815	$ (499,860)	$ 4,206,406

	June 30, 2012	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2013
Equity:								
US equities	$ 1,578		$ 4,440	$ 220,000			$ (1,578)	$ 224,440
International equities	111,911		23,227					135,138
Emerging market equities	94,068		(3,544)	27,601	$ (74)		(44,919)	73,132
Debt:								
Corporate bonds	600				(2)		(597)	1
High yield	3,323		785		(2,161)			1,947
Split-interest agreements	413,997	$ 4,080	18,864	1,465	(23,694)			414,712
Absolute return	910,637	10,637	117,497	518,544	(155,537)	$ 183,324		1,585,102
Real estate	362,872	16,292	15,026	74,109	(57,650)			410,649
Private equity	607,969	62,234	7,429	111,100	(105,776)	1,683		684,639
Natural resources	199,537	34,220	(27,708)	22,599	(54,995)			173,653
Other	1,135	(122)	19			597		1,629
Total	$ 2,707,627	$ 127,341	$ 156,035	$ 975,418	$ (399,889)	$ 185,604	$ (47,094)	$ 3,705,042

Level 3 investments at June 30, 2014 include net unrealized gains recorded during Fiscal Year 2014 of $620,936,000. Level 3 investments at June 30, 2013 include net unrealized gains recorded during Fiscal Year 2013 of $279,243,000.

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2014 and 2013 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2014 and 2013 were due primarily to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in Absolute Return investments.

The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. The University has also made commitments to various limited partnerships. The University expects these funds to be called over the next 5 years. The total amount of unfunded commitments is $1,507,305,000 which represents 16.4% of the AIF value as of June 30, 2014. Details on the fair value, remaining estimated life, outstanding commitments, current redemption terms and restrictions by strategy and type of investment are provided below (in thousands):

Strategy	Fair Value	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Restrictions
Short-term	$ 801,019	N/A	$ -	Daily	None
Equity					
Managed accounts	1,277,980	N/A	-	Daily and semi-annually	Lock-up provisions range from none to 1 year
Mutual funds	188,029	N/A	-	Daily	None
Exchange traded funds	39,541	N/A	-	Daily	None
Commingled funds	998,822	N/A	-	Weekly to quarterly with varying notice periods	None
Partnerships	1,582,970	N/A	85,300	Quarterly to annually with varying notice periods	Lock-up provisions ranging from 0 to 2 years and $9 million of side pocket investments
Total Equity	4,087,342		85,300		
Debt					
Managed accounts	1,299,534	N/A	-	Daily	None
Partnership	1,225	N/A	-	N/A	Illiquid side pocket investments
Total Debt	1,300,759				
Absolute return	2,446,745	N/A	190,690	Quarterly, annually, and 2 years with varying notice periods. Excludes 14 limited partnerships with no redemptions permitted. Distributions received as underlying investments are liquidated.	Lock-up provisions ranging from 0 to 2 years with some earlier redemptions permitted subject to redemption fee. Excludes $332 million in 14 limited partnerships with no redemptions permitted and $109 million of side pocket investments.
Real estate	455,442	1 to 13 years	421,964	Redemptions not permitted. Distributions received as underlying investments are liquidated. Excludes 1 fund with quarterly liquidity on 90 day notice period.	N/A
Private equity	854,217	1 to 16 years	719,245	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Natural resources					
Managed account	73,680	N/A	-	Daily	None
Commingled fund	76,033	N/A	-	Daily	None
Partnerships	189,665	2 to 14 years	90,106	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Total Natural resources	339,378		90,106		
Totals	$ 10,284,902		$ 1,507,305		

Included in Level 1 Split-interest agreement investments above are readily marketable assets invested by the University separately from the AIF where the University serves as trustee with an aggregate fair value of $77,198,000 and $69,947,000 at June 30, 2014 and 2013, respectively. Level 3 Split-interest agreement investments are managed and invested outside of the University by external trustees.

Invested in the AIF with an aggregate fair value of $144,559,000 and $128,984,000 at June 30, 2014 and 2013, respectively, is a perpetual trust managed by an external trustee who has delegated investment decisions to the University. The University invests the assets of this trust in accordance with its Endowment Policy.

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $31,171,000 and $33,387,000 as of June 30, 2014 and 2013, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

A summary of Level 3 assets included in Split-interest agreements, where the University is not trustee, measured at fair value, as of June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Charitable remainder trusts	$ 6,974	$ 6,089
Charitable lead trusts	148,208	171,224
Perpetual trusts	276,495	237,399
Total	$ 431,677	$ 414,712

Changes to the reported amounts of Split-interest agreements measured at fair value using unobservable (Level 3) inputs as of June 30, 2014 and 2013 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2013	$ 6,089	$ 171,224	$ 237,399	$ 414,712
Net realized gains			10,384	10,384
Net unrealized gains/(losses)	116	(516)	11,414	11,014
Acquisitions	769		17,622	18,391
Liquidations		(22,500)	(324)	(22,824)
June 30, 2014	$ 6,974	$ 148,208	$ 276,495	$ 431,677

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2012	$ 5,675	$ 186,157	$ 222,165	$ 413,997
Net realized gains	274		3,806	4,080
Net unrealized gains	3	7,571	11,290	18,864
Acquisitions	1,327		138	1,465
Liquidations	(1,190)	(22,504)		(23,694)
June 30, 2013	$ 6,089	$ 171,224	$ 237,399	$ 414,712

The following tables set forth the fair value, related gain (loss) and notional amount of the University's derivative instruments by contract type as of June 30, 2014 and 2013 (in thousands):

2014	Notional Amount	Gross Derivative Assets	Gross Derivative Liabilities	Dervative Gains (Losses)
Foreign currency contracts	$ 151,370	$ 908	$ 1,290	$ 12,028
Futures contracts				1,601
Options contracts	7,880	985	353	(867)
Swaps	32,527	2,931	2,778	(295)
Total	$ 191,777	$ 4,824	$ 4,421	$ 12,467

2013	Notional Amount	Gross Derivative Assets	Gross Derivative Liabilities	Dervative Gains (Losses)
Foreign currency contracts	$ 141,659	$ 3,458	$ 19	$ 15,546
Futures contracts	6,016	7,790		11,924
Options contracts	5,395	459	373	246
Swaps	3,536	201	735	(690)
Total	$ 156,606	$ 11,908	$ 1,127	$ 27,026

The notional amount is representative of the volume and activity of the respective derivative type during the years ended June 30, 2014 and 2013.

Gross derivatives assets and liabilities are shown in Investments, at fair value and Accrued expenses and other liabilities on the Consolidated Statements of Financial Position, respectively. Derivative gains (losses) are shown in Gain on investments, net on the Consolidated Statements of Activities.

A summary of the University's total investment return for the years ended June 30, 2014 and 2013 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2014	2013
AIF investment income	$ 84,206	$ 98,354
AIF realized and unrealized gains	1,315,855	891,019
Return on AIF	1,400,061	989,373
Other investment income and (losses)/gains	85,511	72,044
Total Return on investments	$ 1,485,572	$ 1,061,417

7. Endowment

The composition and changes to the amount of the University's endowment at June 30, 2014 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 2,312,089	$ 3,110,884	$ 5,422,973
Quasi-endowment funds	$ 4,159,362			4,159,362
June 30, 2014	$ 4,159,362	$ 2,312,089	$ 3,110,884	$ 9,582,335

	Quasi	Donor Restricted		
	Unrestricted	Temporarily	Permanently	Total
Net assets, June 30, 2013	$ 3,457,955	$ 1,816,718	$ 2,899,492	$ 8,174,165
Investment return:				
Investment income, net of expenses	20,506	21,958	454	42,918
Gains (realized and unrealized)	594,132	712,993	29,357	1,336,482
Total investment return	614,638	734,951	29,811	1,379,400
New gifts	24,302	4,669	156,602	185,573
Allocation of endowment assets for expenditure	(289,088)			(289,088)
Transfers	143,431	(36,125)	24,979	132,285
Released from restriction	208,124	(208,124)		
Net assets, June 30, 2014	$ 4,159,362	$ 2,312,089	$ 3,110,884	$ 9,582,335

The composition and changes to the amount of the University's endowment as of June 30, 2013 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,816,718	$ 2,899,492	$ 4,716,210
Quasi-endowment funds	$ 3,457,955			3,457,955
June 30, 2013	$ 3,457,955	$ 1,816,718	$ 2,899,492	$ 8,174,165

	Quasi	Donor Restricted		
	Unrestricted	Temporarily	Permanently	Total
Net assets, June 30, 2012	$ 2,916,222	$ 1,485,239	$ 2,732,557	$ 7,134,018
Investment return:				
Investment income, net of expenses	35,192	40,670	772	76,634
Gains (realized and unrealized)	392,255	492,665	20,038	904,958
Total investment return	427,447	533,335	20,810	981,592
New gifts	53,198	702	148,039	201,939
Allocation of endowment assets for expenditure	(268,877)			(268,877)
Transfers	129,048	(1,641)	(1,914)	125,493
Released from restriction	200,917	(200,917)		
Net assets, June 30, 2013	$ 3,457,955	$ 1,816,718	$ 2,899,492	$ 8,174,165

Quasi Unrestricted funds were increased by $379,360,000 at June 30, 2012 and $53,409,000 for related 2013 income/gains for comparability as a result of the inclusion of those funds in the 2014 presentation.

The fair value of certain permanently restricted endowment funds is less than the original donated value by $182,000 and $4,542,000 as of June 30, 2014 and 2013, respectively, and is reflected as a reduction of Temporarily restricted assets.

8. Plant, net of depreciation

The components of plant at June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Land and land improvements	$ 249,231	$ 225,619
Buildings and fixed equipment	6,295,973	5,893,038
Moveable equipment and other	1,594,993	1,369,647
Construction-in-progress	518,071	330,829
	8,658,268	7,819,133
Less: Accumulated depreciation	(3,876,707)	(3,449,760)
Plant, net of depreciation	$ 4,781,561	$ 4,369,373

Included in the amounts listed above are two build-to-suit lease arrangements, related to Pennsylvania Hospital and Penn Presbyterian Medical Center (PPMC), where UPHS has been involved in the construction of structural improvements prior to the commencement of the lease or takes some level of construction risk. UPHS is considered the owner of the assets during the construction period under U.S. GAAP. Included in Construction-in-progress above are assets, including landlord construction costs, related to the PPMC lease, with a corresponding financial obligation in Accrued expenses and other liabilities, recorded on the Consolidated Statements of Position in the amount of $47,447,000 and $ 24,409,000 for years ended June 30, 2014 and 2013, respectively.

During Fiscal Year 2014, construction was completed on the Pennsylvania Hospital facility and the lease commenced. As UPHS continued to demonstrate significant involvement after the completion of the project at June 30, 2014, an asset is included in Buildings and fixed equipment above, with a corresponding financial obligation in Debt obligations on the Consolidated Statements of Position in the amount of $47,598,000 at June 30, 2014. Similar accounting treatment is also expected upon completion of the PPMC arrangement. At June 30, 2013, while still under construction, an asset, included in Construction-in-progress above, with a corresponding financial obligation in Accrued expenses and other liabilities was reported on the Consolidated Statements of Position in the amount of $44,654,000.

Plant, net of depreciation, included $3,209,000 of land and $8,146,000 of completed facilities at June 30, 2013 which served as collateral for a debt obligation. This debt obligation was settled during Fiscal Year 2014.

The University recorded $342,451,000 and $313,947,000 of depreciation expense for the years ended June 30, 2014 and 2013, respectively. Rare books and other collectibles aggregate $50,530,000 at June 30, 2014 and $46,396,000 at June 30, 2013.

The University capitalized $2,919,000 and $2,912,000 of interest costs for the years ended June 30, 2014 and 2013, respectively, in accordance with the FASB standard on *Capitalization of Interest*.

9. Conditional Asset Retirement Obligations

The University's conditional asset retirement obligations primarily relate to asbestos contained in buildings and underground steam distribution piping. Conditional asset retirement obligations, included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Position are as follows (in thousands):

	2014	2013
July 1	$ 22,789	$ 20,234
Less: Payments	(1,369)	(747)
Add: Additions	1,878	2,683
Add: Accretion	670	619
June 30	$ 23,968	$ 22,789

10. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2014 and 2013 are as follows (in thousands):

2014	Assets	Liabilities	Net Assets
June 30, 2013	$ 484,658	$ (38,756)	$ 445,902
New contributions	23,396	(2,797)	20,599
Investment income	1,688	(1,023)	665
Realized and unrealized gain, net	31,340		31,340
Payments and settlements	(32,207)	7,692	(24,515)
Actuarial adjustment		(1,723)	(1,723)
Net change	24,217	2,149	26,366
June 30, 2014	$ 508,875	$ (36,607)	$ 472,268

2013	Assets	Liabilities	Net Assets
June 30, 2012	$ 473,140	$ (36,164)	$ 436,976
New contributions	12,971	(6,357)	6,614
Investment income	1,611	(1,131)	480
Realized and unrealized gain, net	28,894		28,894
Payments and settlements	(31,958)	7,349	(24,609)
Actuarial adjustment		(2,453)	(2,453)
Net change	11,518	(2,592)	8,926
June 30, 2013	$ 484,658	$ (38,756)	$ 445,902

11. Medical Professional Liability Claims

The University is insured for medical professional liability claims through the combination of the Medical Care Availability and Reduction of Error Fund (Mcare, formerly, the Medical Professional Liability Catastrophe Loss Fund of the Commonwealth of Pennsylvania -- CAT Fund), various commercial insurance companies and a risk retention program.

Mcare levies health care provider surcharges, as a percentage of the Pennsylvania Joint Underwriters Association rates for basic coverage, to pay claims and pay administrative expenses of Mcare participants. These surcharges are recognized as expenses in the period incurred. Mcare operates on a pay-as-you-go basis and no provision has been made for any future Mcare assessments in the accompanying financial statements as the University's portion of the unfunded Mcare liability cannot be estimated.

In accordance with FASBs standard on *Presentation of Insurance Claims and Related Insurance Recoveries*, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are presented separately on the Consolidated Statement of Financial Position in Accounts Receivable, net of allowances and Accrued expenses and other liabilities, respectively. The University accrues for estimated risks arising from both asserted and unasserted medical professional liability claims. The estimate of the gross liability and corresponding receivable for unasserted claims arising from unreported incidents is based on analysis of historical claims data by an independent actuary, which is recorded utilizing a 2.25% as a discount rate as of June 30, 2014 and 2013. The gross liability recorded under this program is $626,482,000 and $591,118,000 at June 30, 2014 and 2013, respectively, with a corresponding receivable of $99,106,000 and $72,445,000 at June 30, 2014 and 2013, respectively.

12. Contingencies, Guarantees and Commitments

The University has guaranteed certain obligations as follows (in thousands):

	2014		2013	
	Amount Guaranteed	Recognized Liability	Amount Guaranteed	Recognized Liability
Mortgage Loans	$ 3,856		$ 4,619	
Student Loans	61,101	$ 6,164	62,590	$ 6,429
Other	3,667	277	4,374	14
	$ 68,624	$ 6,441	$ 71,583	$ 6,443

To encourage home ownership and home improvement in the University's geographic area and beyond, certain University and affiliate employee mortgage loans are guaranteed. Under this program, the University guarantees the employee's first mortgage amount that is in excess of 80% loan-to-value, up to 105% loan-to-value. The maximum amount that will be guaranteed on any single loan is limited to $250,000. For all loans guaranteed upon default by the borrower, the University may be required to pay any loss incurred following the lender's foreclosure process or the University may be required to purchase the loan. If the University purchases the loan, it will work with the borrower to make the loan current or it may foreclose and recover a portion of any loan from the sale of the mortgaged property. Of the amount guaranteed, $2,912,000 and $3,004,000 at June 30, 2014 and 2013, respectively, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees. The University does not anticipate that any significant net payments will result from these guarantees. FASB standard *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* does not require a guarantee liability to be recognized for employee mortgages.

The University offers various loan programs for students and families to pay tuition, fees and other costs. Certain loans issued by private lending institutions are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. The University recognizes a liability for the greater of the fair value of the guarantee or defaults in the portfolio of guaranteed loans per FASB's standard on *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The amount of the liability recognized for which the fair value of the guarantee exceeds defaults in the portfolio of guaranteed loans is $3,112,000 and $2,740,000 at June 30, 2014 and 2013, respectively. The remaining balance of the liability recognized represents defaults in the portfolio which exceed the estimated fair value of the guarantee. These recognized liabilities reflect effective default reserve rates of 45.7% and 32.8% at June 30, 2014 and 2013, respectively.

The Other category principally includes guarantees of indebtedness for certain businesses in the University's geographic area whose activities benefit employees, students and the community. Of the amount guaranteed, $2,031,000 at June 30, 2014 and $2,606,000 at June 30, 2013, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees and from other partners in the businesses. The University does not anticipate that any significant net payments will result from these guarantees. The recognized liability reflects the fair value of guarantees issued after December 31, 2002.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the University's education and health care activities. Based upon information currently available, management believes that any liability resulting there from will not materially affect the financial position or operations of the University.

The University is currently involved in various projects that have resulted in capital and property acquisition commitments from the University. As of June 30, 2014, approximately $316,304,000 has been committed by the University.

13. Pension and Other Postretirement Benefit Costs

Retirement benefits are principally provided to employees through contributory defined contribution plans. The Academic Component's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries, while the UPHS contribution can be up to 6.5%. The University's contributions to these plans amounted to $119,386,000 and $110,692,000 as of June 30, 2014 and 2013, respectively.

TCCHHS has a number of affiliates with either 403(b) or 401(k) defined contribution savings plans. All affiliates share the same employer discretionary matching process; each affiliate will match 50% of an employee's contribution (subject to the IRS annual contribution limit) up to a total of 4% of the employee's salary in a given year. Total contributions to the plans were $1,405,791 from September 1, 2013 through June 30, 2014.

TCCHHS also has a defined contribution profit sharing plan covering all eligible employees, as defined. TCCHHS may choose to contribute a discretionary amount to the plan each year. No amount was funded from September 1, 2013 through June 30, 2014.

Clinical Care Associates also has a non-qualified supplemental retirement plan to provide retirement benefits to a select group of physician employees. Contributions to this plan are based upon the annual compensation of the eligible employees. Retirement plan expense for this plan was $672,000 and $600,000 as of June 30, 2014 and 2013, respectively.

UPHS has a non-contributory defined contribution plan and a non-contributory defined benefit plan which were frozen to new entrants effective July 1, 2010.

The Academic Component has a non-contributory defined benefit pension plan which was frozen to new full-time entrants effective July 1, 2000.

Benefits under the defined benefit plans generally are based on the employee's years of service and compensation during the years preceding retirement. Contributions to the defined benefit plans are made in amounts necessary to at least satisfy the minimum required contributions as specified in the Internal Revenue Service Code and related regulations.

The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation (PBO) or accumulated postretirement benefit obligation (APBO). The difference between actual amounts and estimates based on actuarial assumptions are recognized as Pension and other postretirement plan adjustments in the Consolidated Statements of Activities in the period in which they occur.

Net Periodic Cost

The components of net periodic benefit cost for pension benefits and other postretirement benefits are as follows (in thousands):

	Pension Benefits		Other Postretirement Benefits	
Net Periodic Cost	**2014**	**2013**	**2014**	**2013**
Service cost	$ 58,737	$ 60,989	$ 24,349	$ 29,070
Interest cost	81,187	73,728	34,192	30,215
Expected return on plan assets	(98,184)	(83,550)	(21,967)	(18,874)
Amortization of:				
Net prior service cost	210	1,326	27	269
Net losses	21,630	48,457	7,233	12,623
Net periodic benefit cost	$ 63,580	$ 100,950	$ 43,834	$ 53,303

Obligation and Funded Status

The following shows changes in the benefit obligation, plan assets and funded status. Benefit obligation balances presented below reflect the projected benefit obligation for pension plans and accumulated postretirement benefit obligation for other postretirement benefits plans (in thousands)*:*

	Pension Benefits		Other Postretirement Benefits	
Change in Benefit Obligation	**2014**	**2013**	**2014**	**2013**
Benefit obligation at beginning of year	$ 1,646,120	$ 1,672,828	$ 705,139	$ 723,718
Service cost	58,737	60,989	24,349	29,070
Interest cost	81,187	73,728	34,192	30,215
Plan participants' contributions	156	149	5,460	4,619
Retiree drug subsidy			235	299
Net actuarial (gain) loss due to				
plan experience	143,397	(125,523)	24,555	(58,979)
Benefits paid from fund	(40,492)	(36,051)	(15,066)	(14,648)
Benefits paid outside of fund			(7,681)	(8,644)
Plan amendments				(511)
Benefit obligation at end of year	$ 1,889,105	$ 1,646,120	$ 771,183	$ 705,139
Accumulated benefit obligation	$ 1,615,682	$ 1,405,144	$ 771,183	$ 705,139

	Pension Benefits		Other Postretirement Benefits	
Change in Plan Assets	**2014**	**2013**	**2014**	**2013**
Fair value of plan assets at beginning of year	$ 1,237,854	$ 1,040,939	$ 290,698	$ 248,783
University contributions	64,801	97,433	22,800	22,800
Benefits paid by University			7,051	7,986
Plan participants' contributions	156	149	5,460	4,619
Benefits paid from fund	(40,492)	(36,051)	(15,066)	(14,648)
Benefits paid outside of fund			(7,681)	(8,644)
Retiree drug subsidy			235	299
Actual return on assets	181,059	135,384	38,087	29,503
Fair value of plan assets at end of year	$ 1,443,378	$ 1,237,854	$ 341,584	$ 290,698

	Pension Benefits		Other Postretirement Benefits	
Funded Status	**2014**	**2013**	**2014**	**2013**
Projected benefit obligation / accumulated postretirement benefit obligation	$ (1,889,105)	$ (1,646,120)	$ (771,183)	$ (705,139)
Plan assets at fair value	1,443,378	1,237,854	341,584	290,698
Funded status at end of year	$ (445,727)	$ (408,266)	$ (429,599)	$ (414,441)

Net Amounts Recognized in the Consolidated Statements of Financial Position

	Pension Benefits		Other Postretirement Benefits	
Unrestricted Net Assets	**2014**	**2013**	**2014**	**2013**
Net actuarial (gain) loss	$ 453,044	$ 414,154	$ 179,037	$ 177,837
Net prior service cost		209	(117)	(92)
Total	$ 453,044	$ 414,363	$ 178,920	$ 177,745
Adjustment to unrestricted net assets	$ 38,681	$ (227,139)	$ 1,175	$ (83,011)

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2015 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of prior service cost	$ -	$ 27
Amortization of net (gains) losses	23,113	7,261

Aggregate underfunded plans (Accrued retirement benefits) are reported as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Accrued retirement benefits	$ (445,727)	$ (408,266)	$ (429,599)	$ (414,441)
Funded status at end of year	$ (445,727)	$ (408,266)	$ (429,599)	$ (414,441)

Reported Accrued retirement benefits includes $6,461,000 and $8,289,000 for faculty early retirement programs at June 30, 2014 and 2013, respectively.

Information for Plans with PBO/APBO in Excess of Plan Assets	Pension Benefits 2014	Pension Benefits 2013	Other Postretirement Benefits 2014	Other Postretirement Benefits 2013
Projected benefit obligation / accumulated postretirement benefit obligation	$ 1,889,105	$ 1,646,120	$ 771,183	$ 705,139
Accumulated benefit obligation / accumulated postretirement benefit obligation	1,615,682	1,405,144	771,183	705,139
Fair value of plan assets	1,443,378	1,237,854	341,584	290,698

Actuarial Assumptions

The expected long-term rate of return on plan assets is management's best estimate of the average investment return expected to be received on the assets invested in the plan over the benefit period. The expected long-term rate of return on plan assets has been established by considering historical and future expected returns of the asset classes invested in by the pension trust, and the allocation strategy currently in place among those classes.

	Pension Benefits		Other Postretirement Benefits	
Weighted-Average Assumptions Used to Determine Benefit Obligations at Year End	**2014**	**2013**	**2014**	**2013**
Discount rate	4.50%	5.00%	4.41%	4.90%
Salary increase	3.97%	4.00%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	5.00%	4.48%	4.93%	4.25%
Expected long-term return on plan assets	7.92%	7.92%	7.50%	7.50%
Salary increase	4.00%	4.00%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial trend rate	N/A	N/A	6.19%	6.70%
Ultimate trend rate	N/A	N/A	4.84%	4.85%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2021	2021

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefits. A one-percentage-point change in assumed health care trend rates would have the following effects on other postretirement benefits (in thousands):

	1-Percentage Point Increase		1-Percentage Point Decrease	
	2014	**2013**	**2014**	**2013**
Effect on total of service and interest cost	12,115	11,318	(9,318)	(8,749)
Effect on accumulated postretirement benefit obligation	130,042	115,695	(103,502)	(92,554)

Plan Assets

The principal investment objectives for the pension and other postretirement benefits plans are: to ensure the availability of funds to pay pension benefits as they become due under a broad range of future economic scenarios; to maximize long-term investment returns with an acceptable level of risk based on the pension obligations; and to invest the pension trust in a diversified manner. The following is a summary of investments held in the plans by asset allocation as well as investment risk:

Short-Term

Short-term investments in the plan assets include cash equivalents and fixed income investments with maturities of less than one year. Short-term investments are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets. The majority of these short-term investments are held in a US Treasury money market account.

Equity

Equity investments in the plan assets consist of direct holdings of public securities in managed accounts as well as exchange traded funds, mutual funds, commingled funds and limited partnerships. The securities held in managed accounts, mutual funds and exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt

Debt investments consist of direct holdings of securities in managed accounts and commingled funds. Securities such as US Treasuries, which are held in managed accounts, are valued based on quoted market prices in active markets and are categorized as Level 1. Securities such as corporate and high yield bonds, also held in managed accounts, are valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3. Commingled funds are valued at NAV and are categorized as Level 2.

Absolute Return

Absolute return investments are made up of investments in partnerships. The fund managers invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Illiquid investments, if any, are generally designated as a side pocket by hedge fund managers and may be valued based on an appraised value, discounted cash flow, industry comparables or some other method. Limited partnership interests are valued at NAV. A limited partnership interest may be categorized as Level 2 or Level 3 based on the University's ability to redeem up to 180 days beyond the measurement date as previously described. Side pocket investments would be classified as Level 3.

Real Estate

Investments in real estate include close-ended limited partnership interests and an open-ended real estate investment trust. The fund managers of the close-ended limited partnership primarily invest in private investments for which there is no readily determinable market value. The fund managers may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3. Real estate investments also include an open-ended real estate investment trust which is categorized as a Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Private Equity

Investments in private equity are in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3.

Natural Resources

Investments in natural resources include a limited partnership interest. The limited partnership fund manager primarily invests in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. The limited partnership investment is valued at NAV, is not redeemable within 180 days and is categorized as Level 3.

Derivatives

The University enters into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge or cross hedge against either specific non-US dollar denominated transactions or portfolio positions. The University purchases or sells futures contracts to manage changes in interest rates, securities prices, currency exchange rates, or to seek to increase total return. Forward foreign currency contracts are categorized as Level 2. Futures contracts are categorized as Level 1.

As of June 30, 2014 and 2013, the University had forward currency contracts in the plan assets with a notional exposure of $23,705,000 and $16,495,000, respectively. There were no futures contracts outstanding as of June 30, 2014 and 2013, respectively. The notional amount is representative of the volume and activity of the respective derivative type during the years ended June 30, 2014 and 2013.

Investment Risk

The University's investing activities expose it to a variety of risks, including market, credit and liquidity risks and attempts to identify, measure and monitor risk through various mechanisms including risk management strategies and credit policies.

Market risk is the potential for changes in the fair value of the University's investment portfolio. Commonly used categories of market risk include currency risk (exposure to exchange rate differences between functional currency relative to other foreign currencies), interest rate risk (changes to prevailing interest rates or changes in expectations of futures rates) and price risk (changes in market value other than those related to currency or interest rate risk, including the use of NAV provided).

Credit risk is the risk that one party to a financial investment will cause a financial loss for the other party by failing to discharge an obligation (counterparty risk). Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities. The University has various limited partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates.

Unfunded Commitments

As of June 30, 2014, the University has unfunded commitments to limited partnerships totaling $63,312,000, which are expected to be called over the next several years.

A summary of plan assets, measured at fair value in accordance with the *Employers' Disclosures about Pensions and Other Postretirement Benefits* standard, as of June 30, 2014 and 2013 is as follows (in thousands):

Pension Benefits:

Assets	Level 1	Level 2	Level 3	2014
Short-term	$ 85,331			$ 85,331
Equity:				
US equities	342,569	$ 13,848	$ 44,079	400,496
International equities	34,862	223,654	20,055	278,571
Emerging market equities	34,283	55,593	34,315	124,191
Debt:				
US treasuries	135,644			135,644
Corporate bonds		57,561		57,561
High yield		11,475		11,475
Absolute return		202,519	127,685	330,204
Real estate		13,551	431	13,982
Private equity			4,284	4,284
Natural resources			1,786	1,786
Total assets	$ 632,689	$ 578,201	$ 232,635	$ 1,443,525

Liabilities	Level 1	Level 2	Level 3	2014
Derivative instruments		$ 147		$ 147
Total liabilities	$ -	$ 147	$ -	$ 147

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 99,077			$ 99,077
Equity:				
US equities	325,103		$ 20,215	345,318
International equities	105,295	$ 127,757		233,052
Emerging market equities	27,817	44,430		72,247
Debt:				
US treasuries	137,398			137,398
Corporate bonds		47,398		47,398
High yield		10,417		10,417
Absolute return		130,798	149,827	280,625
Real estate		12,278		12,278
Derivative instruments:				
Forward currency contracts		45		45
Total assets	$ 694,690	$ 373,123	$ 170,042	$ 1,237,855

Liabilities	Level 1	Level 2	Level 3	2013
Derivative instruments		$ 1		$ 1
Total liabilities	$ -	$ 1	$ -	$ 1

Other Postretirement Benefits:

Assets	Level 1	Level 2	Level 3	2014
Short-term	$ 24,065			$ 24,065
Equity:				
US equities	91,498		$ 7,054	98,552
International equities	10,028	$ 69,055	7,518	86,601
Emerging market equities	4,786	13,990		18,776
Debt:				
US treasuries	68,158			68,158
Corporate bonds		14,784		14,784
High yield bonds		2,875		2,875
Absolute return			27,818	27,818
Total	$ 198,535	$ 100,704	$ 42,390	$ 341,629

Liabilities	Level 1	Level 2	Level 3	2014
Derivative instruments		$ 45		$ 45
Total	$ -	$ 45	$ -	$ 45

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 25,583			$ 25,583
Equity:				
US equities	110,523			110,523
International equities	37,361	$ 38,202		75,563
Emerging market equities	3,662	11,664		15,326
Debt:				
US treasuries	47,853			47,853
Corporate bonds		13,228		13,228
High yield bonds		2,607		2,607
Derivative instruments:				
Forward currency contracts		15		15
Total	$ 224,982	$ 65,716	$ -	$ 290,698

Changes to the reported amounts of plan assets measured at fair value using unobservable (Level 3) inputs as of June 30, 2014 and 2013 are as follows (in thousands):

Pension Benefits:

	June 30, 2013	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2014
US equities	$ 20,215		$ 3,972	$ 30,000			$ (10,108)	$ 44,079
International equities			55	20,000				20,055
Emerging market equities			8,815	25,500				34,315
Absolute return	149,827	$ 2,162	11,666	35,675	$ (9,768)	$ 19,782	(81,659)	127,685
Real estate			(131)	562				431
Private equity			(69)	4,353				4,284
Natural resources				1,786				1,786
Total	$ 170,042	$ 2,162	$ 24,308	$ 117,876	$ (9,768)	$ 19,782	$ (91,767)	$ 232,635

	June 30, 2012	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2013
US equities			$ 215	$ 20,000				$ 20,215
Absolute return	$ 67,927	$ 1,033	14,998	51,539	$ (8,852)	$ 43,493	$ (20,311)	149,827
Total	$ 67,927	$ 1,033	$ 15,213	$ 71,539	$ (8,852)	$ 43,493	$ (20,311)	$ 170,042

Level 3 pension plan assets at June 30, 2014 include net unrealized gains recorded during Fiscal Year 2014 of $26,470,000. Level 3 pension plan assets at June 30, 2013 include net unrealized gains recorded during Fiscal Year 2013 of $16,246,000.

Other Postretirement Benefits:

	June 30, 2013	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2014
US equities			$ 54	$ 7,000				$ 7,054
International equities			18	7,500				7,518
Absolute return			818	27,000				27,818
Total	$ -	$ -	$ 890	$ 41,500	$ -	$ -	$ -	$ 42,390

Level 3 other postretirement plan assets at June 30, 2014 include net unrealized gains recorded during Fiscal Year 2014 of $890,000.

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2014 and 2013 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2014 and 2013 were due to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in Absolute Return investments.

	Pension Benefits			Other Postretirement Benefits		
Allocation of Plan Assets	**Target**	**2014**	**2013**	**Target**	**2014**	**2013**
Short-term		5.9%	8.0%		7.0%	8.8%
Equity:						
US equities	33.7%	27.7%	27.9%	40.9%	28.9%	38.0%
International equities	18.7%	19.3%	18.8%	22.9%	25.4%	26.0%
Emerging markets equities	5.0%	8.6%	5.9%	3.0%	5.5%	5.3%
Debt:						
US treasuries	21.4%	9.4%	11.1%	25.0%	20.0%	16.5%
Corporate bonds		4.0%	3.8%		4.3%	4.5%
High yield		0.8%	0.8%		0.8%	0.9%
Absolute return	20.0%	22.9%	22.7%	8.2%	8.1%	
Real estate	0.8%	1.0%	1.0%			
Private equity	0.3%	0.3%				
Natural resources	0.1%	0.1%				
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The average quality of debt investments at June 30, 2014 was Aa1/AA with an effective duration of 2.67 years.

Cash Flows & Estimated Future Benefit Payments

University contributions for the year ending:	**Pension Benefits**	**Other Postretirement Benefits**
June 30, 2013	$ 97,433	$ 22,800
June 30, 2014	64,801	22,800
June 30, 2015	61,465	22,800
Benefits paid from outside of the fund for the year ending:		
June 30, 2013	N/A	$ 8,644
June 30, 2014	N/A	7,681
June 30, 2015	N/A	9,479
Plan participants' contributions for the year ending:		
June 30, 2013	$ 149	$ 4,619
June 30, 2014	156	5,460
June 30, 2015	156	5,723

Benefits Payments in Total

Actual benefit payments for the year ending:	Pension Benefits	Other Postretirement Benefits before Medicare Part D Subsidy	Impact of Medicare Part D Subsidy
June 30, 2013	$ 36,051	$ 23,292	$ 299
June 30, 2014	40,492	22,747	235
Expected benefit payments for the year ending:			
June 30, 2015	$ 48,765	$ 27,161	$ 347
June 30, 2016	53,049	29,008	367
June 30, 2017	57,609	30,665	383
June 30, 2018	63,226	32,681	398
June 30, 2019	68,933	34,338	414
June 30, 2020 to June 30, 2024	450,280	200,708	2,239

14. Debt Obligations

Debt obligations at June 30, 2014 and 2013 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2014	2014	2013
Academic Component:				
Fixed rate debt obligations:				
The Trustees of the University of Pennsylvania				
Series of 2012 Taxable Bonds	09/2112	4.674%	$ 300,000	$ 300,000
Pennsylvania Higher Educational				
Facilities Authority (PHEFA)				
Series A of 2011 revenue bonds	09/2041	4.00%-5.00%	150,000	150,000
Unamortized premium			851	896
Series of 2010 revenue bonds	09/2033	4.00%-5.00%	71,410	71,410
Unamortized premium			4,648	4,946
Series B of 2009 revenue bonds	09/2032	3.00%-5.00%	35,990	37,765
Unamortized premium			821	914
Series C of 2009 revenue bonds	09/2022	4.00%-5.00%	28,755	28,754
Unamortized premium			1,156	1,371
Series A of 2009 revenue bonds	09/2019	5.000%	204,750	204,750
Unamortized premium			11,874	14,232
Series C of 2005 revenue bonds	07/2038	4.00%-5.00%	119,600	124,380
Unamortized premium			2,717	2,892
Series A of 2005 revenue bonds	09/2025	4.25%-5.00%	12,805	16,350
Unamortized premium			372	455
Series B of 2005 revenue bonds	09/2015	5.250%	16,555	24,200
Unamortized premium				260
Other loans	05/2031	3.000%	812	849
Total Fixed rate debt obligations:			963,116	984,424
Variable rate debt obligations:				
PHEFA				
Series of 1990 revenue bonds	12/2020	0.30%	6,500	6,500
Washington County Authority				
Series of 2004	07/2034	0.03%	56,500	57,500
Other loans	04/2014	N/A		9,300
Total Variable rate debt obligations			63,000	73,300
Total Academic Component debt obligations			$ 1,026,116	$ 1,057,724

	Final Maturity	Interest Rate at June 30, 2014	2014	2013
UPHS:				
Fixed rate debt obligations:				
PHEFA				
Series A of 2012 revenue bonds	08/2032	3.00%-5.00%	$ 136,950	$ 136,950
Unamortized premium			11,546	12,202
Series A of 2011 revenue bonds	08/2042	4.75%-5.875%	150,000	150,000
Unamortized discount			(972)	(1,029)
Series A of 2009 revenue bonds	08/2024	3.00%-5.25%	77,645	80,370
Unamortized premium			1,006	1,166
Series B of 2008 revenue bonds	08/2027	5.50%-6.00%	149,230	201,230
Unamortized discount			(1,562)	(1,795)
Series A of 2005 revenue bonds	08/2023	4.25%-5.00%	152,570	170,375
Unamortized premium			2,942	4,036
Series B of 2005 revenue bonds	08/2018	3.625%-5.00%	33,030	40,600
Unamortized premium			302	472
Build to suit lease			47,598	
Mortgages	04/2022	4.875%-6.25%	16,774	
Total Fixed rate debt obligations:			777,059	794,577
Variable rate debt obligations:				
PHEFA				
Series A of 2014 revenue bonds	06/2045	0.47%	100,000	
Series A of 2008 revenue bonds	03/2038	0.06%	81,210	86,510
Pennsylvania economic development financing authority				
Series C of 1994 revenue bonds	09/2014	0.17%	1,200	2,300
Total Variable rate debt obligations			182,410	88,810
Total UPHS debt obligations			959,469	883,387
Total University debt obligations			$ 1,985,585	$ 1,941,111

The fair value of the University's existing debt obligations was $2,091,089,000 and $2,016,350,000 at June 30, 2014 and 2013, respectively. The University determines the fair value of its existing fixed rate debt obligations based on trade data, broker/dealer quotes and other observable market data. The carrying amounts of its variable rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the carrying amounts. The University considers this to be a Level 2 measurement.

The University has letters of credit with various financial institutions to secure certain self insured liabilities in the amount of $3,907,000 at June 30, 2014 and 2013. These letters of credit have evergreen provisions for automatic renewal. There have been no draws under these letters of credit.

Contractual maturities of debt obligations are as follows (in thousands):

Fiscal Year	Bond and Other Loan Obligations	Build-to-Suit Lease Obligations	Total
2015	$ 60,716	$ 3,583	$ 64,299
2016	55,884	3,668	59,552
2017	45,644	3,755	49,399
2018	96,425	3,844	100,269
2019	100,322	3,935	104,257
Thereafter	1,543,295	66,585	1,609,880
Total Principal	1,902,286	85,370	1,987,656
Unamortized net premium/(discount)	35,701		35,701
Build-to-suit lease related interest		(37,772)	(37,772)
Total Debt	$1,937,987	$ 47,598	$1,985,585

Academic Component

The University has variable rate debt in the amount of $63,000,000 which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. In the event that the University receives notice of any optional tender on its variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds. However, in the event that the entire remarketing effort were to fail, the University would have the general obligation to purchase the bonds and the 2015 principal payments in the debt obligations maturity table above would increase from $18,672,000 to $81,672,000. On June 10, 2011, the University entered into a five year agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement the University's liquidity relating to its variable rate demand bonds and for other general purposes of the University. The University pays a fee annually on the unused amount of the line of credit. As of June 30, 2014, there have been no draws under the agreement.

UPHS

Pennsylvania Higher Educational Facilities Authority Revenue Bonds

UPHS Series A of 2014 Bonds in the amount of $100,000,000 were issued on June 12, 2014 for the purpose of funding various UPHS capital expenditures. The bonds mature in varying amounts from $1,430,000 to $27,120,000 with a final maturity of $27,120,000 in 2045. The interest rate on the bonds is reset weekly through a remarketing process. The holder of the bonds will have the option to put the Bonds on June 12, 2021, as described in a Continuing Covenant Agreement between UPHS and TD Bank. The bonds are subject to optional redemption by the University, the obligated group agent, at any time.

The PHEFA Revenue Bonds are secured by master notes issued under the UPHS Master Trust Indenture (MTI). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness, and among other things, require UPHS to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met, within six months of the close of that fiscal year UPHS must retain the services of a consultant to make recommendations to improve the coverage requirement. UPHS must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. UPHS will not be considered to be in default of the provisions of the MTI so long as UPHS has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. In both 2014 and 2013, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

UPHS has various mortgage payables with monthly installments ranging from $29,000 to $4,194,000, including interest. The mortgages have interest rates between 4.875% and 6.25%. The mortgages will fully amortize on or before April 1, 2022 and are collateralized by land and buildings of approximately $20,000,000.

UPHS entered into a three year agreement with a financial institution on April 30, 2013, subsequently amended on July 13, 2013, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement liquidity for general purposes of the health system. UPHS paid an upfront facility fee and a fee on the unused amount of the line of credit. As of June 30, 2014, there are no draws under the agreement.

UPHS has variable rate debt in the amount of $81,210,000 (PHEFA 2008A Revenue Bonds) which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. These bonds are secured by a letter of credit, which expires April 2018, in the amount of $82,745,000 as of June 30, 2014. As of June 30, 2014, there have been no draws under this agreement.

PHEFA 1994C Revenue Bonds are secured by a letter of credit, which expires September 2014, in the amount of $1,236,000 as of June 30, 2014. As of June 30, 2014, there have been no draws under this agreement.

Interest Rate Swap Agreements

The following tables summarize the fair value of the University's interest rate swap agreements, not designated as hedging instruments, as of June 30, 2014 and 2013, and the effect of the interest rate swap agreements on the Consolidated Statements of Activities, both realized and unrealized, for the years ended June 30, 2014 and 2013 (in thousands):

Statements of Position

	Line Item	2014	2013
Liability interest rate swaps			
Academic Component	Accrued expenses and other liabilities	$ 20,830	$ 20,082
UPHS	Accrued expenses and other liabilities	7,046	8,235
Total Liability interest rate swaps		$ 27,876	$ 28,317
Asset interest rate swaps			
UPHS	Other assets	$ 4,582	$ 4,777
Total Asset interest rate swaps		$ 4,582	$ 4,777

Statements of Activities

	Line Item	2014	2013
Academic Component	Gains or losses on investments	$ (4,277)	$ 7,464
UPHS	Gains or losses on investments	(454)	(116)
Total		$ (4,731)	$ 7,348

Academic Component

To protect against the risk of future interest rate changes in its debt portfolio, the Academic Component of the University entered into an interest swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) on November 6, 2007. Under the agreement, commencing on November 3, 2008, GSMMDP began paying the University interest on the notional amount of $101,950,000 based on 67% of London Inter-Bank Offered Rate (LIBOR) and the University began paying GSMMDP interest at a fixed rate of 3.573% on a monthly basis. The swap agreement matures July 1, 2034. The University has the right to terminate, cancel and cash settle this agreement, in whole or in part, at current fair value, on any business day. The University determines the fair value of this agreement by obtaining a quote from GSMMDP which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers this to be a Level 2 measurement. The quote provided by GSMMDP also represents the amount the University would accept or be required to pay to transfer the agreement to GSMMDP, or exit price as defined by the Fair Value Measurements standard. The University also takes into account the risk of nonperformance. The agreement also contains a provision that requires the University to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2014, the threshold was $20,000,000 and $700,000 was posted as collateral.

UPHS

On January 7, 2010, UPHS entered into an interest rate exchange agreement (the Agreement) with Merrill Lynch Capital Services. The notional amount of the agreement was $26,150,000 and $27,080,000 as of June 30, 2014 and 2013, respectively. Under the terms of the Agreement, which became effective on January 7, 2010, UPHS pays a floating rate based on a Securities Industry and Financial Markets Association (SIFMA) index and receives a fixed rate of 2.902%. The Agreement was not entered into for trading or speculative purposes but rather to synthetically convert a portion of the UPHS Series A of 2009 Bonds to a variable interest rate. The Agreement will terminate on August 15, 2023.

On July 15, 2009, UPHS entered into an interest rate exchange agreement with Merrill Lynch Capital Services. The notional amount of the agreement was $26,150,000 and $27,080,000 as of June 30, 2014 and 2013, respectively. Under the terms of the Agreement, which became effective on January 1, 2010, UPHS pays a floating rate based on a SIFMA index and receives a fixed rate of 3.184%. The Agreement was not entered into for trading or speculative purposes but rather to synthetically convert a portion of the UPHS Series A of 2009 Bonds to a variable interest rate. The Agreement will terminate on August 15, 2023.

On October 24, 2007, UPHS entered into an interest rate exchange agreement with Merrill Lynch Capital Services to effectively fix the interest rate associated with UPHS Series A of 2008 Bonds (which legally defeased Series 2002 Pennsylvania Hospital Revenue Bonds). The notional amount of the agreement was $81,210,000 and $86,510,000 as of June 30, 2014 and 2013, respectively. Under the terms of the Agreement, which became effective on December 11, 2007, UPHS pays a fixed rate of 3.755% and receives a floating rate based on 67% of the one-month LIBOR. The Agreement was not entered into for trading or speculative purposes. UPHS has the option under the Agreement to terminate the Agreement at zero on January 1, 2018 and every 6 months thereafter.

UPHS determines the fair value of its three interest rate swap agreements by obtaining a quote from Merrill Lynch which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers the agreements to be Level 2 measurements. The quote provided by Merrill Lynch also represents the amount UPHS would accept or be required to pay to transfer the Agreement to Merrill Lynch, or exit price as defined by the Fair Value Measurements standard. UPHS verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. UPHS also assesses the risk of nonperformance by reviewing bond ratings. The Agreements also contain provisions that require UPHS to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on UPHS's credit rating. At June 30, 2014, the threshold was $40,000,000 and therefore no collateral was required to be posted.

15. Energy Hedges

The University has entered into several International Swaps and Derivatives Association agreements (ISDA agreements) to stabilize expected electricity costs over the long term. Under the agreements, the University has outstanding hedges with a notional amount of $22,919,000 for specific time periods and 554,244 Megawatt hours (MWhs) as of June 30, 2014. When the hedges settle at various maturities, there will be a cash transaction based on the number of MWhs that month for all of the hedges.

The University determines the fair value of these agreements by obtaining quotes from an energy consultant, which are determined using the market approach. The consultant analyzes prices and other relevant information generated by market transactions involving identical or comparable assets by using published New York Mercantile Exchange (NYMEX) close prices for hedges settled at the PJM Western Hub (PJM WH). The prices provided represent the amount the University would accept or be required to pay to transfer the agreement, or exit price as defined by the Fair Value Measurements standard. As the fair value of the hedges are determined based on inputs that are readily available in or can be derived from information available in public markets, the University has categorized the hedges as Level 2.

These agreements are subject to credit risk in excess of the amount recorded on the University's Statement of Position in accordance with generally accepted accounting principles. Credit risk represents the potential loss that may occur because a counterparty fails to perform according to the terms of the agreement. The University considers counterparty credit risk and its own credit risk, which did not have a material impact on its determination of fair values. The agreements also contain provisions that would require the University to post collateral in the amount by which the fair value of the agreement liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2014, the minimum thresholds range from $20,000,000 to $25,000,000. The University evaluated its position as of June 30, 2014 and determined no collateral was required to be posted.

The following tables summarize the fair value of the University's ISDA agreements as of June 30, 2014 and 2013, and the effect of these agreements on the Consolidated Statements of Activities for the years ended June 30, 2014 and 2013 (in thousands):

	Statements of Position **Line Item**	**2014**	**2013**
Asset position	Other assets	$ 2,130	$ -
Liability position	Accrued expenses and other liabilities	$ -	$ 3,933

	Statements of Activities **Line Item**	**2014**	**2013**
Unrealized Gain	Gains or losses on investment	$ 6,063	$ 4,188
Realized Gain (Loss)	Other operating expenses	$ 3,439	$ (5,146)

16. Net Assets

The major components of net assets at June 30, 2014 and 2013 are as follows (in thousands):

2014	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,677,503	$ 271,243		$ 2,948,746
Sponsored programs	22,396			22,396
Capital		201,790		201,790
Student loans	9,940		$ 17,169	27,109
Planned giving agreements		175,150	14,311	189,461
Endowment	4,159,362	2,312,089	3,110,884	9,582,335
Total	$ 6,869,201	$ 2,960,272	$ 3,142,364	$ 12,971,837

2013	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,436,368	$ 210,603		$ 2,646,971
Sponsored programs	28,730			28,730
Capital		215,863		215,863
Student loans	10,073		$ 15,372	25,445
Planned giving agreements		190,814	12,138	202,952
Endowment	3,457,955	1,816,718	2,899,492	8,174,165
Total	$ 5,933,126	$ 2,433,998	$ 2,927,002	$ 11,294,126

17. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through March 2030. Rental expense for the years ended June 30, 2014 and 2013 totaling $71,829,000 and $65,600,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2014, future minimum lease payments under existing operating leases were as follows (in thousands):

2015	$ 58,982
2016	47,592
2017	43,712
2018	36,316
2019	30,991
Thereafter	140,066
Total Minimum lease payments	$ 357,659

18. Functional Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation and benefits	Depreciation and amortization	Interest on indebtedness	Other operating expense	June 30, 2014	June 30, 2013
Instruction	$ 726,057	$ 54,316	$ 5,642	$ 373,153	$ 1,159,168	$ 1,100,057
Research	378,127	42,168	25,622	277,053	722,970	718,142
Hospital and physician practices	2,120,405	157,836	36,277	1,319,747	3,634,265	3,301,208
Auxiliary enterprises	29,739	27,010	5,986	74,370	137,105	123,853
Other educational activities	117,464	11,426	253	58,852	187,995	189,398
Student services	45,984		21	31,797	77,802	70,099
Academic support	35,804	29,243	327	12,837	78,211	74,883
Management and general	209,556	17,006	395	60,277	287,234	256,068
Independent operations	7,335	4,501	600	51,612	64,048	62,723
Total	$ 3,670,471	$ 343,506	$ 75,123	$ 2,259,698	$ 6,348,798	$ 5,896,431