Penn
University of Pennsylvania

Financial Report
2009–2010

University of Pennsylvania Financial Report

2009–2010

Penn
University *of* Pennsylvania

Increasing Access

"Higher education opened doors for me. As Penn's president I am proudest of the fact that we are opening Penn's doors wider than ever before for new generations of the most talented, most diverse students. Penn's commitment to increasing access includes enhancing our financial aid and attracting the most exceptional students, regardless of their ability to pay. This cornerstone of the Penn Compact has resulted in the best financial aid policy by far in the history of the University. Any undergraduate student with demonstrated financial need now can attend Penn loan-free.

The results speak for themselves: double-digit increases in applications from African-American and Latino students, steady growth in the number of underrepresented minorities in our student body, and in 2010, our most diverse and most academically talented freshman class ever. Our financial commitment has remained steadfast, even during the most difficult of economic times. This year, our undergraduate financial aid budget grew to $152 million. We are firmly committed to continuing our all-grant policy. And we can do so due to both the extraordinary generosity of Penn alumni and friends, and sound financial policies.

Our strong commitment to access undoubtedly makes us a more eminent University. I also feel a personal sense of connection to families who might not think they can afford a Penn education: I was the first in my family to graduate college, and could not have done so without a need-based scholarship.

I know firsthand how much of a difference the best financial aid makes to our students and their families. They in turn are intent on giving back to Penn, our society and the world."

Dr. Amy Gutmann
President

Woven into this report of the financial activities of fiscal year 2010 are snapshots of exceptional students and the programs and people who've made it possible for aided students to come to Penn. Coupling a need-blind admission policy with need-based aid implements the belief of our founder, Benjamin Franklin, who held that education should be available to students from all walks of life and said:

"Genius without education is like silver in the mine."

Office of Admissions

The Office of Admissions strives to identify, recruit and admit high school students with high academic achievement and promise to the University of Pennsylvania. As an institution deeply committed to socio-economic equity and mobility, Penn is building partnerships with local and national organizations focused on college preparation and attainment that enhance the recruitment of students from all walks of life.

Eric Furda, C'87
Dean of Admissions

Student Registration and Financial Services

The Office of Student Registration and Financial Services (SRFS) is responsible for processing the thousands of aid applications submitted each year by prospective, new and current students. SRFS has 100 employees who also provide an array of financial services, products, counseling resources and information to meet the needs of students and their families when planning for and managing the cost of attendance.

Dr. Michelle Brown-Nevers
Associate Vice President, SRFS

Student Aid

William Schilling
Director, Student Financial Aid

For 40 years, Bill Schilling has had a significant impact on the lives of Penn students. A national expert on financial aid, he oversees the program directly responsible for ensuring that talented, bright students have increased access to a Penn education. "A strong aid program that ensures that the best and the brightest students can select Penn is critical to perceptions of Penn as one of the premier institutions of higher education in the world. The dramatic growth in our endowment for undergraduate aid has enabled us to develop one of the most robust aid programs in the country."

Equity and Access

The Office of Equity and Access Programs administers grant and institutionally funded access, pipeline, and retention programs such as the Talent Search and Summer Mentorship. The office also helps guide first-year students who come through these programs through the initial transition process and helps upper-class students plan for their futures. William Gipson remarks, "Access makes the Penn experience richer and fuller for all students and strengthening the pipeline programs and retention initiatives are an important part of the process."

William Gipson
Associate Vice Provost, Equity and Access

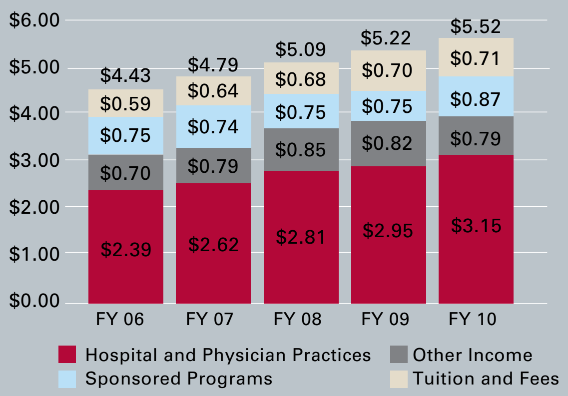
FY 2010 Financial Review

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

Fiscal Year 2010 ended with solid financial results and measurable performance achievements. Among the highlights – the University of Pennsylvania Health System marked its tenth consecutive year of positive operating performance, investment income surged on the strength of the double digit endowment return, and sponsored research activity and student applications for admission reached historic highs. This year also ushered in a new Chairman of the Board of Trustees, David L. Cohen, Esq. (L'81).

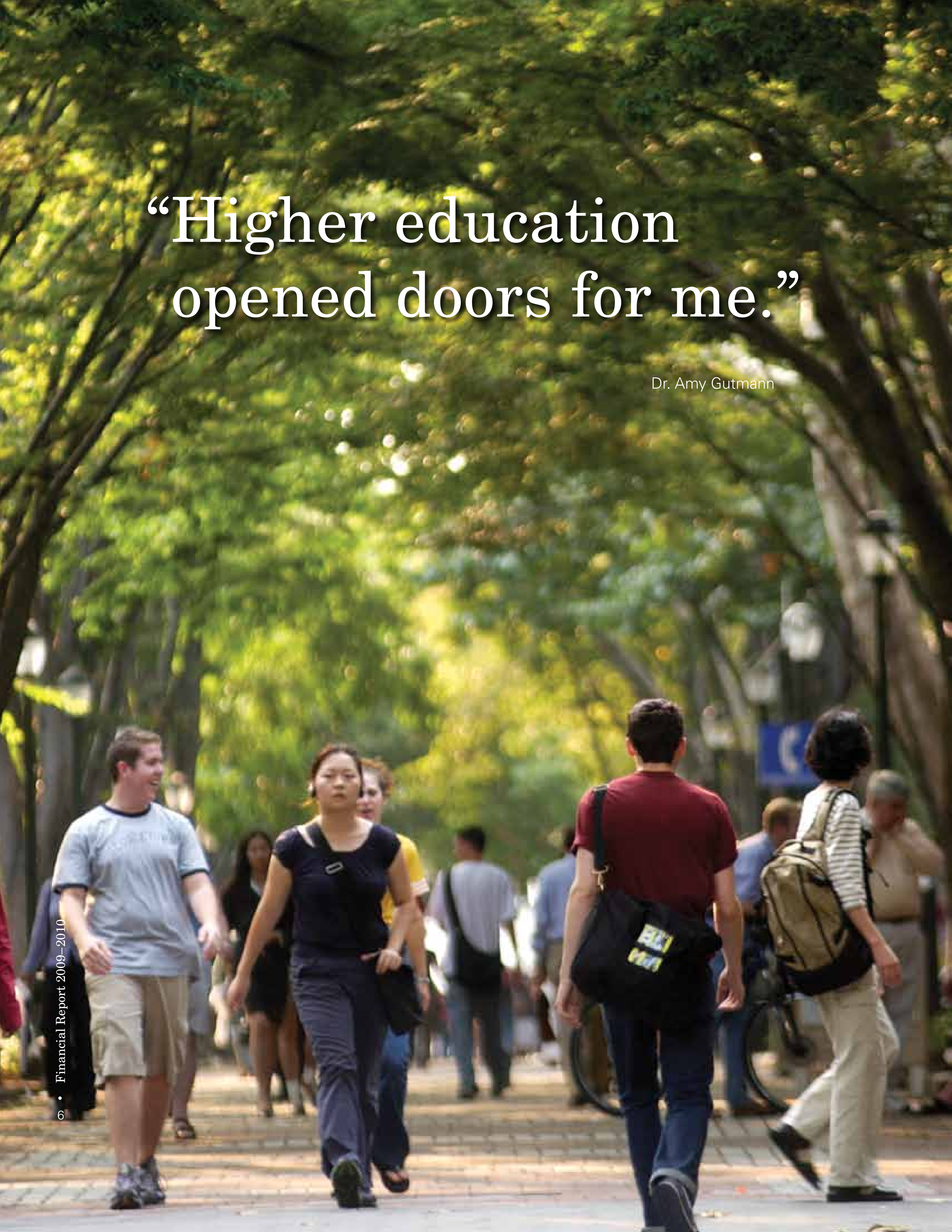
Total operating revenue increased by 5.8% from $5.2 billion in FY 2009 to $5.5 billion in FY 2010. The four largest revenue components, as shown in the Statement of Activities, increased over the prior year, led by increases in investment income and sponsored program revenue. As a result, total net assets rose by 8.8%, an increase of $668.4 million from $7.6 billion to $8.2 billion.

Total Operating Revenue
($ in billions)



The strong operating performance of the Consolidated University during Fiscal Year 2010 was achieved despite myriad challenges experienced during the continued weak world economic recovery. Although the stock market reversed its downward spiral that initiated the recession in 2008, jobless rates persisted near ten percent, interest rates hovered below one percent and economic uncertainty prevailed. These factors influenced various revenue and expense components that affect Penn's financial activities. Although the Federal government's economic stimulus package increased Penn's research dollars and the financial market recovery helped boost investment income, continued high unemployment raised the need for student financial aid while also impacting philanthropy at Penn. Additionally, government budget woes severely limited appropriations and ancillary business operations were constrained by the economic slowdown.

Management continued a fiscally conservative course of action set in place at the beginning of the recession in December 2008 to limit the growth of expenses by extending cost containment measures while simultaneously investing in our long term priorities related to the core mission of teaching, research and public service.



“Higher education opened doors for me.”

Dr. Amy Gutmann

Tuition and Financial Aid

The impact of the *Increasing Access* initiative was clearly evident in the FY 2010 results. Affordability of an undergraduate education at one of the nation's top private universities has long been a challenge for exceptionally talented students with limited financial resources. Four years ago, the University began to implement an aid policy to replace loans with grants for full time undergraduate students. It started with students with family incomes less than $40,000 in FY 2007, less than $60,000 in FY 2008 and less than $100,000 in FY 2009, culminating in FY 2010 when all undergraduate students who were eligible for aid regardless of family income received no-loan aid packages.

Penn's commitment to provide increased financial aid to students and the effect of the economy on family income, as well as the University's resolve to limit the tuition rate increase had a significant impact on net tuition and fee revenue. Penn's increase in the undergraduate tuition rate of 3.8% in FY 2010 was the lowest in 41 years. And although overall undergraduate and graduate tuition and fee revenue increased by 4.7%, from $889.9 million to $931.5 million, net revenue grew only 2.2%, from $695.7 million to $711.1 million, as a result of the substantial increase in financial aid. Total aid to students rose from $194.2 million in FY 2009 to $220.4 million in FY 2010, an increase of 13.5%.

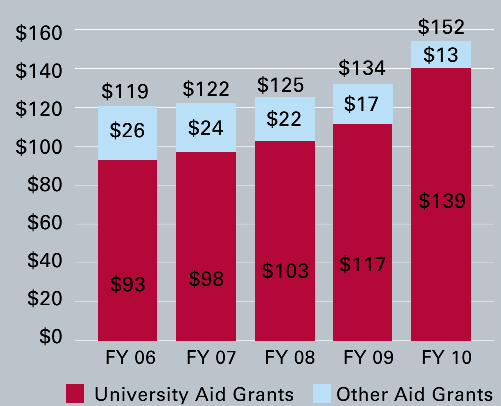
The majority of Penn's undergraduate student aid – approximately 80% – comes from operating revenue, with the remaining 20% coming primarily from endowment income. Over the past five years, grant dollars from Penn to undergraduate students with financial need has increased from $93.0 million to $139.0 million, an increase of 49.5%. During FY 2010, financial aid totaling $152.0 million was awarded to 4,346 undergraduates with financial need. Of this total, $139.0 million was grant or scholarship aid, most of which comes from University unrestricted resources. The average grant-aided freshman aid package in FY 2010 was $35,928.

The cost of attendance includes tuition, fees, room, board, books and some personal expenses. After each student's expected family contribution is individually determined, the expected family contribution is deducted from the cost of attendance and Penn awards the balance as a loan-free aid package that includes grants and a work-study job. Even though Penn's undergraduate aid packages do not include loans, parents and students still may choose to borrow to help manage their expected family contribution or other personal expenses.

In all, 6,363 undergraduates funded all or part of their education with $163.4 million from grants/tuition waivers, $48.7 million from educational loans and $16.9 million from work-study programs.

Undergraduate Financial Aid

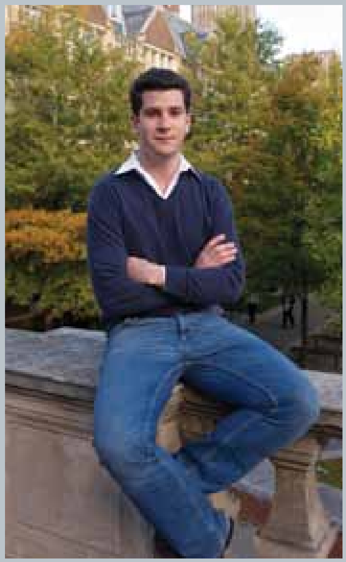
($ in millions)



In total, 9,991 graduate and professional students funded all or part of their education with $136.7 million in grants, including funding for teaching and research assistants and research fellowships, $210.0 million in educational loans and $4.0 million in work-study programs. Of the total, 7,736 students were grant recipients.

The Admissions Office and SRFS have worked together to reinforce the University's long-standing need-blind admission policy and its enhanced need-based financial aid program.

The Penn World Scholars Program



Ignacio Crespo, W'11

The Penn World Scholars Program attracts outstanding students from around the world and provides them with the foundation for lives as global leaders in underdeveloped countries. Penn World Scholars are selected based on exceptional leadership potential, academic achievement, financial need, and career plans. They receive financial support throughout their time at Penn, consistent with the most generous awards available to undergraduates. They are chosen from among a geographically, linguistically, and culturally diverse pool of students who enhance the student body's academic competitiveness and global diversity. Penn has been home to 32 World Scholars from countries including Ecuador, Cameroon and Australia.

McNair Scholars

Penn is proud to be the first Ivy League institution to host the prestigious Ronald E. McNair Post-Baccalaureate Achievement Program funded by the U.S. Department of Education. The McNair Scholars Program, named in memory of NASA astronaut Dr. Ronald E. McNair, identifies and prepares students from groups underrepresented in higher education and students who are first-generation college students from low-income families for graduate studies leading to the Ph.D. by providing research training and early scholarly experiences. Penn's first McNair cohorts from 2008-10 boasted acceptances to a great number of distinct graduate programs at schools nationwide.

Julie Son
Class of 2012

Cassandra Turcotte,
Christopher Griffin
Class of 2012

As a result of these efforts, as well as an increased demand for premier quality education, Penn experienced an unprecedented 18.1% rise in the number of applications submitted for admission in FY 2010, representing an all-time high.

Of the 26,939 applicants, 14.3% were admitted and 62.8% of the admitted applicants chose to matriculate at Penn. The larger pool of qualified applicants has allowed the Admissions Office to be more selective and as a result, the incoming class of students is the strongest academically, as well as the most socio-economically and ethnically diverse class in Penn's history.

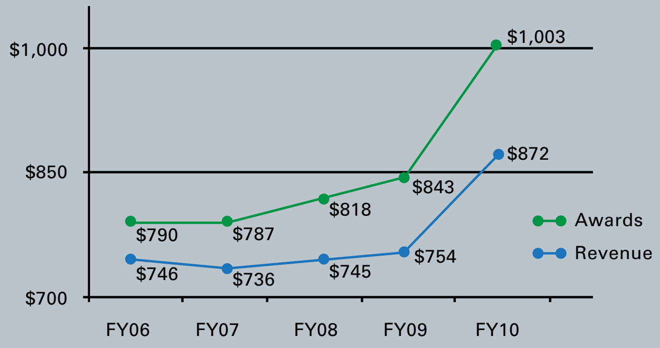
Sponsored Programs and Research

Sponsored Program revenues spiked sharply from $754.3 million to $871.9 million in FY 2010, an increase of $117.6 million, with an all-time high one-year growth rate of 15.6%. This extraordinary increase was fueled by the American Recovery and Reinvestment Act (ARRA) passed by Congress in February 2009, that included over $21.5 billion for research funding with one-half targeted for the National Institutes of Health (NIH). As a direct result of this significant increase of funds, sponsored program awards soared in FY 2010. Researchers at Penn submitted 1,170 proposals in the spring of 2009 and during the fiscal year 376 grants were awarded, totaling $135.2 million, with 85.7% coming from NIH and other agencies from within the Department of Health and Human Services. Total awards increased from $843.8 million to $1.0 billion, an increase of 18.8%. Increased revenues from this unprecedented funding will continue through FY 2011 and FY 2012.

"The ARRA has provided Penn's next generation of scientific researchers with immediate, hands-on laboratory experiences that encourage their passion and empower them to be productive members of the University's research community, even at the undergraduate level," noted Steven J. Fluharty, Vice Provost for Research. Undergraduates were involved in 30 ARRA-funded summer research projects that included research on the improvement of asthma interventions, gene therapy, care of those suffering with postpartum depression, sleep regulation, public education, cardiovascular disease, tobacco's effect on health and more.

Sponsored Programs

($ in millions)



Commonwealth Appropriation

A further consequence of the economic crisis, financial pressures continued on most state budgets, including Pennsylvania's. As a result, the Commonwealth's appropriations to the University of Pennsylvania decreased by $10.3 million, from $47.2 million to $36.9 million. The School of Veterinary Medicine receives the majority share of the appropriation and was hardest hit by the decline, necessitating strict measures to cut costs and limit programs.

Posse Foundation

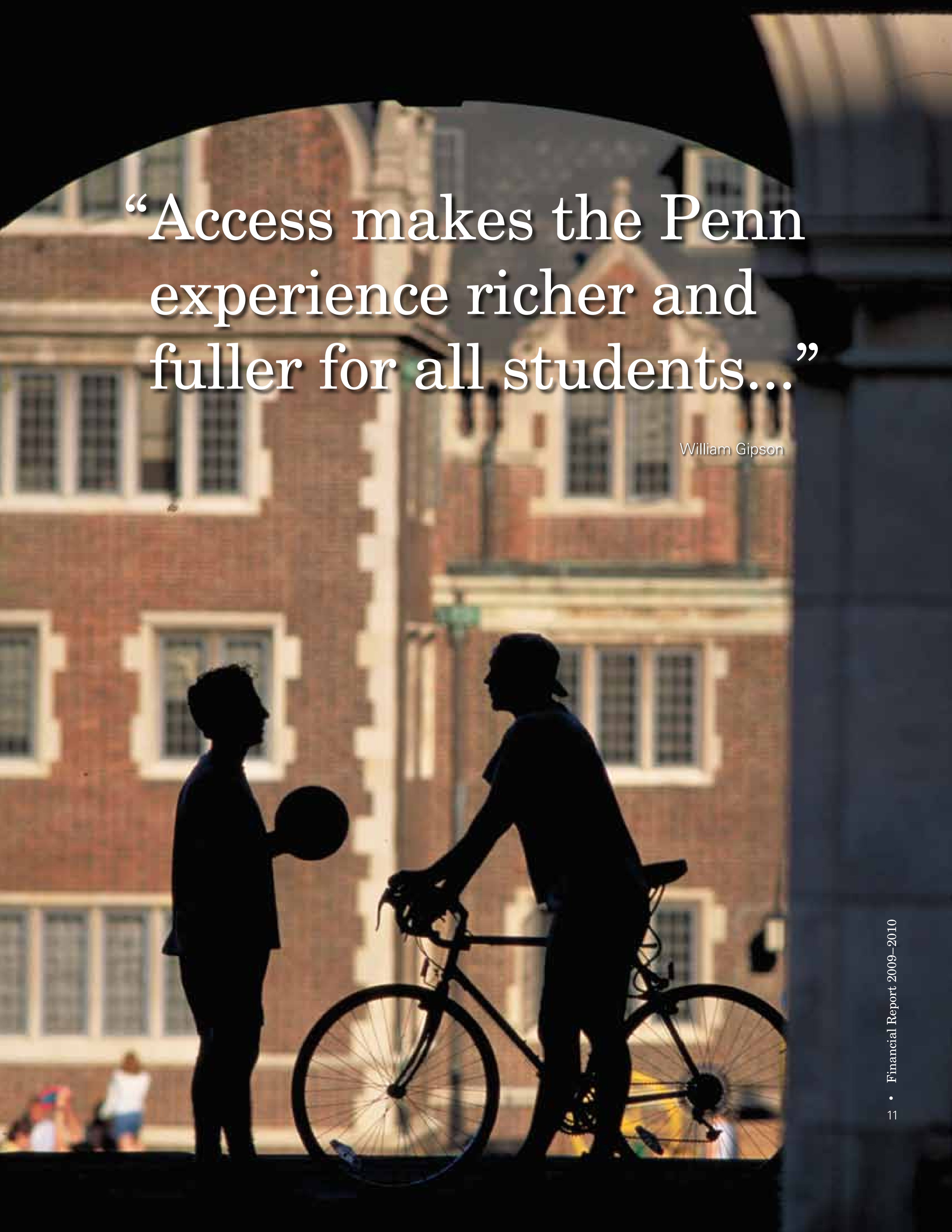
Founded in 1989, the Posse Foundation identifies urban, public high school students with extraordinary academic and leadership potential that may be overlooked by traditional college selection processes. Posse extends to these students the opportunity to pursue personal and academic excellence by placing them in supportive, multicultural teams – Posses – of ten students at one of 39 partner institutions. Member colleges join the organization in one of seven Posse sites. Last year, Posse opened its seventh site in Miami where Penn joined and became the Foundation's first Ivy League University. Penn Posse I included 11 students who joined the Class of 2014 on campus this fall.

Penn Posse
Class of 2014

Summer Mentorship Program

Stacey Pham, N'13

Inspiring lower-income city high school students to see higher education as an achievable goal is the aim of the Penn Summer Mentorship Program. This University initiative in partnership with the School District of Philadelphia, targets low-income students who might be the first generation in their families to pursue a college education – including an education at Penn. Students are provided on-campus mentoring, classes and activities in Dental Medicine, Engineering, Law, Medicine and Nursing. The summer sessions offer students a glimpse into the lives of professionals working in each of these respective fields, while also providing valuable assistance with the college admissions process for 50-60 students each year.



"Access makes the Penn experience richer and fuller for all students..."

William Gipson

Talent Search

Tiffany Robinson, C'11

The Talent Search Program is a federally funded program designed to prepare eligible students in traditionally under performing schools and support them in completing high school and college. The program offers a full range of interventions for over 600 West Philadelphia students from exposure to college, to assistance with SAT prep, to help with the college admissions process. Minutes away from the Penn campus, students at West Philadelphia's Beeber Middle School and Overbrook High School are encouraged and equipped for the possibility of a Penn education.

Endowed Scholarships

George Weiss' legendary financial support of undergraduate scholarships is matched only by his passionate belief in the power of education to change lives. "It's about promise. It's about opportunity. It's about the future." Guided by this conviction, Weiss credits Penn with much of his own success and his generosity has paved the way for hundreds of students to gain access to the promise of a Penn education. His unprecedented support of Penn is evidenced by a commitment to the programs that shape Penn's future including his leadership as Chair of the University's historic $3.5 billion *Making History Campaign*. But most importantly, Weiss is a champion for the students who, without his help, might not be able to realize their dream of attending the University of Pennsylvania.

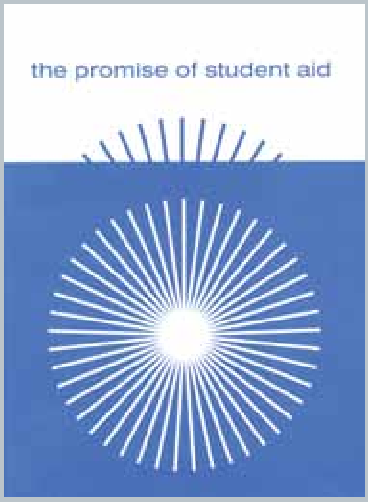
George Weiss, W'65
Chair, Making History Campaign

Investment Income and the Endowment

Fiscal Year 2010 investment performance rebounded strongly, as it reversed its two-year decline and recovered from FY 2009's $1.1 billion decline. The University's endowment posted a robust 12.6% gain and the total endowment value increased by $500 million, from $5.2 billion to $5.7 billion. The endowment spending policy continued the dual-payout rate that was established in FY 2009 to reinforce our commitment to *Increasing Access* with a payout rate of 6.5% for student financial aid and 4.7% for all other uses. More detailed information on endowment and investments can be found on pages 19-20.

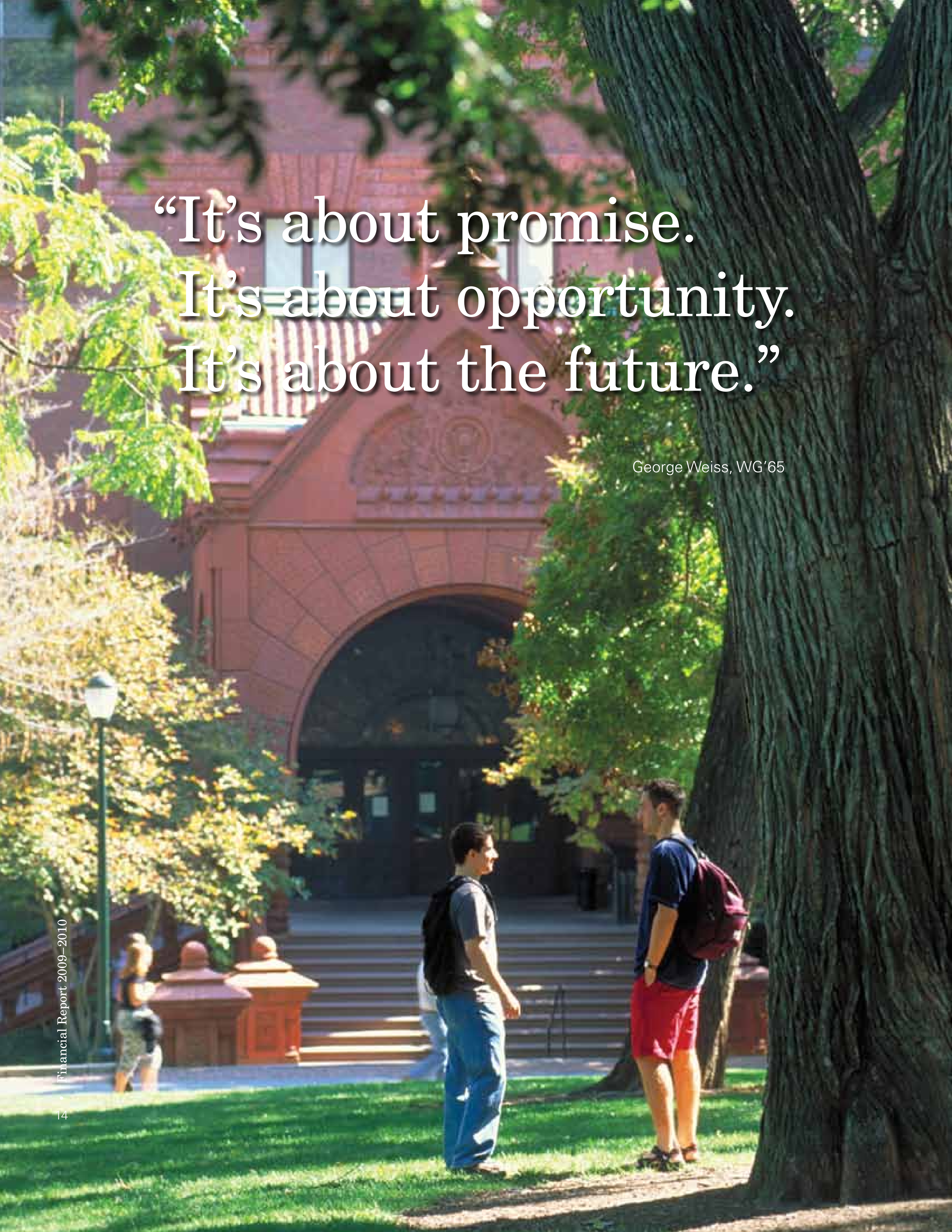
Contributions

Total contributions declined by 5.5% from $245.0 million in FY 2009 to $231.5 million in FY 2010. This result was not unexpected since public confidence in a recovery remained low and individual portfolios had yet to recover fully. Total contributions in FY 2010 were as follows: $92.9 million to support operations, $8.9 million to Quasi-Endowment, $113.8 million to permanent endowment and $15.9 million towards Capital. Despite the overall slowdown in gift giving, contributions to the Penn Fund rose 17.2% from $22.7 million to $26.6 million and Annual Giving increased by 10.9% from $49.5 million to $54.9 million. During FY 2010, Penn received 85 gifts of more than $1 million, with 35 of those coming from first-time donors at that level.



The *Making History* campaign is in the fifth year of its seven-year, $3.5 billion fundraising effort. Student aid is one of the six priorities of the campaign, with a goal of $350 million.

On track towards attaining this target, FY 2010 boasted 68 new undergraduate scholarships. The promise of student aid in the form of scholarships impacts the lives and futures of talented students who otherwise would not be able to afford to attend Penn – this is the essence of *Increasing Access.*



"It's about promise. It's about opportunity. It's about the future."

George Weiss, WG'65

Hospital and Physician Practices

The largest source of revenue for the Consolidated University is the clinical and health care operations of the University of Pennsylvania Health System (UPHS). With three major academic hospitals – the flagship Hospital of the University of Pennsylvania (HUP), Pennsylvania Hospital and Penn Presbyterian Medical Center, a strong faculty-based physician clinical practice, community-based physician practices and facilities, home health services and regional health care centers, UPHS is a world-renowned medical system. Together with the University's School of Medicine, ranked #2 in the country by *U.S. News and World Report*, the Health System is part of Penn Medicine, one of the world's most prestigious integrated health research and delivery systems.

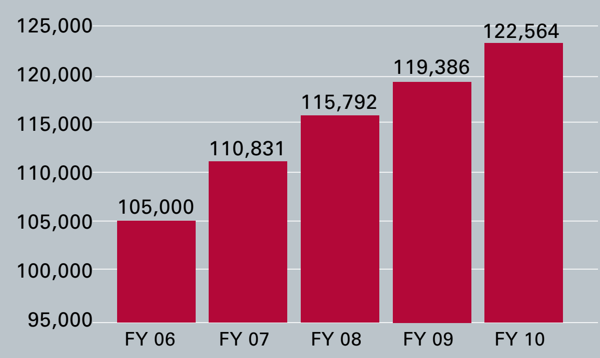
For FY 2010, UPHS hospital and physician operating revenue increased by 6.7% from $3.0 billion to $3.2 billion. This accounts for 57.1% of the Consolidated University total operating revenue. Achieving a new milestone, UPHS has now had positive operating performance for a decade.

Total Health System occupancy was 82%, and a measure of overall activity, "adjusted admissions," a measure that combines inpatient admissions with outpatient activity, grew by 2.7% over the prior year. Increased outpatient activity accounted for this increase, led by the activity growth in chemotherapy, outpatient surgery and imaging. Activity growth also occurred in high-intensity inpatient programs such as cardiac surgery and neurosurgery. Total surgery volume increased by 0.8% compared to the prior year. Although there was a 1.5% decline in inpatient surgery, it was offset by a 3.5% increase in outpatient surgery.

UPHS's continued success can be largely attributable to its state-of-the-art facilities. In November 2009, the Roberts Proton Therapy Center opened – a cutting-edge, 75,000 square-foot facility that is the largest and most advanced proton therapy center in the world. It is located within the Perelman Center for Advance Medicine (CAM), the comprehensive outpatient facility that began operating in FY 2008.

UPHS Adjusted Admissions

(adjusted for outpatient activity)



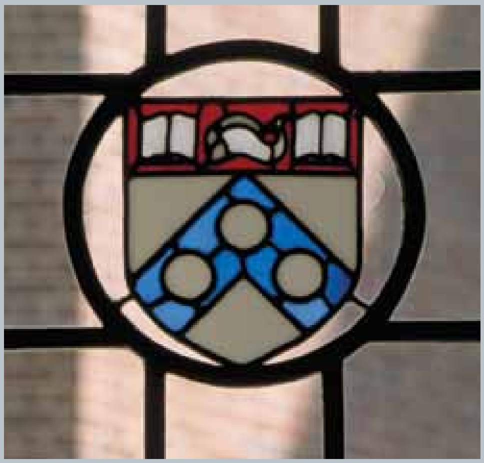
Expenses

As many of the University's revenue sources were constrained in FY 2010, and in continuation of the cost containment measures adopted at the beginning of the recession in FY 2009, schools, centers and divisions within the University aggressively worked to keep expenses at modest levels. During this past year, Penn exceeded its original $58 million cost containment goal and continued its efforts toward reaching a new cumulative goal of $100 million by June 30, 2011.

Despite the addition of resources to support the expanded research program funded through the ARRA, overall University expenses grew less than 5% in FY 2010. In addition to ARRA, expenses were driven upward by higher-than-average medical benefit costs, student aid expense and pension costs.

The Health System also continued its effective cost containment program in spite of expected start-up costs related to the Perelman Center and its commitment to fund new quality and safety initiatives.

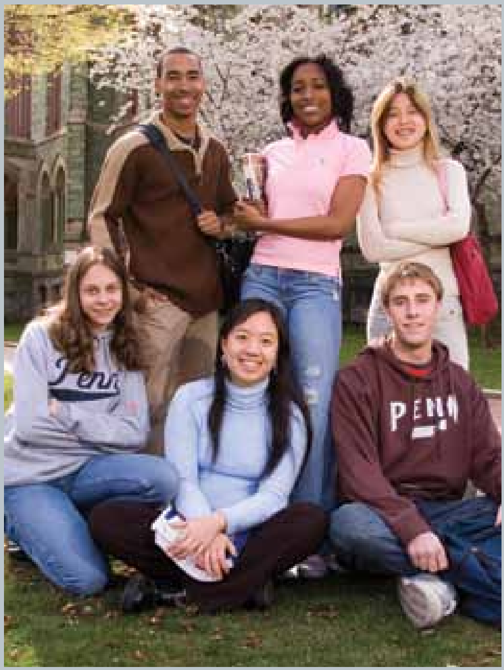
QuestBridge Scholars



Penn continues to look for new ways to reach potential undergraduates who might not have ordinarily considered Penn. As a part of this effort, in 2008, Penn partnered with QuestBridge, a non-profit program that links bright, motivated low-income students with educational and scholarship opportunities at some of the nation's best colleges. Through QuestBridge, outstanding students from across the globe and from around the corner, find a home at Penn where over the course of the two-year partnership, 117 QuestBridge Scholars joined the Penn undergraduate community.

Mayor's Scholarships

The Mayor's Scholarship program incorporates two of the tenets of the Penn Compact: *increasing access and engaging locally*. Philadelphia residents who attend high school in Philadelphia or one of its contiguous counties and who apply for admission and financial aid are eligible for consideration for a Mayor's Scholarship. Since 1982, a committee appointed by the Mayor of the City of Philadelphia, has selected up to 50 well-qualified recipients each year. For the past eighteen years, Penn has provided each year's class of Mayor's Scholars with a no-loan financial aid package.



Mayor's Scholars Class of 2011

Capital and Campus

In addition to operating expense control, the University's cost containment initiative was also focused on limiting capital expenditures where possible. Part of that effort included the adoption of a process whereby only capital projects with funding plans in place are approved. As a result of this change, Capital expenditures decreased from $583.3 million to $463.1 million in FY10.

The School of Veterinary Medicine completed the $16.8 million Isolation and Colic Barn Facility located on the grounds of the New Bolton Center in Chester County. On the main West Philadelphia campus, the Annenberg School of Communications' $34.5 million Public Policy Center opened in early fall and the School of Arts and Sciences' $15.9 million Music Building expansion and renovation was completed. DuBois College House Renewals were also completed with $22.4 million in renovations and upgrades to building infrastructure.

As mentioned earlier, the $140.0 million Roberts Proton Therapy Center was completed as construction continued above it on Penn Medicine's $329.9 million Translational Research Center, a 13-story structure that sits adjacent to the Perelman CAM.

Penn Connects, the long-range master plan for connecting Penn's West Philadelphia campus with Center City, includes the conversion of fourteen acres of parking lots and former industrial space into green space that students will be able to use for recreational and sporting activities.

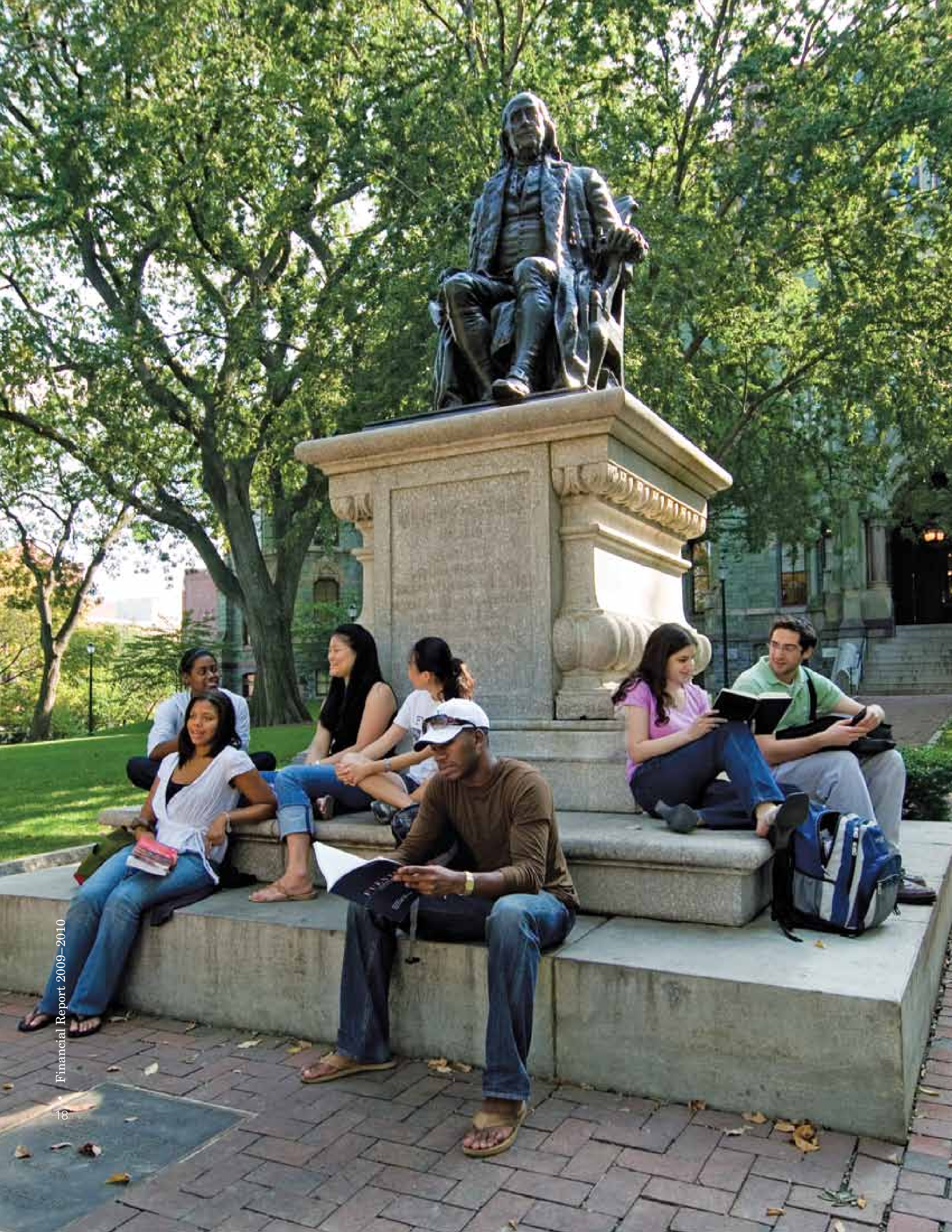
The site, aptly named Penn Park, will complement the completion of the $27.4 million Weiss Pavilion, a state-of-the-art sports and fitness facility located in the recessed archways around the perimeter of historic Franklin Field.

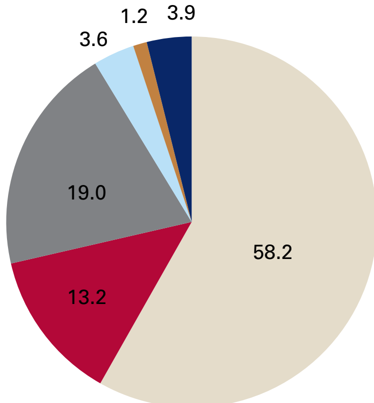
Summary

Fiscal Year 2010 was a year of economic challenges – some new, some a prolonged result of the economic crisis. Yet, the University of Pennsylvania's financial position remained strong and the overall financial results were heartening. Operating margins remained strong, financial ratios were predominantly positive and the University's sound cash and liquidity position continued to improve. Prudent, disciplined management of our resources coupled with solid investment performance helped to reinforce Penn's strong financial foundation and will allow the University to continue its path from excellence to eminence.

None of these accomplishments would be possible without the support of our alumni and friends, and the strong collaboration and dedication of our faculty and staff.

Stephen D. Golding
Vice President for Finance and Treasurer





Endowment By Purpose (%)

- Instruction
- Health Care
- Financial Aid
- Research
- Academic Support
- Other

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 to the left. The total value of the Penn endowment was $5.7 billion as of June 30, 2010. Payouts from the endowment provided $244.8 million in budgetary support to the University during the fiscal year.

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 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.

AIF Asset Allocation
as of June 30, 2010

	AIF	Policy Portfolio
US Equities	16.7%	26.2%
International Equities	18.4%	14.8%
Emerging Markets	5.6%	5.0%
Absolute Return	25.6%	25.0%
Private Equity	7.3%	7.3%
Real Estate	4.3%	4.3%
Natural Resources	2.4%	2.4%
High Yield	2.4%	0.0%
Fixed Income/Cash	17.3%	15.0%
Total	100.0%	100.0%

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 relative to peer institutions to these asset classes and sufficient liquidity to meet future commitments.

AIF Performance

Roughly two years after the collapse of Lehman Brothers, multilateral government intervention has brought stability to the global financial system and restored some level of equilibrium to the real economy. Although the major indices remain below the highs reached in October 2007, equity markets have continued to recover from their March 2009 lows. The S&P 500 was up 14.4% for the twelve months ended June 30, 2010. The MSCI World ex-US index was up 7.0% in dollar terms. And, the MSCI Emerging Markets Free index was up 23.1%. Returns would have been higher still but for the Greek debt crisis which led equities lower for the June quarter.

The AIF returned a positive 12.6% for the fiscal year. The portfolio outperformed its composite benchmark (a weighted average of the individual asset class benchmarks calculated using the policy portfolio weights) by 3.6%. Major contributors to return were credit-related investments in the absolute return portfolio and traditional public equities. For the three years ended June 30, 2010, the AIF has outperformed the S&P 500 index by a cumulative 18%.

The AIF's liquidity position continues to be excellent. It would be possible to convert two-thirds of the portfolio into cash by calendar year end through sale of directly held securities, withdrawals from mutual funds or redemptions from liquid hedge fund strategies.

Annualized Returns for Periods ending June 30, 2010

	1-Year	3-Year	5-Year
AIF	12.6%	-3.0%	4.3%
Composite Benchmark	9.0%	-4.3%	3.1%
S&P 500	14.4%	-9.8%	-0.8%

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 actual payout in any given year is determined by a formula designed to smooth the impact of short-term market moves on the endowment's value. The spending rule target payout is based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds.

For FY 2010, the University adjusted the formula to cap the increase in spendable income on financial aid endowments at 8.2% over the FY 2009 amount and to hold spendable income on non-financial aid endowments at the FY 2009 level. Effective for FY11, the University expects to use the FY10 spending rule formula with no adjustments.

A Five Year Review of Investments

(in thousands of dollars)

Investments, at fair value:	**2010**	**2009**	**2008**	**2007**	**2006**
Equity investments	$2,200,115	$2,095,480	$2,578,778	$3,329,191	$2,082,489
Debt investments	1,204,031	742,814	759,306	613,269	739,207
Short-term	458,701	478,070	468,561	731,975	985,143
Split-interest	383,901	344,030	457,538	512,650	449,684
Real estate	237,364	250,565	317,716	212,850	168,640
Absolute return	1,394,827	1,251,953	1,525,992	1,072,921	815,575
Private equity	407,484	318,304	377,521	281,555	202,091
Natural resourses	134,519	96,187	92,235	55,945	34,060
Other	5,621	1,325	1,274	1,232	1,994
Total Investments*	$6,426,563	$5,578,728	$6,578,921	$6,811,588	$5,478,883
Endowment, at fair value:	$5,668,937	$5,170,539	$6,211,620	$6,444,861	$5,313,268
AIF, at fair value:	$5,518,093	$4,955,689	$5,914,800	$5,973,765	$4,635,529

* Total investments held by the University not invested in the Associated Investment Fund include $384 million held in trust, $11 million in assets held under indenture and escrow agreements, $393 million in other investments held by UPHS and $121 million in other investments held by the University.

Management Responsibilities for Financial Statements

The University of Pennsylvania encompasses the academic University and the University of Pennsylvania Health System (UPHS). The academic University and UPHS have their own separate management with responsibility for their respective financial reporting.

The academic University oversees the process of consolidating UPHS's information into the consolidated financial statements. Management of the academic University and UPHS is responsible for the integrity and objectivity of their respective portions of these financial statements and represents that, with respect to its financial information, the consolidated financial statements in this annual report have been prepared in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been audited by the University's independent auditors, PricewaterhouseCoopers LLP. Their audit opinion, on the following page, expresses an informed judgment as to whether the consolidated financial statements, considered in their entirety, present fairly, in conformity with generally accepted accounting principles, the consolidated financial position and changes in net assets and cash flows. The independent auditors' opinion is based on audit procedures described in their report, which include obtaining an understanding of systems, procedures and internal accounting controls, and performing tests and other audit procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors.

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 Boards 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 Board of Trustees of the academic University and the separate Board of Trustees of Penn Medicine, through their respective Audit and Compliance Committees comprised of trustees not employed by the University or UPHS, are responsible for engaging the independent auditors and meeting with management, internal auditors and the independent auditors to independently assess whether each is carrying out its responsibilities. Both the internal auditors and the independent auditors have full and free access to the respective Audit Committees.

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

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Trustees of the University of Pennsylvania:

In our opinion, the accompanying statement 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, 2010, 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 2009 financial statements, and in our report dated September 30, 2009, 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 24, 2010

Consolidated Statements of Financial Position

University of Pennsylvania
(in thousands)

	June 30, 2010	June 30, 2009
Assets		
Cash and cash equivalents	$ 678,910	$ 787,796
Accounts receivable, net of allowances of $13,452 and $10,126	172,741	150,449
Patient receivables, net of allowances of $112,506 and $104,798	298,671	301,206
Contributions receivable, net	264,577	333,046
Loans receivable, net of allowances of $2,987 and $2,968	101,768	103,580
Other assets	151,614	90,575
Assets held for sale	1,949	1,949
Investments, at fair value	6,426,563	5,578,728
Plant, net of depreciation	3,957,295	3,797,518
Total assets	$ 12,054,088	$ 11,144,847
Liabilities		
Accounts payable	$ 135,365	$ 107,045
Accrued expenses and other liabilities	1,149,764	1,049,294
Deferred income	151,646	140,075
Deposits, advances, and agency funds	152,674	140,355
Federal student loan advances	78,269	78,161
Accrued retirement benefits	783,434	640,059
Debt obligations	1,373,830	1,429,125
Total liabilities	3,824,982	3,584,114
Net assets		
Unrestricted	4,258,474	3,850,507
Temporarily restricted	1,515,660	1,374,508
Permanently restricted	2,454,972	2,335,718
	8,229,106	7,560,733
Total liabilities and net assets	$ 12,054,088	$ 11,144,847

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, 2010 (with summarized financial information for the year ended June 30, 2009)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010	2009
Revenue and other support:					
Tuition and fees, net	$ 711,106			$ 711,106	$ 695,702
Commonwealth appropriations	36,856			36,856	47, 176
Sponsored programs	871,904			871,904	754,308
Contributions	57,319	$ 44,490		101,809	131,620
Investment income	134,936	157,261		292,197	276,256
Hospitals and physician practices	3,151,605			3,151,605	2,954,288
Sales and services of auxiliary enterprises	102,977			102,977	100,850
Other income	189,996			189,996	198,224
Independent operations	65,139			65,139	62,881
Net assets released from restrictions	223,227	(223,227)			
	5,545,065	(21,476)		5,523,589	5,221,305
Expenses:					
Program:					
Instruction	990,363			990,363	963,750
Research	675,621			675,621	601,235
Hospitals and physician practices	2,935,029			2,935,029	2,796,328
Auxiliary enterprises	122,715			122,715	120,276
Other educational activities	164,707			164,707	169,724
Student services	65,168			65,168	63,206
Support:					
Academic support	66,041			66,041	64,056
Management and general	183,268			183,268	174,502
Independent operations	60,189			60,189	62,034
	5,263,101			5,263,101	5,015,111
Increase (decrease) in net assets before nonoperating revenue, net gains, reclassifications and other	281,964	(21,476)		260,488	206,194
Nonoperating revenue, net gains, reclassifications and other:					
Gain (loss) on investment, net	241,530	331,910	$ 18,963	592,403	(1,122,455)
Investment income, net of amounts classified as operating revenue	(56,525)	(130,691)	775	(186,441)	(157,239)
Contributions		30,132	99,516	129,648	113,348
Pension and other postretirement plan adjustments	(127,725)			(127,725)	(325,262)
Net assets released from restrictions	68,723	(68,723)			
Increase (decrease) in net assets	407,967	141,152	119,254	668,373	(1,285,414)
Net assets, beginning of year	3,850,507	1,374,508	2,335,718	7,560,733	8,846,147
Net assets, end of year	$ 4,258,474	$ 1,515,660	$ 2,454,972	$ 8,229,106	$ 7,560,733

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, 2010 and 2009
(in thousands)

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 668,373	$ (1,285,414)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	267,785	247,795
Provision for bad debts	161,216	133,081
Loss on early retirement of debt	327	3,966
Gain (loss) on investments, net	(592,403)	1,122,455
Loss on disposal of plant, property and equipment	4,579	4,263
Donated equipment	(2,638)	(6,968)
Receipt of contributed securities	(39,481)	(23,422)
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(158,649)	(200,800)
Pension and other postretirement plan adjustments	127,725	325,262
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(174,603)	(48,452)
Contributions receivable	66,181	112,190
Other assets	(54,770)	(985)
Accounts payable, accrued expenses and accrued retirement benefits	156,638	17,549
Deposits, advances and agency funds	12,319	(483)
Deferred income	11,571	19,795
Net cash provided by operating activities	454,170	419,832
Cash flows from investing activities:		
Purchase of investments	(4,930,363)	(7,010,146)
Proceeds from sale of investments	4,685,650	6,896,660
Proceeds from sale of contributed securities	39,481	23,422
Purchase of plant, property and equipment	(463,102)	(585,304)
Net cash used by investing activities	(668,334)	(675,368)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	158,649	200,800
Federal student loan advances	108	338
Repayment of long-term debt	(142,714)	(395,812)
Proceeds from issuance of long-term debt	89,235	502,666
Net cash provided by financing activities	105,278	307,992
Net (decrease) increase in cash and cash equivalents	(108,886)	52,456
Cash and cash equivalents, beginning of year	787,796	735,340
Cash and cash equivalents, end of year	$ 678,910	$ 787,796
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 49,388	$ 37,175
Contributed securities acquired and sold	$ 39,481	$ 23,422
Accrued plant, property and equipment acquisitions	$ 41,726	$ 74,315

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 Gain (loss) on investment, net.

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2009 from which the summarized information was derived. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

The University monitors for material subsequent events that may require adjustment to or disclosure in the consolidated financial statements from the Statements of Position date through September 24, 2010.

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 and effective July 1, 2009, for non-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.

In 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value (NAV) in accordance with, or in a manner consistent with US generally accepted accounting principles (US GAAP). As a practical expedient, the University is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University's investments in private equity, natural resources, real estate and certain hedge funds in the absolute return portfolio are generally fair valued based on the most current NAV received adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2010.

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

Investments which can be redeemed at NAV by the University up to 180 days beyond the measurement date, June 30, are classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

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.

Investments Including Endowments

The University's endowment consists of 4,339 donor-restricted permanent or term endowment funds and 795 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 (AIF), which is invested in equities, bonds, hedge funds, natural resources, private equity and real estate limited partnerships. The endowment funds not pooled in the AIF are primarily invested in equities and bonds.

The AIF is invested in accordance with the investment policies set out by an Investment Board which has been appointed by the Trustees. The Office of Investments is responsible for the day-to-day management of the portfolio including identifying, selecting and monitoring a variety of external investment managers to implement the strategic asset allocation set forth by the Investment Board. The University's investment portfolio may include marketable and not readily marketable securities that it intends to hold for an indefinite period of time. The University reports all endowment investments at fair value. Changes in the fair value of investments are reported in Gain (loss) on investment, net, in the Consolidated Statements of Activities.

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

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

In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. The University determines its spending rule target payout based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds.

For Fiscal Year 2010, the University adjusted the formula to cap the increase in spendable income on financial aid endowments at 8.2% over the Fiscal Year 2009 amount and to hold spendable income on non-financial aid endowments at the Fiscal Year 2009 level. The payout or allocation to operations exceeded actual income, net of expenses and net of income permanently reinvested, by $194,581,000 in 2010 and by $170,155,000 in 2009.

Effective for Fiscal Year 2011, the University expects to use the spending rule formula with no adjustments.

Short-Term Investments

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 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 US Treasury money market account.

Equity Investments

Equity investments consist of separate accounts, daily traded mutual funds, commingled funds 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, with no valuation adjustments applied. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt Investments

Debt investments consist of separate accounts and a single limited partnership. Securities such as US Treasuries, which are held in separate accounts, are valued based on quoted market prices in active markets and are categorized as Level 1. 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 or in the cases where they trade infrequently as Level 3. A limited partnership interest in a fund dedicated to credit investments is valued at NAV and is categorized as Level 2 or Level 3 based on the University's ability to redeem up to 180 days beyond the measurement date as previously described.

Absolute Return Portfolio

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

Private Equity, Real Estate and Natural Resources Investments

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

Derivatives

i. Forward Currency Contracts

The University enters into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge or cross hedge against either specific non-US dollar denominated transactions or portfolio positions.

In a forward foreign currency contract, the University agrees to receive or deliver a fixed quantity of one currency for another, at a pre-determined price at a future date. Purchases and sales of forward foreign currency contracts having the same notional value, settlement date and counterparty are generally offset (which result in a net foreign currency position of zero with the counterparty) and any realized gains or losses are recognized on settlement date. The terms of forward foreign currency contacts are not standardized and they are not traded on organized exchanges.

The fair value of forward foreign currency contracts is based on the price at which a new forward foreign currency contract of the same notional value, currency and maturity could be affected at the close of business in the principal currency markets in which these currencies are traded. The fair value can generally be corroborated by market data and are therefore categorized as Level 2.

ii. Futures Contracts

The University purchases or sells futures contracts to hedge against changes in interest rates, securities prices, currency exchange rates, or to seek to increase total return. Futures contracts are contracts to buy or sell a standardized quantity of a specified commodity and valued based on exchange settlement prices and are therefore categorized as Level 1. Initial margin deposits, in either cash or securities, are required to trade in the futures market. Variation margin is received or paid, depending on whether unrealized gains or losses are incurred. Unrealized gains or losses on futures contracts are recognized to reflect the fair value of the contracts and are included as a component of Gain (loss) on investment, net in the Consolidated Statements of Activities. When the contract is terminated, the University will recognize a realized gain or loss equal to the difference between the value of the contract at the time it was entered into and the time it closed.

Investment Risk

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

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

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

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities. The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. Details on remaining estimated life, current redemption terms and restrictions by asset class and type of investment are provided below:

	Remaining Life	Redemption Terms	Redemption Restrictions
Short-term	N/A	Daily	None
Equity investments			
Separate accounts	N/A	Daily	None
Mutual funds	N/A	Daily	None
Commingled funds	N/A	Monthly to annually with notice periods of 1 to 90 days	None except for one fund with a 50% annual withdrawal limit
Partnerships	N/A	Monthly to annually with notice periods of 30 to 120 days	Lock-up provisions ranging from 0 to 3 years
Debt investments			
Separate accounts	N/A	Daily	None
Partnerships	N/A	Annually with 60 days notice required	Redeemed liquid portion on June 30, 2010, $7 million of illiquid side pocket investments remain
Absolute return	N/A	Quarterly to annually with varying notice periods, except 7 limited partnerships with no redemptions permitted. Distributions received as underlying investments are liquidated.	Lock-up provisions ranging from 0 to 5 years with earlier redemptions permitted subject to redemption fee, except $316 million in 7 limited partnerships with no redemptions permitted and $119 million of illiquid side pocket investments.
Real estate	3 to 17 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Private equity	1 to 20 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Natural resources	6 to 11 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A

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 5 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 Level 1, with the changes reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gain (loss) 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 Gain (loss) 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 Level 3, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gain (loss) 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 Level 3 and are reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gain (loss) 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 Level 3, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gain (loss) 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), where applicable, and federal "Unrelated Business Income Tax".

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

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

Tuition and Fees

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. This policy provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. In Fiscal Year 2010, the University implemented the final phase of its no-loan policy whereby any qualified undergraduate student with demonstrated financial need had loans replaced with grants. Tuition and fees have been reduced by certain grants and scholarships in the amount of $220,429,000 in 2010 and $194,186,000 in 2009.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2010 and 2009, grant and contract revenue earned from governmental sources totaled $745,843,000 and $644,867,000, 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 0.90% 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 January 2010, FASB issued a standard on *Improving Disclosures about Fair Value Measurements*. This standard requires that information, such as description of and reasoning for transfers, be disclosed for all transfers to and from Level's 1, 2 and 3. Another requirement under this standard is the gross, rather than net, presentation of purchases, sales, issuances and settlements in Level 3 rollforward tables. This standard is effective for fiscal years beginning after December 15, 2009 for transfer disclosures and December 15, 2010 for gross presentation and as such, disclosures pertaining to these topics will be made in accordance with this standard for consolidated financial statements beginning in Fiscal Year 2011 and Fiscal Year 2012, respectively.

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.

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 $4,455,000 and $8,175,000 at June 30, 2010 and 2009, respectively, which represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers to the University of $92,009,000 and $93,487,000 in 2010 and 2009, respectively, to further the research and educational activities of the School of Medicine and $138,000 and $1,194,000 in 2010 and 2009, respectively, for other activities. In addition, UPHS recognized operating expenses of $21,133,000 and $25,316,000 in 2010 and 2009, 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 2010 net patient service revenue was increased by $8,774,000 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. This agreement concluded at the end of Fiscal Year 2010 and a new five-year agreement was reached effective July 1, 2010, with terms similar to the previous agreement.

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, 2010 and 2009, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2010	2009
Net patient service	$ 2,995,027	$ 2,800,933
Other revenue	168,305	166,760
Total expenses	(2,938,164)	(2,799,428)
Excess of revenues over expenses from operations	225,168	168,265
Other unrestricted income (loss), net	108,482	(111,605)
Excess of revenue over expenses	333,650	56,660
Nonoperating, net	(151,595)	(400,243)
Unrealized (loss) gain, net	(156)	10,270
Increase (decrease) in net assets	$ 181,899	$ (333,313)
Total current assets	$ 679,106	$ 725,907
Assets whose use is limited (including board designated funds of $401,471 and $359,601 and trustee held funds of $7,564 and $10,792 for 2010 and 2009, respectively)	886,896	834,652
Plant, net of depreciation	1,335,755	1,289,412
Investments and other assets	604,731	311,955
Total assets	$ 3,506,488	$ 3,161,926
Total current liabilities	$ 522,697	$ 566,538
Long-term debt, net of current portion	654,241	597,095
Other liabilities	984,615	835,257
Total liabilities	2,161,553	1,998,890
Net assets		
Unrestricted	932,122	774,404
Temporarily restricted	288,162	272,498
Permanently restricted	124,651	116,134
Total net assets	1,344,935	1,163,036
Total liabilities and net assets	$ 3,506,488	$ 3,161,926

In 2007, UPHS purchased several buildings and land from Tenet Health Systems Graduate, LLC in Philadelphia. UPHS has renovated several of the buildings for their intended 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 at June 30, 2010 and 2009, respectively.

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $13,452,000 and $10,126,000 at June 30, 2010 and 2009, respectively, are as follows (in thousands):

	2010	2009
Sponsored research	$ 93,716	$ 68,282
Student	13,483	12,584
Trade	33,672	34,453
Investment income	8,782	8,069
Other	23,088	27,061
Total Accounts receivable	$ 172,741	$ 150,449

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2010 and 2009 (in thousands):

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 172,175	$ 178,114
One year to five years	180,733	243,716
Over five years	16,833	40,513
	369,741	462,343
Less: Discount	(56,876)	(83,101)
Less: Allowance for doubtful amounts	(48,288)	(46,196)
Total Contributions receivable, net	$ 264,577	$ 333,046

At June 30, 2010 and 2009, the University has outstanding unrecorded conditional promises to give of $155,799,000 and $131,326,000, 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, 2010 and 2009, respectively, are as follows (in thousands):

	2010	2009
Goodwill	$ 24,888	$ 26,547
Inventory	24,777	24,380
Prepaid expenses	24,711	18,310
Deferred financing fees	9,782	11,962
FICA refund	49,005	–
Other	18,451	9,376
Total Other assets	$ 151,614	$ 90,575

Goodwill of $24,888,000 at June 30, 2010 and $26,547,000 at June 30, 2009, 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.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical and dental residents are excepted from the Federal Insurance Contributions Act (FICA) taxes based on the student exception under the IRS Code section 3121(b)(10). As such, the IRS will issue a refund to the University for the employer and employee FICA taxes previously paid. As a result, the University has recorded the estimated tax refund and related interest of $49,005,000 as an increase in Other assets. A liability of $12,055,000 has been included in Accrued expense and other liabilities for the estimated amounts that the University will pay to the residents. A reduction in Employee benefits of $24,529,000 and an increase in Other income of $12,421,000 have been recorded for the tax and interest, respectively, that will be retained by the University.

6. Investments Including Endowments

A summary of endowment investments including the AIF, measured at fair value in accordance with the *Fair Value Measurements* standard on a recurring basis, as of June 30, 2010 and 2009 is as follows (in thousands):

Assets	**Level 1**	**Level 2**	**Level 3**	**2010**
Short-term investments	$ 458,701			$ 458,701
Equity investments	1,219,609	$ 850,398	$ 130,108	2,200,115
Debt investments	1,089,098	107,044	7,889	1,204,031
Split-interest agreements	70,413		313,488	383,901
Absolute return		509,464	885,363	1,394,827
Real estate		2,059	235,305	237,364
Private equity			407,484	407,484
Natural resources			134,519	134,519
Other	4,368		1,253	5,621
Total	$ 2,842,189	$ 1,468,965	$ 2,115,409	$ 6,426,563

Liabilities	**Level 1**	**Level 2**	**Level 3**	**2010**
Derivative instruments	–	$ 3,779	–	$ 3,779
Total	–	$ 3,779	–	$ 3,779

Assets	**Level 1**	**Level 2**	**Level 3**	**2009**
Short-term investments	$ 478,070			$ 478,070
Equity investments	1,185,104	$ 845,332	$ 65,044	2,095,480
Debt investments	599,082	121,152	22,580	742,814
Split-interest agreements	58,439		285,591	344,030
Absolute return		471,968	779,985	1,251,953
Real estate			250,565	250,565
Private equity			318,304	318,304
Natural resources			96,187	96,187
Other			1,325	1,325
Total	$ 2,320,695	$ 1,438,452	$ 1,819,581	$ 5,578,728

Liabilities	**Level 1**	**Level 2**	**Level 3**	**2009**
Derivative instruments	–	$ 118	–	$ 118
Total	–	$ 118	–	$ 118

The 2009 presentation of the fair value hierarchy table has been reclassified to conform to the 2010 presentation for investments which the University has the ability to redeem at NAV up to 180 days beyond the measurement date. Absolute return investments of $471,968,000 and equity investments of $185,328,000 were reclassified from Level 3 to Level 2 as a result.

Changes in the fair value of the University's Level 3 investments as of June 30, 2010 and 2009 are as follows (in thousands):

	June 30, 2009	Net realized gains/(losses)	Net unrealized gains/(losses)	Net purchases, sales and settlements	Net transfers in/(out)	June 30, 2010
Equity investments	$ 65,044	$ 71	$ 2,064	$ 9,990	$ 52,939	$ 130,108
Debt investments	22,580	(12,353)	23,487	(25,825)		7,889
Split-interest agreements	285,591	(4,363)	29,258	3,002		313,488
Absolute return	779,985	15,511	158,315	(13,660)	(54,788)	885,363
Real estate	250,565	3,368	(69,185)	52,973	(2,416)	235,305
Private equity	318,304	16,499	25,119	47,562		407,484
Natural resources	96,187	8,433	6,330	23,569		134,519
Other	1,325		46	(118)		1,253
Total	$ 1,819,581	$ 27,166	$ 175,434	$ 97,493	$ (4,265)	$ 2,115,409

	June 30, 2008	Net realized gains/(losses)	Net unrealized gains/(losses)	Net purchases, sales and settlements	Net transfers in/(out)	June 30, 2009
Equity investments	$ 230,581	$ 712	$ (40,015)	$ 59,094	$ (185,328)	$ 65,044
Debt investments	50,707		(28,126)	(1)		22,580
Split-interest agreements	364,052	(16,453)	(60,783)	(1,225)		285,591
Absolute return	1,525,992	40,025	(258,931)	(55,133)	(471,968)	779,985
Real estate	317,716	2,505	(138,047)	68,391		250,565
Private equity	377,521	8,332	(130,589)	63,040		318,304
Natural resources	92,235	11,833	(24,838)	16,957		96,187
Other	1,224		117	(16)		1,325
Total	$ 2,960,028	$ 46,954	$ (681,212)	$ 151,107	$ (657,296)	$ 1,819,581

Transfers in and out of Level 3 assets are based on the actual date of the event which caused the transfer.

Included in Split-interest agreements above are assets held where the University serves as trustee with an aggregate fair value of $70,413,000 and $58,439,000 at June 30, 2010 and 2009, respectively.

A summary of Level 3 assets included in Split-interest agreements, where the University is not trustee, measured at fair value on a recurring basis, as of June 30, 2010 and 2009 is as follows (in thousands):

	2010	2009
Charitable remainder trusts	$ 3,737	$ 2,012
Charitable lead trusts	4,166	4,257
Perpetual trusts	305,585	279,322
Total	$ 313,488	$ 285,591

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, 2010 and 2009 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2009	$ 2,012	$ 4,257	$ 279,322	$ 285,591
Net realized losses	(28)	(947)	(3,390)	(4,365)
Net unrealized (losses)/gains	(1)	856	28,404	29,259
Net purchases, sales and settlements	1,754	–	1,249	3,003
June 30, 2010	$ 3,737	$ 4,166	$ 305,585	$ 313,488

	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

The following tables set forth the fair value of the University's derivative instruments by contract type as of June 30, 2010 and 2009 and the University's gains (losses) related to derivative activities for the year ended June 30, 2010 and 2009 (in thousands):

Derivative fair value

	Consolidated Statements of Position Location	2010	2009
Forward currency contracts	Accrued expenses and other liabilities	$ 3,779	$ 118
Total		$ 3,779	$ 118

Derivative gains (losses)

	Consolidated Statements of Activities Location	2010	2009
Forward currency contracts	Gain (loss) on investment, net	$ (587)	$ 47,825
Futures contracts	Gain (loss) on investment, net	–	(21,575)
Total		$ (587)	$ 26,250

As of June 30, 2010, the University had nine outstanding forward currency contracts with a notional exposure of $112,412,000. As of June 30, 2009 the University had seven outstanding forward currency contracts with a notional exposure of $24,541,000. The University did not enter into any futures contracts during the year ended June 30, 2010 and did not have any futures contracts outstanding as of June 30, 2009.

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $28,967,000 and $28,006,000 as of June 30, 2010 and 2009, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

Included in Short-term investments is $11,278,000 and $108,117,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2010 and 2009, respectively.

At June 30, 2010 and 2009, Short-term investments include $77,797,000 and $49,807,000, respectively, of outstanding receivables from trading activities. At June 30, 2010 and 2009, Short-term investments include $29,706,000 and $49,381,000, respectively, of outstanding payables from trading activities.

The University has made commitments to various limited partnerships. The University expects these funds to be called over the next 3 to 5 years. The total amount of unfunded commitments is $831,656,000 which represents 14.8% of the AIF value as of June 30, 2010. Details on the extent of these commitments are as follows (in thousands):

	Unfunded Commitments
Absolute return	$ 71,125
Equity	40,000
Real estate	248,535
Private equity	358,859
Natural resources	113,137
Total Unfunded commitments	$ 831,656

A summary of the University's total investment return for the years ended June 30, 2010 and 2009 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2010	2009
AIF investment income	$ 68,219	$ 78,655
AIF realized and unrealized gains/(loses)	589,981	(1,009,645)
Return on AIF	658,200	(930,990)
Other investment income and gains/(losses)	39,959	(72,448)
Total Return on investments	$ 698,159	$ (1,003,438)

Included in investments above are the University's endowments, the components of which at June 30, 2010 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 1,205,259	$ 2,423,686	$ 3,628,945
Quasi-endowment funds	2,039,992	–	–	2,039,992
June 30, 2010	$ 2,039,992	$ 1,205,259	$ 2,423,686	$ 5,668,937

Changes to the reported amount of the University's endowments as of June 30, 2010 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2009	$ 1,843,068	$ 1,027,709	$ 2,299,762	$ 5,170,539
Investment return:				
Investment income	20,953	23,010	459	44,422
Gain (realized and unrealized)	219,266	310,825	17,912	548,003
Total investment return	240,219	333,835	18,371	592,425
New gifts	9,234	8,305	103,732	121,271
Appropriation of endowment assets for expenditure	(222,810)	–	–	(222,810)
Transfers	4,142	1,549	1,821	7,512
Released from restriction	166,139	(166,139)	–	–
Net assets, June 30, 2010	$ 2,039,992	$ 1,205,259	$ 2,423,686	$ 5,668,937

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
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 $49,044,000 and $85,092,000 as of June 30, 2010 and 2009, respectively, and is reflected as a reduction of Temporarily restricted assets.

7. Plant, net of depreciation

The components of plant at June 30, 2010 and 2009 are as follows (in thousands):

	2010	2009
Land	$ 143,896	$ 136,095
Buildings and fixed equipment	4,538,426	4,267,125
Contents	1,383,416	1,282,476
Construction-in-progress	562,907	561,856
	6,628,645	6,247,552
Less: Accumulated depreciation	(2,671,350)	(2,450,034)
Plant, net of depreciation	$ 3,957,295	$ 3,797,518

Plant, net of depreciation, includes $3,209,000 of land at June 30, 2010 and 2009, as well as, $10,188,000 and $9,159,000 of completed facilities at June 30, 2010 and 2009, respectively, which serve as collateral for debt obligations.

The University recorded $268,539,000 and $246,383,000 of depreciation expense for the years ended June 30, 2010 and 2009, respectively. Rare books and other collectibles aggregate $37,276,000 at June 30, 2010 and $35,912,000 at June 30, 2009.

The University capitalized $7,561,000 and $5,565,000 of interest costs for the years ended June 30, 2010 and 2009, 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):

	2010	2009
July 1	$ 19,041	$ 19,197
Less: Payments	(260)	(592)
Add: Additions	20	–
Add: Accretion	497	436
Less: Changes in estimates	(302)	–
June 30	$ 18,996	$ 19,041

9. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2010 and 2009 are as follows (in thousands):

2010	Assets	Liabilities	Net Assets
June 30, 2009	$ 344,030	$ (37,039)	$ 306,991
New contributions, net	13,290	(1,358)	11,932
Investment income	1,106	(578)	528
Realized and unrealized gain, net	30,210	–	30,210
Payments and settlements	(4,735)	4,735	–
Actuarial adjustment	–	(3,859)	(3,859)
Net change	39,871	(1,060)	38,811
June 30, 2010	$ 383,901	$ (38,099)	$ 345,802

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	(1,143)	809
Realized and unrealized loss, net	(98,275)	–	(98,275)
Payments and settlements	(6,007)	6,007	–
Actuarial adjustment	–	2,441	2,441
Net change	(113,508)	11,208	(102,300)
June 30, 2009	$ 344,030	$ (37,039)	$ 306,991

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. 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, 2010. Total amounts recorded under this program, included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Position, are $391,187,000 and $350,031,000 at June 30, 2010 and 2009, 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.

11. Contingencies, Guarantees and Commitments

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

	2010		2009	
	Amount Guaranteed	Recognized Liability	Amount Guaranteed	Recognized Liability
Mortgage loans	$ 7,289	$ –	$ 8,740	$ –
Student loans	41,753	6,792	35,748	6,366
Other	6,336	195	6,937	214
	$ 55,378	$ 6,987	$ 51,425	$ 6,580

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, $1,722,000 and $2,279,000 at June 30, 2010 and 2009, 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 Amounts Guaranteed, $13,595,000 and $16,793,000 at June 30, 2010 and 2009, respectively, was estimated to be recoverable from subsequent collection efforts on loans the University would acquire if all the loans defaulted. The Recognized Liability reflects effective default rates of 16.3% and 17.8%, respectively. 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, $4,196,000 at June 30, 2010 and $4,684,000 at June 30, 2009, 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.

During Fiscal Year 2010, UPHS was named as defendant in a wage and hour lawsuit. This is a purported class action lawsuit alleging that UPHS failed to pay certain employees who worked through meal or break periods. UPHS has denied liability and is defending the case vigorously; the court has not yet ruled on whether it is appropriate to certify any class of UPHS employees, or the scope of such a class.

In the opinion of management, the amount of potential liability, if any, with respect to these actions will not materially affect the combined financial position or results of operations and cash flows.

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, 2010, approximately $130,176,000 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 $85,924,000 in 2010 and $82,909,000 in 2009.

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 $3,606,000 and $3,598,000 for 2010 and 2009, 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	
	2010	**2009**	**2010**	**2009**
Service cost	$ 35,428	$ 29,798	$ 15,609	$ 15,025
Interest cost	61,526	56,843	30,309	29,531
Expected return on plan assets	(59,416)	(67,516)	(13,426)	(15,390)
Amortization of:				
Net prior service cost/(credit)	1,634	1,634	(1,718)	(3,664)
Net losses	19,496	–	7,317	3,059
Net periodic benefit cost	$ 58,668	$ 20,759	$ 38,091	$ 28,561

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	**2010**	**2009**	**2010**	**2009**
Benefit obligation at beginning of year	$ 999,582	$ 856,663	$ 495,230	$ 447,324
Service cost	35,428	29,798	15,609	15,025
Interest cost	61,526	56,843	30,309	29,531
Plan participants' contributions	132	126	3,578	3,168
Retiree drug subsidy	–	–	1,482	1,282
Net actuarial loss due to plan experience	142,714	81,594	42,769	20,912
Benefits paid from fund	(27,575)	(25,442)	(14,549)	(14,684)
Benefits paid by University	–	–	(6,594)	(7,328)
Plan amendments	–	–	–	–
Benefit obligation at end of year	$ 1,211,807	$ 999,582	$ 567,834	$ 495,230
Accumulated benefit obligation	$ 1,041,786	$ 865,362	$ 567,834	$ 495,230
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 704,383	$ 811,900	$ 154,646	$ 178,031
University contributions	54,853	25,126	30,278	29,012
Plan participants' contributions	132	126	3,578	3,168
Benefits paid from fund	(27,575)	(25,442)	(14,549)	(14,684)
Benefits paid by University	–	–	(6,594)	(7,328)
Actual return on assets	87,151	(107,327)	16,720	(33,553)
Fair value of plan assets at end of year	$ 818,944	$ 704,383	$ 184,079	$ 154,646
Funded Status				
Projected benefit obligation / accumulated postretirement benefit obligation	$ (1,211,807)	$ (999,582)	$ (567,834)	$ (495,230)
Plan assets at fair value	818,944	704,383	184,079	154,646
Funded status at end of year	$ (392,863)	$ (295,199)	$ (383,755)	$ (340,584)

Net Amounts Recognized in the Consolidated Statements of Financial Position

	Pension Benefits		Other Postretirement Benefits	
Unrestricted Net Assets	**2010**	**2009**	**2010**	**2009**
Net actuarial loss	$ 394,357	$ 298,875	$ 189,959	$ 157,800
Net prior service cost/(credit)	5,055	6,689	1,364	(354)
Total	$ 399,412	$ 305,564	$ 191,323	$ 157,446
Adjustment to unrestricted net assets	$ 93,848	$ 254,802	$ 33,877	$ 70,460

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2011 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of net transition obligation/(asset)	$ –	$ –
Amortization of prior service cost/(credit)	1,634	332
Amortization of net losses/(gains)	26,509	8,986

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

	Pension Benefits		Other Postretirement Benefits	
	2010	**2009**	**2010**	**2009**
Prepaid benefit cost in other assets	$ –	$ –	$ –	$ –
Accrued retirement benefits	(392,863)	(295,199)	(383,755)	(340,584)
Funded status at end of year	$ (392,863)	$ (295,199)	$ (383,755)	$ (340,584)

Reported Accrued retirement benefits includes $6,816,000 and $4,276,000 for faculty early retirement programs at June 30, 2010 and 2009, respectively.

Information for Plans with PBO/APBO in Excess of Plan Assets	Pension Benefits 2010	Pension Benefits 2009	Other Postretirement Benefits 2010	Other Postretirement Benefits 2009
Projected benefit obligation / accumulated postretirement benefit obligation	$ 1,211,807	$ 999,582	$ 567,834	$ 495,230
Accumulated benefit obligation / accumulated postretirement benefit obligation	1,041,786	865,362	567,834	495,230
Fair value of plan assets	818,944	704,383	184,079	154,646

Actuarial Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
Weighted-Average Assumptions Used to Determine Benefit Obligations at Year End	**2010**	**2009**	**2010**	**2009**
Discount rate	5.50%	6.25%	5.50%	6.25%
Salary increase	4.000%	4.000%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected long-term return on plan assets	8.375%	8.375%	8.375%	8.375%
Salary increase	4.000%	4.000%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial trend rate	N/A	N/A	8.25%	9.00%
Ultimate trend rate	N/A	N/A	4.84%	4.82%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2021	2020

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	
	2010	**2009**	**2010**	**2009**
Effect on total of service and interest cost	9,484	7,734	(7,407)	(6,109)
Effect on accumulated postretirement benefit obligation	88,951	72,464	(72,314)	(59,035)

Plan Assets

The University adopted the disclosure provisions of the FASB revised standard on *Employers' Disclosures about Pensions and Other Postretirement Benefits* in Fiscal Year 2010. 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. The impact of adopting this standard did not materially affect the University's consolidated financial statements.

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

Short-Term Investments

Short-term investments in the plan assets include cash equivalents and fixed income investments with maturities of less than one year. Short-term investments are valued using observable market data and are categorized as Level 1 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 US Treasury money market account.

Equity Investments

Equity investments in the plan assets consist of separate accounts, daily traded mutual funds, commingled funds 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, with no valuation adjustments applied. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt Investments

Debt investments consist of a separate account and a commingled fund. Securities such as US Treasuries, which are held in a separate account, are valued based on quoted market prices in active markets and are categorized as Level 1. A commingled fund interest in a fund dedicated to credit investments is valued at NAV and is categorized as Level 2.

Absolute Return Portfolio

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

Derivatives

Forward Currency Contracts

As described in Note 1 of these financial statements, the University enters into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge or cross hedge against either specific non-US dollar denominated transactions or portfolio positions. Forward foreign currency contracts are categorized as Level 2.

As of June 30, 2010, the University had eleven forward currency contracts in the plan assets with a liability fair value of $372,000 and a notional exposure of $11,062,000. As of June 30, 2009, the University had seven forward currency contracts in the plan assets with a liability fair value of $24,000.

Investment Risk

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

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

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

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities. The University has various limited partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. Details on current redemption and restriction terms by asset class and type of investment for the pension and other postretirement benefits plans have been combined are provided below:

	Redemption Terms	Redemption Restrictions
Short-term	Daily	None
Equity investments		
Separate accounts	Daily	None
Mutual funds	Daily	None
Commingled funds	Daily to monthly with notice periods of 1 to 15 days	None
Partnerships	Monthly to annually with notice periods of 30 to 120 days	Lock-up provisions ranging from 0 to 3 years
Debt investments		
Separate accounts	Daily	None
Commingled funds	Monthly with a notice period of 30 days	None
Absolute return	Quarterly to annually with varying notice periods	Lock-up provisions ranging from 0 to 2 years, except $12 million of illiquid side pocket investments.

A summary of plan assets, measured at fair value in accordance with the *Employers' Disclosures about Pensions and Other Postretirement Benefits* standard, on a recurring basis, as of June 30, 2010 and 2009 is as follows (in thousands):

Pension Benefits:

Assets	Level 1	Level 2	Level 3	2010	2009
Short-term investments	$ 70,415	$ –	$ –	$ 70,415	$ 32,499
Equity investments	283,091	137,377	5,021	425,489	383,408
Debt investments	188,006	33,110	–	221,116	201,380
Absolute return	–	50,340	51,863	102,203	87,096
Total	$ 541,512	$ 220,827	$ 56,884	$ 819,223	$ 704,383

Liabilities	Level 1	Level 2	Level 3	2010	2009
Derivative instruments	$ –	$ 279	$ –	$ 279	$ –
Total	$ –	$ 279	$ –	$ 279	$ –

Other Postretirement Benefits:

Assets		Level 1		Level 2		Level 3		2010		2009
Short-term investments	$	20,173	$	–	$	–	$	20,173	$	11,290
Equity investments		75,652		35,124		–		110,776		100,107
Debt investments		51,924		1,299		–		53,223		43,249
Total	$	147,749	$	36,423	$	–	$	184,172	$	154,646

Liabilities		Level 1		Level 2		Level 3		2010		2009
Derivative instruments	$	–	$	93	$	–	$	93	$	–
Total	$	–	$	93	$	–	$	93	$	–

Changes to the reported amounts of plan assets measured at fair value on a recurring basis using unobservable (Level 3) inputs as of June 30, 2010 are as follows (in thousands):

Pension Benefits:

		June 30, 2009		Net unrealized gains/(losses)		Net purchases, sales and settlements		Net transfers in/(out)		June 30, 2010
Equity investments	$	–	$	(525)	$	–	$	5,546	$	5,021
Absolute return		47,245		11,386		(1,222)		(5,546)		51,863
Total	$	47,245	$	10,861	$	(1,222)	$	–	$	56,884

	Pension Benefits			Other Postretirement Benefits		
Allocation of Plan Assets	**Target**	**2010**	**2009**	**Target**	**2010**	**2009**
Short-term investments	0.0%	8.6%	4.6%	0.0%	11.0%	7.3%
Equity investments:						
Domestic equities	37.8%	26.6%	27.1%	45.0%	34.7%	38.1%
International equities	20.6%	22.3%	24.6%	27.0%	22.7%	23.6%
Emerging market equities	3.0%	3.0%	2.7%	3.0%	2.7%	3.0%
Debt investments	26.0%	27.0%	28.6%	25.0%	28.9%	28.0%
Absolute return	12.6%	12.5%	12.4%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The average quality of debt investments at June 30, 2010 was AAA with an effective duration of 1.93 years.

Cash Flows & Estimated Future Benefit Payments

University contributions for the year ending:	Pension Benefits	Other Postretirement Benefits
June 30, 2009	$ 25,126	$ 28,298
June 30, 2010	54,853	29,380
June 30, 2011	68,028	31,295
Benefits paid directly by the University for the year ending:		
June 30, 2009	N/A	$ 7,328
June 30, 2010	N/A	6,594
June 30, 2011	N/A	8,526
Plan participants' contributions for the year ending:		
June 30, 2009	$ 126	$ 3,168
June 30, 2010	132	3,578
June 30, 2011	130	4,219

Benefits Payments in Total

Actual benefit payments for the year ending:	Pension Benefits	Other Postretirement Benefits Before Medicare Part D Subsidy	Impact of Medicare Part D Subsidy
June 30, 2009	$ 25,442	$ 22,012	$ 1,282
June 30, 2010	27,575	21,143	1,482
Expected benefit payments for the year ending:			
June 30, 2011	$ 34,221	$ 25,486	$ 3,047
June 30, 2012	37,714	27,145	3,261
June 30, 2013	41,433	28,553	3,440
June 30, 2014	45,505	30,053	3,617
June 30, 2015	49,447	31,600	3,812
June 30, 2016 to June 30, 2020	325,851	181,901	21,818

13. Debt Obligations

Debt obligations at June 30, 2010 and 2009 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2010	2010	2009
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	$ 42,860
Unamortized Premium			1,220	1,330
Series C of 2009 Revenue Bonds	09/2022	4.00% - 5.00%	28,755	28,755
Unamortized Premium			2,016	2,231
Series A of 2009 Revenue Bonds	09/2019	5.00%	204,750	204,750
Unamortized Premium			20,825	22,872
Series C of 2005 Revenue Bonds	07/2038	3.30% - 5.00%	137,535	141,620
Unamortized Premium			3,463	3,668
Series A of 2005 Revenue Bonds	09/2025	3.00% - 5.00%	26,110	29,140
Unamortized Premium			818	976
Series B of 2005 Revenue Bonds	09/2015	5.25%	44,815	50,990
Unamortized Premium			1,736	2,440
Series of 1998 Revenue Bonds	07/2033	4.63% - 4.75%	75,695	75,695
Unamortized Discount			(506)	(533)
Other Loans	05/2031	3.00% - 7.85%	985	1,009
Total Fixed Rate Debt Obligations			591,077	607,803
Variable Rate Debt Obligations:				
PHEFA				
Series of 1990 Revenue Bonds	12/2020	0.54%	6,500	6,500
Series of 1985 Revenue Bonds	12/2015	0.54%	10,610	10,610
Washington County Authority				
Series of 2004	07/2034	0.26%	61,500	62,000
Other Loans	04/2014	0.85% - 0.88%	18,300	23,982
Total Variable Rate Debt Obligations			96,910	103,092
Total Academic Component Debt Obligations			$ 687,987	$ 710,895

	Final Maturity	Interest Rate at June 30, 2010	2010	2009
UPHS:				
Fixed Rate Debt Obligations:				
PHEFA				
Series A of 2009 Revenue Bonds	08/2024	3.00% - 5.25%	$ 89,060	
Unamortized Premimun			1,675	
Series B of 2008 Revenue Bonds	08/2027	5.00% - 6.00%	201,230	$ 201,230
Unamortized Discount			(2,583)	(2,845)
Series A of 2008 Revenue Bonds	03/2038	3.75%	101,249	105,805
Series A of 2005 Revenue Bonds	08/2023	4.25% - 5.00%	218,740	233,319
Unamortized Premium			8,644	10,668
Series B of 2005 Revenue Bonds	08/2018	3.00% - 5.00%	61,700	68,260
Unamortized Premium			1,028	1,253
Series of 2004 Revenue Bonds	11/2010	3.35%		5,405
Pennsylvania Hospital				
Series of 2004 Revenue Bonds	01/2024	7.50%		89,235
Total Fixed Rate Debt Obligations			680,743	712,330
Variable Rate Debt Obligations:				
Pennsylvania Economic Development				
Financing Authority				
Series C of1994 Revenue Bonds	09/2015	5.35%	5,100	5,900
Total Variable Rate Debt Obligations			5,100	5,900
Total UPHS Debt Obligations			685,843	718,230
Total University Debt Obligations			$1,373,830	$1,429,125

The University determines the fair value of its existing debt obligations by obtaining quoted market prices. The fair value was $1,437,045,000 and $1,451,277,000 at June 30, 2010 and 2009, 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 at June 30, 2010 and 2009, 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
2011	$ 48,146
2012	49,123
2013	60,196
2014	114,581
2015	56,207
Thereafter	1,007,241
Total Principal	1,335,494
Unamortized net premium/(discount)	38,336
Total Debt	$ 1,373,830

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.

The University has variable rate debt in the amount of $87,610,000 which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. In the event that the University receives notice of any optional tender on its variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds. However, in the event that the entire remarketing effort were to fail, the University would have the general obligation to purchase the bonds and the 2011 principal payments in the debt obligations maturity table above would increase from $16,543,000 to $103,153,000. 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, 2010 there have been no draws under the agreement.

UPHS

Pennsylvania Higher Education Facilities Authority Revenue Bonds

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.

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 $4,730,000 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 (0.21% at June 30, 2010). 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.

The PHEFA Revenue Bonds are secured by master notes issued under the UPHS Master Trust Indenture (MTI). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness, and among other things, require UPHS to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met, within six months of the close of that fiscal year UPHS must retain the services of a consultant to make recommendations to improve the coverage requirement. UPHS must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. UPHS will not be considered to be in default of the provisions of the MTI so long as UPHS has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. In both 2010 and 2009, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

Interest Rate Swap Agreements

The following tables summarize the fair value of the University's interest rate swap agreements, not designated as hedging instruments, as of June 30, 2010 and 2009, and the effect of the interest rate swap agreements on the Consolidated Statements of Activities for the years ended June 30, 2010 and 2009 (in thousands):

	Statements of Position Location	2010	2009
Liability interest rate swaps			
Academic Component	Accrued expenses and other liabilities	$ 18,344	$ 12,721
UPHS	Accrued expenses and other liabilities	9,641	6,887
Total Liability interest rate swaps		$ 27,985	$ 19,608
Asset interest rate swaps			
UPHS	Other Assets	$ 2,444	$ 1,127
Total Asset interest rate swaps		$ 2,444	$ 1,127

	Statements of Activities Location	2010	2009
Academic Component	Gain (loss) on investment, net	$ (5,623)	$ (8,657)
UPHS	Gain (loss) on investment, net	(1,437)	(4,405)
Total		$ (7,060)	$ (13,062)

Academic Component

To protect against the risk of future interest rate changes in its debt portfolio, the Academic Component of the University entered into an interest swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) on November 6, 2007. Under the agreement, commencing on November 3, 2008, GSMMDP began paying the University interest on the notional amount of $101,950,000 based on 67% of London Inter-Bank Offered Rate (LIBOR) and the University began paying GSMMDP interest at a fixed rate of 3.573% on a monthly basis. The swap agreement matures July 1, 2034. The University has the right to terminate, cancel and cash settle this agreement, in whole or in part, at current fair value, on any business day. The University determines the fair value of this agreement by obtaining a quote from GSMMDP which is based on the income approach, using observable market data to discount future net payment streams. The quote provided by GSMMDP also represents the amount the University would accept or be required to pay to transfer the agreement to GSMMDP, or exit price as defined by the *Fair Value Measurements* standard. The University also takes into account the risk of nonperformance, and accordingly considers this to be a Level 2 measurement. The agreement also contains a provision that requires the University to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2010, the threshold was $20,000,000 and therefore no collateral was required to be posted.

UPHS

On January 7, 2010, 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 became effective on January 7, 2010, UPHS pays a floating rate based on a Securities Industry and Financial Markets Association (SIFMA) index and receives a fixed rate of 2.902%. The Agreement was not entered into for trading or speculative purposes but rather to synthetically convert a portion of the UPHS Series A of 2009 Bonds to a variable interest rate. The Agreement will terminate on August 15, 2023.

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

On October 24, 2007, UPHS entered into a $101,250,000 interest rate exchange agreement with Merrill Lynch Capital Services to effectively fix the interest rate associated with UPHS Series A of 2008 Bonds (which legally defeased Series 2002 Pennsylvania Hospital Revenue Bonds). Under the terms of the Agreement, which became effective on December 11, 2007, UPHS pays a fixed rate of 3.755% and receives a floating rate based on 67% of the one-month LIBOR. 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 Agreement has terminated on January 1, 2010.

UPHS determines the fair value of its three interest rate swap agreements by obtaining a quote from Merrill Lynch which is based on the income approach, using observable market data to discount future net payment streams. The quote provided by Merrill Lynch also represents the amount UPHS would accept or be required to pay to transfer the Agreement to Merrill Lynch, or exit price as defined by the *Fair Value Measurements* standard. UPHS verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. UPHS also assesses the risk of nonperformance by reviewing bond ratings, and accordingly considers the agreements to be Level 2 measurements. The Agreements also contain provisions that require UPHS to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on UPHS's credit rating. At June 30, 2010, the threshold was $40,000,000 and therefore no collateral was required to be posted.

14. Net Assets

The major components of net assets at June 30, 2010 and 2009 are as follows (in thousands):

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General operating	$ 2,173,150	$ 109,848	$ –	$ 2,282,998
Sponsored programs	32,923	–	–	32,923
Capital	–	184,281	–	184,281
Student loans	12,409	30	18,435	30,874
Planned giving agreements	–	16,242	12,851	29,093
Endowment	2,039,992	1,205,259	2,423,686	5,668,937
Total	$ 4,258,474	$ 1,515,660	$ 2,454,972	$ 8,229,106

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

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, 2010 and 2009 totaling $63,859,000 and $63,355,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2010, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2011	$ 50,801
2012	42,272
2013	38,488
2014	35,991
2015	33,149
Thereafter	182,905
Total minimum lease payments	$ 383,606

16. Natural Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation	Student Aid	Depreciation	Interest	Other Operating	Total
June 30, 2010						
Instruction	$ 607,485	$ 57,524	$ 45,057	$ 2,887	$ 277,410	$ 990,363
Research	375,772	10,303	33,198	10,274	246,074	675,621
Hospital and physician practices	1,620,241	–	114,909	27,637	1,172,242	2,935,029
Auxiliary enterprises	27,791	–	23,128	1,721	70,075	122,715
Other educational activities	106,015	15	9,060	229	49,388	164,707
Student services	39,332	124	–	42	25,670	65,168
Academic support	31,335	–	23,604	258	10,844	66,041
Management and general	170,231	63	12,558	390	26	183,268
Independent operations	9,893	15	7,025	686	42,570	60,189
Total	$ 2,988,095	$ 68,044	$ 268,539	$ 44,124	$ 1,894,299	$ 5,263,101
June 30, 2009	$ 2,856,078	$ 63,113	$ 246,383	$ 41,747	$ 1,807,790	$ 5,015,111

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The 2010 Annual Report was produced by the Office of the Vice President for Finance and Treasurer.

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