2007-2008 FINANCIAL REPORT



SUSTAINABILITY Glossary



CARBON FOOTPRINT: a measurement, in units of carbon dioxide emitted, of the effect an individual's or entity's daily activities will have on the environment.



CLIMATE NEUTRALITY: the process of offsetting carbon-producing activities with those that either reduce or capture carbon, thus credibly neutralizing the net amount of carbon released into the atmosphere from a particular activity.



ENERGY EFFICIENT: products and systems that perform as well or better than the standard products while using less power.



ENVIRONMENTAL STEWARDSHIP: the responsible management of the environment to preserve and protect natural resources for future generations.



ENVIRONMENTAL SUSTAINABILITY: responsible maintenance of world resources to meet society's needs without long-term effects, such as compromising the ability of future generations to accommodate their own needs.



FOSSIL FUELS: carbon-rich fuels formed from the decomposition of plant and animal matter over a period of millions of years.



GLOBAL WARMING: the gradual increase of the earth's temperature caused by greenhouse gases trapping heat in the earth's atmosphere.



GRAY WATER: waste water from all domestic fixtures, excluding toilets, which may be reused for other purposes.



L.E.E.D. CERTIFICATION: recognition by Leadership in Energy and Environmental Design Council (LEED) that a building is constructed with the purpose of minimizing resource use through efficient energy systems, reuse of materials, reduction of pollution, etc. L.E.E.D. Certification comes in levels of Certified, Silver, Gold and Platinum.



RECYCLING: the act of processing unused materials for conversion into raw materials or new products to reduce waste production.



RENEWABLE ENERGY: power derived from essentially inexhaustible sources that do not deplete world resources such as solar and wind power.



URBAN HEAT ISLAND EFFECT: an increase in temperature in city settings due to the replacement of vegetation with heat-absorbing substances such as roads and buildings.





A Snapshot of Sustainability

The photo of Locust Street shown above was taken at the same location as the photo of Locust Walk on the cover—fifty years apart. In the early 1960s, the School of Design's Professor of Landscape Architecture, the late lan McHarg, wrote the book *Design with Nature*; his writings were instrumental in the transformation of Woodland and Locust Walks. Over the last half century, Penn has incorporated his ideas on environmental stewardship into the design and "greening" of campus. Penn has 22 buildings dating back to the 1870s listed on the Philadelphia Register of Historic Places, all of these buildings have been maintained or renovated and are used today as classrooms, dormitories and libraries. The beauty and durability of these historic structures are intermingled with the cutting edge and energy efficient design of today's buildings creating the perfect blend of tradition, innovation and sustainability on Penn's 280 acre campus.

Sustainability through Integrated Knowledge

The ultimate mission of a University is to contribute through teaching, research and public service to the betterment of humankind. The task of the educator is to first develop and then unharness the intellectual potential of the student; the aspiration of the researcher is to unravel the mysteries that will lead to the next discovery to benefit humanity. The charge of the University leadership is to enunciate the vision and execute the initiatives required to fulfill these goals. As part of the public service mission, Penn has taken on an extraordinary leadership role in advocating sustainability to protect the environment for future generations.

In 2007, President Amy Gutmann was the first Ivy League president to sign the American College and University Presidents Climate Commitment. As a result of this leading endorsement and Penn's record as an early adopter and national pioneer of sustainable practices, Dr. Gutmann was invited to address the 2007 United Nations Secretary-General's Global Colloquium of University Presidents with her position paper, **Scaling Up the Environmental Commitment and Contribution of Universities**. Dr. Gutmann spoke of the need for universities to collaborate with peer institutions, governments and the business community to share ideas and conduct research that will ultimately lead to discoveries that will reduce greenhouse gas emissions and foster climate neutrality. She spoke of integrating knowledge as the key to combating this increasingly complex global issue. In the spirit of the Climate Commitment, Penn is in the midst of developing a university-wide environmental plan aimed at achieving environmental sustainability which will be completed by September 2009.

The integration of knowledge and ideas is well underway, for example, with the Penn/Wharton Initiative for Global Environmental Leadership. The initiative brings together business and government leaders with professors at Wharton and five Schools at Penn (Arts and Sciences, Design, Engineering, Law, Medicine, and Veterinary Medicine) with a network of leading experts in relevant fields from around the world to discuss and research selected topics concerning business and the natural environment. While sustainability research is ongoing, we are concurrently implementing a range of environmentally sound practices that are yielding positive results, including innovative practices in energy conversation and purchasing wind power; cultivating a greener campus by replacing surface parking lots with green space and adding green roofs to our buildings; improving our recycling practices and investing in transit.

Penn is in a unique position with the intellectual resources to generate new research and develop responsive operational programs; the physical assets to which we can apply this knowledge; and the use of classroom and laboratory vehicles for enhancing the environmental literacy of a new generation of students.



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Sustainability

Penn recycled 1,128 tons of paper in 2008 that equates to saving

3,722 CUBIC YDS OF LANDFILL SPACE

19,176 trees

253,800 kilowatt hours

310,200 LBS OF SULFUR

394,800 LBS OF LIMESTONE

10,152,000 lbs of steam

67,680,000 gals of water **PAST** / Several decades before environmental concerns gained national and global prominence, the University of Pennsylvania began implementing sustainable practices that are currently being embraced by the world community. In the mid- 20th century while many American cities were losing population and resources to the growing suburbs, Penn made the decision to maintain and refine its urban presence in Philadelphia. The University began to transform large parts of its campus from traffic-clogged streets to beautiful, tree-canopied walkways. Over the years, Penn has re-routed surface trolleys to underground tunnels and removed over five acres of concrete from campus and replaced it with green spaces. Today, Penn's 280 contiguous acres promote sustainability via pedestrian access to all 12 of its schools through a park-strewn urban landscape.

Use of public transit is one of the keys to reducing our carbon footprint. Working with the City of Philadelphia and public transportation authorities, transit stops were enhanced and new ones added so access to public transit is never more than a five minute walk from any part of Penn's campus. For over a decade, Penn has provided over \$2 million in annual discounts to its employees for all public transit in Philadelphia and surrounding communities.

PRESENT / Penn tops the Environmental Protection Agency's list of Colleges and Universities in its use of renewable energy. For the past seven years, Penn has been purchasing wind power in ever increasing amounts so that today 46% of our energy consumption—over 1.9 million kilowatt hours comes from wind power. Although the cost of renewable energy is somewhat higher than energy from fossil fuels, Penn has been able to pay the premium with more than \$5 million in annual savings generated through energy conservation techniques employed at its state-of the-art Operations Command Center. Here, engineers centrally monitor and control the campus wide use of utilities. Campus buildings are fed from a central chilled water loop completed in 2007 after 19 years of planned incremental growth and an investment of over \$200 million. Penn's chiller plant freezes water at night, when energy costs are low, to provide supplemental daytime cooling capacity, reducing Penn's burden on the regional electrical grid. Penn recently appointed its first environmental sustainability coordinator, a L.E.E.D.-certified architect who oversees all campus-wide efforts to promote sustainability.

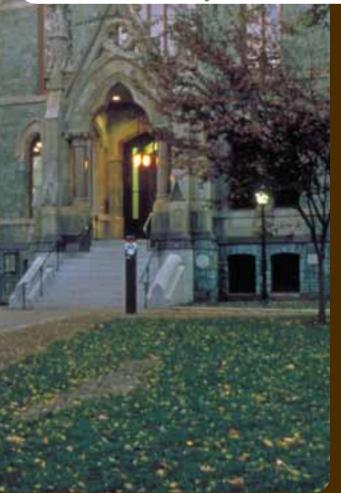
FUTURE / *Penn Connects*, our long range campus development plan, incorporates a number of sustainable recommendations, notably on the 14 acres of former industrial era surface lots. Via our expansion, Penn will increase the amount of campus green space and use indigenous tree and shrub species, thereby reducing the urban "heat island" effect. The plan orients new buildings in response to solar and natural ventilation and recommends L.E.E.D. certification for all new buildings to minimize the use of natural resources, reduce energy use, improve indoor environmental quality and mitigate burdens of new buildings on the ecosystem.

The new Horticultural Center planned for the Morris Arboretum will be the most sustainable structure ever built at Penn. Parts of the complex will have a planted green roof, and state-of-the-art energy management systems will be implemented. Storm water and gray water will be recycled in innovative ways. This project will serve as Penn's first structure designed to achieve Platinum Level L.E.E.D. Certification.



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Penn Compact: Integrating Knowledge





PIK Professors (in chronological order)

John L. Jackson, Jr. SAS–Cultural Anthropology ASC–Communications

Philippe Bourgois SAS–Anthropology SOM–Family & Community Medicine

Jonathan Moreno

SAS–History & Sociology of Science SOM–Medical Ethics

Christopher Murray SAS–Chemistry SEAS–Materials Science

Adrian Raine

SAS–Criminology SOM–Psychiatry

Sarah Tishkoff SAS–Biology SOM–Genetics

Robert Ghrist

SAS–Mathematics SEAS–Electrical & Systems Engineering

John Gearhart

SOM–Cell & Developmental Biology SOVM–Animal Biology **PIK PROFESSORS** / Penn Integrates Knowledge (PIK) is an initiative that exemplifies the second principle of the Penn Compact—*integrating knowledge*. PIK seeks to recruit faculty whose entire body of work in teaching and research illustrate uncommon accomplishments that span academic and professional disciplines. Each of these faculty members hold endowed professorships and joint appointments in two or more of Penn's schools. Since the inception of this initiative in 2005, eight PIK professors have been named. In addition to their affiliation with the schools and departments, all of the PIK faculty will be associated with interdisciplinary centers and institutes.

INTERDISCIPLINARY CENTERS / Complex problems require complex solutions. Penn's 150 interdisciplinary centers and institutes bring together researchers and educators from across the University to investigate and solve today's mysteries. The Institute for Environmental Studies gathers faculty and researchers who study a wide array of environmental-related issues including policy, engineering, toxicology, ecology and ecosystems; the Center for Molecular Discovery represents a collaboration of the schools of Medicine, Engineering, and Arts & Sciences who are working to develop a massive molecular database that will be accessible to biomedical scientists around the world. The Penn Institute for Urban Research brings together faculty from all 12 schools and integrates scholarship from the sciences, the humanities, business, law, education policy, and design to help shape more effective urban policies.

The School of Design's TC Chan Center, in collaboration with Tsinghua University, brings together experts from around the world to develop strategies for sustainable environments and high-performance, energy-efficient buildings. The University has commissioned the Center to provide both a building-by-building campus energy model, and a comprehensive greenhouse gas inventory. This work that has been ongoing for several years will allow us to simulate efficiency and greenhouse gas reduction strategies in design, construction and energy management. The inventory provides a benchmark to measure future conservation efforts.

JOINT-DEGREE PROGRAMS / With the current fragile economic environment, it is critical for students to absorb the wide-ranging knowledge needed to compete and succeed in today's increasingly global marketplace. Penn has long taken the lead in offering joint degree programs at both the undergraduate and graduate levels. Over 1,400 students are currently enrolled in dual/joint degree programs. Management and Technology, International Studies and Business, and the Roy and Diana Vagelos Program in Life Sciences and Management are examples of the collaboration between Wharton business programs and the arts and sciences. The curriculum in Penn's largest undergraduate school, Arts & Sciences, includes two interdisciplinary requirements: one course that integrates the humanities and social sciences across the sectors of society, history and tradition, and arts and letters; and one course that blends the natural sciences and mathematics spanning the living and physical worlds.



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Students & Faculty





Students and Faculty

10,800 undergraduate

10,654 graduate & professional

22,935 applications

16.9% % accepted

62.6% % matriculated

2,129 av. sat scoresclass of 2012

 $2,\!426$ entering freshman class

332 ENTERING INTERNATIONAL STUDENTS

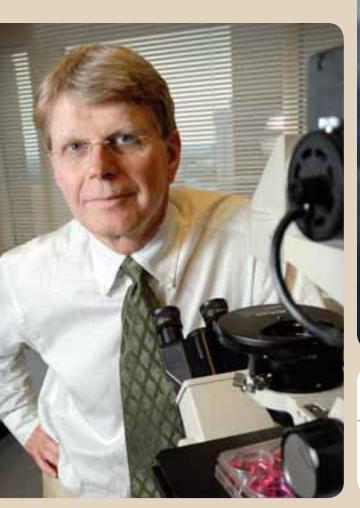
2,491 standing faculty **CAMPUS** / A snapshot of Locust Walk running through the heart of campus captures the growing diversity and varied interests of the Penn community. Faculty members and students of all races and cultures speaking an array of languages mingle on their way to classes. In just the four block stretch from 34th to 38th streets, students and faculty have access via brick paths to six of Penn's twelve schools, several libraries and a multitude of interdisciplinary centers. This compact, environmentally-friendly layout facilitates integrated learning. The wooded walk is lined with banners and booths manned by students promoting a variety of issues and causes including voter registration, volunteer clubs, student elections, an array of ethnic cultural events and environmental activism.

On campus, FarmEcology is a student-initiated endeavor that is raising awareness and educating the Penn community about the benefits of local foods. The group's projects include coordinating a local food buying club, consulting with Penn Dining and other on-campus food outlets on sustainable eating practices. The Environmental Sustainability Advisory Committee (ESAC) is a group of student and faculty members who advise the President on green issues; their recommendations will be included in the 2009 Environmental Commitment Plan.

THE BEST AND BRIGHTEST / This year's entering class is the most socio-economically diverse in Penn's history, as well as the most accomplished academically. Part of this growing diversity can be attributed to the financial aid initiative that was developed to support the first principle of the Penn Compact, *increasing access*. In its third year, the aid program replaces loans with grants for undergraduate students with demonstrated financial need. The family income threshold has been steadily increasing: \$40,000 in year one, \$60,000 in year two, and \$100,000 in FY 2009. In FY 2010, all Penn students eligible for financial aid, regardless of family income, will receive no-loan financial aid packages. In FY 2008, with the \$60,000 income threshold, the number of students impacted increased from 283 to 486 undergraduate students. Other provisions were introduced to help students with financial need, including use of outside scholarships to supplement, rather than replace, financial aid and elimination of summer savings from the calculation of the aid package. By improving the affordability of a Penn education, exceptional students from all backgrounds can help enrich the college experience of the entire community.

CIRCLING THE GLOBE / The student population is more global than ever before with over 4,200 international students bringing their cultures and ideas to Penn. Conversely, more than 1,800 students from Penn studied abroad in over 60 countries, absorbing new cultures and customs and sharing American ideals and knowledge with the world.

An example of this global engagement is Penn's student chapter of Engineers Without Borders (EWB). For the past several years, EWB has spent school breaks and summer vacations in remote villages in Africa, Central and South America, using their skills to help poor communities design, build and maintain sustainable water systems. In Mongolia, Dr. Peter Petraitis is leading a team from the department of biology in collaboration with the National University of Mongolia to study global climate change.





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Research



ENVIRONMENTAL / Penn researchers are investigating a broad spectrum of subjects related to today's environmental challenges, from developing liquid fuel cells to neutralizing acid rain. Chemistry professor Andrew M. Rappe in the School of Arts & Sciences received a U.S. Department of Energy grant to examine solar power as a viable energy source. The anticipated rethinking of solar materials and technology is paramount in the global conversation on reducing reliance on fossil fuels and replacing them with renewable sources. Researcher and chair of the department of Chemistry, Professor Marsha Lester, in collaboration with a fellow researcher from Purdue University, has discovered the molecule in a complex chemical reaction that is essential to the atmosphere's ability to break down pollutants, especially the compounds that cause acid rain. The discovery improves the basic understanding of the chemical removal of acid rain and will allow scientists to better model how pollutants are removed from the atmosphere.

NEUROLOGICAL / Researchers from three interdisciplinary centers, the Institute on Aging, Institute of Neurological Science and Alzheimer's Disease Center are studying brain diseases, their findings expanding knowledge and revolutionizing treatment of Lou Gehrig's, Alzheimer's and Parkinson's diseases. Recent discoveries of the effects of abnormal proteins in Alzheimer's development and molecular therapy have not only revealed pioneering treatments for the disease, but have also shown potential in detection and treatment of other neurological disorders, such as Creutzfeldt-Jakob disease.

TECHNOLOGICAL / The School of Engineering and Applied Science received \$22M, the largest grant in the school's history, to lead a consortium of eight universities in systems robotics for battle environments. The grant, awarded by the Army Research Laboratory, will fund a decade of research in self-directed robotics. Penn's five member team is led by Vijay Kumar, chair of the Department of Mechanical Engineering and Applied Mechanics. This complex project will require the collaboration of experts in artificial intelligence, algorithms, control theory perception, robotics, signal processing and systems engineering. "Our goal is to combine scientific principles with new engineering technologies to make autonomous aerial and ground robots work together, work independently, adapt, survey and ultimately become a reality in the field," said team member George Pappas, professor and deputy dean of Penn Engineering.

PIONEERING DISCOVERIES / A renowned pioneer for his groundbreaking research in the field of stem cell biology, Dr. John Gearhart came to Penn in the summer of 2008 as the eighth PIK professor. He holds joint appointments in the School of Medicine and the School of Veterinary Medicine and will head the new Institute for Regenerative Medicine (IRM). In his role at IRM, he will direct researchers from six of Penn's schools who are exploring adult stem cell biology searching for discoveries that can expand the understanding of the role of genes in the formation of human tissue. The potential for scientific advancement and therapeutic innovations in this field will be multiplied by Penn's interdisciplinary research environment allowing IRM to collaborate with centers such as the Genomics Institute and Abramson Cancer Center.

Research Awards

\$799.1M total \$ awards

\$583.6M Federal government

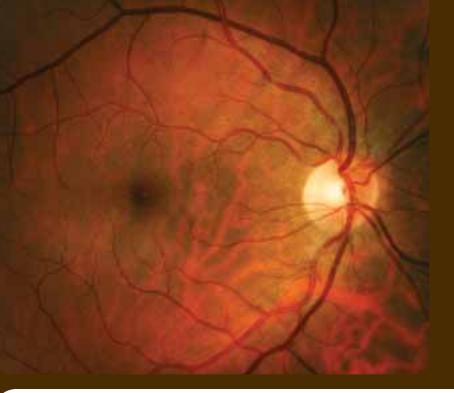
\$477.9M national institute of health (nih)

1,096 # of nih grants awarded

\$126.9Mfoundations, industry, non profits

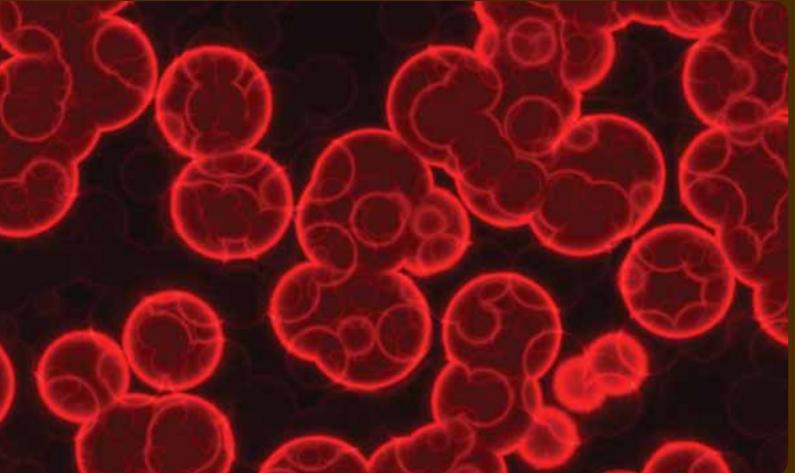
\$49.7M commonwealth of pennsylvania





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Penn Medicine



MORE THAN A SLOGAN / "We are Medicine"—Penn Medicine integrates the resources of the University of Pennsylvania Health System (UPHS) with the School of Medicine (SOM). UPHS's three hospitals, Hospital of the University of Pennsylvania, Penn Presbyterian Hospital and Pennsylvania Hospital, are the anchors of the coalition with the prestigious School of Medicine and 22, distinguished, free-standing interdisciplinary centers and institutes. The breadth of expertise afforded by this coalition propels "bench to bedside" advances translating biomedical research to patient care while simultaneously training the next generation of physicians and scientists.

MEDICAL MIRACLE / Restoring vision—read it again—*restoring vision*. An international team led by world-renowned doctors at the University of Pennsylvania's School of Medicine, the Children's Hospital of Philadelphia (CHOP) and the University of Naples used gene therapy to restore the vision in three young adults with a rare form of congenital blindness. The disease damages light receptors in the retina by stealing sight in early childhood and causes total blindness during a patient's twenties or thirties. The husband and wife team of Albert M. Maguire, M.D. and Jean Bennett, M.D., Ph.D. have been conducting pioneering research into inherited retinal degeneration at Penn's Scheie Eye Institute for the past 16 years; their collaboration with CHOP's Katherine A. High, M.D., led to the clinical trials. All three doctors are affiliated with both institutions. This collaboration across institutions is possible because Children's Hospital is adjacent to Penn's campus; this proximity has been a magnet for doctors, researchers, professors and medical students whose devotion to medicine, research and children are intertwined.

SCIENTIFIC BREAKTHROUGH / A discovery made by a team of researchers at Penn's School of Medicine led by Steven Reiner, MD, Professor, Abramson Family Cancer Research Institute, was selected by the prestigious journal *Science* as one of the top ten scientific breakthroughs across all fields of science in 2007. The landmark discovery demonstrated how cells of the immune system solve the problem of eliminating an infection without being depleted in the process. "These findings may change the way we think about vaccines," says Reiner. "We've always known the important end result—that more than one type of cell is needed—but not how to generate cell diversity. Ironically, the immune system has simply recycled the strategy of other stem cells in our body—knowing this could improve our strategy for developing vaccines to prevent both infections and cancer."

INTEGRATING KNOWLEDGE AND SUSTAINABILITY / The Perelman Center for Advanced Medicine (CAM) opened its doors in the summer of 2008. Located on the former site of the historic Philadelphia Civic Center, the \$302 million facility is the largest capital project ever undertaken by UPHS. Understanding the link between public health and the environment, UPHS incorporated sustainability into the site selection, design, construction and operation of this state-of-the-art 500,000 sq. ft. outpatient facility. Energy efficiency, use of recycled materials and improved indoor air quality through use of low-emitting materials are features of this green building. The Perelman CAM creates the ideal setting for patient-focused care and collaboration among health care professionals.

Penn Medicine

3,315 physicians

77,535 adult admissions

1,391,496 outpatient visits

115,829 Emergency room visits

\$102M under or uncompensated care

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Making History: Contributions from Alumni & Friends



Contributions

99 New \$1m+ gifts

42 NEW DONORS GIVING \$1M+ GIFTS

\$55.7M annual giving

\$27.2M penn fund (unrestricted)

\$73.6M bequests at present value

122 new undergraduate scholarships

76 new endowed professorships

\$41.3M \$ added to financial aid

\$178.9M \$ added to endowment **THE CAMPAIGN FOR PENN** / Fiscal Year 2008 marked the first public year of *Making History: The Campaign for Penn*—the most ambitious comprehensive fundraising initiative in the University of Pennsylvania's 268-year history. With a seven-year fundraising goal of \$3.5 billion, the Campaign was officially launched in October 2007 with two spectacular celebrations on campus that drew more than 7,500 participants. *Making History* kickoff programs in nine additional cities across three continents throughout the year brought together an additional 3,000 Penn alumni and friends to celebrate the beginning of the campaign and to learn how they can become involved. As of June 30, 2008, cumulative fundraising for *Making History* stood at \$2.065 billion—59% of the overall campaign goal.

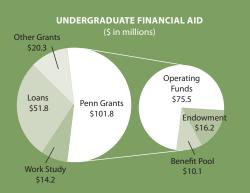
ENDOWED SCHOLARSHIPS & PROFESSORSHIPS / At the end of June 2008 the Campaign had tallied 122 new scholarships and 77 newly endowed professorships including the eight PIK professors mentioned earlier and two PIK chairs yet to be filled. The gifts that fund these scholarships and chairs are invested in Penn's endowment where the principal remains in perpetuity and the proceeds fund the position. A \$5 million gift funds each PIK professorship. The first eight PIK chairs were funded by generous gifts from four Penn alumni—Richard Perry W'77 funded four chairs, David Silfen C'66 funded two chairs and Andrea Mitchell CW '67 and Craig Effron W'81 each funded one chair. In addition, Penn Alum Christopher Brown C'69 has funded five endowed professorships in the School of Arts & Sciences (SAS) over the years and with a new gift as co-chair of the Campaign, has funded five additional SAS professorships.

STATE OF THE ART FACILITIES / The magnificent philanthropy of three alumni families, whose combined contributions over the past decade have totaled \$135 million, are helping to transform the delivery of medical discoveries that will benefit all of mankind. Their gifts for capital projects have helped build the cutting edge complex that now houses the Abramson Cancer Center, Perelman Center for Advanced Medicine (CAM) and soon to be completed Roberts Proton Therapy Center. The Perelman CAM, funded in part with an extraordinary \$25 million gift from Raymond Perelman W'40 and his wife Ruth, is a comprehensive outpatient facility that is expected to treat over 300,000 patients annually.

ALUMNI PARTICIPATION / One unique aspect of the *Making History* campaign is its emphasis on a number of non-financial engagement goals that focus on increasing alumni involvement in the life of the University through participation in class, regional, affinity, annual and planned giving, professional networking, student, and educational programming. One very positive sign of success was record-setting attendance at Alumni Weekend 2008 by more than 8,000 registrants. Implementation of Penn's Alumni Relations Strategic Plan continued during the year with the formation of a new University-wide Alumni Relations committee working to coordinate programming, the expanded circulation of *The Pennsylvania Gazette*, and strategic branding and promotion of Penn's on-line alumni community—QuakerNet—which now has more than 76,000 registered users.

FINANCIAL REPORT 2007-2008

F408 Financial Review





FROM THE VICE PRESIDENT For finance and treasurer

The breadth and interdependence of initiatives described on the preceding pages requires a strongly-integrated set of administrative, operational and financial strategies. Given today's fragile economy, responsible management of financial resources, together with the vigilant stewardship of the University's reserves, is crucial to attaining these successes. Achieving these results would not be possible without a strong financial foundation reinforced by administrative and operational excellence. Fiscal Year 2008 proved to be another year of improved operating performance, as reflected in our year-end financial statements.

As indicated in the Statement of Activities, the University had positive gains in almost all revenue components. In aggregate, total revenues increased by 6.4%, from \$4.78 billion in FY 2007 to \$5.09 billion in FY 2008. Total net assets increased from \$8.71 billion to \$8.85 billion.

Tuition and student fees (net of \$168.4 million in grants and scholarships) increased 6.8% to \$681.8 million, representing 13.4% of operating revenue. This gain was due in part to a 5.2% undergraduate tuition increase and improved collections in student billing.

5,651 undergraduate students received financial aid in FY 2008. These undergraduates funded all or part of their education with \$122.1 million from grants, i.e., tuition waivers or scholarships, \$51.8 million from educational loans and \$14.2 million from work-study programs. Of the total grant dollars, \$101.8 million, or 83% came from Penn sources— \$75.5 million from operating funds, \$16.2 from endowment and \$10.1 from the employee benefits pool. The average grant-aided freshman package increased 9.2% over the previous year, to \$33,608.

7,029 graduate and professional students received \$119.0 million in grants, \$185.4 million in educational loans and \$3.2 million for work-study programs. Penn provided 69.5% of the grant total with \$62.0 million from unrestricted funds, \$16.8 million restricted funds and \$3.9 million from other internal sources. Penn paid an additional \$60.3 million to graduate and professional students for fulfilling their service requirement as teaching or research assistants.

Sponsored program revenues increased by 1.2% to \$744.9 million, accounting for 14.6% of total operating revenues. Sponsored program awards rose from \$787.2 million to \$799.1 million. Awards from the National Institute of Health (NIH) declined slightly, from \$483.6 million to \$477.9 million but other awards offset this decline as total Federal Government

support rose from \$574.2 million to \$583.6 million. The increase in total federal dollars can be attributed to additional awards for energy, engineering and nanotechnology research.

Foundations, industry and other non-governmental support increased slightly, from \$125.7 million to \$126.9 million. With the weakening in the economy, strengthening our interdisciplinary research programs becomes more critical in order to compete for a larger share of a limited pool of research dollars.

The Commonwealth of Pennsylvania's appropriation to the University rose slightly, from \$49.4 million to \$49.7 million, with 87% of the total directed to Penn's School of Veterinary Medicine to support programs and research important to the state's agricultural interests.

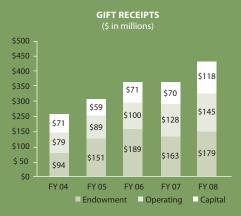
Contributions increased substantially, from \$361.4 million in FY 07 to \$441.6 million in FY 2008, a gain of \$80 million, or 22.2%. This dramatic rise reflects the success of the first public year of fund-raising as part of the Making History Campaign. Fiscal Year 2008 was also the most successful in Penn's history for annual fundraising, setting records for new gift commitments, cash receipts, and annual fund contributions. New gift commitments exceeded \$441.6 million and cash receipts totaled \$390.2 million. Both figures shattered previous records, exceeding goals for the year by more than 35%. Combined annual giving programs across campus set a new record, raising a total of \$55.7 million. The Penn Fund, the University's annual fund for undergraduate alumni, also set a new record with \$27.2 million, a 13% increase over the previous year's record-breaking performance.

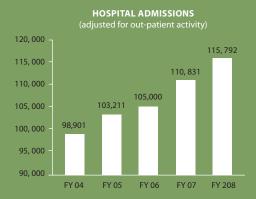
Contributions to Penn's endowment during the year totaled \$178.9 million. Estate gifts topped \$73.6 million, setting a new record and providing clear evidence of the critical impact of gift planning on Penn's long-term fundraising success. A large portion of the contributions were made before the financial and credit markets began to spiral downward. We anticipate that the current instability of the markets will make future fundraising efforts more challenging.

Hospital and physician practices revenue, derived from the operations of the University of Pennsylvania Health System (UPHS), including the flagship Hospital of the University of Pennsylvania, Penn Presbyterian Medical Center (PPMC) and Pennsylvania Hospital (PAH), plus the physician Clinical Practices of the University of Pennsylvania (CPUP), represents 59.5% of total operating revenues. UPHS revenues rose by 7.4% from \$2.62 billion in FY 2007 to \$2.82 billion in FY 2008. The Health System was able to increase its support for the School of Medicine and CPUP by \$77 million in FY 2008, to a total of \$303 million.

In FY 2008, the Health System made significant investments in both inpatient and outpatient capacity with the opening of the Perelman Center for Advanced Medicine and the Penn Medicine at Rittenhouse (PMR) campus. Combined with the relocation of the inpatient psychiatric service to Pennsylvania Hospital, these sites will free additional beds, as well as expand surgical, imaging and ambulatory treatment services.

Activity growth was led by high intensity programs—cancer (including radiation oncology and chemotherapy), cardiovascular disease, gastrointestinal, transplant and pulmonary/critical care. Strengthening these difficult-to-replicate programs enhances our





position as a regional referral center. Strong growth occurred across all three hospitals, with adjusted admissions up 4.4%. Total adult admissions increased 3.7% in FY 2008—HUP up 1.2%, PPMC up 10.4% and PAH up 3.4%.

Investment Income dropped significantly in FY 2008. Endowment performance suffered a 3.9% decline as a result of the downturn in the equity markets with the endowment total declining from \$6.6 billion to \$6.2 billion. The endowment spending policy currently has a target payout rate of 4.7%, with the actual payout in any given year determined by a formula designed to smooth the impact of short-term market moves on the endowment's value. Beginning in FY 2009, the student financial aid portion of the payout will increase to a rate of 6.5% to reinforce our commitment to no-loan student aid as part of the Penn Compact's *increasing access* objective.

During FY 2008, the University's general credit rating was upgraded by Standard and Poor's from "AA" to "AA+". Improved operational performance, strong fundraising and healthy student demand and selectivity were the driving factors in the rating evaluation. UPHS also received rating upgrades from Moody's and S&P, to Aa3 and AA- respectively, improving their ability to efficiently access capital markets.

Nationally, education and health care were the top two industry sectors least affected by the downturn in the economy in FY 2008. The recent global economic downturn in the financial and credit markets, however, will have a significant impact on these sectors. Although the University is in a strong financial position, as the federal government looks for ways to cut spending to help pay for its intercession in the banking and financial market crisis, the effects on Penn's finances could be significant. Future research awards, already flat or declining, may be a target of further government cuts. Donors, who have seen huge losses in their investments, may consider reducing or delaying their contributions. As the population suffers through a recession, the Health System will likely see more patients who do not have the means to pay for medical care, as well as reductions in higher-cost or elective procedures. Students and their families will likely face greater financial challenges, resulting in stronger demand for increased financial aid.

Fortunately, Penn faces these financial challenges from a position of strength—our balance sheet is sound, our cash and liquidity is strong, we have healthy reserves and our operating margins have been robust for several years. Weathering the current economic storm, however, will require more of the same collaborative efforts highlighted on the preceding pages—strong leadership, perseverance and the integrated knowledge and experience of our talented and dedicated faculty, staff and students. With the continued support of our alumni and friends, our journey from excellence to eminence continues.

Stephen D. Golding Vice President for Finance and Treasurer

Financial Review

\$5,092,487 total operating revenue

\$4,730,825 total operating expenditures

\$11,999,262 total assets

\$3,153,115 total liabilities

\$8,846,147 Net assets

Dollars in thousands

FINANCIAL REPORT 2007-2008

Endowment

ENDOWMENT AND INVESTMENTS / Penn's endowment ended FY 2008 with \$6.2 billion in investment assets. This represents a slight decrease over the prior year-end as new gifts, income and transfers were insufficient to offset investment losses and the spending rule distribution.

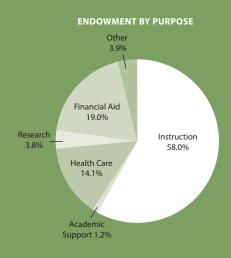
Penn's total endowment is comprised of numerous individual endowments benefiting the full spectrum of Penn's schools and centers, and serves a variety of purposes as shown in the chart to the right. Over the course of the fiscal year, payouts from the endowment provided \$205 million in budgetary support to the University.

ASSOCIATED INVESTMENTS FUND / The vast majority of the endowment (92%) is invested in the Associated Investments Fund (AIF), a pooled investment vehicle in which the many individual endowments and trusts hold shares or units. The AIF had a market value of \$6.0 billion as of June 30, 2008.

The AIF is managed by the Office of Investments under the oversight of an Investment Board appointed by the Trustees of the University. Over the past decade, the University has expanded the Office of Investments to ensure adequate oversight of an increasingly complicated portfolio.

The AIF is invested with the goal of achieving high, steady absolute returns while protecting against any permanent loss of capital. The portfolio is well diversified across asset classes and geographies. As of June 30, 46% of the portfolio is invested in public equities, 39% is invested in alternatives (hedge funds, real estate, private equity and natural resources) and the remainder is invested in fixed income (mostly Treasuries). Approximately one-third of the portfolio is invested overseas. Over the past year, the allocation to public equity has been reduced by 10% to fund increases in absolute return and high yield.

AIF PERFORMANCE / For FY 2008, the AIF returned -3.9%. This was 250 bps behind the composite benchmark of -1.4% but significantly ahead of the S&P 500 which was down 13.1%. Underperformance versus the benchmark was driven by an underweight to energy and materials within the domestic and international equity portfolios (which offset positive performance from the underweight to US and European financials), the net long equity bias of the hedge fund portfolio (which made for a tough comparison against the absolute return benchmark) and the immaturity of the real estate portfolio (where many of the investments are relatively young and are still held at cost). We expect all of these factors to reverse over time.



AIF ASSET ALLOCATION 6/30/08



Performance for the three-, five- and ten-year periods ending June 30, 2008, compares favorably with the composite benchmark. Recent returns have benefited from the increased diversification of the portfolio across asset classes and geographies. These changes in asset allocation are reflected in both the return of the AIF as well as the return of the composite index. For purposes of comparison, the table below also shows the return of a simple portfolio consisting of 70% US equities (as measured by the Russell 3000 index) and 30% US fixed income (as measured by the Lehman Government/Credit index).

PERFORMANCE COMPARISON Periods Ended June 30, 2008 Annualized Returns (%) Category	1 Year	3 Years	5 Years	10 Years
Category	Treat	5 Tears	Jiedis	TO Teals
Associated Investments Fund (AIF)	-3.9	9.1	10.5	7.1
Composite Index *	-1.4	9.4	10.2	5.8
70% Russell 3000/30% Lehman Govt/Credit	-6.9	4.6	7.2	4.5

*The Composite Index is a benchmark that weights the Russell 3000, MSCI World ex-US, MSCI Emerging Markets, NCREIF with leverage and Lehman Government indices proportional to the weights of the underlying assets classes in the AIF strategic asset allocation.

AIF SPENDING RULE / The University's endowment spending policy balances the objectives of maximizing budgetary support to endowed programs while ensuring that the purchasing power of the endowment is protected against inflation. The University has a target payout rate of 4.7%, with the actual payout in any given year determined by a formula designed to smooth the impact of short-term market moves on the endowment's value. The University's spending policy under which the spending rule distribution is the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior year-end market value of the AIF multiplied by 4.7%. Effective July 1, 2008, the spending distribution for funds committed to financial aid is 6.5%.

A FIVE YEAR REVIEW OF INVESTMENTS (Thousands of dollars)

(mousands of dollars)	2008	2007	2006	2005	2004
Investments:					
Fair Value					
Equity Securities	\$ 2,956,805	\$ 3,662,497	\$ 2,354,324	\$ 2,155,577	\$ 1,932,096
Debt Securities	846,538	692,247	824,692	1,122,377	1,017,242
Short-term	379,239	752,835	1,014,993	331,897	367,685
Real Estate	351,284	251,504	197,536	172,536	131,087
Absolute Return	1,564,642	1,105,885	843,133	712,546	594,323
Private Equity	384,931	288,036	207,275	159,279	118,154
Natural Resources	94,073	57,202	34,909	14,812	0
Other	1,409	1,382	2,021	4,040	4,757
Total Investments*	6,578,921	6,811,588	5,478,883	4,673,064	4,165,344
Endowment:					
Fair Value	\$ 6,233,271	\$ 6,635,187	\$ 5,313,268	\$ 4,369,782	\$ 4,018,660
Associated Investments Fund:					
Fair Value	\$ 6,038,876	\$ 6,108,050	\$ 4,751,157	\$ 3,873,965	\$ 3,356,467

* Total investments held by the University not invested in the Associated Investment Fund include \$240 million held in trust, \$4 million in assets held under indenture and escrow agreements, \$94 million held in internally managed trusts, \$167 million in other investments held by UPHS and \$29 million in other investments held by the University. Total investments exclude securities held as collateral under a securities lending program.

Management Responsibilities for Financial Statements

The management of the University of Pennsylvania is responsible for the preparation, integrity and fair presentation of the financial statements. The financial statements, presented on pages 21 to 23, have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information included in this annual report and is responsible for its accuracy and consistency with the financial statements.

The financial statements have been audited by the independent accounting firm PriceWaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to the auditors during their audit were valid and appropriate. PriceWaterhouseCoopers' audit opinion is presented on page 20.

The University maintains a system of internal controls over financial reporting, which is designed to provide a reasonable assurance to the University's management and board of trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of the internal control system can change with circumstances.

The trustees of the University of Pennsylvania, through the Committee on Audit and Compliance comprised of trustees not employed by the University, is responsible for engaging the independent auditors and meeting with management, internal auditors and the independent auditors to ensure that each carry out their responsibilities. Both internal auditors and the independent auditors have full and free access to the Committee on Audit and Compliance.

Amy Gutmann President

Day R. Consul-

Craig R. Carnaroli Executive Vice President

Stephen D. Golding Vice President for Finance and Treasurer

Ar Mean

John Horn Comptroller

PRICEWATERHOUSE COPERS 🛽

PricewaterhouseCoopers LLP Two Commerce Solute, Suite 1799 2001 Market Street Philipto phia PA 19107 7042 14/ophone (2011 330 0000 Facsimile (2011 330 0000

Report of Independent Auditors

To the Trustees of the University of Pennsylvania

In our opinion, the accompanying statements of consolidated financial position and the related consol-dated statements of activities and cash flows present fairly, in all material respects, the financial position of the University of Pennsylvania at June 30, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principlos generally accepted in the United States of America. These financial statements are the responsibility of the University of Pennsylvania's management. Our responsibility is to express an opinion on these financial statements. based on our audit. The prior year summarized comparative information has been derived from the University of Pennsylvania's 2007 financial statements, and in our report dated October 22, 2007, we expressed an ungualified opimon on those financial statemonts. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misslatument. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

vematuhane Coopen LLP

September 4, 2008

Consolidated Statements of Financial Position

University of Pennsylvania (in thousands)

	June 30, 2008	June 30, 2007
Assets		
Cash and cash equivalents	\$ 735,340	\$ 739,660
Accounts receivable, net of allowances of \$10,800 and \$10,463	157,557	138,674
Patient receivables, net of allowances of \$103,518 and \$105,633	293,304	250,090
Contributions receivable, net	445,064	379,422
Loans receivable, net of allowances of \$2,947 and \$2,994	188,324	94,155
Other assets	117,089	134,007
Assets held for sale	3,902	6,835
Investments, at fair value	6,578,921	7,307,482
Plant, net of depreciation	3,479,761	3,067,833
Total assets	\$ 11,999,262	\$ 12,118,158
Liabilities		
Accounts payable	\$ 186,023	\$ 90,411
Accrued expenses and other liabilities	958,389	905,593
Collateral due broker	—	495,893
Deferred income	120,280	78,052
Deposits, advances, and agency funds	140,838	132,049
Federal student loan advances	77,823	77,247
Accrued retirement benefits	342,618	293,226
Debt obligations	1,327,144	1,333,060
Total liabilities	3,153,115	3,405,531
Net assets		
Unrestricted	4,466,107	4,273,780
Temporarily restricted	2,101,245	2,313,624
Permanently restricted	2,278,795	2,125,223
	8,846,147	8,712,627
Total liabilities and net assets	\$ 11,999,262	\$ 12,118,158

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

Consolidated Statements of Activities

University of Pennsylvania

for the year ended June 30, 2008 (with summarized financial information for the year ended June 30, 2007) (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008	2007
Revenue and other support:					
Tuition and fees, net	\$ 681,801			\$ 681,801	\$ 638,143
Commonwealth appropriations	49,674			49,674	49,429
Sponsored programs	744,862			744,862	736,343
Contributions	85,590	\$ 59,377		144,967	127,870
Investment income	153,941	122,508		276,449	271,948
Hospitals and physician practices	2,814,753			2,814,753	2,619,941
Sales and services of auxiliary enterprises	101,013			101,013	96,789
Other income	210,780			210,780	181,100
Independent operations	68,188			68,188	63,782
Net assets released from restrictions	198,777	(198,777)			
	5,109,379	(16,892)		5,092,487	4,785,345
Expenses:					
Program:					
Instruction	909,962			909,962	847,491
Research	584,775			584,775	592,225
Hospitals and physician practices	2,588,374			2,588,374	2,361,208
Auxiliary enterprises	115,162			115,162	111,813
Other educational activities	160,063			160,063	153,233
Student services	48,775			48,775	46,397
Support:					
Academic support	62,066			62,066	60,807
Management and general	198,287			198,287	190,233
Independent operations	63,361			63,361	60,214
	4,730,825			4,730,825	4,423,621
Increase (decrease) in net assets before nonoperating revenue, net gains, reclassifications and other	378,554	(16,892)		361,662	361,724
Nonoperating revenue, net gains, reclassifications and other:					
(Loss) gain on investment, net	(153,228)	(191,085)	\$ (24,401)	(368,714)	920,744
Investment income, net of amounts classified					
as operating revenue	(24,541)	(62,554)	1,310	(85,785)	(59,649)
Contributions		119,952	176,663	296,615	233,502
Pension and other postretirement plan adjustments	(70,258)			(70,258)	
Income from discontinued operations					394
Net assets released from restrictions	61,800	(61,800)			
Increase (decrease) in net assets before cumulative effect of change in accounting principle	192,327	(212,379)	153,572	133,520	1,456,715
Cumulative effect of change in accounting principle					(67,490)
Increase (decrease) in net assets after cumulative effect of change in accounting principle	192,327	(212,379)	153,572	133,520	1,389,225
Net assets, beginning of year	4,273,780	2,313,624	2,125,223	8,712,627	7,323,402
Net assets, end of year	\$ 4,466,107	\$ 2,101,245	\$ 2,278,795	\$ 8,846,147	\$ 8,712,627

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

Consolidated Statements of Cash Flows

University of Pennsylvania for the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 133,520	\$ 1,389,225
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	220,545	234,684
Provision for bad debts	136,690	130,435
Loss on early retirement of debt	1,736	—
Loss (gain) on investments, net	368,714	(920,744)
Loss on disposal of plant, property and equipment	762	886
Donated equipment	(4,223)	(2,839)
Receipt of contributed securities	(4,863)	(5,945)
Nonoperating income designated for the acquisition of long-lived assets and long-term investment	(235,371)	(193,146)
Pension and other postretirement plan adjustments	70,258	—
Cumulative effect of change in accounting principle	—	67,490
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(291,475)	(144,678)
Contributions receivable	(1,055)	2,093
Other assets	(1,667)	(6,342)
Accounts payable, accrued expenses and accrued retirement benefits	59,528	16,681
Deposits, advances and agency funds	8,789	8,950
Deferred income	42,228	(2,214)
Net cash provided by operating activities	504,116	574,536
Cash flows from investing activities:		
Purchase of investments	(6,939,425)	(10,158,231)
Proceeds from sale of investments	6,821,199	9,758,194
Purchase of plant, property and equipment	(548,625)	(388,357)
Net cash used by investing activities	(666,851)	(788,394)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	162,894	131,212
Federal student loan advances	576	(490)
Repayment of long-term debt	(233,710)	(49,293)
Proceeds from issuance of long-term debt	228,655	9,300
Net cash provided by financing activities	158,415	90,729
Net decrease in cash and cash equivalents	(4,320)	(123,129)
Cash and cash equivalents, beginning of year	739,660	862,789
Cash and cash equivalents, end of year	\$ 735,340	\$ 739,660
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 47,238	\$ 51,043

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

Consolidated Notes to 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 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 financial statements have been prepared on the accrual basis and include the accounts of the University of Pennsylvania and its subsidiaries. All material transactions between the University and its subsidiaries have been eliminated.

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

Permanently restricted - Net assets that are subject to donor-imposed restrictions that require the original contribution be maintained in perpetuity by the University, but permits the use of certain investment earnings for general or specific purposes.

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. Expirations of temporary restrictions recognized on net assets are reported as net assets released from restrictions from temporarily restricted net assets to unrestricted net assets. 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 asset is placed in service.

Gains associated with operating activities and related assets such as sales of property, plant and equipment, sales of licenses and contract settlements, are included in Other income. Losses associated with operating activities and related assets such as sales of property, plant and equipment, sales of licenses and contract settlements, are included in the appropriate expense category. Gains or losses associated with investment activities are included in Gain or loss on investment, net.

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2007 from which the summarized information was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.

Consolidated Notes to Financial Statements

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.

Investments Including Endowments

The University invests in accordance with stated investment policies set out by an Investment Board which has been appointed by the Trustees to oversee the Office of Investments. The University's investment portfolio may include marketable and not readily marketable securities that it intends to hold for an indefinite period of time.

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 majority of the endowment funds of the University have been pooled in the University's Associated Investments Fund (A.I.F.), which is invested in equities, bonds, hedge funds, natural resources, private equity and real estate limited partnerships.

The University has adopted an endowment spending policy governing the expenditure of funds invested in the A.I.F. The spending policy is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. Under the University's spending policy, the spending rule distribution is the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior year-end market value of the AIF multiplied by 4.7%. Effective July 1, 2008, a 6.5% spending rate multiplier will be used for financial aid funds. The 4.7% spending rate multiplier will be used for all other funds.

The University reports investments at fair value. Changes in the fair value of investments are reported in (Loss) gain on investment, net in the Consolidated Statement of Activities. Investments in tradable securities with readily determinable values are reported at fair value based on quoted market prices. Non-exchange traded debt instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities. Fixed income investments with a maturity of less than one year when purchased are classified as short-term investments. Derivative financial instruments held for investment purposes are carried at fair value derived from broker quotes. The University's principal derivative financial instruments are domestic and international equity future contracts and forward currency contracts.

The University's alternative investments which include hedge funds (classified as absolute return), private equity funds, natural resource funds and real estate funds are held through limited partnerships and are reported at the estimated fair value. The hedge funds typically invest in a large number of public securities, which are readily valued based on quoted market prices. Hedge funds may also hold less liquid side pocket investments which are carried at fair market value. Investments in private equity, natural resources and real estate are valued utilizing the most current information available, adjusted for cash flows, which generally lags the Statement of Position date by a quarter. The value of limited partnership interests in private equity funds are estimated for investments in non-public companies based on available information. Factors considered in determining fair market value include cost, the type of investment, the current financial position and operating results of the non-public companies and/or prevailing market values to EBITDA. The value of limited partnership interests in real estate funds are valued on the basis of periodic appraisals of the underlying assets in the funds. The value of limited partnership interests in natural resource funds are valued on the basis of a combination of valuation models including appraisals, discounted cash flows and commodity price multiples.

The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2008 and 2007. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Consolidated Notes to Financial Statements

The University's investing activities expose it to various types of risk that are associated with the markets in which it invests. The most significant financial risks to which the University is exposed are price risk (the risk that the value of a security falls), illiquidity risk (the risk that certain illiquid securities cannot readily be sold) and counterparty credit risk (the risk that a counterparty may fail on a commitment or guarantee entered into with the University).

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. At June 30, 2008, Loans Receivable includes \$87,385,000 of guaranteed student loans issued during the year. The University does not intend to issue similar loans in the near future. Guaranteed student loans totaling \$85,834,000 were issued and sold in FY2007.

Plant

Plant is stated at cost, or fair value at the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 10 to 50 years for buildings and improvements and 4 to 20 years for contents and equipment. 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 total expenses. 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 charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments. Contribution revenue for pooled income funds is recognized upon establishment of the agreement at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using discount rates which represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective contribution revenue net asset category in the Consolidated Statements of Activities.

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 are 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) and federal "Unrelated Business Income Tax".

Effective July 1, 2007, the University adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), 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

Consolidated Notes to Financial Statements

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 morelikely-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.

No adjustments to the financial statements were required as a result of the implementation of FIN 48.

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, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of \$168,365,000 in 2008 and \$160,716,000 in 2007.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2008 and 2007, grant and contract revenue earned from governmental sources totaled \$622,017,000 and \$615,281,000, respectively. 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

Contributions are reported as increases in the appropriate net asset category based on donor restrictions. Contributions, including unconditional promises to donate, cash and other assets, are recognized as revenue in the period received. Unconditional pledges are recognized at their estimated net present value using discount rates ranging from 3.35% to 5.64%, net of an allowance for =collectible amounts, and are classified in the appropriate net asset category. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating revenue, net gains, reclassifications and other.

Hospital and Physician Practices

Hospital and physician practices 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 service. Certain revenue received from third-party payers is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

Consolidated Notes to Financial Statements

Allocation of Certain Expenses

The Consolidated Statements of Activities presents expenses by functional classification. Operation and maintenance of plant and depreciation are allocated 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 generally accepted accounting principles 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. Actual results could differ from those estimates.

Recent Authoritative Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines the term fair value, establishes a framework for measuring it within generally accepted accounting principles and expands disclosures about its measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, at which time the University will be required to categorize and disclose certain assets and liabilities, primarily Investments, at fair value, according to three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. University management is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. University management is evaluating what items, if any, will be measured at fair value in accordance with SFAS 159.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires disclosures on how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The use of derivatives by the University is generally limited to investment holdings in the A.I.F. and interest rate swaps. Disclosures pertaining to these financial instruments will be expanded in accordance with SFAS 161.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA),

Consolidated Notes to Financial Statements

and Enhanced Disclosures" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on classifying the net assets associated with donorrestricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. A number of states have already done so, and many more are expected to do so over the next few years. FSP FAS 117-1 also requires additional disclosures about endowments (both donorrestricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. FSP FAS 117-1 is effective for fiscal years ending after December 15, 2008. FSP FAS 117-1 will not impact the University's net asset classifications of endowment funds because the University is not currently subject to UPMIFA. The University will expand its disclosure in accordance with FSP FAS 117-1.

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 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 and 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).

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 School of Medicine) is included in the summarized financial information of UPHS. UPHS owed the University \$5,823,000 and \$11,540,000, at June 30, 2008 and 2007, respectively, which represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

UPHS transferred to the School of Medicine from its operations \$109,004,000 and \$47,809,000 in 2008 and 2007, respectively, to further research and educational activities. These activities are integral to the overall mission of Penn Medicine and the effect of the transfers is reflected in UPHS, nonoperating, net. This transaction is eliminated in the consolidated financial statements.

Final adjustments to revenue, resulting from settlements with third-party payers, are recorded in the year in which they are settled. The 2008 and 2007 Medicare net patient service revenue was increased by \$34,270,000 and \$49,037,000, respectively, as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary.

During 2007, UPHS and Independence Blue Cross (IBC) reached agreement on terms of a new five-year agreement. Payments made for inpatient services provided to IBC traditional and managed care subscribers are effected on a per case rate basis for most procedural based services and high intensity medical cases (over 60% of all inpatient admissions) and a per diem basis for all other services. Payment for outpatient services is principally based upon negotiated fee schedules. Hospital rates also provide for annual inflationary increases.

During 2005, 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.

Consolidated Notes to Financial Statements

Summarized financial information for UPHS as of and for the years ended June 30, 2008 and 2007, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2008	2007
Net patient service	\$ 2,654,418	\$ 2,470,757
Other revenue	171,909	162,188
Total expenses	(2,591,536)	(2,374,401)
Excess of revenues over expenses from operations	234,791	258,544
Other unrestricted income, net	65,752	122,204
Excess of revenue over expenses	300,543	380,748
Nonoperating, net	(174,436)	32,989
Unrealized (loss) gain, net	(32,661)	17,808
Cumulative affect of change in accounting principle	—	975
Increase in net assets	\$ 93,446	\$ 432,520
Total current assets	\$ 786,577	\$ 697,318
Assets whose use is limited (including board designated funds of \$455,440 and \$607,394 and trustee held funds of \$10,007 and \$11,991 for 2008 and 2007, respectively)	1,007,991	1,176,746
Plant, net of depreciation	1,114,236	817,783
Investments and other assets	364,269	224,560
Total assets	\$ 3,273,073	\$ 2,916,407
Total current liabilities	\$ 726,123	\$ 425,999
Long-term debt, net of current portion	522,507	703,263
Other liabilities	528,094	384,242
Total liabilities	1,776,724	1,513,504
Net assets		
Unrestricted	1,022,714	873,438
Temporarily restricted	344,330	394,604
Permanently restricted	129,305	134,861
Total net assets	1,496,349	1,402,903
Total liabilities and net assets	\$ 3,273,073	\$ 2,916,407

Consolidated Notes to Financial Statements

In 2007, UPHS purchased several buildings and land from Tenet Health Systems Graduate, LLC in Philadelphia. Upon renovation, UPHS intends to use several of the buildings for operations. The properties not intended for use, both land and buildings, are recorded as Assets held for sale at their allocated cost of \$3,902,000 and \$6,835,000, at June 30, 2008 and 2007, respectively.

3. Investments

A summary of investments, stated at fair value, at June 30, 2008 and 2007 is as follows (in thousands):

	2008		2007
Short-term	\$	379,239	\$ 1,248,592
Equity securities		2,956,805	3,662,497
Debt securities		846,538	692,383
Real estate		351,284	251,504
Absolute return		1,564,642	1,105,885
Private equity		384,931	288,036
Natural resources		94,073	57,202
Other		1,409	1,383
End of year	\$	6,578,921	\$ 7,307,482
Beginning of year	\$	7,307,482	\$ 5,699,086

The University employs derivative instruments (futures as well as currency forwards) in combination with money market funds to replicate long only equity exposure more cost effectively and conveniently than by purchasing the underlying securities. The notional exposure of these derivative instruments was \$118,861,000 as of June 30, 2008 and \$672,405,000 as of June 30, 2007. The fair market value of the derivative instruments was (\$6,097,000) and \$3,060,000 as of June 30, 2008 and 2007, respectively, and the fair market value of the money market funds was \$95,721,000 and \$434,955,000 as of June 30, 2008 and 2007, respectively, both of which are included in the value of Equity securities. In addition, \$12,394,000 and \$27,221,000 of U.S. Treasury securities were pledged as collateral to meet margin requirements under certain futures contracts at June 30, 2008 and 2007, respectively.

Included in investments are assets held in trust for the University with an aggregate fair value of \$364,052,000 at June 30, 2008 and \$386,099,000 at June 30, 2007. This includes assets held pursuant to split-interest agreements with an aggregate fair value of \$1,073,000 and \$631,000 as of June 30, 2008 and 2007, respectively.

Included in investments are assets held pursuant to split-interest agreements where the University acts as Trustee with an aggregate fair value of \$93,486,000 and \$107,730,000 as of June 30, 2008 and 2007, respectively. This includes amounts held to meet legally mandated annuity reserves of \$29,237,000 and \$28,140,000 as of June 30, 2008 and 2007, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

In connection with a University-sponsored loan program, the University is required to invest in certificates of deposit of the lending institution. At June 30, 2008 and 2007, short-term investments held under this arrangement aggregated \$2,557,000 and \$2,807,000, respectively.

At June 30, 2008 and 2007, investments with a fair value of \$4,389,000 and \$10,244,000, respectively, were held by trustees under indenture and escrow agreements.

Consolidated Notes to Financial Statements

Included in investments is \$2,706,000 and \$6,899,000 of cash that is held in escrow at June 30, 2008 and 2007, respectively.

During FY 2008, the University discontinued its securities lending program. At June 30, 2007, securities with a fair value of \$483,072,000 were loaned on an overnight basis. Cash deposits of \$495,757,000, included in short-term investments, and US Treasury obligations of \$136,000 included in Bonds collateralized the loaned securities.

At June 30, 2008 and 2007, short-term investments include \$29,188,000 and \$20,313,000, respectively, of outstanding receivables from trading activities. At June 30, 2008 and 2007, short-term investments include \$53,869,000 and \$603,000, respectively, of outstanding payables from trading activities.

The University is obligated under certain limited partnership investment fund agreements to advance additional funding periodically up to specified levels. At June 30, 2008, the University had unfunded commitments of \$1,167,957,000 to a variety of private equity, real estate, natural resources and other drawdown funds. Based upon past experience, the University expects these commitments to be funded over the next 3 to 5 years depending on market conditions.

A summary of the University's total investment return for the years ended June 30, 2008 and 2007 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2008		2007
A.I.F. investment income	\$	125,221	\$ 127,247
A.I.F. realized and unrealized gains		(354,402)	883,779
Return on A.I.F.		(229,181)	1,011,026
Other investment income and gains		51,131	122,017
Total return on investments	(\$	178,050)	\$ 1,133,043

The Allocation of A.I.F. returns to operations under the A.I.F. spending rule exceeded A.I.F. income, net of expenses and net of income permanently reinvested, by \$98,271,000 in 2008 and by \$68,184,000 in 2007.

4. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of \$10,800,000 and \$10,463,000 at June 30, 2008 and 2007, respectively, are as follows (in thousands):

	2008		2007
Sponsored research	\$	72,953	\$ 62,979
Student		12,218	16,513
Trade		41,430	33,965
Investment income		9,690	7,348
Other		21,266	17,869
Total Accounts receivable	\$	157,557	\$ 138,674

Consolidated Notes to Financial Statements

5. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2008 and 2007 (in thousands):

	2008	2007
Unconditional promises expected to be collected in:		
Less than one year	\$ 50,986	\$ 161,923
One year to five years	448,561	307,928
Over five years	59,658	16,729
	559,205	486,580
Less: Discount	(85,196)	(39,130)
Less: Allowance for doubtful amounts	(28,945)	(68,028)
Contributions receivable, net	\$ 445,064	\$ 379,422

At June 30, 2008, the University has outstanding unrecorded conditional promises to give of \$62,809,000. When they become unconditional promises to give or are received in cash or kind, they will be recorded and generally will be restricted for specific purposes as stipulated by the donors.

The allowance for doubtful accounts declined in 2008 principally as a result of improved collections.

6. Other Assets

The major components of other assets at June 30, 2008 and 2007, respectively, are as follows (in thousands):

	2008	2007
Goodwill	\$ 28,206	\$ 29,865
Defined benefit pension asset	23,129	37,011
Inventory	24,567	22,473
Prepaid expenses	17,309	19,069
Deferred financing fees	10,842	14,633
Other	13,036	10,956
Total Other assets	\$ 117,089	\$ 134,007

Goodwill of \$28,206,000 at June 30, 2008 and \$29,865,000 at June 30, 2007, associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into UPHS, is being amortized over thirty years on a straight-line basis.

Consolidated Notes to Financial Statements

7. Plant, net of depreciation

The components of plant at June 30, 2008 and 2007 are as follows (in thousands):

		2008	2007
Land	\$	133,616	\$ 110,791
Buildings and fixed equipment		3,865,912	3,842,181
Contents		1,128,508	787,332
Construction-in-progress	580,597		348,538
		5,708,633	5,088,842
Less: accumulated depreciation		(2,228,872)	(2,021,009)
Plant, net of depreciation	\$	3,479,761	\$ 3,067,833

Plant, net of depreciation includes \$3,209,000 of land at June 30, 2008 and 2007, as well as, \$12,372,000 and \$4,037,000 of completed facilities at June 30, 2008 and 2007, respectively, which serve as collateral for debt obligations.

The University recorded \$220,767,000 and \$233,180,000 of depreciation expense for the years ended June 30, 2008 and 2007, respectively. Rare books and other collectibles aggregate \$26,481,000 at June 30, 2008 and \$23,809,000 at June 30, 2007.

8. 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):

	2008	2007
July 1	\$ 21,281	\$ 20,960
Less: Payments	(2,206)	(171)
Add: Accretion	122	492
June 30	\$ 19,197	\$ 21,281

9. Split-Interest Agreements

The liability to donors and beneficiaries under terms of split-interest agreements included in Accrued expenses and other liabilities is as follows (in thousands):

	2008	2007
Charitable gift annuities	\$ 23,855	\$ 25,159
Charitable remainder trusts	23,149	27,429
Pooled income funds	1,243	1,332
Total split-interest agreements	\$ 48,247	\$ 53,920

Consolidated Notes to Financial Statements

10. Debt Obligations

Debt obligations at June 30, 2008 and 2007 are as follows (in thousands):

Debt obligations at June 30, 2008 and 2007 are as follows (in tho	usands):			
	Maturity	Interest Rate at June 30, 2008	June 30, 2008	June 30, 2007
Academic Component:	Maturity	June 30, 2008	Julie 30, 2008	Julie 30, 2007
Fixed Rate Debt Obligations:				
Pennsylvania Higher Education Facility Authority (PHEFA)				
Series C of 2005 Revenue Bonds Unamortized Premium	09/2038	3.20% - 5.00%	\$ 141,620 3,878	\$ 141,620 4,095
Series A of 2005 Revenue Bonds	09/2025	3.00% - 5.00%	32,075	34,905
Unamortized Premium	00/2015		1,152	1,344
Series B of 2005 Revenue Bonds Unamortized Premium	09/2015	5.00% - 5.25%	56,850 3,241	62,420 4,134
Series A of 2002 Revenue Bonds	07/2008	4.00% - 5.00%	3,215	6,270
Unamortized Premium	07/2000	4.0070 5.0070	5,215	37
Series of 1998 Revenue Bonds	07/2038	4.50% - 4.75%	108,805	111,255
Unamortized Discount			(888)	(957)
Other Loans	Various	3.00% - 7.85%	1,049	1,088
Total Fixed Rate Debt Obligations			350,997	366,211
Variable Rate Debt Obligations:				
PHEFA				
Series A of 2008 Revenue Bonds	07/2032	1.70%	46,060	
Series B of 2002 Revenue Bonds	07/2032	3.75%		47,350
Series of 1990 Revenue Bonds	12/2020	3.85%	6,500	6,500
Series of 1985 Revenue Bonds	12/2015	3.85%	10,610	10,610
Quakertown General Authority				
Series of 2008	07/2034	1.65%	77,200	
Series of 2004	07/2034	3.63%		77,700
Washington County Authority				
Series of 2004	07/2034	3.76%	62,000	62,500
Other Loans	Various	4.30% - 5.92%	24,069	24,150
Total Variable Rate Debt Obligations			226,439	228,810
Total Academic Component Debt Obligations			577,436	595,021
UPHS:				
Fixed Rate Debt Obligations:				
PHEFA	02/2020	2 7550/	105 005	
Series A of 2008 Revenue Bonds Series A of 2005 Revenue Bonds	03/2038	3.755%	105,805	260.275
Unamortized Premium	08/2023	4.25% - 5.00%	247,190 12,957	260,375 15,514
Series B of 2005 Revenue Bonds	08/2018	3.00% - 5.00%	74,575	80,655
Unamortized Premium	00/2010	5.0070 5.0070	1,490	1,803
Series of 2004 Revenue Bonds	11/2010	3.35%	11,140	16,875
Pennsylvania Hospital				
Series of 2004 Revenue Bonds	01/2024	7.50%	89,235	89,235
Series of 2002 Revenue Bonds	01/2024	7.50%		23,610
Series A of 1998 Revenue Bonds	01/2015	4.50% - 5.38%		37,115
Unamortized Premium				407
Capital Leases and notes payable	04/2009	4.64%	4,641	9,075
Total Fixed Rate Debt Obligations			547,033	534,664
Variable Rate Debt Obligations: PHEFA				
Series C of 2005 Revenue Bonds	4/2024	3.80%	103,675	103,675
Series D of 2005 Revenue Bonds	4/2027	3.75%	92,400	92,400
Pennsylvania Economic Development	., 202,	2	22,100	22,100
Financing Authority Series C of 1994 Revenue Bonds	09/2015	5.35%	6,600	7,300
Total Variable Rate Debt Obligations	-		202,675	203,375
Total UPHS Debt Obligations			749,708	738,039
Total University Debt Obligations			\$ 1,327,144	\$ 1,333,060
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Consolidated Notes to Financial Statements

The fair value of the University's debt obligations was \$1,320,079,000 and \$1,320,506,000 at June 30, 2008 and 2007, respectively. The fair value represents the quoted market value for PHEFA Revenue Bonds and Department of Education Bonds and carrying amounts for all other debt, which approximates fair value.

The University had unused letters of credit with various financial institutions to secure certain self insured liabilities in the amounts of \$77,132,000 and \$76,032,000 at June 30, 2008 and 2007, respectively.

Maturities of debt obligations are as follows (in thousands):

Fiscal Year	Amount			
2009	\$	45,876		
2010		53,800		
2011		47,372		
2012		49,438		
2013		60,406		
Thereafter		1,048,422		
Total Principal		1,305,314		
Unamortized Premium/Discount		21,830		
Total Debt	\$	1,327,144		

Academic Component

On April 17, 2008, Quakertown General Authority issued Refunding Revenue Bonds, Series of 2008 ("Quakertown 2008"), with an aggregate principal amount of \$77,200,000. The proceeds were used to refund \$77,700,000 from the Quakertown General Authority Refunding Revenue Bonds, Series of 2004. The Bonds are subject to mandatory sinking fund redemptions on July 1 of each year from 2009 through 2034. The Bonds have a stated interest rate of 1.65% for an initial period ending on March 5, 2009, at which time they are subject to mandatory tender or will be converted to a weekly rate or another interest rate mode.

On April 2, 2008, PHEFA issued Revenue Bonds, Series A of 2008 ("PHEFA 2008A"), with an aggregate principal amount of \$46,060,000. The proceeds were used to refund \$46,525,000 from the PHEFA Series B of 2002 Revenue Bonds. The Bonds are subject to mandatory sinking fund redemptions on July 1 of each year from 2009 through 2032. The Bonds have a stated interest rate of 1.70% for an initial period ending on March 17, 2009, at which time they are subject to mandatory tender or will be converted to a weekly rate or another interest rate mode.

The \$62,000,000 Washington County Authority Series of 2004 variable rate bonds are subject to optional tenders by the owner during the weekly rate periods upon delivery of a written notice of tenders to the Tender Agent and Remarketing Agent not fewer than seven days prior to the designated Purchase Date. On April 2, 2008, the University entered into an agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of \$125,000,000 to support the PHEFA 2008A, Quakertown 2008 and Washington County Authority Series of 2004 outstanding variable rate bonds. The conditions under the agreement permit a borrowing under the line of credit in the event the bonds are not successfully remarketed. The University pays a commitment fee on the unused amount of the line of credit. As of June 30, 2008 there have been no draws under the agreement.

To protect against the risk of future interest rate changes in its debt portfolio, the Academic Component of the University entered into an interest rate 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 will pay the University interest on the notional amount of \$101,950,000 based on 67% of LIBOR and the University will pay 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 market value, on any business day. The University has recognized a liability of \$4,064,000 for the accumulated fair market value decline of the swap agreement as of June 30, 2008.

Consolidated Notes to Financial Statements

UPHS

Pennsylvania Higher Education Facilities Authority Revenue Bonds

UPHS Series A of 2008 Bonds were issued on April 21, 2008 for the purpose of legally defeasing the non-current maturities of the Series 2002 Pennsylvania Hospital Revenue Bonds and funding of various UPHS capital expenditures. The bonds mature in varying amounts ranging from \$4,555,000 to \$7,655,000, with a final maturity of \$7,655,000 in 2038. Interest on the bonds is reset weekly through a remarketing process (1.15% at June 30, 2008). The bonds are subject to optional redemption by the University on any scheduled Interest Payment Date at a Redemption Price equal to 100% of the principal amount plus accrued interest. The bonds are enhanced by a direct pay letter of credit issued by a bank. On October 24, 2007, UPHS entered into an interest rate exchange agreement (the "Agreement") with Merrill Lynch Capital Services to effectively fix the interest rate. 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 a percentage of the one-month London Inter-Bank Offered Rate ("LIBOR"). UPHS has the option under the Agreement to terminate the Agreement at zero on January 1, 2018 and every 6 months thereafter.

UPHS Series C of 2005 Bonds were issued on April 6, 2005 for the purpose of legally defeasing the Health Services Series B of 1994 variable rate bonds. The bonds are subject to mandatory redemption in varying amounts ranging from \$17,125,000 to \$32,175,000 in 2024. In February 2008, the University changed the auction period on the bonds from weekly to a fixed auction period ending on November 14, 2008. Additionally, the obligated group of UPHS issued a tender offer to purchase the bonds also on November 14, 2008, enabling bond holders of record to tender their bonds for purchase on that date. The interest rate on the bonds is 2.95% at June 30, 2008. The Bonds are eligible to be changed to a fixed rate as elected by the University. The Bonds are subject to optional redemption by the University on any scheduled interest payment date or the first day of each rate period (as determined by the elected interest mode in effect) prior to their scheduled maturity at a redemption price of 100% plus accrued interest. Payment of principal and interest on the bonds is insured by a bond insurer.

UPHS Series D of 2005 Bonds were issued on April 6, 2005 for the purpose of legally defeasing the Health Services Series C of 1996 variable bonds. The bonds are subject to mandatory redemption in varying amounts ranging from \$3,050,000 to \$38,600,000, with a final maturity in 2027. In February 2008, the University changed the auction period on the bonds from weekly to a fixed auction period ending on November 18, 2008. Additionally, the obligated group of UPHS issued a tender offer to purchase the bonds also on November 18, 2008, enabling bond holders of record to tender their bonds for purchase on that date. The interest rate on the bonds is 2.95% at June 30, 2008. The Bonds are eligible to be changed to a fixed rate as elected by the University. The Bonds are subject to optional redemption by the University on any scheduled interest payment date or the first day of each rate period (as determined by the elected interest mode in effect) prior to their scheduled maturity at a redemption price of 100% plus accrued interest. Payment of principal and interest on the bonds is insured by a bond insurer.

The PHEFA Revenue Bonds, exclusive of Series of 2004 and 2002, 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 2008 and 2007, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

Consolidated Notes to Financial Statements

11. Natural Classification of Expenditures

Expenses incurred were for (in thousands):

						Other			
	Compensation	Studen	it Aid	Dep	reciation	Interest	Operating		Total
June 30, 2008									
Instruction	\$ 559,322	\$ 5	0,717	\$	38,868	\$ 3,559	\$ 257,496	\$	909,962
Research	328,156		9,446		28,891	8,836	209,446		584,775
Hospitals and physician practices	1,423,913				88,429	26,295	1,049,737		2,588,374
Auxiliary enterprises	23,806				18,189	3,456	69,711		115,162
Other educational activities	99,903		6		7,818	401	51,935		160,063
Student services	27,909		161			66	20,639		48,775
Academic support	29,131				21,790	824	10,321		62,066
Management and general	160,703		103		10,816	702	25,963		198,287
Independent operations	7,532				5,966	1,664	48,199		63,361
Total	\$ 2,660,375	\$ 6	0,433	\$	220,767	\$ 45,803	\$ 1,743,447	\$	4,730,825
June 30, 2007	\$ 2,459,498	\$ 5	7,481	\$	233,180	\$ 47,882	\$ 1,625,580	\$	4,423,621

12. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through March 2027. Rental expense for the years ended June 30, 2008 and 2007 totaling \$52,652,000 and \$50,655,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2008, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2009	\$ 42,385
2010	38,961
2011	33,858
2012	28,100
2013	24,070
Thereafter	 158,002
Total minimum lease payments	\$ 325,376

13. Pension and Other Postretirement Benefit Costs

Retirement benefits are provided for academic employees and certain administrative and support personnel through a defined contribution plan. The University's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries. The University's contributions amounted to \$76,985,000 in 2008 and \$72,182,000 in 2007.

The University has noncontributory defined benefit pension plans for substantially all other full-time employees. Benefits under these plans generally are based on the employee's years of service and compensation during the years preceding retirement. Contributions to the 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.

Clinical Care Associates and certain other UPHS entities have a non-contributory defined contribution retirement plan covering all eligible employees. Clinical Care Associates has also established a non-qualified supplemental retirement plan to provide retirement benefits to a select group of physician employees. Contributions to these plans are based upon the annual compensation of the eligible employees. Retirement plan expense was \$3,340,000 and \$3,199,000 for 2008 and 2007, respectively.

Consolidated Notes to Financial Statements

Effective June 30, 2007, the University adopted FAS 158, which requires that the Consolidated Statements of Financial Position reflect the funded status of the pension and postretirement plans. The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation or accumulated postretirement benefit obligation. The University has recognized the aggregate of all overfunded plans in Other Assets and the aggregate of all underfunded plans in Accrued Retirement Benefits in the Consolidated Statements of Financial Position.

At June 30, 2008 and in future reporting periods, the difference between actual amounts and estimates based on actuarial assumptions will be recognized as Pension and other postretirement plan adjustments in the Consolidated Statements of Activities in the period in which they occur. At June 30, 2007, the University recognized \$67,490,000 which was reported as a Cumulative effect of change in accounting principle to reflect previously unrecognized differences between actual amounts and estimates based on actuarial assumptions were included in Unrestricted Net Assets in our Consolidated Statements of Financial Position as required by FAS 158.

Net Periodic Cost

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

	Pensio	n Benefits	Other Postretirement Benefits				
	06/30/2008	06/30/2007	06/30/2008	06/30/2007			
Service Cost	\$ 30,041	\$ 27,126	\$ 15,489	\$ 14,203			
Interest Cost	52,320	48,316	27,495	24,480			
Expected Return on Plan Assets	(72,710)	(61,049)	(15,252)	(12,060)			
Amortization of: Net Prior Service Cost/(Credit)	1,634	1,634	(3,664)	(3,664)			
Net Losses/(Gains)	(26)	—	3,446	3,430			
Net Periodic Benefit Cost	\$ 11,259	\$ 16,027	\$ 27,514	\$ 26,389			

Obligations and Funded Status

The following shows changes in the benefit obligation, plan assets and funded status. Accrued retirement benefits includes \$5,433,000 and \$7,021,000 for faculty early retirement program at June 30, 2008 and 2007, respectively. Benefit obligation balances presented below reflect the projected benefit obligation (PBO) for pension plans and accumulated postretirement benefit obligations (APBO) for other postretirement benefits plans (in thousands):

	Pensior	n Benefits	Other Postretin	ement Benefits
	06/30/2008	06/30/2007	06/30/2008	06/30/2007
Change in Benefit Obligation				
Benefit Obligation at Beginning of Year	\$ 849,410	\$ 785,057	\$ 448,980	\$ 400,039
Service Cost	30,041	27,126	15,489	14,203
Interest Cost	52,320	48,316	27,495	24,480
Plan Participants' Contributions	117	111	2,799	2,366
Retiree Drug Subsidy	—	—	1,251	1,370
Net Actuarial (Gain)/Loss due to Plan Experience	(51,894)	10,518	(29,095)	24,782
Benefits Paid from Fund	(23,331)	(21,718)	(13,075)	(11,815)
Benefits Paid directly by University	—	_	(6,520)	(6,445)
Plan Amendments	_	_	_	_
Benefit Obligation at End of Year	\$ 856,663	\$ 849,410	\$ 447,324	\$ 448,980
Accumulated Benefit Obligation	\$ 742,179	\$ 734,925	N/A	N/A

Consolidated Notes to Financial Statements

	Pension Benefits			Other Postretirement Benefi				
	06	5/30/2008	06/30/2007		06/30/2008		06	5/30/2007
Change in Plan Assets								
Fair Value of Plan Assets at Beginning of Year	\$	872,804	\$	733,890	\$	176,392	\$	138,633
University Contributions		15,516		18,362		29,904		30,069
Plan Participants' Contributions		117		111		2,799		2,366
Benefits Paid from Fund		(23,331)		(21,718)		(13,075)		(11,815)
Benefits Paid directly by University		_		_		(6,520)		(6,445)
Actual Return on Assets		(53,206)		142,159		(11,469)		23,584
Fair Value of Plan Assets at End of Year	\$	811,900	\$	872,804	\$	178,031	\$	176,392
Funded Status								
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	(\$	856,663)	(\$	849,410)	(\$	447,324)	(\$	448,980)
Plan Assets at Fair Value		811,900		872,804		178,031		176,392
Unrecognized Net Actuarial Loss		—		_		—		_
Unrecognized Prior Service Costs		_		_				_
Funded Status at End of Year	(\$	44,763)	\$	23,394	(\$	269,293)	(\$	272,588)

Net Amounts Recognized in the Consolidated Statements of Financial Position at June 30, 2008

	Pension Benefits			Other Postretirement Ben			t Benefits	
	06	06/30/2008 06/30/2007		06/30/2008		06	5/30/2007	
Unrestricted Net Assets - Recognized under SFAS 158								
Net Actuarial (Gain)/Loss	\$	42,438	(\$	21,653)	\$	91,004	\$	96,826
Net Prior Service Cost/(Credit)		8,324		N/A		(4,018)		(7,683)
Net Transition Obligation/(Asset)		—		—		—		_
Total	\$	50,762	(\$	21,653)	\$	86,986	\$	89,143
Adjustment to Unrestricted Net Assets	\$	72,415	(\$	21,653)	(\$	2,157)	\$	89,143
Information for Plans with PBO/APBO in Excess of Plan Assets								
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	\$	704,245	\$	688,328	\$	447,324	\$	448,980
Accumulated Benefit Obligation / Accumulated Postretirement Benefit Obligation		598,844		585,412		447,324		448,980
Fair Value of Plan Assets		636,354		674,711		178,031		176,392
Information for Plans with PBO/APBO Less Than Plan Assets								
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	\$	152,418	\$	161,083		N/A		N/A
Accumulated Benefit Obligation / Accumulated Postretirement Benefit Obligation		143,335		149,513		N/A		N/A
Fair Value of Plan Assets		175,546		198,093		N/A		N/A

Consolidated Notes to Financial Statements

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2009 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of Net Transition Obligation/(Asset)	—	—
Amortization of Prior Service Cost/(Credit)	1,634	(3,664)
Amortization of Net Losses/(Gains)	—	2,969

Actuarial Assumptions

The expected long-term rate of return of 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.

	Pensio	n Benefits	Other Postretire	ment Benefits		
	06/30/2008	06/30/2007	06/30/2008	06/30/2007		
Weighted-Average Assumptions Used to Determine Benefit Obligations at Year End						
Discount Rate	6.75%	6.25%	6.75%	6.25%		
Salary Increase	4.125%	4.125%	N/A	N/A		
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost						
Discount Rate	6.25%	6.25%	6.25%	6.25%		
Expected Long-term Return on Plan Assets	8.375%	8.375%	8.375%	8.375%		
Salary Increase	4.125%	4.125%	N/A	N/A		
Assumed Health Care Cost Trend Rates						
Initial Trend Rate	N/A	N/A	9.00%	9.50%		
Ultimate Trend Rate	N/A	N/A	5.00%	5.00%		
Fiscal Year End that Ultimate Trend Rate is Reached	N/A	N/A	2016	2015		

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	nt Increase 1-Percentage Point Decre			
	2008 2007		2008	2007		
Effect on total of service and interest cost	7,620	7,998	(5,992)	(6,239)		
Effect on accumulated postretirement benefit obligation	65,614	67,576	(53,288)	(54,657)		

Consolidated Notes to Financial Statements

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 across equity and debt securities. The equity securities are diversified, and comprised predominantly of developed market liquid assets, across a range of investment styles.

Domestic equities comprised 31%, international equities comprised 27% and emerging markets equities comprised 3% of plan assets at June 30, 2008. The average quality of debt securities at June 30, 2008 was AAA with an effective duration of 3.98 years.

	Target	2008	2007
Allocation of Plan Assets			
Equity Securities	67.0%	61.0%	62.0%
Debt Securities	26.0%	25.0%	21.0%
Other	7.0%	14.0%	17.0%
Total	100.0%	100.0%	100.0%

Other includes cash of 7% and hedge fund investments of 7% at June 30, 2008.

Cash Flows & Estimated Future Benefit Payments

	Pension Benefits 06/30/2008	Other Postretirement Benefits 06/30/2008
University Contributions for the Year Ending:		
June 30, 2007	\$ 18,362	\$ 29,386
June 30, 2008	15,516	29,011
June 30, 2009	23,029	30,470
Benefits Paid Directly by the University for the Year Ending:		
June 30, 2007	N/A	\$ 6,444
June 30, 2008	N/A	6,520
June 30, 2009	N/A	7,762
Plan Participants' Contributions for the Year Ending:		
June 30, 2007	\$ 111	\$ 2,366
June 30, 2008	117	2,799
June 30, 2009	117	2,991

Consolidated Notes to Financial Statements

Benefits Payments in Total

	Pension Benefits		Ben Med	Postretiremen efits Before icare Part D Subsidy	Impact of		
Actual Benefit Payments for the Year Ending:							
June 30, 2007	\$	21,718	\$	18,260	\$	1,370	
June 30, 2008		23,331		19,595		1,251	
Expected Benefit Payments for the Year Ending:							
June 30, 2009	\$	28,774	\$	22,337	\$	2,665	
June 30, 2010		30,923		24,316		2,908	
June 30, 2011		33,600		26,191		3,138	
June 30, 2012		37,167		27,925		3,365	
June 30, 2013		40,833		29,541		3,574	
June 30, 2014 to June 30, 2018		268,530		173,810		21,287	

14. 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. In March 2002, the Pennsylvania General Assembly approved reforming the Commonwealth's medical malpractice insurance system. 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.

The University accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. The estimate of the liability for unasserted claims arising from unreported incidents is based on analysis of historical claims data by an independent actuary, which is recorded utilizing a 5.0% discount rate at June 30, 2008. Total amounts recorded under this program, included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Position, are \$292,367,000 and \$241,810,000 at June 30, 2008 and 2007, respectively.

Effective July 1, 2001, the University funded RRG/Captive, for purposes of administering its risk retention program, covering its primary layer exposures. The assets and respective liabilities of RRG/Captive are included in the accompanying financial statements.

Assets have been board designated to provide funding for the University's retained risk associated with medical professional liability claims. The assets are included in the accompanying financial statements.

Consolidated Notes to Financial Statements

15. Contingencies, Guarantees and Commitments

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

	June 30, 2008				June 30, 2007			
	Amount Guaranteed		Recognized Liability		Amount Guaranteed			Recognized Liability
Mortgage Loans	\$	34,748	\$	—	\$	41,083	\$	_
Student Loans		41,607		7,015		50,468		7,719
Other		6,949		272		7,415		309
	\$	83,304	\$	7,287	\$	98,966	\$	8,028

To encourage home ownership and home improvement in the University's geographic area, certain University and affiliate employee mortgage loans are guaranteed. On February 23, 2006, the University instituted an additional mortgage guarantee program which extends the guarantee program for recruitment and retention purposes beyond the immediate West Philadelphia neighborhood. 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 pay any loss incurred following the lender's foreclosure process or the University may be required to pay any loss incurred following the lender's foreclosure process or the University may be required to pay any loss incurred following the lender's foreclosure process or the University may be required to pay any loss incurred following the lender's foreclosure process or 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, \$23,917,000 and \$27,046,000 at June 30, 2008 and 2007, 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 Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" does not require a gua

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. Of the amount guaranteed, \$19,331,000 and \$18,550,000 at June 30, 2008 and 2007, respectively, was estimated to be recoverable from subsequent collection efforts on loans the University would acquire if it performed under the guarantees. The amount of the liability recognized for defaults in the portfolio of guaranteed loans exceeds the estimated fair value of the guarantee that is required to be recognized by FIN 45.

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, \$4,587,000 at June 30, 2008 and \$4,183,000 at June 30, 2007, 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, 2008, approximately \$196,238,000 has been committed by the University.

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June 30, 2008

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as of June 30, 2008

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280 ACRE URBAN CAMPUS 1,600 TONS OF RECYCLING 192,000,000 KILOWATTS OF WINDPOWER 650 CU YARDS LEAF COMPOST 2,200 PENN TRANSIT PROGRAM USERS 1 EPA UNIVERSITY RANKING FOR WIND POWER USAGE