2008-2009
Financial Report


STUDENTS RUN
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University


University of Pennsylvania
Financial Report 2008–2009

Penn
University *of* Pennsylvania


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United Way


CIVIC HOUSE
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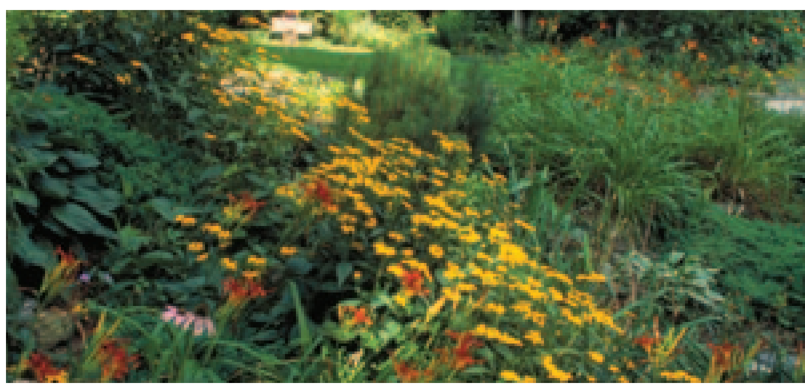


Local Impact FY09

($ in thousands)

$ 698	Contribution to Philadelphia School District for Penn Alexander students
$ 2,400	Contribution to University City District
$ 12,000	Student aid to Philadelphia residents enrolled at Penn
$ 91,000	Wages and other taxes paid to City of Philadelphia

Engaging Locally

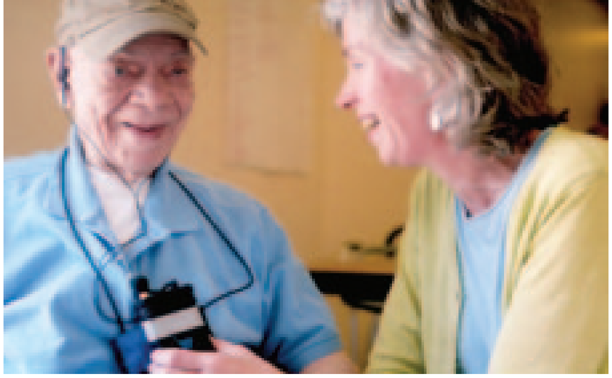
Being fully committed to the principle that universities should serve as leading contributors to the local and regional communities to which they belong, Penn has established a proud legacy of working with its neighbors to strengthen the cultural, educational and economic fabric of West Philadelphia and the greater Philadelphia region. Penn has committed significant financial resources to sustaining the local economy and neighborhood culture by purchasing more than $85.7 million in products and services from community businesses this fiscal year, with $69.9 million going to diversity-owned suppliers. But more significant than the financial resources are the human resources involved in Penn's engagement with the community.

At Penn, local engagement is one of the core tenets of the Penn Compact – Penn's strategic vision for moving from excellence to eminence – and is an integral part of the University's mission. Students and faculty from across Penn's 12 schools integrate classroom learning with community service in a way that distinguishes Penn as both a world-class teaching and research institution and a good neighbor. In 2009, Penn was ranked as the "Best Neighbor" in the country by the National Saviors of Our Cities: Survey of Best College and University Civic Partnerships for its community involvement in economic, social and cultural issues.

Benjamin Franklin said, "Tell me and I forget. Teach me and I remember. Involve me and I learn." Recognizing that students learn best by doing, Penn has woven service learning into the curriculum through Academically Based Community Service courses (ABCS) that merge coursework with mandatory fieldwork in the local community. In addition, students, faculty and staff donate thousands of volunteer hours to public service in West Philadelphia.

Through activities that range from tutoring and mentoring neighborhood school children to upgrading local business technology and creating wider access to vital health care, Penn has shown that building a collaborative and mutually respectful relationship with its neighbors benefits everyone involved. By working alongside community leaders, civic organizations and neighborhood families to solve real-world problems, Penn students and faculty apply their intellectual skills to make positive social change. The following pages illustrate the wide variety of curricular programs and non-curricular volunteer programs undertaken by the Penn community with the goal of improving the health, education and welfare of the citizens of Philadelphia.

Through its service to the community, Penn pays homage to the principles of its founder, Benjamin Franklin, who rightly believed that the destiny of an eminent University is inextricably tied to the well being of the people it serves.



Health

The health of West Philadelphia residents benefits from the combined efforts of the University of Pennsylvania Health System (UPHS) and four of Penn's twelve schools: Medicine, Nursing, Dental Medicine and Veterinary Medicine. As a good neighbor, Penn is concerned about the health of the greater Philadelphia community and is committed to ensuring that quality healthcare is available to all. It is a tangible commitment, translated into dozens of programs that help thousands of people.

Penn Medicine integrates the resources of UPHS and the nation's first School of Medicine resulting in a wide network of over 18,000 physicians, nurses and other clinical personnel with expertise in every area of general and specialized medicine. UPHS's three hospitals serve tens of thousands of Philadelphia-area residents by providing preventive, acute and emergency health-care and provide more than $100 million annually in charity and underfunded health care through healthcare services delivered in hospitals, health centers and various community clinics.

In West Philadelphia, the Drew Health Collaborative, the Penn Mobile Trials Unit, the United Community Clinic and the Sayre Health Center are all administered through Penn Medicine with the support of students and faculty from the Schools of Medicine, Nursing, Dental Medicine and Social Policy and Practice. These clinics provide neighborhood health fairs, free testing and screening, and free pre-natal care and counseling support.

Puentes de Salud, which translates to "Bridges of Health," is a Southwest Philadelphia clinic specifically dedicated to serving the medical and social needs of the undocumented Latino community through education and treatment. The clinic serves an average of 30-35 patients each day and garners support from the University as well as a strong volunteer base from colleges throughout the area. Puentes de Salud benefits from the collaboration of faculty and students from across the Penn community, including organizations like Penn Language Link, a student-run organization made up of students from the Medical School, the School of Nursing and undergraduates, who translate brochures and other informational materials from English to Spanish.

Other health initiatives include Bridging the Gaps, a seven-week-long program that last year matched 230 student interns with 105 nonprofit community partners in Philadelphia region. These partnerships allowed students to provide 6,000 days of health-related services to communities that are often underserved and economically disadvantaged, including homeless and runaway youths.

The School of Dental Medicine works with the School District of Philadelphia as dental students carry out state-mandated dental examinations on children in 14 schools. They also provide preventive and restorative dental care services to school children using the PennSmiles mobile dental bus at 11 schools and summer programs. In all, a total of 8,000 smiling children are reached yearly through Penn's partnership with the Philadelphia School District.

Health Care FY09

20%	LIFE Center Reduction in Medicare costs (360 elderly served)
6,000	Penn Medicine Days of health related service to the community
35,700	School of Dental Medicine Hours of service (8,000 children helped)
$100M	UPHS Charity and unreimbursed health care

The School of Nursing's LIFE (Living Independently for Elders) Center, serves senior citizens in South and West Philadelphia with nursing, medical, psychiatric, therapeutic and pastoral care from its location on the border of the University's West Philadelphia campus. Between July 2008 and July 2009, 160 Penn students in Nursing, Medicine, Education and Wharton devoted 2,820 hours to community-based service learning at LIFE. Their efforts contributed to the care of more than 360 senior citizens afflicted with medical conditions that threatened their ability to live independently.

The LIFE Center opened in 1998 and, since then, has served as a model for 10 other health care centers in Pennsylvania. LIFE has been credited with enabling elderly members of the local community to remain in their own homes longer by providing improved access to routine medical care, a community of recreational and social support and individualized treatment. Clearly achieving gains in the quality of life for the seniors who depend on the Center's daily services and support, it is also estimated that the LIFE Center is responsible for up to a 20% reduction in annual Medicare payment costs because of its emphasis on preventive measures and lifestyle changes that reduce the risks of chronic and costly medical conditions. It is the only center of its kind owned and operated by a school of nursing, and has been recognized by world health leaders for its exceptional delivery of quality care to the elderly, and for being a living example of the Penn Nursing motto: "Care to change the world."

Since the early 1980's, Penn students, faculty, staff and their therapy-certified dogs have made weekly visits to the Ronald McDonald House to spend time with critically ill children and their families. The therapy dog program, known as VETPETS, is a collaborative effort between the School of Veterinary Medicine, Penn's Matthew J. Ryan Veterinary Hospital and the Ronald McDonald House and brings companionship and comfort to children and parents grappling with the stress, discomfort and uncertainty that accompany life-threatening illness. The presence of these companion animals provides much-needed diversion, recreation and emotional support to families by providing a human-animal bond that can have a positive impact on physical and mental health.

Humans are not the only species that benefit from Penn's medical resources. Shelter Animal Medicine, is an integral part of the School of Veterinary Medicine's ABCS curriculum and provides valuable medical assistance to the vulnerable animal population of the Philadelphia area. As part of the program, each of the school's 245 third- and fourth-year surgical students perform neutering on shelter, foster and rescue dogs through the Philadelphia Animal Welfare Society (PAWS). The program also provides Penn Vet students firsthand experience with important urban animal issues such as pet overpopulation, infectious disease control and animal abuse. This unique partnership in animal welfare has developed a model program that continues to be a force behind the rescue of thousands of adoptable animals in the city.

Public Education

Several schools and centers at Penn engage with the School District of Philadelphia to improve public education for the children of West Philadelphia. The Netter Center for Community Partnerships, the Graduate School of Education and the Provost's Center have taken leading roles in this endeavor.

Established in 1992, the Barbara and Edward Netter Center for Community Partnerships has helped make Penn a national model for university-community partnerships. Nine of Penn's schools have worked collaboratively with the Netter Center over the last decade to design a curriculum known as Academically Based Community Service (ABCS). In 2008-2009, more than 1,500 Penn students chose from 59 ABCS courses developed specifically to provide help to local elementary, middle and high schools as well as to community organizations. These courses take students from campus into neighborhood classrooms.

The hallmark of the Netter Center model of community service has been the development of university-assisted community schools, where Penn students and faculty provide instruction, support and partnership to local schools by educating, empowering, and serving all members of the community in which the school is located. At the same time, by working with community members to create and sustain university-assisted community schools, Penn advances its teaching, research, and service missions and the civic development of its students. Last year alone, the Netter Center involved more than 230 student volunteers and 175 work-study students in service to more than 4,000 youth and their families. Nearly 2,000 Penn students and faculty performed more than 50,000 hours of service, and the Center was credited with visible improvements in academic performance, attendance and student and parental involvement at the community schools.

In 1998, Penn, the School District of Philadelphia, and the Federation of Teachers agreed to create a state-of-the art university-assisted neighborhood primary school in West Philadelphia. The result became the Sadie Tanner Mossell Alexander University of Pennsylvania Partnership School (Penn Alexander). Located on the edge of Penn's West Philadelphia campus, the school boasts a culturally diverse student body, academic excellence in literacy, math and science as well as a unique system that blends the best educational methods with programs that meet neighborhood needs.

Since opening its doors in 2001, the school's population has grown to 550 students from West Philadelphia, enrolled in grades Pre-K through 8. All the students benefit from the direct involvement of Penn faculty and students in curriculum development, classroom instruction and the creation of professional development courses and workshops for staff. Students and faculty from Penn's Graduate School of Education are integrally involved in the life of the Penn Alexander School, as are students from the general Penn community who serve as student teachers, interns, tutors, leaders of after-school clubs and pen pals. Additionally, Penn provides the school with an annual contribution per student and is responsible for ongoing development efforts to support the school's success. The investment has been fruitful, with Penn Alexander being commended as a "gold standard" by the National Association of Independent Colleges and Universities for using the most effective, research-proven educational practices in its classrooms.

Netter Center for Community Partnerships

14	West Philadelphia Public Schools
59	ABCS courses
2,000	Students from 8 Penn Schools
4,000	Public School students
50,000	Hours of service

Because of the remarkable achievements made at Penn Alexander, the University has been selected as one of several outside management partners to assist the city's School Reform Commission in reviving struggling and low-performing public schools in Philadelphia. By providing professional development and managerial assistance, the Graduate School of Education also has been instrumental in making improvements in student achievement at Lea Elementary School and Wilson Elementary School, both now identified as Penn Partnership schools. The School District of Philadelphia recently announced that the test scores of the students at Penn Alexander have made it the #1 elementary school in the District for academic excellence.

Increasing access to technology through local and global outreach initiatives has been one of the ways that the School of Engineering and Applied Science (SEAS) has fulfilled its mission to foster greater interest among students in the fields of science, technology, engineering and math. Through collaborations with neighboring communities, students, faculty and staff bring engineering and technology concepts to life, both inside and outside of the classroom. The Penn Engineering Outreach Project for Livelihood and Education (PEOPLE) strives to raise awareness of engineering as a possible career path for students in greater Philadelphia. SEAS students work directly with Penn engineering faculty and staff to create interactive presentations about engineering for students in elementary, middle and high schools.

The Provost's Summer Mentorship Program, a partnership with the School District of Philadelphia, immerses local high school students in a true, on-campus college experience. A four-week summer program follows specialized, school-based curricula and hands-on activities, developed and led by faculty, administrators, and staff across Penn's schools. The summer program introduces students to higher education, potential fields of study, and new career opportunities. Throughout the following academic year, Penn staff provide additional follow-up opportunities for students to apply and extend the summer learning experience, including SAT preparation courses, college essay practice, and other academic and interpersonal activities. The Provost's Summer Mentorship Program seeks to enhance students' high school experiences and position them for admission to the colleges and universities of their choice.

Through a series of integrated programs and partnerships, the Vice Provost for University Life's (VPUL) Equity and Access Programs nurture the academic aspirations of hundreds of local community members each year, from middle school through graduate study. Youth-based programs such as Talent Search, Upward Bound, and Upward Bound Math Science help to guide promising local middle and high school students toward college. Adult-based programs, including the Educational Opportunity Center and Veterans Upward Bound, assist adult community members seeking to return to education or extend their current educational experiences. With support services that help students enhance learning in core academic subjects, manage time, find financial aid, meet mentors, and feel more confident about their abilities, Equity and Access Programs provide community members a pipeline of opportunities for educational success.

Public Service

In Franklin's words, "An inclination join'd with an Ability to serve mankind, one's Country, Friends and Family… should be the great Aim and End of all Learning." As a University, Penn strives to instill each student with a sense of social responsibility. The Schools of Arts and Sciences, Law, Social Policy and Practice, Wharton, Engineering and Applied Sciences, Design and the Civic House provide a variety of examples of responsible engagement with the community.

As the campus hub for student community engagement, Civic House is Penn's home for students involved in service and social advocacy work. Bringing together more than 40 student-led organizations, Civic House provides training for civically engaged students and programming that links them with careers in the public interest. Civic House helps students challenge themselves to develop robust, creative and productive collaborations with community partners to address locally-defined issues. One such group, the West Philadelphia Tutoring Project involves approximately 300 Penn tutors each semester. These volunteers work with children in eight West Philadelphia K-12 public schools. Last year, approximately 3,000 students under the Civic House banner provided more than 75,000 hours of volunteer service in and around the Philadelphia community.

Home to many innovative service programs, the School of Arts and Sciences' Fox Leadership Program stands out as one of Penn's premiere outreach programs. In November, 2008, Penn celebrated its 1,000th match of Penn student volunteers with Philadelphia area youngsters through the oldest and largest mentoring organizations, Big Brothers and Big Sisters of America. The milestone highlighted a history of partnership that has distinguished the University as the largest campus Big Brothers/Big Sisters program in the nation. Research has shown that young people matched with a Big Brother or Big Sister perform better in school, have better relationships with their parents and are significantly less likely to start using drugs or alcohol. Last year, more than 300 Penn students served as Big Brothers/Big Sisters at eight schools and community organizations.

More than two decades ago, Penn Law became the first law school in the nation to institute a mandatory pro bono requirement for graduation. Since then, nearly 4,000 Penn Law students have met and exceeded the minimum 70-hours of public service required, providing more than 350,000 hours of legal service to the community. Through their work, the students have helped to bridge the divide between those who can afford quality legal services and those who cannot. At Penn Law, students have demonstrated that the University's overall culture of community service extends beyond academic requisites, with about one-third of last year's graduating class choosing to volunteer far beyond the 70-hour requirement.

The Toll Public Interest Center is a multi-faceted co-curricular program with a mission to provide Penn Law students with meaningful opportunities to deliver pro bono legal service to underserved communities. Each year, the Public Service Program places about 600 students in several hundred non-profit organizations, government agencies and other public interest organizations. Last year, graduating Penn Law students worked for more than 100 organizations, devoting more than 24,000 hours of free services to people and causes in need of legal assistance. Students assisted clients on projects that ranged from representing homeless and low-income individuals through the Homeless Advocacy Project in West Philadelphia to developing and teaching a constitutional literacy curriculum in inner-city public schools.

Public Service Hours FY09

23,000	Fraternities and Sororities
24,000	Law
75,000	Civic House
250,000	Social Policy and Practice

The School of Social Policy and Practice's Master of Social Work (MSW) students spend three, eight hour days per week in one of the hundreds of field placement opportunities available in the Greater Philadelphia area taking on clinical, research, administration and policy assignments that benefit the community. As part of their required field work, MSW students collectively invest 250,000 hours a year in social services and advocacy.

The School of Engineering and Applied Science's CommuniTech is a student-driven organization of more than 50 Penn students who assist neighborhoods in need by supplying computers and providing training on how to use them effectively. Student volunteers have made a broad impact across the community through service that ranges from work with middle-school students at Penn Partnership schools and other schools in West Philadelphia in a program called Middle School Mentoring at Penn, to providing local non-profit organizations with technology training and support. The students' efforts embody the mission of Penn Engineering, to bridge the digital divide through a collaboration of humanity, technology and social responsibility.

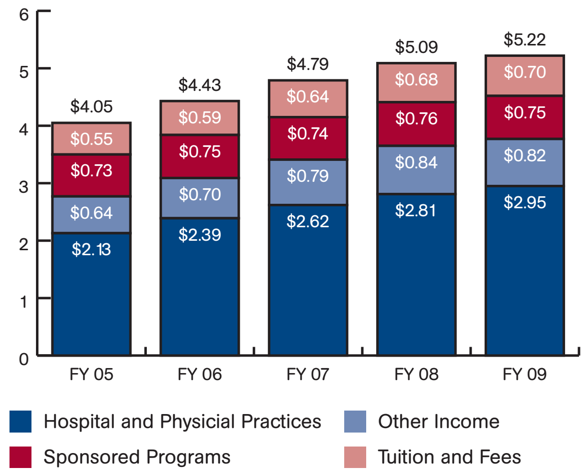
Social responsibility has been part of the Wharton curriculum since Joseph Wharton founded the school in 1881. One of the many ways Wharton gives back to the community today is through the Wharton Tax Assistance Program. Through the United Way's Campaign for Working Families, student volunteers help bring thousands of dollars to low- and moderate-income working families by increasing the number of qualified community residents who file for the Federal Earned Income Tax Credit. In January of each year, student volunteers receive IRS tax training and, after certification, go to multiple sites in West Philadelphia to provide free, one-on-one tax preparation services. Students volunteer three hours per week from January through April, and on average acquire about $51,000 annually in credits to the families they serve.

Further community outreach comes from the 60 members of the Wharton Community Consultants. An organization managed entirely by Wharton MBA and undergraduate students who volunteer their time, the WCC provides advisory services to non-profit and community organizations throughout the Philadelphia area. Past clients include arts and theatre organizations, youth services groups, senior citizens support groups and community finance organizations, among many others. Projects undertaken by the WCC include cost analysis, direct/database marketing, financial planning and budgeting, growth strategy, new product and service development, public relations and much more.

Students from the School of Design collaborated with government and community groups and designed a sustainable apartment building in the Powelton area that recently opened for homeless single mothers with children. Programs such as Wharton's Rebuilding Together, SAS's Alternate Spring Break and Civic House's Habitat for Humanity offer students other ways to participate in hands-on service. Rebuilding Together mobilizes more than 200 undergraduate and graduate students to repair West Philadelphia homes in poor condition, primarily supporting the elderly, disabled, and single-parent families. Penn's Habitat for Humanity chapter helps provide affordable housing for area families in need.

This section provides some highlights of how Penn students and faculty are leveraging academic and intellectual resources to help solve the critical issues challenging our communities today. But it is only one of many ways Penn invests locally. To learn more about the Penn Compact and Penn's economic inclusion efforts, please visit http://www.upenn.edu/compact/ and http://www.evp.upenn.edu/initiatives/EconIncl.aspx

Total Revenue ($ in billions)



Financial Review and Future Outlook

From the Vice President for Finance and Treasurer, Stephen D. Golding

During Fiscal Year 2009 Penn held steadfast against the financial challenges caused by the sudden destabilization of the world credit markets which precipitated the plunge in equity markets and the ensuing global recession. Early on in the economic crisis, university management mapped out a prudent course of action to contain operational expenses and limit exposure to market losses without sacrificing the integrity of, and commitment to, our long term goals and mission. We entered the recession on solid financial footing and emerged with comparatively sound performance results.

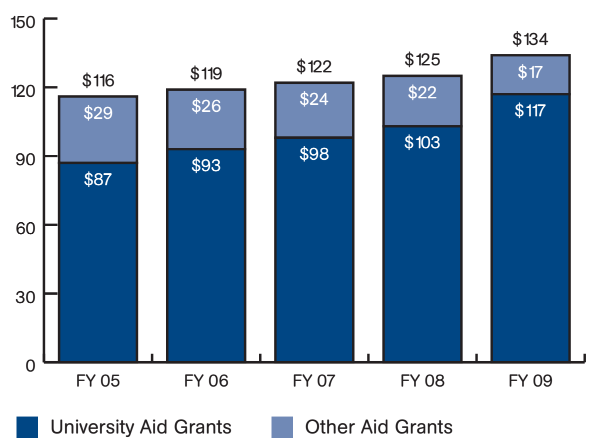
In December 2008, management set a University-wide cost containment goal of $58 million to be achieved over an 18-month period. Our action plan included limiting annual salary increases, delaying capital projects that were not fully funded, reducing discretionary expenses, halting employee reclassifications and salary adjustments and reducing the use of temporary personnel. By the end of the fiscal year we had attained 80% of the containment goal. As a result of these actions, as well as our prudent investment and cash management strategies, we were able to minimize the reductions of faculty and staff that confronted many of our peers. By the end of fiscal year 2009, we emerged with a relatively strong balance sheet and a solid liquidity position.

As shown in the Statement of Activities, three key operating revenue components – tuition and fees, sponsored programs and hospital and physician practices, which embody our core missions of teaching, research and service, all posted gains in FY 2009. Total revenues increased by 2.5%, from $5.09 billion in FY 2008 to $5.22 billion in FY 2009. As anticipated, the two revenue components hit hardest by the financial crisis were investment income and contributions. The decline in total net assets from $8.85 billion to $7.56 billion was directly attributable to a $1.1 billion decline in investments.

Tuition and student fees (net of financial aid grants and scholarships) increased 2.0% to $695.7 million, accounting for 13.3% of operating revenue. The tuition and fee total is net of $194.2 million in grants and scholarships, an increase of 15.3%, or $25.8 million, in student financial aid, reflecting Penn's unwavering commitment to increasing access through both our need-blind admission policy and our no-loan policy. In FY 2009, Penn implemented the third phase of its no-loan policy for students with family incomes less than $100,000 per year. Aid applications increased by 8% this year due, in part, to the revised policy and to the effects of the economic downturn. With the fall class of 2010, the final phase of the no-loan policy will take effect and any student with demonstrated financial need will have loans replaced with grants.

6,083 undergraduate students received financial aid in FY 2009. These undergraduates funded all or part of their education with $133.9 million from grants, tuition waivers or scholarships, $51.3 million from educational loans and $14.8 million from work-study programs. The average grant-aided freshman package increased 3.2% over the previous year, to $34,684. 7,492 graduate and professional students received $128.8 million in grants, $206.8 million in educational loans and $3.7 million for work-study programs.

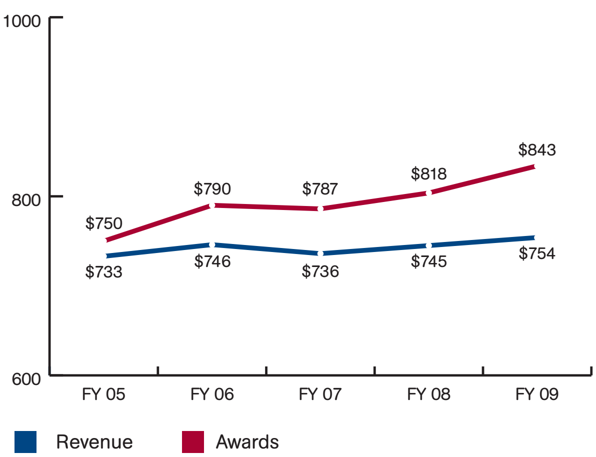
Undergraduate Financial Aid ($ in millions)



Sponsored program revenues increased by 1.3% to $754.3 million, representing 14.5% of total operating revenues. Sponsored program awards rose from $817.6 million to $843.2 million. Federal Government support rose from $638.7 million to $651.8 million with National Institute of Health (NIH) awards representing $486.0 million, or 74.6%, of the total. Foundations, industry and other non-governmental support increased by 12.8%, from $127.6 million to $143.8 million.

The enactment in February 2009 of the $700 billion American Recovery and Reinvestment Act (ARRA), also known as the Economic Stimulus package, included $21.5 billion in research funding — half of which was targeted for the NIH. During March and April, Penn researchers submitted 1,170 grant proposals to garner a significant share of this funding.

Sponsored Programs ($ in millions)



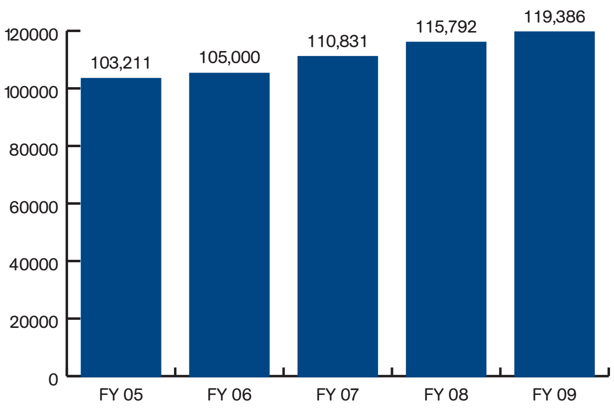
Commonwealth of Pennsylvania appropriations to the University decreased from $49.7 million in FY 2008 to $47.2 million in FY 2009 as a result of severe constraints on the Commonwealth's overall budget. Since one of Pennsylvania's largest industries is dairy farming, the largest portion of Penn's appropriation, more than 85%, is given to the School of Veterinary Medicine to support programs and research in animal agriculture.

The downturn in the equity markets made 2009 a very challenging year for fund-raising. Contributions declined substantially from historic highs achieved during the first public year of the Making History Campaign last year, decreasing from $441.6 million in FY 2008 to $245.0 million in FY 2009. Cash receipts totaled $439.8 million. Contributions to Penn's endowment during the year totaled $98.8 million while gifts to capital totaled $14.6 million. Operating gifts held steady totaling $131.6 million. Despite the sharp decline in contributions, the Making History campaign achieved its planned target of reaching 70% of its seven year, $3.5 billion fund-raising goal by the end of FY 2009.

Investment returns dropped significantly in FY 2009 due primarily to realized and unrealized investment losses. As a result of the sharp plunge in the equity markets, the performance of the endowment endured a 15.7% negative return. Total endowment value decreased from $6.21 billion to $5.17 billion. Carefully conservative investment strategies shielded the endowment from even larger losses. Since Penn has historically been less reliant on investment income as a major funding source than peer institutions, we have not had to make significant changes to core mission initiatives or long term capital plans. The endowment spending policy currently has a target payout rate of 4.7% — excluding endowments for financial aid — 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. In FY 2009, the student financial aid segment of the endowment payout increased from 4.7% to 6.5% to fortify our commitment to the financial aid initiatives tied to the first principle of the Penn Compact, increasing access.

Hospital and Physician Practices revenue, derived from the operations of the University of Pennsylvania Health System (UPHS), including University of Pennsylvania Hospital (HUP), Penn Presbyterian Medical Center (PPMC), Pennsylvania Hospital (PAH) and the physician Clinical Practices of the University of Pennsylvania (CPUP), represent 56.6% of total operating revenues. UPHS revenues rose by 5.0%, from $2.81 billion in FY 2008 to $2.95 billion, in FY 2009. Adjusted admissions, an overall measure of activity for all the hospitals, grew 3.1% from the prior year. Strong operating margins have continued to fund increased support for clinical, research and teaching missions as the Health System was able to boost its support for the School of Medicine and CPUP from $303 million in FY2008 to $311 million in FY 2009.

Hospital Admissions (adjusted for out-patient activity)



During the fiscal year, UPHS completed enhancements to Pennsylvania Hospital's Emergency Room, Obstetrics unit and radiotherapy and opened Penn Medicine at Rittenhouse, which offers inpatient hospice services. In its first year of operations, the Perelman Center for Advanced Medicine, a state-of-the-art outpatient facility, provided a foundation of growth in radiotherapy (up 19.5%), chemotherapy (up 12%) and outpatient surgery (up 4.8%).

The University refunded approximately $120 million of puttable debt with long-term fixed rate bonds which substantially reduced our liquidity risk. In the process, our strong credit ratings were affirmed by Standard and Poor's and Moody's Investors Service at "AA+/Aa2" for the University and "AA-/Aa3" for UPHS.

In FY 2010 we will still face many challenges left by the aftermath of the economic storm, but the forecast is somewhat clearer. Unemployment will continue to be a factor in planning for and funding increases in financial aid. There are unanswered questions concerning how pending national healthcare reform legislation will impact the healthcare industry. The financial markets have started to recover and investment income is on the rise, but donors may wait to make large commitments until they are more confident that the current recovery will be sustainable.

Thus far in fiscal year 2010, we have received 281 awards from our ARRA research submissions last spring for a total of $150 million. However, the pressures on the commonwealth budget are not likely to abate in FY 2010. If left unabated, there may be an impact on the School of Veterinary Medicine.

Penn Connects, the plan to connect Penn's campus in West Philadelphia to Center City, is moving forward with construction scheduled to begin on Penn Park. FY 2010 will see the opening of the Roberts Proton Therapy Pavilion and in the fall of 2010, we anticipate completion of the Fisher Translational Research building, the final step in the interconnected triad of cutting-edge medical facilities, applied biomedical research and advanced patient care.

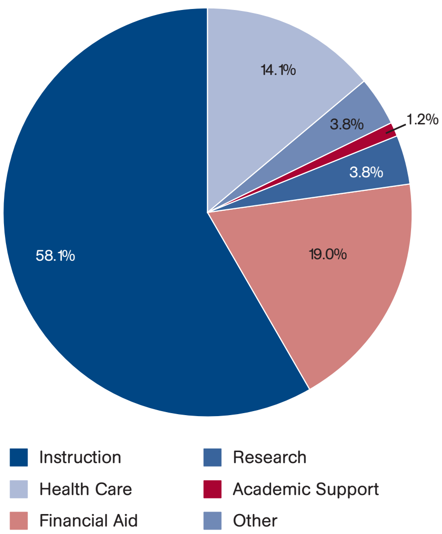
Under the resolute leadership of President Gutmann, balancing these challenges and opportunities going forward will require the continued dedication and collaboration of our skilled management team, esteemed faculty and hard-working staff along with the much-appreciated generous support of our alumni and friends.

Stephen D. Golding
Vice President for Finance and Treasurer

Endowment and Investments

The 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 below. The total value of the Penn endowment was $5.17 billion as of June 30, 2009. Payouts from the endowment provided $234.5 million in budgetary support to the University during the fiscal year.

Endowment by Purpose as of June 30, 2009



Associated Investments Fund

The vast majority of the endowment 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 is managed by the Office of Investments under the oversight of an Investment Board appointed by the Trustees of the University.

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. Approximately one-third of the portfolio is invested overseas.

The planned build out of the private equity, real estate and natural resources portfolios has been slow and steady over the past several years with the result that Penn has comparatively limited exposure to these asset classes and sufficient liquidity to meet future commitments.

AIF Asset Allocation as of June 30, 2009

	AIF	Policy Portfolio
US Equities	17.5%	26.8%
International Equities	21.2%	15.0%
Emerging Markets	5.0%	5.0%
Absolute Return	25.2%	25.0%
Private Equity	6.3%	6.3%
Real Estate	5.0%	5.0%
Natural Resources	1.9%	1.9%
High Yield	2.2%	0.0%
Fixed Income/Cash	15.7%	15.0%
Total	100.0%	100.0%

AIF Performance

The fiscal year ended June 30, 2009, saw a major upheaval in the global financial system as a result of excessive leverage combined with poor underwriting of mortgages, commercial real estate and leveraged loans. The failure of Lehman Brothers on September 15, 2008, sparked a dramatic sell-off in equity and credit markets, touched off a global liquidity crisis and resulted in a sharp rise in unemployment as businesses struggled to cut costs in the face of rapidly falling demand.

Massive, coordinated central bank intervention contained the fallout and restored some measure of stability but only after six stomach-churning months during which the S&P 500 index fell by more than 50% from its October 2007 high to a low of 677 in March 2009. Markets have rebounded considerably since then, but most indices remain considerably below levels of a year ago. This presents a number of opportunities for cash-rich investors. However, considerable uncertainty remains. Most of the major developed market economies remain weak, and the outlook for future economic growth, earnings and employment is muted.

Against this backdrop, the AIF returned a negative 15.7% for the fiscal year. Defensive positioning of the portfolio in the period leading up to the crisis reduced losses significantly over what they might otherwise have been. Major factors benefiting performance included:

- a decision to reduce equity by ten points in early 2008 to fund new investments in credit and absolute return strategies,
- a decision to maintain a combined weighting of 15% to fixed income and cash going into the crisis,
- significant outperformance in the domestic and international equity portfolios as a result of underweighting financials, overweighting quality sectors and having put in place a number of tactical currency hedges.

The portfolio outperformed its composite benchmark by 2.8% and outperformed the S&P 500 index by 10.5% for the current fiscal year. The AIF has outperformed the composite benchmark and the S&P 500 for the one-, three- and five-year periods ending June 30, 2009.

The composite benchmark is a weighted average of the individual asset class benchmarks calculated using the policy portfolio weights.

Annualized Returns for Periods ending June 30, 2009

	1-Year	3-Year	5-Year
AIF	-15.7%	-0.9%	3.5%
Composite Benchmark	-18.5%	-1.5%	3.0%
S&P 500	-26.2%	-8.2%	-2.2%

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 payout policy under the spending rule distribution is based on 70% of the prior fiscal year distribution adjusted by an inflation factor and 30% of the prior year-end market value of the AIF multiplied by 4.7%. Effective July 1, 2008, the spending rule distribution for funds committed to financial aid is 6.5%

A Five-Year Review of Investments (in thousands of dollars)

	2009	2008	2007	2006	2005
Investments:					
Fair Value					
Equity Investments	$ 2,095,480	$ 2,578,778	$ 3,329,191	$ 2,082,489	$ 1,872,763
Debt Investments	742,814	759,306	613,269	739,207	1,022,622
Short-term	477,952	468,561	731,975	985,143	320,395
Split-Interest	344,030	457,538	512,650	449,684	409,528
Real estate	250,565	317,716	212,850	168,640	163,673
Absolute return	1,251,953	1,525,992	1,072,921	815,575	706,367
Private equity	318,304	377,521	281,555	202,091	158,885
Natural resources	96,187	92,235	55,945	34,060	14,812
Other	1,325	1,274	1,232	1,994	4,019
Total Investments*	$ 5,578,610	$6,578,921	$ 6,811,588	$ 5,478,883	$ 4,673,064
Endowment:					
Fair Value	$ 5,170,539	$ 6,211,620	$ 6,444,861	$ 5,313,268	$ 4,369,782
Associated Investments Fund:					
Fair Value	$ 4,955,689	$ 5,914,800	$ 5,973,765	$ 4,635,529	$ 3,873,965

* Total investments held by the University not invested in the Associated Investment Fund include $344 million held in trust, $108 million in assets held under indenture and escrow agreements, $147 million in other investments held by UPHS and $23 million in other investments held by the University.

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 19 to 21, 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 18.

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**	Craig R. Carnaroli **Executive Vice President**	Stephen D. Golding **Vice President for Finance and Treasurer**	John Horn **Comptroller**

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
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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 consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of the University of Pennsylvania (the University) at June 30, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2008 financial statements, and in our report dated September 8, 2008, we expressed an unqualified opinion on those financial statements. 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 misstatement. 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.

As described in Note 1, the University adopted the Financial Accounting Standards Board standard for Fair Value Measurements in the year ended June 30, 2009.

PricewaterhouseCoopers LLP

September 30, 2009

University of Pennsylvania
(in thousands)

		June 30, 2009		June 30, 2008
Assets				
Cash and cash equivalents	$	787,796	$	735,340
Accounts receivable, net of allowances of $10,126 and $10,800		150,449		157,557
Patient receivables, net of allowances of $104,798 and $103,518		301,206		293,304
Contributions receivable, net		333,046		445,064
Loans receivable, net of allowances of $2,968 and $2,947		103,580		188,324
Other assets		90,575		117,089
Assets held for sale		1,949		3,902
Investments, at fair value		5,578,610		6,578,921
Plant, net of depreciation		3,797,518		3,479,761
Total assets	$	11,144,729	$	11,999,262
Liabilities				
Accounts payable	$	107,045	$	186,023
Accrued expenses and other liabilities		1,049,176		958,389
Deferred income		140,075		120,280
Deposits, advances, and agency funds		140,355		140,838
Federal student loan advances		78,161		77,823
Accrued retirement benefits		640,059		342,618
Debt obligations		1,429,125		1,327,144
Total liabilities		3,583,996		3,153,115
Net assets				
Unrestricted		3,850,507		4,466,107
Temporarily restricted		1,374,508		2,101,245
Permanently restricted		2,335,718		2,278,795
		7,560,733		8,846,147
Total liabilities and net assets	$	11,144,729	$	11,999,262

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

Consolidated Statements of Activities

University of Pennsylvania
for the year ended June 30, 2009 (with summarized financial information for the year ended June 30, 2008)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
Revenue and other support:					
Tuition and fees, net	$ 695,702			$ 695,702	$ 681,801
Commonwealth appropriations	47,176			47,176	49,674
Sponsored programs	754,308			754,308	744,862
Contributions	84,206	$ 47,414		131,620	144,967
Investment income	129,258	146,998		276,256	276,449
Hospitals and physician practices	2,954,288			2,954,288	2,814,753
Sales and services of auxiliary enterprises	100,850			100,850	101,013
Other income	198,224			198,224	210,780
Independent operations	62,881			62,881	68,188
Net assets released from restrictions	200,436	(200,436)			
	5,227,329	(6,024)		5,221,305	5,092,487
Expenses:					
Program:					
Instruction	954,964			954,964	909,962
Research	601,235			601,235	584,775
Hospitals and physician practices	2,796,328			2,796,328	2,588,374
Auxiliary enterprises	120,276			120,276	115,162
Other educational activities	169,724			169,724	160,063
Student services	51,591			51,591	48,775
Support:					
Academic support	64,056			64,056	62,066
Management and general	194,903			194,903	198,287
Independent operations	62,034			62,034	63,361
	5,015,111			5,015,111	4,730,825
Increase (decrease) in net assets before nonoperating revenue, net gains, reclassifications and other	212,218	(6,024)		206,194	361,662
Nonoperating revenue, net gains, reclassifications and other:					
Loss on investment, net	(474,876)	(596,518)	$ (51,061)	(1,122,455)	(368,714)
Investment income, net of amounts classified as operating revenue	(45,327)	(112,930)	1,018	(157,239)	(85,785)
Contributions		6,382	106,966	113,348	296,615
Pension and other postretirement plan adjustments	(325,262)			(325,262)	(70,258)
Net assets released from restrictions	17,647	(17,647)			
(Decrease) increase in net assets	(615,600)	(726,737)	56,923	(1,285,414)	133,520
Net assets, beginning of year	4,466,107	2,101,245	2,278,795	8,846,147	8,712,627
Net assets, end of year	$ 3,850,507	$ 1,374,508	$ 2,335,718	$ 7,560,733	$ 8,846,147

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

Consolidated Statements of Cash Flows

University of Pennsylvania
for the years ended June 30, 2009 and 2008
(in thousands)

	2009	2008
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (1,285,414)	$ 133,520
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	247,795	220,545
Provision for bad debts	133,081	136,690
Loss on early retirement of debt	3,966	1,736
Loss on investments, net	1,122,455	368,714
Loss on disposal of plant, property and equipment	4,263	762
Donated equipment	(6,968)	(4,223)
Receipt of contributed securities	(23,422)	(64,956)
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(200,800)	(172,940)
Pension and other postretirement plan adjustments	325,262	70,258
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(48,452)	(292,869)
Contributions receivable	112,190	(64,636)
Other assets	(985)	(1,667)
Accounts payable, accrued expenses and accrued retirement benefits	17,549	77,621
Deposits, advances and agency funds	(483)	8,789
Deferred income	19,795	42,228
Net cash provided by operating activities	419,832	459,572
Cash flows from investing activities:		
Purchase of investments	(7,010,146)	(6,888,297)
Proceeds from sale of investments	6,896,660	6,756,313
Proceeds from sale of contributed securities	23,422	64,956
Purchase of plant, property and equipment	(585,304)	(565,325)
Net cash used by investing activities	(675,368)	(632,353)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	200,800	172,940
Federal student loan advances	338	576
Repayment of long-term debt	(395,812)	(233,710)
Proceeds from issuance of long-term debt	502,666	228,655
Net cash provided by financing activities	307,992	168,461
Net increase (decrease) in cash and cash equivalents	52,456	(4,320)
Cash and cash equivalents, beginning of year	735,340	739,660
Cash and cash equivalents, end of year	$ 787,796	$ 735,340
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 37,175	$ 47,238
Contributed securities acquired and sold	$ 23,422	$ 64,956
Accrued plant, property and equipment acquisitions	$ 74,315	$ 97,778

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

1. Significant Accounting Policies

Organization

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

Basis of Presentation

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

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

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

Temporarily restricted - Net assets that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time. These net assets include gifts donated for specific purposes and appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.

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

Expenses are reported as a decrease in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. 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 assets when the asset is placed in service.

Gains on operating assets and liabilities, such as property, plant and equipment sales, license sales, contract settlements and debt retirements are reported in Other income. Losses on operating assets and liabilities are reported in the appropriate expense category. Gains or losses associated with investment activities are included in (Loss) gain 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 consolidated financial statements for the year ended June 30, 2008 from which the summarized information was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.

The University reduced the previously reported Fiscal Year 2008 Net cash provided by operating activities by $44,544,000 to more appropriately reflect proceeds from contributions received designated for long-lived assets and long-term investments. Net cash used in investing activities and Net cash provided by financing activities were increased by $34,498,000 and $10,046,000, respectively.

The University adopted the Financial Accounting Standards Board's (FASB) standard on *Subsequent Events* at the end of Fiscal Year 2009 and monitors for material subsequent events that may require adjustment to or disclosure in the consolidated financial statements from the Statements of Position date through September 30, 2009.

Fair Value

Effective July 1, 2008, the University adopted the provisions of the FASB official pronouncement on *Fair Value Measurements* for financial assets and liabilities. The impact of adopting this standard did not materially affect the University's consolidated financial statements.

The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the University as follows:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

Cash and Cash Equivalents

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

Loans Receivable

Student loans receivable are reported at their net realizable value. Such loans include donor-restricted and federally-sponsored student loans with mandated interest rates and repayment terms. Determination of the fair value of student loans receivable is not practicable. At June 30, 2008, Loans Receivable included $87,385,000 of guaranteed student loans issued during the year. During Fiscal Year 2009, the entire outstanding guaranteed student loan balance was sold, and no new loans were issued under this program.

Investments Including Endowments

The University adopted the disclosure provisions of the FASB official pronouncement on *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, and Enhanced Disclosures for All Endowment Funds* at the end of Fiscal Year 2009. The impact of adopting this standard did not materially affect the University's consolidated financial statements.

The University's endowment consists of approximately 4,200 donor-restricted permanent or term endowment funds and 825 unrestricted endowment funds established by the Board of Trustees for a variety of purposes. 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 A.I.F. is invested in accordance with the investment policies set out by an Investment Board which has been appointed by the Trustees. The Office of Investments is responsible for the day-to-day management of the portfolio including identifying, selecting and monitoring a variety of external investment managers to implement the strategic asset allocation set forth by the Investment Board. The University's investment portfolio may include marketable and not readily marketable securities that it intends to hold for an indefinite period of time.

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act) governs the investment, use and management of the University's endowment funds.

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

In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the A.I.F., whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board has elected to govern the expenditure of funds invested in the A.I.F. is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2009, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the A.I.F., lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds. The payout or allocation to operations exceeded actual income, net of expenses and net of income permanently reinvested, by $170,155,000 in 2009 and by $98,271,000 in 2008.

Effective for Fiscal Year 2010, the University revised its spending rate to cap spendable income on financial aid endowments at an 8.2% growth rate over the Fiscal Year 2009 amount and hold spendable income on non-financial aid endowments at the Fiscal Year 2009 level.

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 Statements of Activities.

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

Equity investments consist of separate accounts, daily traded mutual funds, commingled funds with monthly liquidity and limited partnerships. Securities held in separate accounts and daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1 in the fair value hierarchy, with no valuation adjustments applied. Commingled funds with monthly liquidity at an independently determined net asset value (NAV) are categorized as Level 2 in the fair value hierarchy. Limited partnership interests in equity-oriented funds are categorized as Level 3 assets even if the majority of the underlying assets were themselves Level 1 in the fair value hierarchy.

Debt investments consist of separate accounts and a single limited partnership. Securities such as Treasuries, which are held in separate accounts, are valued based on quoted market prices in active markets and are categorized as Level 1 in the fair value hierarchy. Securities such as high yield bonds and bank loans, which are held in separate accounts, are valued based on quoted market prices in less liquid markets and are categorized as Level 2 in the fair value hierarchy. A limited partnership interest in a fund dedicated to credit investments is categorized as Level 3 in the fair value hierarchy.

The absolute return portfolio is made up of investments of limited partnership interests in hedge funds. These investments are classified as Level 3 in the fair value hierarchy given the lack of directly observable data on which to evaluate any given fund's stated NAV. The majority of the underlying holdings are marketable securities which the fund managers themselves categorize as Level 1 or Level 2 in the fair value hierarchy. The remainder of the underlying holdings is held in marketable securities which trade infrequently or in private investments which are valued by the manager on the basis of an appraised value, discounted cash flow, industry comparables or some other method and are accordingly categorized as Level 3 in the fair value hierarchy. Most hedge funds designate illiquid investments in special side pockets, which are subject to special restrictions on redemption.

All investments in private equity, real estate and natural resources are in the form of limited partnership interests which are categorized as Level 3 in the fair value hierarchy. These managers typically invest in private securities for which there is no readily determinable market value and for which they determine fair value based on a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Where private equity, real estate and natural resources managers hold publicly traded securities, these securities are generally stated at fair value based on market prices.

The fair value of the limited partnership interests are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used by managers to assess the NAV of these investments vary by asset class. The University monitors the valuation methodologies and practices of the managers.

The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009 and 2008, as described below. Investments in private equity, natural resources and real estate are reported with a one quarter lag adjusted for cash flows. A small number of hedge funds (representing $114,375,000 and $257,970,000 in assets as of June 30, 2009 and 2008, respectively), also report with a monthly or quarterly lag. Because alternative investments are not readily marketable, the estimated fair 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.

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). The University's investments in fixed income instruments subject it to interest rate risk. The University's investments in a diverse pool of assets, including non-US equities, subject it to foreign currency risk.

Plant

Plant is stated at cost, or fair value at the date of donation based on independent appraisals, 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 other income or total expenses, respectively. Rare books and other collectibles, which appreciate in value, are not subject to depreciation.

Split-Interest Agreements

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

The University recognizes assets contributed to charitable remainder trusts, charitable gift annuities and pooled income funds, where it serves as trustee, at fair value, recognizes a liability to the beneficiaries based on the present value of the estimated future payments to beneficiaries to be made over the estimated remaining life of those beneficiaries using current market rates at the date of the contribution, and recognizes the difference as contribution revenue. Subsequently, the trust assets, invested in equity and debt securities, are measured at fair value on a recurring basis at quoted market prices, and are categorized as a Level 1 measurement in the fair value hierarchy, with the changes reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and (Loss) gain on investments, net on the Consolidated Statements of Activities. Changes in the measurement of the liabilities to beneficiaries are reported as an adjustment to Accrued expenses and other liabilities on the Consolidated Statements of Position and (Loss) gain on investments, net on the Consolidated Statements of Activities.

Charitable remainder trust assets, where the University does not serve as trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution. The initially contributed assets are categorized as a Level 3 measurement in the fair value hierarchy, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and (Loss) gain on investments, net on the Consolidated Statements of Activities.

Perpetual trust assets are initially valued at the current fair value of the underlying assets using observable market inputs based on its beneficial interest in the trust. The initially contributed assets are categorized as a Level 3 measurement in the fair value hierarchy and are reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and (Loss) gain on investments, net on the Consolidated Statements of Activities.

Charitable lead trust assets are initially valued based on estimated future payments discounted to a single present value using current market rates at the date of the contribution, matched to the payment period of the agreement. The initially contributed assets are categorized as a Level 3 measurement in the fair value hierarchy, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and (Loss) gain on investments, net on 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 is subject to Pennsylvania income tax. Unrelated activities and income including certain sales of healthcare related products and services and certain sales of computer hardware and software are subject to federal "Unrelated Business Income Tax". Investments in certain partnerships are subject to state (other than Pennsylvania) and federal "Unrelated Business Income Tax".

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

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

Tuition and Fees

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. This policy provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of $194,186,000 in 2009 and $168,365,000 in 2008.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2009 and 2008, grant and contract revenue earned from governmental sources totaled $644,867,000 and $622,017,000, 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 current market rates, at the date of the pledge, ranging from 3.33% to 5.82%, net of an allowance for uncollectible 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.

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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Authoritative Pronouncements

In April 2009, FASB issued a standard on *Mergers and Acquisitions for Not-for-profit entities.* This standard provides guidance on improving the quality of information in financial reports provided by a not-for-profit organization regarding business combinations with one or more other not-for-profit entities, businesses or nonprofit activities. Guidance will distinguish mergers (carryover method) from acquisitions (acquisition method) as well as provide updated accounting for goodwill and intangibles. Additional disclosures will be required in order to enable users of financial statements to evaluate the nature and financial effects of the merger or acquisition. This standard is effective for fiscal years beginning after December 15, 2009. Disclosures pertaining to any future University mergers and acquisitions (occurring after July 1, 2010) will be expanded in accordance with this standard for consolidated financial statements beginning in Fiscal Year 2011.

In December 2008, FASB issued a revised standard on *Employers' Disclosures about Pensions and Other Postretirement Benefits.* This revised standard provides guidance on employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The purpose of this revised standard is to provide users with more transparency surrounding plan assets and associated risks. Additional required disclosures will include, but are not limited to, investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure fair value of the plan assets, effect of fair value measurements using significant unobservable inputs on changes in plan assets, and significant concentrations of risk within plan assets. It is similar to the disclosures about fair value measurements required by FASB. This revised standard is effective for fiscal years ending after December 15, 2009. Disclosures pertaining to the University's plan assets will be expanded in accordance with this revised standard for consolidated financial statements beginning in Fiscal Year 2010.

In March 2008, the FASB issued a standard on *Disclosures about Derivative Instruments and Hedging Activities.* This standard changes the disclosure requirements for derivative instruments and hedging activities. This standard 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. This standard 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 this standard for consolidated financial statements beginning in Fiscal Year 2010.

In February 2008, the FASB issued a revision to its F*air Value Measurements* standard, which delays its effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, to fiscal years beginning after November 15, 2008. University management is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2010.

In February 2007, the FASB issued a standard on *The Fair Value Option for Financial Assets and Financial Liabilities.* This standard permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007. University management has decided not to make any elections under this standard in the current year.

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. The University owed UPHS $8,175,000 at June 30, 2009 and UPHS owed the University $5,823,000 at June 30, 2008, which represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers of $93,487,000 and $109,004,000 in 2009 and 2008, respectively, to further the research and educational activities of the School of Medicine. In addition, UPHS recognized operating expenses of $25,316,000 and $22,183,000 in 2009 and 2008, respectively, to support academic operating activities in the clinical departments of the School of Medicine. These transfers are 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 net patient service revenue was increased by $26,438,000 as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary. No material adjustments were recorded in Fiscal Year 2009.

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.

Summarized financial information for UPHS as of and for the years ended June 30, 2009 and 2008, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2009	2008
Net patient service	$ 2,800,933	$ 2,654,418
Other revenue	166,760	171,909
Total expenses	(2,799,428)	(2,591,536)
Excess of revenues over expenses from operations	168,265	234,791
Other unrestricted (loss) income, net	(111,605)	65,752
Excess of revenue over expenses	56,660	300,543
Nonoperating, net	(400,243)	(174,436)
Unrealized gain (loss), net	10,270	(32,661)
(Decrease) increase in net assets	$ (333,313)	$ 93,446
Total current assets	$ 725,907	$ 786,577
Assets whose use is limited (including board designated funds of $359,601and $455,440 and trustee held funds of $10,792and $10,007 for 2009 and 2008, respectively)	834,652	1,007,991
Plant, net of depreciation	1,289,412	1,114,236
Investments and other assets	311,955	364,269
Total assets	$ 3,161,926	$ 3,273,073
Total current liabilities	$ 566,538	$ 726,123
Long-term debt, net of current portion	597,095	522,507
Other liabilities	835,257	528,094
Total liabilities	1,998,890	1,776,724
Net assets		
Unrestricted	774,404	1,022,714
Temporarily restricted	272,498	344,330
Permanently restricted	116,134	129,305
Total net assets	1,163,036	1,496,349
Total liabilities and net assets	$ 3,161,926	$ 3,273,073

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 $1,949,000 and $3,902,000, at June 30, 2009 and 2008, respectively.

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $10,126,000 and $10,800,000 at June 30, 2009 and 2008, respectively, are as follows (in thousands):

	2009	2008
Sponsored research	$ 68,282	$ 72,953
Student	12,584	12,218
Trade	34,453	41,430
Investment income	8,069	9,690
Other	27,061	21,266
Total Accounts receivable	$ 150,449	$ 157,557

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2009 and 2008 (in thousands):

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year	$ 178,114	$ 50,986
One year to five years	243,716	448,561
Over five years	40,513	59,658
	462,343	559,205
Less: Discount	(83,101)	(85,196)
Less: Allowance for doubtful amounts	(46,196)	(28,945)
Contributions receivable, net	$ 333,046	$ 445,064

At June 30, 2009 and 2008, the University has outstanding unrecorded conditional promises to give of $131,326,000 and $62,809,000, respectively. When they become unconditional promises to give or are received in cash or kind, they will be recorded and generally will be restricted for operations, endowment and capital projects as stipulated by the donors.

5. Other Assets

The major components of other assets at June 30, 2009 and 2008, respectively, are as follows (in thousands):

	2009	2008
Goodwill	$ 26,547	$ 28,206
Defined benefit pension asset	–	23,129
Inventory	24,380	24,567
Prepaid expenses	18,310	14,502
Deferred financing fees	11,962	13,649
Other	9,376	13,036
Total Other assets	$ 90,575	$ 117,089

Goodwill of $26,547,000 at June 30, 2009 and $28,206,000 at June 30, 2008, 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.

6. Investments Including Endowments

A summary of investments, measured at fair value in accordance with the *Fair Value Measurements* standard on a recurring basis, as of June 30, 2009 and 2008 is as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2009	2008
Short-term investments	$ 477,952			$ 477,952	$ 468,561
Equity investments	1,185,104	$ 660,004	$ 250,372	2,095,480	2,584,875
Debt investments	599,082	121,152	22,580	742,814	759,306
Derivative instruments				–	(6,097)
Split-interest agreements	58,439		285,591	344,030	457,538
Absolute return			1,251,953	1,251,953	1,525,992
Real estate			250,565	250,565	317,716
Private equity			318,304	318,304	377,521
Natural resources			96,187	96,187	92,235
Other			1,325	1,325	1,274
Total	$ 2,320,577	$ 781,156	$ 2,476,877	$ 5,578,610	$ 6,578,921

Changes to the reported amounts of investments measured at fair value on a recurring basis using unobservable (Level 3) inputs as of June 30, 2009 are as follows (in thousands):

	Equity Investments	Debt Investments	Split-Interest Agreements	Absolute Return	Real Estate	Private Equity	Natural Resources	Other	Total
June 30, 2008	$ 230,581	$ 50,707	$ 364,052	$1,525,992	$ 317,716	$ 377,521	$ 92,235	$ 1,224	$2,960,028
Net realized gains/(losses)	712		(16,453)	40,025	2,505	8,332	11,833		46,954
Net unrealized gains/(losses)	(40,015)	(28,126)	(60,783)	(258,931)	(138,047)	(130,589)	(24,838)	117	(681,212)
Net purchases, sales and settlements	59,094	(1)	(1,225)	(55,133)	68,391	63,040	16,957	(16)	151,107
June 30, 2009	$ 250,372	$ 22,580	$ 285,591	$1,251,953	$ 250,565	$ 318,304	$ 96,187	$ 1,325	$2,476,877

Included in Split-interest agreements above are assets held where the University serves as trustee with an aggregate fair value of $58,439,000 and $93,486,000 at June 30, 2009 and 2008, respectively.

A summary of assets included in Split-interest agreements, where the University is not trustee, measured at fair value on a recurring basis, as of June 30, 2009 and 2008 is as follows (in thousands):

Significant Unobservable Inputs (Level 3)	**2009**	**2008**
Charitable remainder trusts	$ 2,012	$ 1,073
Charitable lead trusts	4,257	-
Perpetual trusts	279,322	362,979
Total	$ 285,591	$ 364,052

Changes to the reported amounts of Split-interest agreements measured at fair value on a recurring basis using unobservable (Level 3) inputs as of June 30, 2009 are as follows (in thousands):

	Charitable Remainder Trusts	**Charitable Lead Trusts**	**Perpetual Trusts**	**Total**
June 30, 2008	$ 1,073		$ 362,979	$ 364,052
Net realized losses	(333)		(16,120)	(16,453)
Net unrealized gains/(losses)	73		(60,856)	(60,783)
Net purchases, sales and settlements	1,199	$ 4,257	(6,681)	(1,225)
June 30, 2009	$ 2,012	$ 4,257	$ 279,322	$ 285,591

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $28,006,000 and $29,237,000 as of June 30, 2009 and 2008, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

The University employed derivative instruments (futures as well as currency forwards) 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. During Fiscal Year 2009, the University exited from the futures and currency forward contracts.

Included in Short-term investments is $108,117,000 and $7,095,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2009 and 2008, respectively.

At June 30, 2009 and 2008, short-term investments include $49,807,000 and $29,188,000, respectively, of outstanding receivables from trading activities. At June 30, 2009 and 2008, short-term investments include $49,381,000 and $53,869,000, respectively, of outstanding payables from trading activities.

The University has made commitments to various limited partnerships. Most of these are concentrated in private equity, real estate and natural resources. There are also some remaining unfunded commitments to hedge funds in the absolute return portfolio. The University expects these funds to be called over the next 3 to 5 years. The total amount of unfunded commitments is $928,129,000 which represents 18.4% of the AIF value as of June 30, 2009. Details on the extent of these commitments are as follows (in thousands):

	Unfunded Commitments
Absolute return	$ 63,190
Real estate	295,886
Private equity	415,045
Natural resources	154,008
Total unfunded commitments	$ 928,129

The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lockups and gates. Details on typical redemption terms by asset class and type of investment are provided below:

	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Short-term	N/A	Daily	None	None
Equity investments				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily to quarterly with notice periods of 1 to 60 days	None	None
Partnerships	N/A	Quarterly to annually with notice periods of 30 to 90 days	Lock-up provisions ranging from 2 to 3 years	Lock-up provisions ranging from 6 to 30 months
Debt Investments				
Separate accounts	N/A	Daily	None	None
Partnerships	N/A	Annually with 60 days notice required	Lock-up provision of 2 years	Lock-up provision of 1 year, $22 million of assets have been gated
Absolute return	N/A	Quarterly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years, excluding $272 million in investments with a private equity structure	Lock-up provisions ranging from 0 to 5 years, excluding $272 million in investments with a private equity structure
Real estate	1 to 18 years	Redemptions not permitted	N/A	N/A
Private equity	1 to 19 years	Redemptions not permitted	N/A	N/A
Natural resources	6 to 15 years	Redemptions not permitted	N/A	N/A

A summary of the University's total investment return for the years ended June 30, 2009 and 2008 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2009	2008
A.I.F. investment income	$ 78,655	$ 125,221
A.I.F. realized and unrealized gains	(1,009,645)	(354,402)
Return on A.I.F.	(930,990)	(229,181)
Other investment income and (losses)/gains	(72,448)	51,131
Total Return on investments	$ (1,003,438)	$ (178,050)

Included in investments above are the University's endowments, the components of which at June 30, 2009 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 1,027,709	$ 2,299,762	$ 3,327,471
Quasi-endowment funds	1,843,068	–	–	1,843,068
June 30, 2009	$ 1,843,068	$ 1,027,709	$ 2,299,762	$ 5,170,539

Changes to the reported amount of the University's endowments as of June 30, 2009 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2008	$ 2,233,622	$ 1,747,508	$ 2,230,490	$ 6,211,620
Investment return:				
Investment income	23,293	30,715	5,144	59,152
Gain/(loss) (realized and unrealized)	(371,989)	(599,178)	(46,069)	(1,017,236)
Total investment return	(348,696)	(568,463)	(40,925)	(958,084)
New gifts	29,628	(819)	108,824	137,633
Appropriation of endowment assets for expenditure	(210,473)	–	–	(210,473)
Transfers	(14,099)	2,569	1,373	(10,157)
Released from restriction	153,086	(153,086)	–	–
Net assets, June 30, 2009	$ 1,843,068	$ 1,027,709	$ 2,299,762	$ 5,170,539

The fair value of certain donor-restricted endowment funds is less than the original donated value by $85,092,000 as of June 30, 2009 and is reflected as a reduction of Temporarily Restricted assets.

Included in investments above are the University's endowments, the components of which at June 30, 2008 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 1,747,508	$ 2,230,490	$ 3,977,998
Quasi-endowment funds	2,233,622	–	–	2,233,622
June 30, 2008	$ 2,233,622	$ 1,747,508	$ 2,230,490	$ 6,211,620

Changes to the reported amount of the University's endowments as of June 30, 2008 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2007	$ 2,365,325	$ 2,011,079	$ 2,068,457	$ 6,444,861
Investment return:				
Investment income	46,317	55,235	807	102,359
Gain/(loss) (realized and unrealized)	(124,191)	(219,528)	(23,507)	(367,226)
Total investment return	(77,874)	(164,293)	(22,700)	(264,867)
New gifts	34,466	2,161	178,239	214,866
Appropriation of endowment assets for expenditure	(183,399)	–	–	(183,399)
Transfers	(34,926)	28,591	6,494	159
Released from restriction	130,030	(130,030)	–	–
Net assets, June 30, 2008	$ 2,233,622	$ 1,747,508	$ 2,230,490	$ 6,211,620

7. Plant, net of depreciation

The components of plant at June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Land	$ 136,095	$ 133,616
Buildings and fixed equipment	4,267,125	3,865,912
Contents	1,282,476	1,128,508
Construction-in-progress	561,856	580,597
	6,247,552	5,708,633
Less: Accumulated depreciation	(2,450,034)	(2,228,872)
Plant, net of depreciation	$ 3,797,518	$ 3,479,761

Plant, net of depreciation, includes $3,209,000 of land at June 30, 2009 and 2008, as well as, $9,461,000 and $12,372,000 of completed facilities at June 30, 2009 and 2008, respectively, which serve as collateral for debt obligations.

The University recorded $246,383,000 and $220,767,000 of depreciation expense for the years ended June 30, 2009 and 2008, respectively. Rare books and other collectibles aggregate $35,901,000 at June 30, 2009 and $26,481,000 at June 30, 2008.

The University capitalized $5,565,000 and $3,015,000 of interest costs for the years ended June 30, 2009 and 2008, respectively, in accordance with the FASB standard on *Capitalization of Interest*.

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):

	2009	2008
July 1	$ 19,197	$ 21,281
Less: Payments	(592)	(2,206)
Add: Accretion	436	122
June 30	$ 19,041	$ 19,197

9. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2009 and 2008 are as follows (in thousands):

2009	Assets	Liabilities	Net Assets
June 30, 2008	$ 457,538	$ (48,247)	$ 409,291
New contributions, net	(11,178)	3,903	(7,275)
Investment income	1,952	(1,952)	–
Realized and unrealized (loss) gain, net	(98,275)	–	(98,275)
Payments and settlements	(6,007)	6,007	–
Actuarial adjustment	–	3,250	3,250
Net change	(113,508)	11,208	(102,300)
June 30, 2009	$ 344,030	$ (37,039)	$ 306,991

2008	Assets	Liabilities	Net Assets
June 30, 2007	$ 493,828	$ (53,921)	$ 439,907
New contributions, net	5,958	(3,883)	2,075
Investment income	2,351	(2,351)	–
Realized and unrealized (loss) gain, net	(34,484)	598	(33,886)
Payments and settlements	(10,115)	10,115	–
Actuarial adjustment	–	1,195	1,195
Net change	(36,290)	5,674	(30,616)
June 30, 2008	$ 457,538	$ (48,247)	$ 409,291

10. 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 3.5% discount rate at June 30, 2009. Total amounts recorded under this program, included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Position, are $350,031,000 and $292,367,000 at June 30, 2009 and 2008, 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 consolidated 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 consolidated financial statements.

11. Contingencies, Guarantees and Commitments

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

	2009		2008	
	Amount Guaranteed	**Recognized Liability**	**Amount Guaranteed**	**Recognized Liability**
Mortgage loans	$ 36,455	$ –	$ 34,748	$ –
Student loans	35,748	6,366	41,607	7,015
Other	6,422	214	6,949	272
	$ 78,625	$ 6,580	$ 83,304	$ 7,287

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 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, $26,714,000 and $23,917,000 at June 30, 2009 and 2008, respectively, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees. The University does not anticipate that any significant net payments will result from these guarantees. FASB standard *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* does not require a guarantee liability to be recognized for employee mortgages.

The University offers various loan programs for students and families to pay tuition, fees and other costs. Certain loans issued by private lending institutions are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. Of the amount guaranteed, $16,793,000 and $19,331,000 at June 30, 2009 and 2008, 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 FASB's standard on *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*

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, $4,169,000 at June 30, 2009 and $4,587,000 at June 30, 2008, 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, 2009, approximately $224,590,000 has been committed by the University.

12. 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 $82,909,000 in 2009 and $76,985,000 in 2008.

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 nonqualified 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 for these plans was $3,598,000 and $3,340,000 for 2009 and 2008, respectively.

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

Net Periodic Cost

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

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Service Cost	$ 29,798	$ 30,041	$ 15,025	$ 15,489
Interest Cost	56,843	52,320	29,531	27,495
Expected Return on Plan Assets	(67,516)	(72,710)	(15,390)	(15,252)
Amortization of:				
Net Prior Service Cost/(Credit)	1,634	1,634	(3,664)	(3,664)
Net Losses/(Gains)	–	(26)	3,059	3,446
Net Periodic Benefit Cost	$ 20,759	$ 11,259	$ 28,561	$ 27,514

Obligations and Funded Status

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

	Pension Benefits		Other Postretirement Benefits	
Change in Benefit Obligation	**2009**	**2008**	**2009**	**2008**
Benefit Obligation at Beginning of Year	$ 856,663	$ 849,410	$ 447,324	$ 448,980
Service Cost	29,798	30,041	15,025	15,489
Interest Cost	56,843	52,320	29,531	27,495
Plan Participants' Contributions	126	117	3,168	2,799
Retiree Drug Subsidy	–	–	1,282	1,251
Net Actuarial (Gain)/Loss due to Plan Experience	81,594	(51,894)	20,912	(29,095)
Benefits Paid from Fund	(25,442)	(23,331)	(14,684)	(13,075)
Benefits Paid directly by University	–	–	(7,328)	(6,520)
Plan Amendments	–	–	–	–
Benefit Obligation at End of Year	$ 999,582	$ 856,663	$ 495,230	$ 447,324
Accumulated Benefit Obligation	$ 865,362	$ 742,179	$ 495,230	$ 447,324
Change in Plan Assets				
Fair Value of Plan Assets at Beginning of Year	$ 811,900	$ 872,804	$ 178,031	$ 176,392
University Contributions	25,126	15,516	29,012	29,904
Plan Participants' Contributions	126	117	3,168	2,799
Benefits Paid from Fund	(25,442)	(23,331)	(14,684)	(13,075)
Benefits Paid directly by University	–	–	(7,328)	(6,520)
Actual Return on Assets	(107,327)	(53,206)	(33,553)	(11,469)
Fair Value of Plan Assets at End of Year	$ 704,383	$ 811,900	$ 154,646	$ 178,031
Funded Status				
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	$ (999,582)	$ (856,663)	$ (495,230)	$ (447,324)
Plan Assets at Fair Value	704,383	811,900	154,646	178,031
Unrecognized Net Actuarial Loss	–	–	–	–
Unrecognized Prior Service Costs	–	–	–	–
Funded Status at End of Year	$ (295,199)	$ (44,763)	$ (340,584)	$ (269,293)

Net Amounts Recognized in the Consolidated Statements of Financial Position

	Pension Benefits		Other Postretirement Benefits	
Unrestricted Net Assets	**2009**	**2008**	**2009**	**2008**
Net Actuarial (Gain)/Loss	$ 298,875	$ 42,438	$ 157,800	$ 91,004
Net Prior Service Cost/(Credit)	6,689	8,324	(354)	(4,018)
Net Transition Obligation/(Asset	–	–	–	–
Total	$ 305,564	$ 50,762	$ 157,446	$ 86,986
Adjustment to Unrestricted Net Assets	$ 254,802	$ 72,415	$ 70,460	$ (2,157)

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2010 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of Net Transition Obligation/(Asset)	–	–
Amortization of Prior Service Cost/(Credit)	1,634	(1,718)
Amortization of Net Losses/(Gains)	19,460	7,317

Aggregate overfunded plans (Prepaid benefit costs) and aggregate underfunded plans (Accrued retirement benefits) are reported as follows:

	2009	2008	2009	2008
Prepaid benefit cost in Other assets	$ –	$ 23,129	$ –	$ –
Accrued retirement benefits	(295,199)	(67,892)	(340,584)	(269,293)
Funded Status at End of Year	$ (295,199)	$ (44,763)	$ (340,584)	$ (269,293)

Reported Accrued retirement benefits includes $4,276,000 and $5,433,000 for faculty early retirement programs at June 30, 2009 and 2008, respectively.

Information for Plans with PBO/APBO in Excess of Plan Assets	Pension Benefits 2009	Pension Benefits 2008	Other Postretirement Benefits 2009	Other Postretirement Benefits 2008
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	$ 999,582	$ 704,245	$ 495,230	$ 447,324
Accumulated Benefit Obligation / Accumulated Postretirement Benefit Obligation	865,362	598,844	495,230	447,324
Fair Value of Plan Assets	704,383	636,354	154,646	178,031
Information for Plans with PBO/APBO Less Than Plan Assets				
Projected Benefit Obligation / Accumulated Postretirement Benefit Obligation	N/A	$ 152,418	N/A	N/A
Accumulated Benefit Obligation / Accumulated Postretirement Benefit Obligation	N/A	143,335	N/A	N/A
Fair Value of Plan Assets	N/A	175,546	N/A	N/A

Actuarial Assumptions

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

Weighted-Average Assumptions Used to Determine Benefit Obligations at Year End	Pension Benefits 2009	Pension Benefits 2008	Other Postretirement Benefits 2009	Other Postretirement Benefits 2008
Discount Rate	6.25 %	6.75 %	6.25 %	6.75 %
Salary Increase	4.000%	4.125%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount Rate	6.75 %	6.25 %	6.75 %	6.25 %
Expected Long-term Return on Plan Assets	8.375%	8.375%	8.375%	8.375%
Salary Increase	4.000%	4.125%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial Trend Rate	N/A	N/A	9.00 %	9.00 %
Ultimate Trend Rate	N/A	N/A	4.82 %	5.00 %
Fiscal Year End that Ultimate Trend Rate is Reached	N/A	N/A	2020	2016

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

	1-Percentage Point Increase		1-Percentage Point Decrease	
	2009	2008	2009	2008
Effect on total of service and interest cost	7,734	7,620	(6,109)	(5,992)
Effect on accumulated postretirement benefit obligation	72,464	65,614	(59,035)	(53,288)

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 29.0%, international equities comprised 26.0% and emerging markets equities comprised 3.0% of plan assets at June 30, 2009. The average quality of debt securities at June 30, 2009 was AAA with an effective duration of 1.91 years.

Allocation of Plan Assets

	Target	2009	2008
Equity Securities	64.0 %	58.0 %	61.0 %
Debt Securities	26.0 %	28.0 %	25.0 %
Other	10.0 %	14.0 %	14.0 %
Total	100.0 %	100.0 %	100.0 %

Other includes cash of 4% and hedge fund investments of 10% at June 30, 2009.

Cash Flows & Estimated Future Benefit Payments

University Contributions for the Year Ending:	Pension Benefits 2009	Other Postretirement Benefits 2009
June 30, 2008	$ 15,516	$ 29,011
June 30, 2009	23,127	28,298
June 30, 2010	54,799	31,317

Benefits Paid Directly by the Universityfor the Year Ending:		
June 30, 2008	N/A	$ 6,520
June 30, 2009	N/A	7,328
June 30, 2010	N/A	8,560

Plan Participants' Contributions for the Year Ending:		
June 30, 2008	$ 117	$ 2,799
June 30, 2009	126	3,168
June 30, 2010	125	3,630

Benefits Payments in Total

Actual Benefit Payments for the for the Year Ending:	Pension Benefits	Other Postretirement Benefits Before Medicare Part D	Impact of Medicare Part D Subsidy
June 30, 2008	$ 23,331	$ 19,595	$ 1,251
June 30, 2009	25,442	22,012	1,282

Expected Benefit Payments for theYear Ending:			
June 30, 2010	$ 31,447	$ 24,425	$ 2,947
June 30, 2011	34,065	26,598	3,225
June 30, 2012	37,630	28,375	3,461
June 30, 2013	41,331	30,019	3,661
June 30, 2014	45,252	31,727	3,867
June 30, 2015 to June 30, 2019	294,826	185,792	22,656

13. Debt Obligations

Debt obligations at June 30, 2009 and 2008 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2009	2009	2008
Academic Component:				
Fixed Rate Debt Obligations:				
Pennsylvania Higher Education				
Facility Authority (PHEFA)				
Series B of 2009 Revenue Bonds	09/2032	3.00% – 5.00%	$ 42,860	
Unamortized Premium			1,330	
Series C of 2009 Revenue Bonds	09/2022	4.00% - 5.00%	28,755	
Unamortized Premium			2,231	
Series A of 2009 Revenue Bonds	09/2019	5.00%	204,750	
Unamortized Premium			22,872	
Series C of 2005 Revenue Bonds	07/2038	3.20% - 5.00%	141,620	$ 141,620
Unamortized Premium			3,668	3,878
Series A of 2005 Revenue Bonds	09/2025	3.00% - 5.00%	29,140	32,075
Unamortized Premium			976	1,152
Series B of 2005 Revenue Bonds	09/2015	5.25%	50,990	56,850
Unamortized Premium			2,440	3,241
Series A of 2002 Revenue Bonds	N/A	N/A	–	3,215
Series of 1998 Revenue Bonds	07/2033	4.63% - 4.75%	75,695	108,805
Unamortized Discount			(533)	(888)
Other Loans	05/2031	3.00% - 7.85%	1,009	1,049
Total Fixed Rate Debt Obligations			607,803	350,997
Variable Rate Debt Obligations:				
PHEFA				
Series A of 2008 Revenue Bonds	N/A	N/A	–	46,060
Series of 1990 Revenue Bonds	12/2020	0.60%	6,500	6,500
Series of 1985 Revenue Bonds	12/2015	0.60%	10,610	10,610
Quakertown General Authority				
Series of 2008	N/A	N/A	–	77,200
Washington County Authority				
Series of 2004	07/2034	0.17%	62,000	62,000
Other Loans	04/2014	0.82% - 0.92%	23,982	24,069
Total Variable Rate Debt Obligations			103,092	226,439
Total Academic Component Debt Obligations			$ 710,895	$ 577,436

	Final Maturity	Interest Rate at June 30, 2009	2009	2008
UPHS:				
Fixed Rate Debt Obligations:				
PHEFA				
Series B of 2008 Revenue Bonds	08/2027	5.00% - 6.00%	$ 201,230	
Unamortized Discount			(2,845)	
Series A of 2008 Revenue Bonds	03/2038	3.75%	105,805	$ 105,805
Series A of 2005 Revenue Bonds	08/2023	4.25% - 5.00%	233,319	247,190
Unamortized Premium			10,668	12,957
Series B of 2005 Revenue Bonds	08/2018	3.00% - 5.00%	68,260	74,575
Unamortized Premium			1,253	1,490
Series of 2004 Revenue Bonds	11/2010	3.35%	5,405	11,140
Pennsylvania Hospital				
Series of 2004 Revenue Bonds	01/2024	7.50%	89,235	89,235
Capital Leases and notes payable	N/A	N/A	–	4,641
Total Fixed Rate Debt Obligations			712,330	547,033
Variable Rate Debt Obligations:				
PHEFA				
Series C of 2005 Revenue Bonds	N/A	N/A	–	103,675
Series D of 2005 Revenue Bonds	N/A	N/A	–	92,400
Pennsylvania Economic Development Financing Authority Series C of 1994 Revenue Bonds	09/2015	5.35%	5,900	6,600
Total Variable Rate Debt Obligations			5,900	202,675
Total UPHS Debt Obligations			718,230	749,708
Total University Debt Obligations			$ 1,429,125	$ 1,327,144

The University determines the fair value of its existing debt obligations by obtaining quoted market prices. The fair value was $1,451,277,000 and $1,320,079,000 at June 30, 2009 and 2008, respectively.

The University had unused letters of credit with various financial institutions to secure certain self insured liabilities in the amounts of $41,720,000 and $77,132,000 at June 30, 2009 and 2008, respectively. These letters of credit have various expiration dates during Fiscal Year 2010 with evergreen provisions for automatic renewal. There have been no draws under these letters of credit. During Fiscal Year 2009, one of the aforementioned letters of credit was replaced with a surety bond.

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

Fiscal Year		Amount
2010	$	51,412
2011		46,357
2012		48,428
2013		59,566
2014		114,241
Thereafter		1,067,061
Total Principal		1,387,065
Unamortized Premium/Discount		42,060
Total Debt	$	1,429,125

Academic Component

On March 16, 2009, the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Revenue Bonds Series A of 2009 (PHEFA 2009A Bonds) with an aggregate principal amount of $204,750,000. The proceeds were used to fund or reimburse the University for the cost of various capital projects. Interest on the PHEFA 2009A Bonds is fixed with coupons of 5.00%. The PHEFA 2009A Bonds have two bullet maturities, which are due in amounts of $50,000,000 in 2017 and $154,750,000 in 2019. Additionally, the University received premiums totaling $23,539,882.

On March 16, 2009, PHEFA issued Revenue Bonds Series B of 2009 (PHEFA 2009B Bonds) with an aggregate principal amount of $42,860,000. The proceeds were used to fund an escrow which refunded $46,060,000 from the PHEFA Revenue Bonds Series A of 2008 (Refunded PHEFA 2008A Bonds) when they became subject to mandatory tender on March 17, 2009. Interest on the PHEFA 2009B Bonds is fixed with coupons ranging between 3.00% and 5.00%. The PHEFA 2009B have serial maturities which are due in amounts ranging from $1,615,000 in 2010 to $2,020,000 in 2032. The bonds are callable after September 1, 2019 at a price equal to 100% of the principal amount plus accrued interest.

On March 16, 2009, PHEFA issued Revenue Bonds Series C of 2009 (PHEFA 2009C Bonds) with an aggregate principal amount of $28,755,000. The proceeds were used to fund an escrow which refunded $30,545,000 from the PHEFA Revenue Bonds Series 1998 (Refunded PHEFA 1998 Bonds) on March 30, 2009. Interest on the PHEFA 2009C Bonds is fixed with coupons ranging between 4.00% and 5.00%. The PHEFA 2009C have serial maturities which are due in amounts ranging from $3,470,000 in 2016 to $2,775,000 in 2022. The bonds are callable after September 1, 2019 at a price equal to 100% of the principal amount plus accrued interest.

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. On March 5, 2009, Quakertown 2008 bonds were subject to mandatory tender and retired with University funds.

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. On March 16, 2009, the bonds were fully refunded with proceeds from the issuance of the PHEFA 2009B Bonds.

The University has variable rate debt in the amount of $88,110,000 which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. In the event that the University receives notice of any optional tender on its variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds. However, if the marketing proceeds are insufficient, the University will have the general obligation to purchase the bonds. On June 10, 2009, the University entered into a two year agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement the University's liquidity relating to its variable rate demand bonds and for other general purposes of the University. The University paid an upfront facility fee and a fee on the unused amount of the line of credit. As of June 30, 2009 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 began paying the University interest on the notional amount of $101,950,000 based on 67% of London Inter-Bank Offered Rate (LIBOR) and the University began paying GSMMDP interest at a fixed rate of 3.573% on a monthly basis. The swap agreement matures July 1, 2034. The University has the right to terminate, cancel and cash settle this agreement, in whole or in part, at current fair value, on any business day. The University determines the fair value of this agreement by obtaining a quote from GSMMDP which is based on the income approach, using observable market data to discount future net payment streams. The quote provided by GSMMDP also represents the amount the University would accept or be required to pay to transfer the agreement to GSMMDP, or exit price as defined by FASB's *Fair Value Measurements* standard. The University also takes into account the risk of nonperformance, and accordingly considers this to be a Level 2 measurement in the fair value hierarchy. The University has recognized a liability of $12,721,000 and $4,064,000 for the accumulated fair market value of the swap agreement as of June 30, 2009 and 2008, respectively.

UPHS

Pennsylvania Higher Education Facilities Authority Revenue Bonds

UPHS Series B of 2008 Bonds were issued on November 12, 2008 for the purpose of legally defeasing all maturities of the UPHS Series C of 2005 and UPHS Series D of 2005. The bonds mature in varying amounts ranging from $9,825,000 to $52,000,000 with a final maturity of $14,770,000 in 2027. The bonds have stated interest rates that range from 5.0% to 6.0%. The bonds maturing on and after August 15, 2022 are subject to optional redemption by the University, the obligated group agent, on or after August 15, 2018 at the redemption price of 100% plus accrued interest.

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 (0.2% at June 30, 2009). 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 and optional tender by the holders upon seven days notice. 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 LIBOR. UPHS has the option under the Agreement to terminate the Agreement at zero on January 1, 2018 and every 6 months thereafter.

On November 8, 2004, UPHS entered into an interest rate exchange agreement with Merrill Lynch Capital Services to synthetically convert the Pennsylvania Hospital Series of 2004 revenue bonds to a variable interest rate. Under the terms of the agreement, UPHS receives a fixed rate of 3.00% and pays a variable interest rate defined as the Bond Market Association index on the notional principal amount of the outstanding bonds. The interest rate exchange agreement will terminate on January 1, 2010.

UPHS determines the fair value of both interest rate swap agreements by obtaining a quote from Merrill Lynch which is based on the income approach, using observable market data to discount future net payment streams. The quote provided by Merrill Lynch also represents the amount UPHS would accept or be required to pay to transfer the agreement to Merrill Lynch, or exit price as defined by FASB's Fair Value Measurements standard. UPHS verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. UPHS also assesses the risk of nonperformance by reviewing bond ratings, and accordingly considers the agreements to be Level 2 measurements in the fair value hierarchy. UPHS has recognized a net liability of $5,760,000 and $1,355,000 for the accumulated fair market value decline of the swap agreements as of June 30, 2009 and 2008, respectively.

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 2009 and 2008, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

14. Net Assets

The major components of net assets at June 30, 2009 and 2008 are as follows (in thousands):

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General operating	$ 1,958,345	$ 107,054	$ –	$ 2,065,399
Sponsored programs	36,503	–	–	36,503
Capital	–	230,616	–	230,616
Student loans	12,591	30	25,097	37,718
Planned giving agreements	–	9,099	10,859	19,958
Endowment	1,843,068	1,027,709	2,299,762	5,170,539
Total	$ 3,850,507	$ 1,374,508	$ 2,335,718	$ 7,560,733

2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General operating	$ 2,183,461	$ 92,048	$ –	$ 2,275,509
Sponsored programs	38,193	–	–	38,193
Capital	–	233,120	–	233,120
Student loans	10,831	30	25,831	36,692
Planned giving agreements	–	28,539	22,474	51,013
Endowment	2,233,622	1,747,508	2,230,490	6,211,620
Total	$ 4,466,107	$ 2,101,245	$ 2,278,795	$ 8,846,147

15. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through February 2027. Rental expense for the years ended June 30, 2009 and 2008 totaling $63,355,000 and $52,652,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2009, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2010	$ 50,297
2011	40,035
2012	34,293
2013	29,195
2014	25,687
Thereafter	188,212
Total minimum lease payments	$ 367,719

16. Natural Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation	Student Aid	Depreciation	Interest	Other Operating	Total
June 30, 2009						
Instruction	$ 592,860	$ 53,539	$ 41,390	$ 2,855	$ 264,320	$ 954,964
Research	345,897	9,319	30,095	7,768	208,156	601,235
Hospital and physician practices	1,541,319	–	103,817	27,273	1,123,919	2,796,328
Auxiliary enterprises	26,424	–	21,712	1,773	70,367	120,276
Other educational activities	107,583	19	8,146	246	53,730	169,724
Student services	30,614	157	–	47	20,773	51,591
Academic support	30,127	–	22,990	380	10,559	64,056
Management and general	172,314	79	11,457	443	10,610	194,903
Independent operations	8,940	–	6,776	962	45,356	62,034
Total	$ 2,856,078	$ 63,113	$ 246,383	$ 41,747	$ 1,807,790	$ 5,015,111
June 30, 2008	$ 2,660,375	$ 60,433	$ 220,767	$ 45,803	$ 1,743,447	$ 4,730,825

17. Subsequent Events

On July 1, 2009, UPHS issued the Series A of 2009 Bonds for the purpose of redeeming all maturities of the Pennsylvania Hospital Series of 2004 bonds. The bonds mature in varying amounts ranging from $390,000 to $12,110,000 with a final maturity of $9,320,000 in 2024. The bonds have stated interest rates that range from 3.00% to 5.25%. The bonds maturing on and after August 15, 2020 are subject to optional redemption by the University, or the obligated group agent, on or after August 15, 2019 at the redemption price of 100% plus accrued interest.

On July 15, 2009, UPHS entered into a $30,000,000 interest rate exchange agreement (the Agreement) with Merrill Lynch Capital Services. Under the terms of the Agreement, which will become effective on January 1, 2010, UPHS pays a floating rate based on a Securities Industry and Financial Markets Association (SIFMA) index and receives a fixed rate of 3.184%. The Agreement was not entered into for trading or speculative purposes.

Trustees of the University of Pennsylvania

As of June 30, 2009

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Dr. Vincent Price

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Mr. Craig R. Carnaroli

Executive Vice President of the University of Pennsylvania for the Health System and Dean, School of Medicine
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Ms. Leslie Laird Kruhly

Comptroller
Mr. John Horn

University Of Pennsylvania
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The University of Pennsylvania values diversity and seeks talented students, faculty and staff from diverse backgrounds. The University of Pennsylvania does not discriminate on the basis of race, sex, sexual orientation, gender identity, religion, color, national or ethnic origin, age, disability, or status as a Vietnam Era Veteran or disabled veteran in the administration of educational policies, programs or activities; admissions policies; scholarship and loan awards; athletic, or other University administered programs or employment. Questions or complaints regarding this policy should be directed to: Executive Director, Office of Affirmative Action and Equal Opportunity Programs, Sansom Place East, 3600 Chestnut Street, Suite 228, Philadelphia, PA 19104-6106 or by phone at (215) 898-6993 (Voice) or (215) 898-7803 (TDD).

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"An inclination join'd with an Ability to serve mankind, one's Country, Friends and Family... should be the great Aim and End of all learning."

– Benjamin Franklin