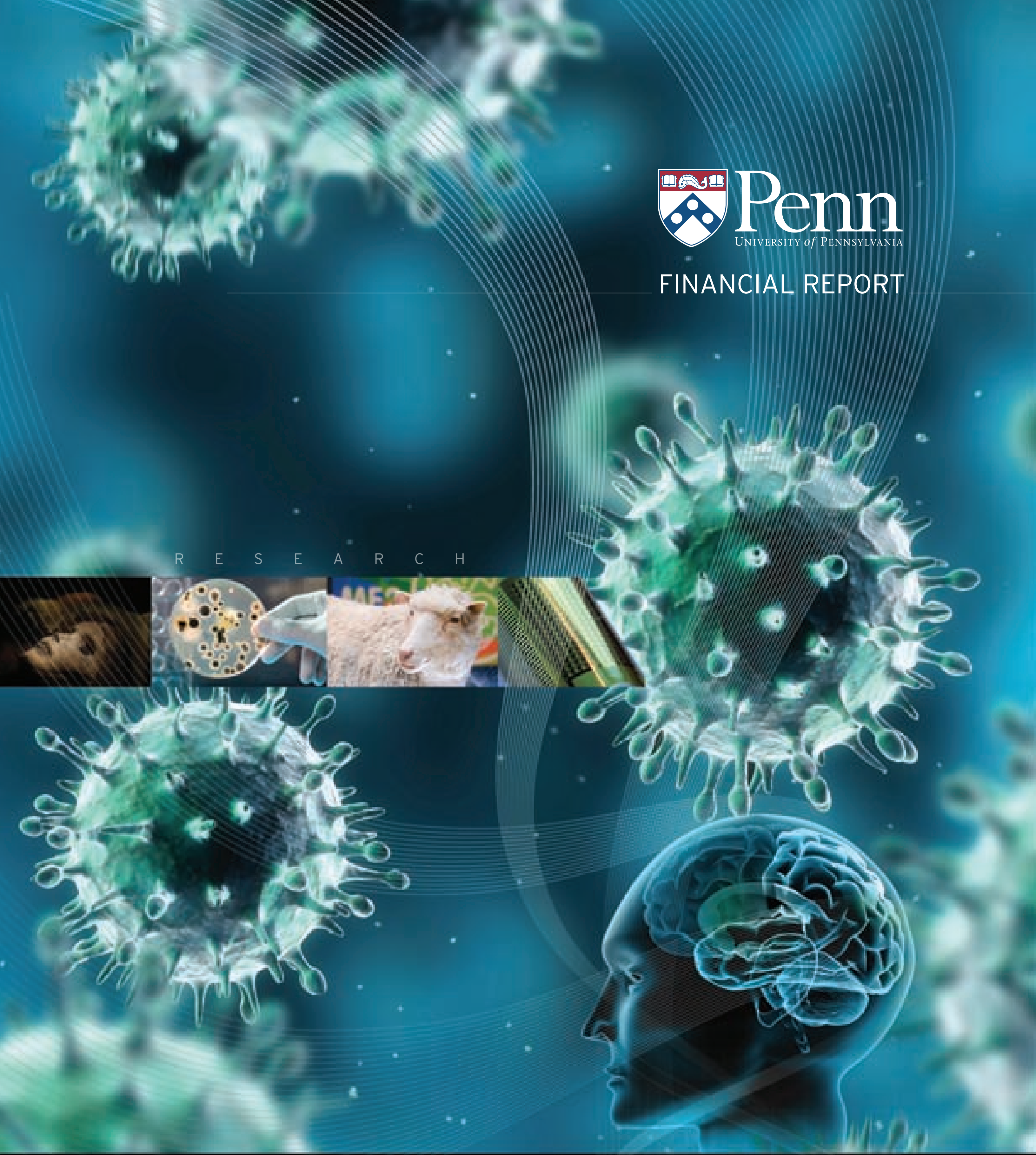
Penn
University of Pennsylvania

FINANCIAL REPORT



2010 11

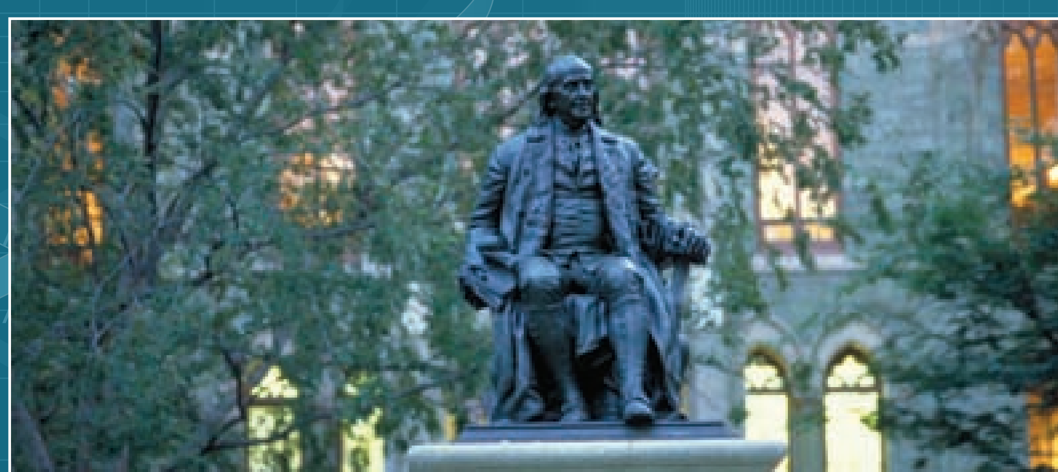
Research at Penn

The University of Pennsylvania is one of our nation's oldest academic institutions with a long and distinguished history of research excellence.

Penn can trace its commitment to revolutionary research back to its founder, Benjamin Franklin. Well known for his myriad inventions, including the Franklin stove, the lightning rod and bifocals, Franklin's work epitomized the true value of research as a catalyst for change that effects and impacts the daily lives of people. From our earliest days in the 18th century when Franklin proposed a curriculum to teach students "those things that are likely to be most useful and most ornamental," Penn has envisioned applied research as a critical component of our contribution to the good of society.

Penn is unique among its Ivy League peers not only in having an integrated university, health and hospital system, but also for having all of its 12 schools located on a single, contiguous 280-acre campus. As one of the world's leading research institutions, Penn attracts and nurtures renowned interdisciplinary investigators who harness the tools of multiple disciplines to better understand our world's greatest challenges and forge new and exciting discoveries that benefit society. At the same time, Penn builds and maintains some of the world's most technically advanced facilities and laboratories to support this work and to educate the next generation of scholars and professionals.

Fiscal Year 2011 marked the culmination of a tremendous surge in research activity that deepened the connection among sponsored program support, teaching and research discoveries. Driven largely by the American Recovery and Reinvestment Act (ARRA) funding support, last year, the University's vast research enterprise secured approximately $1 billion in new awards. These successes reaffirmed Penn's leading role as an economic engine for the region and the Commonwealth of Pennsylvania. In the pages that follow are highlights from a momentous year in research at Penn – an institution steeped in history and filled with promise for an eminent and exciting future.



University of Pennsylvania Financial Report 2010-2011

A Rich History

The emergence of Penn as one of the nation's most prominent research institutions began to take form during World War II, when an upsurge in federal funding for scientific research and development resulted in a number of large contracts for Penn-affiliated researchers, most notably, the creators of ENIAC, the nation's first computer. Subsequent strides in research at Penn resulted in transformative developments that contribute to our quality of life today. These advancements include a dialysis machine devised out of a pressure cooker by Penn medical student William Inouye in 1951 that was adopted for worldwide use. In the early 1960s, Penn psychiatry professor Aaron T. Beck developed cognitive behavioral therapy, a revolutionary and highly successful form of short-term psychotherapy for depression sufferers. Research by Dr. Joseph Stokes led to the development of a German measles vaccine in 1969. In 1975, Dr. Albert M. Kligman developed Retin-A, a "miracle" cream used to treat acne and superficial wrinkles. A research team headed by Dr. Benjamin C. Brackett in the School of Veterinary Medicine was responsible for the world's first test-tube calf in the 1980s, and Dr. Luigi Mastroianni, Jr.'s groundbreaking animal research paved the way for the first successful human in vitro fertilization in the Philadelphia region in 1983. Astounding breakthroughs, advances and medical miracles discovered by Penn's world-renowned researchers have continued to the current day and will continue long into the future.

A World Leader in Bioethics

Continued advances in science, healthcare, and technology present challenging ethical questions. Penn is at the forefront of bioethics research, which helps ensure that our society responsibly reaps the benefits of discoveries in the life sciences and medicine. This past year Penn President Dr. Amy Gutmann continued serving as chair of the Presidential Commission for the Study of Bioethical Issues. Appointed by President Barack Obama, the Commission is charged with identifying and promoting policies and practices to ensure that scientific research, health-care delivery and technological innovation are conducted in an ethical manner. In the past year, the Commission completed a report for President Obama on the emerging field of synthetic biology, and began a comprehensive study of the standards that protect human subjects in research studies. With the recent creation of the Department of Medical Ethics and Health Policy in the Perelman School of Medicine, Penn has deepened its already strong interdisciplinary commitment to bioethics and has further cemented its status as a preeminent center by recently appointing world renowned researcher, Ezekiel Emanuel, MD, PhD, to chair the new department. Dr. Emanuel is the 13th Penn Integrates Knowledge (PIK) Professor, and also serves as Vice Provost for Global Initiatives.

FY 2011 Financial Review

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

The fiscal year ending June 30, 2011 was a truly remarkable year for the University in terms of financial achievements. Among the many highlights:

- Penn received the largest single gift in its history for its School of Medicine – now the Perelman School of Medicine,
- The Making History campaign neared its $3.5 billion fundraising goal well ahead of schedule,
- Sponsored program and Health System revenues climbed to new heights, and
- Investment income gained more than $1 billion with the endowment rebounding to its pre-recession value.

Operating revenues increased by a robust 9.3% – from $5.5 billion in FY 2010 to approximately $6.0 billion in FY 2011. Four major revenue components – tuition and student fees, sponsored programs, hospital and physician practices and contributions – showed positive gains, led by a triple-digit percentage increase in contributions. The endowment return for the fiscal year was a healthy 18.6%. Total Net Assets rose by 19.5%, an increase of $1.6 billion from $8.23 billion to $9.83 billion.

Several key factors boosted the operational performance during FY 2011, a year dominated by the slow economic recovery, continued high unemployment and historically low interest rates. The stock market continued its dramatic, though volatile, rise despite the troubles plaguing the domestic and global economies; its rise contributing to gains in investment income and endowment growth. The American Reinvestment and Recovery Act (ARRA) of 2009, now winding down, enabled the continued investment in research. The transformative gift from Ruth and Raymond Perelman for the Perelman School of Medicine highlighted an exceptional fundraising year in which contributions more than doubled.

In December 2008, the University implemented cost containment measures, which extended through the close of FY 2011, in order to limit the growth of spending during the economic slowdown. By fiscal year end, Penn had surpassed its 30-month target of $100 million in cost avoidance or savings. Half of the savings were realized through prudent human resources initiatives, a third in delayed or deferred capital project spending, and the remainder in reduced non-priority expenses.

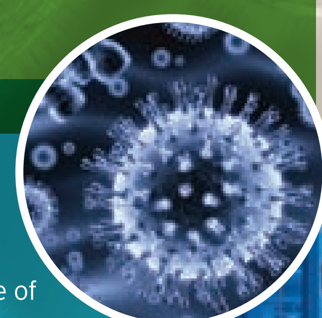
In October 2010, the University issued $71 million in refunding bonds, achieving $8.5 million in present value gross savings. In March 2011, the University also completed a $150 million borrowing with favorable long-term fixed-rate maturities, and another $150 million long-term fixed-rate borrowing for the University of Pennsylvania Health System (UPHS), which also obtained attractive pricing levels. In all three transactions, the University and UPHS bonds were well received by both traditional municipal and corporate crossover investors, and the strong demand allowed the University to obtain lower costs of borrowing.

Our credit ratings from Standard and Poor's and Moody's Investors Services remained strong at "AA+/Aa2" for the University and "AA-/Aa3" for UPHS.

Integrating Knowledge: Integrated Studies at Penn
http://www.upenn.edu/president/penn-compact/integrating-knowledge

Interdisciplinary Research

When President Gutmann announced the *Penn Compact* in 2004, she energized Penn faculty and staff to leverage Penn's great intellectual resources by breaking down intellectual silos and tackling the world's most vexing challenges. *Integrating Knowledge* is one of the Penn Compact's three guiding principles and reaffirms Penn's ongoing commitment to fostering interdisciplinary and translational research. Penn has recruited 13 Penn Integrates Knowledge (PIK) professors who hold appointments in two Penn schools and symbolize the institution's commitment to teaching and research that crosses traditional departmental boundaries. Realizing that the most challenging questions and problems of our time cannot be addressed by one discipline or profession, this distinguished group of teachers and researchers has integrated the knowledge and the tools from their respective fields and enriched the experience for Penn students and faculty across departments in the arts, sciences, and professions. These PIK Professor examine and improve the human condition in fields as varied as genetics, public health and anthropology; explore how we think and behave, in areas such as criminology, psychology and ethics; and foster innovations in nanoscience, mathematics and engineering.



Under One Roof

Penn's campus is home to 160 research centers and institutes and because of their number, variety and proximity, thousands of Penn researchers can investigate and collaborate across disciplines. Currently there are 4,033 active awards at Penn with research on these awards being conducted by 1,686 principal investigators and 1,900 co-principal investigators assisted by more than 1,100 research specialists and several thousand post-docs. This research is carried out in laboratories and offices across campus, and Penn continues to break ground on new state-of -the art facilities designed to support the work of its world-class faculty. Scheduled to open in May, 2012, the Singh Nanotechnology Center, named for Penn alumnus and Trustee Krishna P. Singh, GME'69, Gr'72, will serve as a regional hub of multi-disciplinary fundamental and translational research, education and innovation. The $80 million center, developed jointly by the School of Engineering and Applied Science (SEAS) and the School of Arts and Sciences (SAS), will include microscopy laboratories, optics labs and 10,000 square feet of environmentally controlled clean rooms for researchers at Penn and throughout the region.

PIK Professor Robert Ghrist -SEAS & SAS

Revenue from tuition and student fees increased 5.1%, from $711.1 million to $747.4 million, representing 12.4% of operating revenue. This total is net of $241.9 million in financial aid grants and scholarships, which increased by 9.7%, or $21.4 million, over the prior fiscal year.

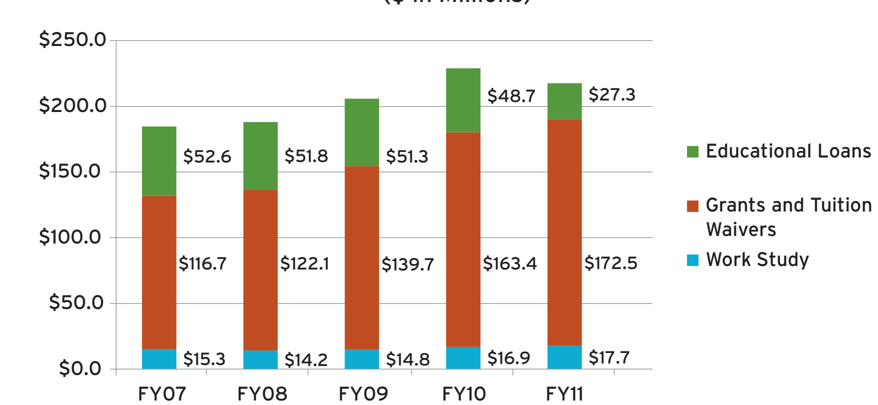
In FY 2011, Penn received 31,663 applications for undergraduate admission, an all-time high and an increase of 17.5% over the prior year. Of these applicants, 12.4% were admitted and 62.7% of the admitted applicants chose to matriculate at Penn. Penn has continued its long-standing need-blind admission policy, which ensures that the most talented students are admitted to Penn regardless of their families' financial status. In addition, Penn has significantly enhanced its need-based financial aid program over the last several years, most notably by completely eliminating student loans for eligible undergraduates and replacing them with grants, enabling students from a wide variety of backgrounds to earn a Penn degree with no debt upon graduation.

A total of 5,514 undergraduates funded all or part of their education with $172.5 million from grants/tuition waivers, $17.7 million from work-study programs, and $27.3 million from educational loans – the latter a significant decrease from the $48.7 million in loans the previous year. 9,967 graduate and professional students and PhD candidates received $145.2 million in grants, including teaching and research fellowships, $225.4 million in educational loans and $3.4 million in work-study programs. 7,811 students in total received grant funding in FY 2011.

In FY 2011, the average freshman aid package increased 9% over the previous year to $39,155. Over the past five years, grant dollars to all undergraduate students with financial need increased by 59.2%. The majority of Penn's student aid – 80.7% of the total – comes from operating funds, with the remaining 19.3% generated by the endowment.

Undergraduate Financial Aid

($ in Millions)



Genetically Modified "Serial Killer" T Cells Obliterate Tumors
www.afcri.upenn.edu

Translational Research

The "geography of medicine" is a visionary concept made real through the collective strength of the Perelman Center for Advanced Medicine, the Abramson Cancer Center, the Roberts Proton Therapy Center, and the newly opened Translational Research Center. This state-of-the-art medical complex physically and purposefully links centers that will allow researchers to address the most pressing medical challenges and provide the most advanced treatment to patients. At the Abramson Cancer Center, Professor Carl June, Director of Translational Research, together with a team of researchers, treat cancer patients with genetically reengineered versions of their own cells that can attack tumors with groundbreaking results. Translational research programs have also led to similarly dramatic results in gene therapy patients with inherited blindness, in identifying autism spectrum disorders, and in other critical care areas such as cardiovascular disease, diabetes and obesity, and neurological disease including Alzheimer's.

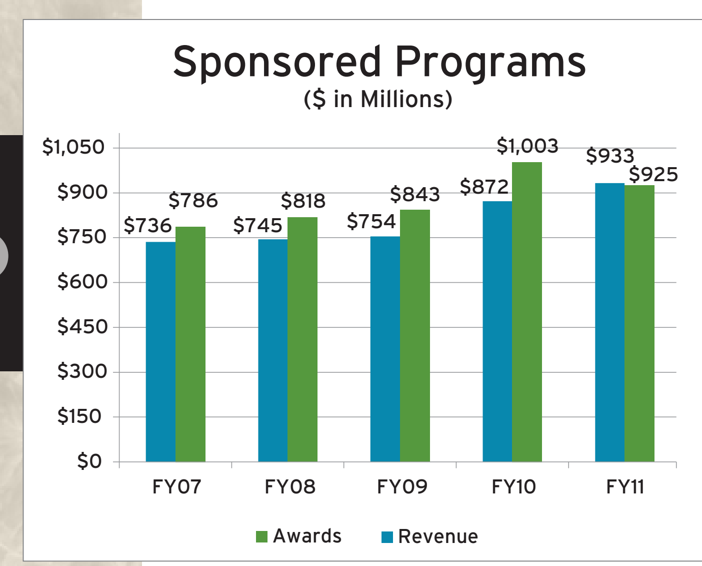
National Medal of Science Winner

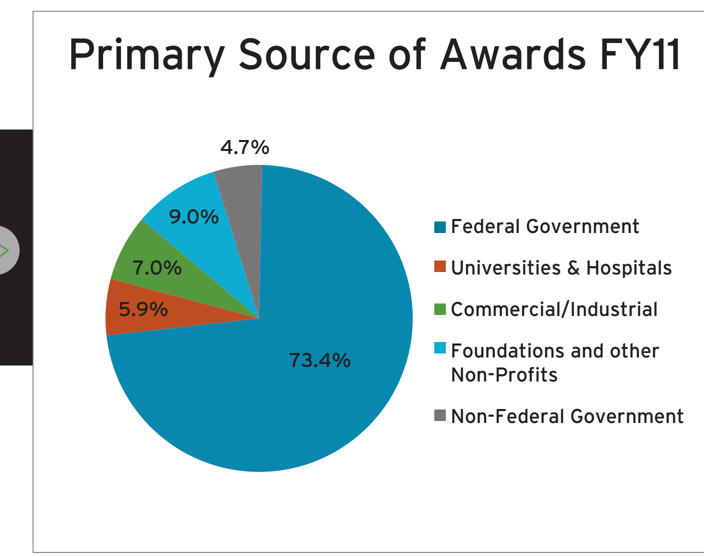
Dr. Ralph Brinster of Penn's School of Veterinary Medicine became the first veterinarian and the eighth Penn professor to be awarded the prestigious National Medal of Science. The award is the highest honor bestowed by the President of the United States on scientists and engineers, and was awarded to Dr. Brinster for his work as a trailblazer in the fields of reproductive biology and genetics. For the past 50 years, Dr. Brinster has devoted his life to researching various aspects of the human and animal germiline, the cells that give rise to sperm and eggs. Dr. Brinster's early research helped create foundational techniques in genetic engineering, in vitro fertilization and cloning, and his expanding contributions in science and medicine over the span of his career have transformed the study of human biology and disease. Dr. Brinster's most recent studies involved the stem cells present in sperm and eggs that could be used to restore fertility to men undergoing treatments for cancer.

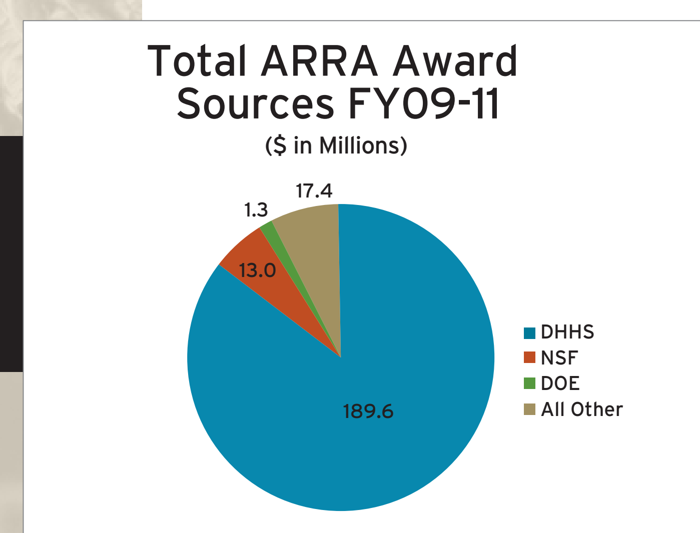
Sponsored program revenue, which includes the direct and indirect costs of sponsored research activity, accounted for 15.5% of operating revenue. Revenues rose by 7.1%, or $61.6 million, from $871.9 million to $933.5 million, an historic high.

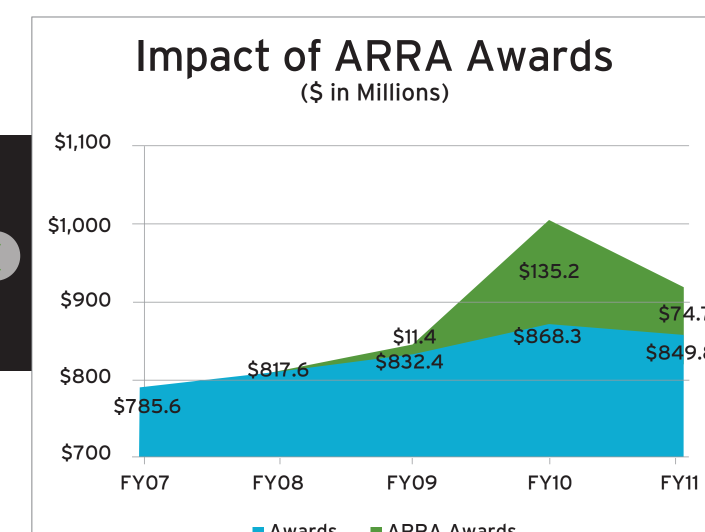
Since the enactment of the American Reinvestment and Recovery Act in 2009, Penn garnered an impressive $221.3 million in ARRA awards, a little over one percent of the program's $21.5 billion total funding for research. $74.7 million of Penn's total was awarded in FY 2011, accounting for 8.1% of total awards. As the economic stimulus program concluded, total awards declined by 8.5%, from $1 billion in FY 2010 to $924.5 million in FY 2011. A total of $678.1 million of the award total, or 73.3%, came from the federal government and of the federal total, $534.0 million, or 78.7%, came from the National Institutes of Health (NIH). Foundation and industry support accounted for $96.6 million, or 10.5% of total sponsored program awards.

The Commonwealth of Pennsylvania's appropriations to the University decreased slightly from $36.9 million to $36.2 million. The School of Veterinary Medicine, Pennsylvania's sole veterinary school, is the recipient of Commonwealth funding in recognition of the critical role it plays in supporting Pennsylvania's key agricultural and dairy industries.









Investing in Recovery and Discovery
www.investingindiscovery.com/#/scientiststories/view/6

American Reinvestment and Recovery Act

In the 10 years prior to the 2009 enactment of the ARRA, sponsored program awards increased from $568 million to $843 million, an annualized growth rate of 4.9%. The additional federal dollars awarded through the ARRA catapulted Penn's total awards to over $1 billion in FY 2010, the main year of the program, and $924.5 million in FY 2011 as the program concluded. Penn researchers submitted more than 1,500 grant applications through the ARRA process, placing Penn among the top institutions nationally in competing for a share of the $21.5 billion earmarked for research. More than 400 grants were awarded to researchers at Penn – representing all twelve schools – with researchers from the Perelman School of Medicine receiving the lion's share, more than 80% of Penn's $221.3 million total ARRA funding. "The American Recovery and Reinvestment Act has empowered the University's stellar research community to continue groundbreaking studies in medicine, engineering and the natural sciences that will positively impact the nation's economy, as well as empower faculty to make advances in the health and well being of people around the globe," said Steven J. Fluharty, Senior Vice Provost for Research.

Revolutionizing Robot-Assisted Surgery

Penn's Awarded Studies
www.upenn.edu/research/arra/awarded.html

Stimulus-Funded Research

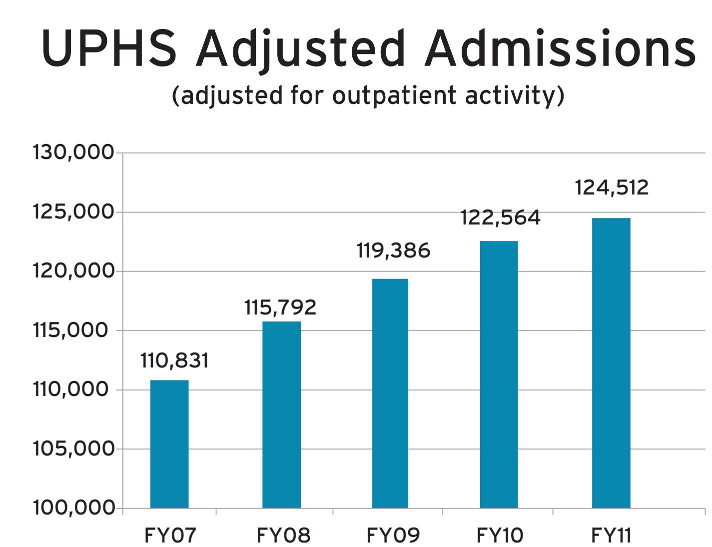
The surge in funding provided by the ARRA resulted in hundreds of awards for Penn, including support for these researchers representative of the large number of faculty who perform basic research across Penn's 12 schools: Kevin Volpp, Professor of Medicine and Health Care Management and Director of the Center for Health Incentives and Behavioral Economics in the Wharton School, was awarded $5.5 million for his work researching at-home computer systems that can improve attitudes and behaviors toward health. Katherine Kuchenbecker, Skirkanich Assistant Professor of Innovation in SEAS, received support to continue her research into haptics, the science of capturing and recreating the feel of real surfaces, which is revolutionizing robot-assisted surgery, medical training and simulation, interactive museum exhibits, and stroke rehabilitation. Mark Goulian, Kahn Associate Professor of Biology in SAS, received funding to investigate the systems that enable harmful bacteria to survive in animals by evading or destroying host defenses and increasing resistance to antibiotics.

UPHS marked its 11th consecutive year of positive operating performance. Operating revenue increased by 6.3%, from $3.15 billion to $3.35 billion. UPHS' hospital, physician and health care services account for 55.5% of the total University operating revenue.

One of UPHS' measures of overall activity is "adjusted admissions", defined as equivalent inpatient and outpatient activity combined in a single statistical measure. This important metric grew by 1.6% over FY 2010, while total occupancy was consistent at 82%.

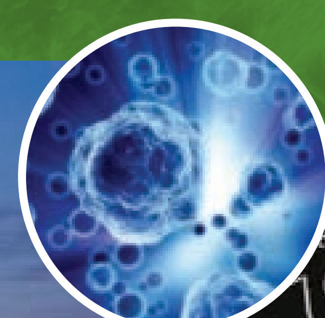
Major activity growth occurred in targeted outpatient programs such as chemotherapy, outpatient surgery, and proton therapy, as the Roberts Proton Therapy Center, the largest and most advanced proton therapy facility in the world, began its full first year of operation. Activity growth also occurred in high-intensity inpatient programs such as cardiac surgery, women's health and transplant. Total surgery volume held steady over the prior year.

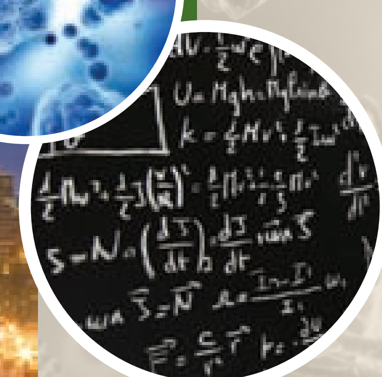
FY 2011 saw the completion of the Translational Research Center, the latest facility to be integrated into a single state-of-the-art Penn Medicine complex that includes the Perelman Center for Advanced Medicine (CAM) and the Roberts Proton Therapy Center. This new $370 million medical research building will soon house more than 1,000 principal investigators and three Penn institutes: the Institute for Diabetes, Obesity, and Metabolism; the Institute for Translational Medicine and Therapeutics; and the Penn Cardiovascular Institute. The focus of the Translational Research Center will be the integration of a range of biomedical disciplines required to achieve advances in the understanding of disease and the development of new therapies.



Advancing Groundbreaking University Discoveries to Market

Founded in 1986, the University's Center for Technology Transfer (CTT) is charged with bringing Penn discoveries to the marketplace for the public good while returning revenue to fund further research. CTT encourages invention disclosure; protects Penn's intellectual property; obtains and manages patents, copyrights and trademarks derived from Penn's academic research; and markets and licenses Penn's intellectual property to established companies as well as new business ventures for product development and commercialization. With more than 375 new inventions spanning both the life sciences and the non-life sciences reported by University faculty in the last fiscal year alone, Penn is committed to transferring investigator discoveries to market for public use and actively engages external partners to provide necessary resources and business expertise. CTT successfully completed nearly 100 commercialization agreements generating more than $14 million in revenue for the University this year. Equally impressive, 13 new company ventures were founded on Penn technologies. One of many notable highlights from this past year was CTT's role in managing the acquisition of Avid Radiopharmaceuticals, a privately held company founded by former Penn researcher Daniel Skovronsky, MD, PhD, who, together with his current Penn faculty colleague Hank Kung, PhD, developed a tool for early stage diagnosis of Alzheimer's disease. Florbetapir, the imaging agent developed by Avid, was a key factor in the purchase of the company by Eli Lilly. Avid currently operates in University City adjacent to Penn's campus and its operations will remain in Philadelphia, sustaining its pivotal role in the research and development community and in boosting the economic climate.





In FY 2011, Penn's endowment recovered all of the losses sustained during the market downturn of 2008 and 2009. Investment gains increased by 69.9%, surging from a $592.4 million gain in FY 2010 to a $1.0 billion gain in FY 2011. The endowment recorded a one-year return of 18.6%, and increased in value by $913.1 million, from $5.7 billion to $6.6 billion.

The Making History campaign, in the sixth year of its seven-year effort, achieved over 95% of its $3.5 billion fundraising goal by fiscal year end. FY 2011 was a monumental year for the campaign as Penn received the largest single contribution in its history, a $225 million gift to the School of Medicine from Raymond (W'40) and Ruth Perelman, life-long philanthropists to the University. The Perelman gift will benefit and advance medical teaching and research for decades to come.

Boosted by the Perelmans' historic gift, overall contributions rose by 115%, from $231.5 million in FY 2010 to $497.6 million in FY 2011. Penn received 70 gifts of more than $1 million, with 32 of those coming from first-time donors at that level. Gifts to the Penn Fund rose 13.5%, from $26.6 million to $30.2 million. Annual Giving increased from $54.9 million to $60.5 million, an increase of 10.2%.

Total contributions broke down as follows: $281.5 million for operations, $25.2 million to unrestricted endowment, $135.5 million to permanent endowment and $55.4 million towards capital.

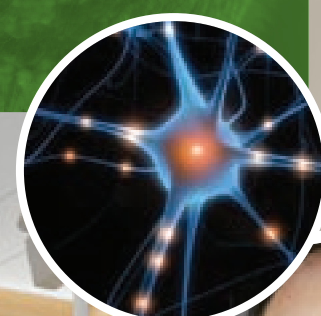
Capital expenditures declined from $463.1 million to $389.9 million in FY 2011, yet the University moved ahead with several major capital projects. Ground was broken for the Singh Center for Nanotechnology, a joint project of the School of Engineering and Applied Science (SEAS) and the School of Arts and Sciences (SAS). Penn acquired the 23-acre property at 3401 Grays Ferry Avenue, which will provide space for auxiliary services that are presently located around campus and in adjacent areas. Construction continued on Penn Law's Golkin Hall and the finishing touches were put in place on athletic fields, pedestrian walkways and green space for the Fall 2011 opening of the extraordinary 24-acre Penn Park.

Message from President Amy Gutmann
http://makinghistory.upenn.edu/presidents_message

Golkin Hall
www.law.upenn.edu/about/newbuilding

Fulfilling a Dream

Visionary leader, brilliant scholar, role model, gentleman—all words used to describe Dr. Arthur Rubenstein. Concluding his ten years as Executive Vice President of the University of Pennsylvania for the Health System and Dean of the Perelman School of Medicine, Dean Rubenstein led the School to its current #2 ranking by U.S. News & World Report. During his tenure, Penn Medicine's financial status grew significantly stronger, its infrastructure expanded with new state-of-the art facilities, and its programs in research, clinical care, and education achieved new heights. Dr. Rubenstein is perhaps best known for his role in strengthening interdisciplinary and translational research at the Health System and the Perelman School of Medicine. He envisioned and shepherded creation of the Perelman Center for Advanced Medicine, the Roberts Proton Therapy Center and the new Translational Research Center. He continues to be a respected faculty member and teacher on a subject that is his passion: the doctor-patient relationship. Dr. Rubenstein will remain with Penn as Professor of Medicine in the Division of Endocrinology, Diabetes, and Metabolism.



Visionary Leader

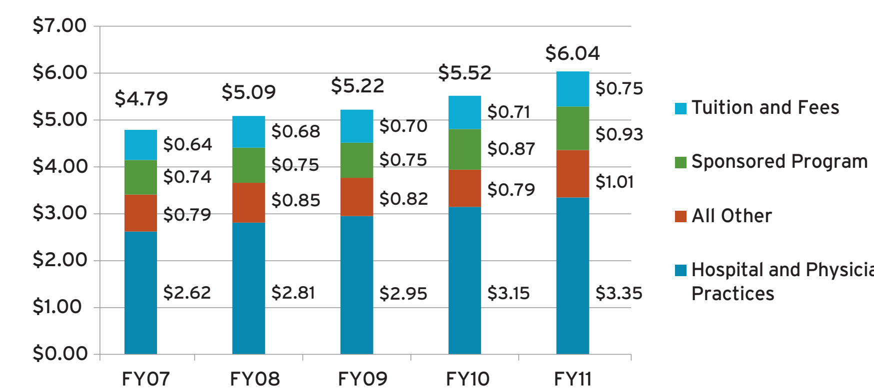
Summary

Fiscal year 2011 was a banner year by virtually all financial performance measures. The ARRA program and the Perelman gift were distinguishing events that strongly influenced our results in FY 2011, but these extraordinary events are not the norm. Sustaining Penn's solid financial base requires sound management practices and the careful planning and use of our resources with an eye towards achieving the ambitious but attainable goals of the Penn Compact. Our continued growth depends on identifying and cultivating broader sources of income and finding innovative approaches to manage expenses.

With the generous support of our alumni and friends, and the dedication of our management, faculty and staff, our continued financial success and stability will enable the University to continue its ongoing journey from excellence to eminence.

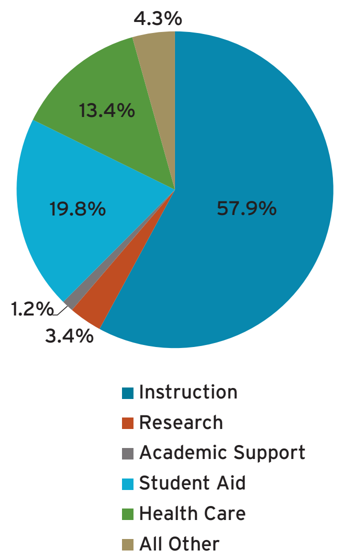
Stephen D. Golding
Vice President for Finance and Treasurer

Total Operating Revenue
($ in Billions)



Endowment by Purpose

as of June 30, 2011



Endowment and Investments:

Penn's endowment is comprised of 5,786 individual endowment funds benefiting the University's schools and centers as well as UPHS, and serves a variety of purposes as shown in the chart below. The total value of the endowment was $6.6 billion as of June 30, 2011. Payouts from the endowment provided $221 million in budgetary support to the University during the fiscal year.

Associated Investments Fund

The vast majority of Penn's 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 invested in accordance with the investment policies set out by an Investment Board appointed by the Trustees of the University. The University's Office of Investments is responsible for the day-to-day management of the AIF and implements the policies set forth by the Investment Board.

The AIF is invested with the goal of achieving high, steady absolute returns while protecting against any permanent loss of capital. The portfolio is well diversified across asset classes and geographies in order to enhance returns while minimizing risk.

AIF Asset Allocation as of June 30, 2011

	AIF	Policy Portfolio
US Equities	20.7%	25.6%
International Equities	19.4%	14.4%
Emerging Markets	5.3%	5.0%
Absolute Return	24.8%	25.0%
Private Equity	8.2%	8.2%
Real Estate	4.5%	4.5%
Natural Resources	2.8%	2.8%
High Yield	0.6%	0.0%
Fixed Income/Cash	13.7%	14.5%
Total	100.0%	100.0%

As of June 30, 2011, the AIF had $728 million in outstanding commitments to private equity, real estate and natural resources partnerships as well as to certain managers in the absolute return portfolio. The AIF is very liquid and capable of meeting these commitments. As of June 30, 2011, the AIF could have converted two-thirds of the portfolio into cash by calendar year end through the sale of directly held securities, withdrawals from mutual funds and redemptions from liquid absolute return strategies.

AIF Performance:

The AIF returned a positive 18.6% for the fiscal year, fueled by strong positive performance in the domestic, international and emerging market equity portfolios. The natural resources, private equity and absolute return portfolios also made a strong positive contribution to return. Although the AIF lagged the benchmark for the fiscal year due to the defensive orientation of the portfolio, the AIF has outperformed the benchmark and the S&P500 over longer time periods.

Annualized Returns for Periods ending June 30, 2011

	1-Year	3-Year	5-Year	10-Year
AIF	18.6%	4.0%	5.4%	6.8%
Composite Benchmark	22.1%	2.8%	4.9%	5.5%
S&P 500	30.7%	3.3%	2.9%	2.7%

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.

The University will use the current spending rule formula with no adjustments for Fiscal Year 2012.

A Five Year Review of Investments ($ in thousands)

Investments	2011	2010	2009	2008	2007
Equity investments	$2,826,468	$2,200,115	$ 2,095,480	$2,578,778	$3,329,191
Debt investments	1,260,145	1,204,031	742,814	759,306	613,269
Short-term	490,144	458,701	478,070	468,561	731,975
Split-interest	589,169	383,901	344,030	457,538	512,650
Real estate	291,319	237,364	250,565	317,716	212,850
Absolute return	1,598,034	1,394,827	1,251,953	1,525,992	1,072,921
Private equity	532,843	407,484	318,304	377,521	281,555
Natural resources	182,882	134,519	96,187	92,235	55,945
Other	2,874	5,621	1,325	1,274	1,232
Total investments*	$ 7,773,878	$6,426,563	$5,578,728	$6,578,921	$6,811,588
Total endowment	$6,582,030	$5,668,937	$5,170,539	$6,211,620	$6,444,861
AIF	$6,443,146	$5,518,093	$4,955,689	$5,914,800	$5,973,765

* Total investments held by the University not invested in the Associated Investment Fund include $589 million held in trust, $30 million in assets held under indenture and escrow agreements, $498 million in other investments held by UPHS and $214 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 President	Craig R. Carnaroli Executive Vice President	Stephen D. Golding Vice President for Finance and Treasurer	John Horn Comptroller

pwc

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, 2011, 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 2010 financial statements, and in our report dated September 24, 2010, we expressed an unqualified opinion on those financial statements. We conducted our audit 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 audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 16, 2011

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

University of Pennsylvania
(in thousands)

	June 30, 2011	June 30, 2010
Assets		
Cash and cash equivalents	$ 965,096	$ 678,910
Accounts receivable, net of allowances of $13,571 and $13,452	177,058	172,741
Patient receivables, net of allowances of $110,292 and $112,506	347,063	298,671
Contributions receivable, net	249,483	264,577
Loans receivable, net of allowances of $3,036 and $2,987	99,638	101,768
Other assets	194,168	151,614
Assets held for sale	1,949	1,949
Investments, at fair value	7,773,878	6,426,563
Plant, net of depreciation	4,059,152	3,957,295
Total assets	$ 13,867,485	$ 12,054,088
Liabilities		
Accounts payable	$ 153,571	$ 135,365
Accrued expenses and other liabilities	1,184,237	1,149,764
Deferred income	160,657	151,646
Deposits, advances, and agency funds	147,767	152,674
Federal student loan advances	78,287	78,269
Accrued retirement benefits	690,164	783,434
Debt obligations	1,623,007	1,373,830
Total liabilities	4,037,690	3,824,982
Net assets		
Unrestricted	5,102,726	4,258,474
Temporarily restricted	2,107,041	1,515,660
Permanently restricted	2,620,028	2,454,972
	9,829,795	8,229,106
Total liabilities and net assets	$ 13,867,485	$ 12,054,088

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, 2011 (with summarized financial information for the year ended June 30, 2010)
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
Revenue and other support:					
Tuition and fees, net	$ 747,399			$ 747,399	$ 711,106
Commonwealth appropriations	36,248			36,248	36,856
Sponsored programs	933,461			933,461	871,904
Contributions	82,567	$ 224,203		306,770	101,809
Investment income	127,748	163,341		291,089	292,197
Hospitals and physician practices	3,351,130			3,351,130	3,151,605
Sales and services of auxiliary enterprises	105,159			105,159	102,977
Other income	199,969			199,969	189,996
Independent operations	64,807			64,807	65,139
Net assets released from restrictions	241,031	(241,031)			
	5,889,519	146,513		6,036,032	5,523,589
Expenses:					
Program:					
Instruction	1,024,654			1,024,654	990,363
Research	720,200			720,200	675,621
Hospitals and physician practices	3,128,086			3,128,086	2,935,029
Auxiliary enterprises	119,926			119,926	122,715
Other educational activities	173,755			173,755	164,707
Student services	65,586			65,586	65,168
Support:					
Academic support	69,919			69,919	66,041
Management and general	192,909			192,909	183,268
Independent operations	62,197			62,197	60,189
	5,557,232			5,557,232	5,263,101
Increase in net assets before nonoperating revenue, net gains, reclassifications and other	332,287	146,513		478,800	260,488
Nonoperating revenue, net gains, reclassifications and other:					
Gain on investment, net	403,421	566,921	$ 36,314	1,006,656	592,403
Investment income, net of amounts classified as operating revenue	(54,574)	(129,291)	775	(183,090)	(186,441)
Contributions		62,888	127,967	190,855	129,648
Pension and other postretirement plan adjustments	107,468			107,468	(127,725)
Net assets released from restrictions	55,650	(55,650)			
Increase in net assets	844,252	591,381	165,056	1,600,689	668,373
Net assets, beginning of year	4,258,474	1,515,660	2,454,972	8,229,106	7,560,733
Net assets, end of year	$ 5,102,726	$ 2,107,041	$ 2,620,028	$ 9,829,795	$ 8,229,106

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, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities:		
Increase in net assets	$ 1,600,689	$ 668,373
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	287,314	267,785
Provision for bad debts	151,579	161,216
Loss on early retirement of debt	693	327
Gain on investments, net	(1,006,656)	(592,403)
Loss on disposal of plant, property and equipment	149	4,579
Donated equipment	(2,139)	(2,638)
Receipt of contributed securities	(42,518)	(39,481)
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(340,137)	(158,649)
Pension and other postretirement plan adjustments	(107,468)	127,725
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(202,264)	(174,603)
Contributions receivable	16,410	66,181
Other assets	(38,297)	(54,770)
Accounts payable, accrued expenses and accrued retirement benefits	75,853	156,638
Deposits, advances and agency funds	(4,966)	12,319
Deferred income	9,011	11,571
Net cash provided by operating activities	397,253	454,170
Cash flows from investing activities:		
Purchase of investments	(6,585,270)	(4,930,363)
Proceeds from sale of investments	6,398,525	4,685,650
Proceeds from sale of contributed securities	42,518	39,481
Purchase of plant, property and equipment	(389,934)	(463,102)
Net cash used by investing activities	(534,161)	(668,334)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	174,398	158,649
Federal student loan advances	18	108
Repayment of long-term debt	(125,879)	(142,714)
Proceeds from issuances of long-term debt	374,557	89,235
Net cash provided by financing activities	423,094	105,278
Net increase (decrease) in cash and cash equivalents	286,186	(108,886)
Cash and cash equivalents, beginning of year	678,910	787,796
Cash and cash equivalents, end of year	$ 965,096	$ 678,910
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 48,391	$ 49,388
Contributed securities acquired and sold	$ 42,518	$ 39,481
Accrued plant, property and equipment acquisitions	$ 39,178	$ 41,726
Assets contributed under split-interest agreements	$ 165,739	$ -

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 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, 2010 from which the summarized information was derived. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Consolidated Notes to Financial Statements

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 16, 2011.

Fair Value

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

As a practical expedient, the University is permitted under the pronouncement to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). Adjustment is required if the University expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles (US GAAP). The University's investments in private equity, natural resources, real estate and certain hedge funds in the absolute return portfolio are generally valued based on the most current NAV adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2011.

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

Cash and Cash Equivalents

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

Loans Receivable

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

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

	2011		2010	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Federally-sponsored student loans	$ 76,771		$ 78,615	
Other student loans	16,427	$ 2,844	16,561	$ 2,789
Total	$ 93,198	$ 2,844	$ 95,176	$ 2,789

The University regularly assesses the adequacy of the allowance for doubtful accounts related to Student loans receivable by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan program, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University also performs a detailed review of the aging of the Student loan receivable balances and of the default rate by loan program in comparison to prior years. The level of the allowance is adjusted based on the results of this analysis.

The federally-sponsored student loans receivable represents amounts due from current and former students under various Federal Government loan programs, including Perkins and other health professional programs offered to graduate and undergraduate students. Loans disbursed under these programs are able to be assigned to the Federal Government upon default by the borrower, and therefore, no related allowance is necessary.

The University considers the allowance recorded at June 30, 2011 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Investments Including Endowments

The University's endowment consists of 4,984 donor-restricted permanent or term endowment funds and 802 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 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. For Fiscal Year 2011, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds. The payout or allocation to operations exceeded actual income, net of expenses and net of income permanently reinvested, by $190,424,000 in 2011 and by $194,581,000 in 2010.

The University expects to use the current spending rule formula with no adjustments for Fiscal Year 2012.

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 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, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt 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 or dealer or broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3. A limited partnership interest in a fund dedicated to credit investments is valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified at Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Absolute Return 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. Side pocket investments would be classified 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 inputs used to determine 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 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 9 month redemption payout period
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	N/A	$6 million of illiquid side pocket investments
Absolute return	N/A	Quarterly to annually with varying notice periods, except 8 limited partnerships with no redemptions permitted. Distributions received as underlying investments are liquidated.	Lock-up provisions ranging from 0 to 2 years with earlier redemptions permitted subject to redemption fee, except $354 million in 8 limited partnerships with no redemptions permitted and $130 million of illiquid side pocket investments.
Real estate	2 to 16 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Private equity	1 to 18 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Natural resources	5 to 15 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 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 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 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 on investments, net on the Consolidated Statements of Activities.

Charitable lead trust assets contributed prior to July 1, 2010 were initially valued based on estimated future payments discounted to a single present value using current market rates at the date of the contribution, matched to the payment period of the agreement. Effective July 1, 2010, the University has elected to fair value new charitable lead trust assets contributed under the FASB *Fair Value Option* standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, matched to the payment period of the agreement. The impact of the adoption of this standard was not material. 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 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 $241,861,000 in 2011 and $220,429,000 in 2010.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2011 and 2010, grant and contract revenue earned from governmental sources totaled $804,212,000 and $745,843,000, respectively, of which revenue earned under the American Recovery and Reinvestment Act (ARRA) totaled $90,378,000 and $50,984,000. The University recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on federally-sponsored programs are generally based on predetermined reimbursement rates which are stated as a percentage and distributed based on the modified total direct costs incurred. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Contributions

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. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating revenue, net gains, reclassifications and other. Unconditional pledges received prior to July 1, 2010 are recognized at their estimated net present value using current market rates, at the date of the pledge, ranging from 0.90% to 5.82%, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category.

Effective July 1, 2010, the University has elected to fair value new unconditional pledges received under the FASB *Fair Value Option* standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, ranging from 0.57% to 4.09%, matched to the payment period of the agreement. The impact of the adoption of this standard was not material.

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 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, 2010 and as such, disclosures pertaining to this topic will be made in accordance with this standard for consolidated financial statements beginning in Fiscal Year 2012.

In August 2010, the FASB issued a standard on *Measuring Charity Care for Disclosures*. This standard requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. The standard also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. This standard is effective for fiscal years beginning after December 15, 2010, and as such, the University will continue to evaluate the effect of the standard on its consolidated financial statement disclosures.

In August 2010, FASB issued a standard on *Presentation of Insurance Claims and Related Insurance Recoveries*. This standard requires anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities to be presented separately on the balance sheet. This standard is effective for fiscal years beginning after December 15, 2010, and as such, the University will continue to evaluate the effect of the standard on its consolidated financial statements.

In May 2011, FASB issued a standard on *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This standard requires disclosure of the valuation process, including quantitative information about the unobservable inputs, for Level 3 fair value measurements. This standard is effective for fiscal years beginning after December 15, 2011, and as such, the University will continue to evaluate the effect of the standard on its consolidated financial statements.

2. University of Pennsylvania Health System - Summarized financial information

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

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

Throughout the year, certain transactions are conducted between UPHS and the University. The effect of these transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services and support for the Perelman School of Medicine) is included in the summarized financial information of UPHS. The University owed UPHS $5,370,000 and $4,455,000 at June 30, 2011 and 2010, respectively, which represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers to the University of $118,780,000 and $92,009,000 in 2011 and 2010, respectively, to further the research and educational activities of the Perelman School of Medicine and $2,011,000 and $138,000 in 2011 and 2010, respectively, for other activities. In addition, UPHS recognized operating expenses of $20,379,000 and $21,133,000 in 2011 and 2010, respectively, to support academic operating activities in the clinical departments of the Perelman School of Medicine. These transfers are eliminated in the consolidated financial statements.

Final adjustments to revenue, resulting from settlements with third-party payers, are recorded in the year in which they are settled. The 2011 and 2010 net patient service revenue was increased by $10,966,000 and $8,774,000, respectively, as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary.

During 2007, UPHS and Independence Blue Cross (IBC) reached agreement on terms of a 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 2010, UPHS and Aetna reached agreement on terms of a five-year agreement. The terms of the agreement provide payments for inpatient hospital services on a per case rate basis. Payments for outpatient services continue to be predominantly based upon negotiated fee schedules.

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

Summarized financial information for UPHS as of and for the years ended June 30, 2011 and 2010, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2011	2010
Net Patient service	$ 3,187,845	$ 2,995,027
Other revenue	179,318	168,305
Total expenses	(3,130,834)	(2,938,164)
Excess of revenues over expenses from operations	236,329	225,168
Other unrestricted income, net	110,726	108,482
Excess of revenue over expenses	347,055	333,650
Nonoperating, net	(27,892)	(151,595)
Unrealized gain (loss), net	43,808	(156)
Increase in net assets	$ 362,971	$ 181,899
Total current assets	$ 910,956	$ 679,106
Assets whose use is limited (including board designated funds of $472,493 and $401,471 and trustee held funds of $20,544 and $7,564 for 2011 and 2010, respectively)	1,026,121	886,896
Plant, net of depreciation	1,322,427	1,335,755
Investments and other assets	766,753	604,731
Total assets	$ 4,026,257	$ 3,506,488
Total current liabilities	$ 553,673	$ 522,697
Long-term debt, net of current portion	770,362	654,241
Other liabilities	994,316	984,615
Total liabilities	2,318,351	2,161,553
Net assets		
Unrestricted	1,263,949	932,122
Temporarily restricted	305,004	288,162
Permanently restricted	138,953	124,651
Total net assets	1,707,906	1,344,935
Total liabilities and net assets	$ 4,026,257	$ 3,506,488

Included in Total current assets above, UPHS has certain properties, both land and buildings that are not intended for use, recorded as Assets held for sale at their allocated cost of $1,949,000 at June 30, 2011 and 2010, respectively.

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $13,571,000 and $13,452,000 at June 30, 2011 and 2010, respectively, are as follows (in thousands):

	2011	2010
Sponsored research	$ 104,733	$ 93,716
Student	12,887	13,483
Trade	30,508	33,672
Investment income	5,617	8,782
Other	23,313	23,088
Total Accounts receivable	$ 177,058	$ 172,741

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2011 and 2010 (in thousands):

	2011	2010
Unconditional promises expected to be collected in:		
Less than one year	$ 161,689	$ 172,175
One year to five years	157,450	180,733
Over five years	18,933	16,833
	338,072	369,741
Less: Discount	(47,068)	(56,876)
Less: Allowance for doubtful amounts	(41,521)	(48,288)
Total Contributions receivable, net	$ 249,483	$ 264,577

At June 30, 2011 and 2010, the University has outstanding unrecorded conditional promises to give of $144,120,000 and $155,799,000, 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, 2011 and 2010, respectively, are as follows (in thousands):

	2011	2010
Goodwill	$ 24,888	$ 24,888
Inventory	26,683	24,777
Prepaid expenses	25,567	24,711
Deferred financing fees	10,971	9,782
FICA refund	85,345	49,005
Other	20,714	18,451
Total Other assets	$ 194,168	$ 151,614

Goodwill of $24,888,000 at June 30, 2011 and 2010, respectively, associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into UPHS, is reviewed for impairment on an annual basis by comparing the reporting unit's carrying value to its fair value calculated using a discounted cash flow approach, which incorporates market participant data, or sooner if indicators of impairment arise. There were no goodwill impairments during Fiscal Year 2011.

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, Other assets includes the estimated tax refund and related interest of $85,345,000 and $49,005,000, at June 30, 2011 and 2010, respectively. Accrued expenses and other liabilities includes the estimated amounts that the University will pay to the residents of $45,594,000 and $12,055,000 at June 30, 2011 and 2010, respectively. Employee benefits was reduced for the estimated tax refund retained by the University by $1,059,000 and $24,529,000 for the years ended June 30, 2011 and 2010, respectively. Other income increased $1,742,000 and $12,421,000 for the related interest retained by the University for the years ended June 30, 2011 and 2010, respectively.

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, 2011 and 2010 is as follows (in thousands):

Assets	Level 1	Level 2	Level 3	2011
Short-term investments	$ 490,144			$ 490,144
Equity investments:				
US equities	1,169,394	$ 147,121	$ 1,578	1,318,093
International equities	423,512	614,437	51,459	1,089,408
Emerging market equities	78,032	276,873	64,062	418,967
Debt investments:				
US treasuries	1,182,016			1,182,016
Corporate bonds	6,285	37,284	601	44,170
High yield		28,170	5,789	33,959
Split-interest agreements	64,693		524,476	589,169
Absolute return		601,981	996,053	1,598,034
Real estate		2,759	288,560	291,319
Private equity			532,843	532,843
Natural resources			182,882	182,882
Derivative instruments:				
Forward currency contracts		1,636		1,636
Other			1,238	1,238
Total	$ 3,414,076	$ 1,710,261	$ 2,649,541	$ 7,773,878

Liabilities	Level 1	Level 2	Level 3	2011
Derivative instruments:				
Forward currency contracts		$ 44		$ 44
Futures contracts	$ 50			50
Total	$ 50	$ 44	$ -	$ 94

Assets	Level 1	Level 2	Level 3	2010
Short-term investments	$ 458,701			$ 458,701
Equity investments:				
US equities	836,312	$ 111,031	$ 1,488	948,831
International equities	332,573	466,698	94,865	894,136
Emerging market equities	50,724	272,669	33,755	357,148
Debt investments:				
US treasuries	1,087,851			1,087,851
Corporate bonds	1,247	20,467	602	22,316
High yield		86,577	7,287	93,864
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:				
Forward currency contracts		$ 3,779		$ 3,779
Total	$ -	$ 3,779	$ -	$ 3,779

Included in Short-term investments is $30,059,000 and $11,278,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2011 and 2010, respectively.

At June 30, 2011 and 2010, Short-term investments include $48,896,000 and $77,797,000, respectively, of outstanding receivables from trading activities. At June 30, 2011 and 2010, Short-term investments include $50,081,000 and $29,706,000, respectively, of outstanding payables from trading activities.

Changes in the fair value of the University's Level 3 investments as of June 30, 2011 and 2010 are as follows (in thousands):

	June 30, 2010	Net realized gains/(losses)	Net unrealized gains/(losses)	Net purchases, sales and settlements	Transfers in	Transfers out	June 30, 2011
Equity investments:							
US equities	$ 1,488		$ 120	$ (30)			$ 1,578
International equities	94,865	$ (45)	20,649			$ (64,010)	51,459
Emerging market equities	33,755		9,204	39,258		(18,155)	64,062
Debt investments:							
Corporate bonds	602			(1)			601
High yield	7,287	(52)	2,564	(4,010)			5,789
Split-interest agreements	313,488	3,298	47,461	160,229			524,476
Absolute return	885,363	16,402	92,051	72,262	$ 16,327	(86,352)	996,053
Real estate	235,305	11,814	8,867	32,574			288,560
Private equity	407,484	13,669	77,221	33,099	1,370		532,843
Natural resources	134,519	21,169	27,223	(29)			182,882
Other	1,253		(1)	(14)			1,238
Total	$2,115,409	$ 66,255	$ 285,359	$ 333,338	$ 17,697	$ (168,517)	$2,649,541

	June 30, 2009	Net realized gains/(losses)	Net unrealized gains/(losses)	Net purchases, sales and settlements	Transfers in	Transfers out	June 30, 2010
Equity investments:							
US equities	$ 1,308			$ 180			$ 1,488
International equities	45,265	$ 71	$ (3,410)		$ 52,939		94,865
Emerging market equities	18,471		5,474	9,810			33,755
Debt investments:							
Corporate bonds	524	78					602
High yield	22,056	(12,431)	23,487	(25,825)			7,287
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	$ 52,939	$ (57,204)	$2,115,409

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2011 and 2010 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2011 were due to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in the Absolute Return portfolio. Transfers in and out of Level 3 as of June 30, 2010 were primarily the result of a strategy change at an underlying partnership during the year resulting in a transfer between asset classes classified as Level 3 within the AIF.

Included in Level 1 Split-interest agreement investments above are readily marketable assets invested by the University separately from the AIF where the University serves as trustee with an aggregate fair value of $64,693,000 and $70,413,000 at June 30, 2011 and 2010, respectively. Level 3 Split-interest agreement investments include a perpetual trust managed by an external trustee that is invested in the AIF with an aggregate fair value of $121,717,000 and $106,704,000 at June 30, 2011 and 2010, respectively. The remaining Level 3 Split-interest agreement investments are managed and invested outside of the University by external trustees.

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $30,464,000 and $28,967,000 as of June 30, 2011 and 2010, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

A summary of Level 3 assets included in Split-interest agreements, where the University is not trustee, measured at fair value on a recurring basis, as of June 30, 2011 and 2010 is as follows (in thousands):

	2011	2010
Charitable remainder trusts	$ 6,006	$ 3,737
Charitable lead trusts	163,765	4,166
Perpetual trusts	354,705	305,585
Total	$ 524,476	$ 313,488

During the fiscal year, the University became the beneficiary of a $202,500,000 Charitable lead trust. The present value, utilizing a discount rate of 4.09%, of future unrestricted distributions over a ten year period from this trust was $160,064,000 as of June 30, 2011. Temporarily Restricted Contribution revenue for a corresponding amount was recognized in the Consolidated Statements of Activities for the period ended June 30, 2011. When the restricted distributions are received in future periods, they will be reported as a reduction in Temporarily Restricted Revenue and an increase in Unrestricted Revenue in the Consolidated Statements of Activities caption Net assets released from restriction.

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, 2011 and 2010 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2010	$ 3,737	$ 4,166	$ 305,585	$ 313,488
Net realized (losses)/gains	(685)	(1,111)	5,094	3,298
Net unrealized gains	1,458	646	45,357	47,461
Net purchases, sales and settlements	1,496	160,064	(1,331)	160,229
June 30, 2011	$ 6,006	$ 163,765	$ 354,705	$ 524,476

	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

The following tables set forth the fair value of the University's derivative instruments by contract type as of June 30, 2011 and 2010 and the University's losses related to derivative activities for the year ended June 30, 2011 and 2010 (in thousands):

Derivative fair value

	Consolidated Statements of Position Line Item	2011	2010
Assets			
Forward currency contracts	Investments, at fair value	$ 1,636	
Total		$ 1,636	$ -
Liabilities			
Forward currency contracts	Accrued expenses and other liabilities	$ 44	$ 3,779
Futures contracts	Accrued expenses and other liabilities	50	
Total		$ 94	$ 3,779

Derivative losses

	Consolidated Statements of Activities Line Item	2011	2010
Forward currency contracts	Gain on investment, net	$ (13,359)	$ (587)
Futures contracts	Gain on investment, net	(50)	
Total		$ (13,409)	$ (587)

As of June 30, 2011, the University had eight outstanding forward currency contracts with a notional exposure of $169,283,000. As of June 30, 2010 the University had nine outstanding forward currency contracts with a notional exposure of $112,412,000. The University had eleven futures contracts outstanding as of June 30, 2011 with a notional exposure of ($19,211,000) and did not enter into any futures contracts during the year ended June 30, 2010. The number of futures and forward currency contracts outstanding is generally indicative of the volume of activity during the year ending June 30, 2011 and 2010, respectively.

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 $728,287,000 which represents 11.1% of the AIF value as of June 30, 2011. Details on the extent of these commitments are as follows (in thousands):

	Unfunded Commitments
Absolute return	$ 77,813
Natural resources	104,398
Real estate	201,280
Private equity	344,796
Total Unfunded commitments	$ 728,287

A summary of the University's total investment return for the years ended June 30, 2011 and 2010 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2011	2010
AIF investment income	$ 78,820	$ 68,219
AIF realized and unrealized gains/(losses)	970,419	589,981
Return on AIF	1,049,239	658,200
Other investment income and gains/(losses)	65,416	39,959
Total Return on investments	$ 1,114,655	$ 698,159

Included in investments above are the University's endowments, the components of which at June 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,627,050	$ 2,587,242	$ 4,214,292
Quasi-endowment funds	$ 2,367,738			2,367,738
June 30, 2011	$ 2,367,738	$ 1,627,050	$ 2,587,242	$ 6,582,030

Changes to the reported amount of the University's endowments as of June 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2010	$ 2,039,992	$ 1,205,259	$ 2,423,686	$ 5,668,937
Investment return:				
Investment income, net of expenses	22,012	31,989	507	54,508
Gain (realized and unrealized)	354,062	566,175	26,196	946,433
Total investment return	376,074	598,164	26,703	1,000,941
New gifts	25,513	9,537	130,534	165,584
Allocation of endowment assets for expenditure	(220,981)			(220,981)
Transfers	(32,492)	(6,278)	6,319	(32,451)
Released from restriction	179,632	(179,632)		
Net assets, June 30, 2011	$ 2,367,738	$ 1,627,050	$ 2,587,242	$ 6,582,030

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, net of expenses	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
Allocation 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

The fair value of certain donor-restricted endowment funds is less than the original donated value by $6,802,000 and $49,044,000 as of June 30, 2011 and 2010, respectively, and is reflected as a reduction of Temporarily restricted assets.

7. Plant, net of depreciation

The components of plant at June 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Land	$ 151,736	$ 143,896
Buildings and fixed equipment	5,087,088	4,538,426
Contents	1,497,231	1,383,416
Construction-in-progress	256,915	562,907
	6,992,970	6,628,645
Less: Accumulated depreciation	(2,933,818)	(2,671,350)
Plant, net of depreciation	$ 4,059,152	$ 3,957,295

Plant, net of depreciation, includes $3,209,000 of land at June 30, 2011 and 2010, as well as, $8,845,000 and $9,195,000 of completed facilities at June 30, 2011 and 2010, respectively, which serve as collateral for debt obligations.

The University recorded $288,664,000 and $268,539,000 of depreciation expense for the years ended June 30, 2011 and 2010, respectively. Rare books and other collectibles aggregate $38,677,000 at June 30, 2011 and $37,276,000 at June 30, 2010.

The University capitalized $6,201,000 and $7,561,000 of interest costs for the years ended June 30, 2011 and 2010, 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):

	2011	2010
July 1	$ 18,996	$ 19,041
Less: Payments	(1,551)	(260)
Add: Additions	1,798	20
Add: Accretion	797	497
Less: Changes in estimates		(302)
June 30	$ 20,040	$ 18,996

9. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2011 and 2010 are as follows (in thousands):

2011	Assets	Liabilities	Net Assets
June 30, 2010	$ 383,901	$ (38,099)	$ 345,802
New contributions, net	147,296	(418)	146,878
Investment income	1,269	(581)	688
Realized and unrealized gain, net	61,420		61,420
Payments and settlements	(4,717)	4,717	
Actuarial adjustment		(3,784)	(3,784)
Net change	205,268	(66)	205,202
June 30, 2011	$ 589,169	$ (38,165)	$ 551,004

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

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. Mcare operates on a pay-as-you-go basis and no provision has been made for any future Mcare assessments in the accompanying financial statements as the University's portion of the unfunded Mcare liability cannot be estimated.

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 3.0% discount rate at June 30, 2011. Total amounts recorded under this program, included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Position, are $439,666,000 and $391,187,000 at June 30, 2011 and 2010, respectively.

11. Contingencies, Guarantees and Commitments

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

	2011		2010	
	Amount Guaranteed	Recognized Liability	Amount Guaranteed	Recognized Liability
Mortgage Loans	$ 4,496		$ 7,289	
Student Loans	50,393	$ 6,350	41,753	$ 6,792
Other	5,710	147	6,336	195
	$ 60,599	$ 6,497	$ 55,378	$ 6,987

To encourage home ownership and home improvement in the University's geographic area and beyond, certain University and affiliate employee mortgage loans are guaranteed. Under this program, the University guarantees the employee's first mortgage amount that is in excess of 80% loan-to-value, up to 105% loan-to-value. The maximum amount that will be guaranteed on any single loan is limited to $250,000. For all loans guaranteed upon default by the borrower, the University may be required to pay any loss incurred following the lender's foreclosure process or the University may be required to purchase the loan. If the University purchases the loan, it will work with the borrower to make the loan current or it may foreclose and recover a portion of any loan from the sale of the mortgaged property. Of the amount guaranteed, $725,000 and $1,722,000 at June 30, 2011 and 2010, respectively, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees. The University does not anticipate that any significant net payments will result from these guarantees. FASB standard *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* does not require a guarantee liability to be recognized for employee mortgages.

The University offers various loan programs for students and families to pay tuition, fees and other costs. Certain loans issued by private lending institutions are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. The recognized liability reflects effective default rates of 12.6% and 16.3%, 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, $3,687,000 at June 30, 2011 and $4,196,000 at June 30, 2010, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees and from other partners in the businesses. The University does not anticipate that any significant net payments will result from these guarantees. The recognized liability reflects the fair value of guarantees issued after December 31, 2002.

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

The University is currently involved in various projects that have resulted in capital and property acquisition commitments from the University. As of June 30, 2011, approximately $123,366,000 has been committed by the University.

12. Pension and Other Postretirement Benefit Costs

Retirement benefits are principally provided to Academic Component and UPHS employees through contributory defined contribution plans. The Academic Component's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries, while the UPHS contribution can be up to 6.5%. The University's contributions to these plans amounted to $90,365,000 and $85,924,000 as of June 30, 2011 and 2010, respectively.

During Fiscal Year 2011, a new contributory defined contribution plan was created for most UPHS employees. A non-contributory defined contribution plan and non-contributory defined benefit plan were frozen to new entrants effective July 1, 2010. Effective January 1, 2011, UPHS employees enrolled in the non-contributory defined contribution plan were transitioned into the new plan and eligible participants in the UPHS non-contributory defined benefit plan were given a one-time opportunity to move into the new plan. This resulted in a one-time plan curtailment of $7,538,000 in the benefit obligation.

Clinical Care Associates also has a non-qualified supplemental retirement plan to provide retirement benefits to a select group of physician employees. Contributions to this plan are based upon the annual compensation of the eligible employees. Retirement plan expense for this plan was $610,000 and $566,000 as of June 30, 2011 and 2010, respectively.

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

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

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

Net Periodic Cost

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

	Pension Benefits		Other Postretirement Benefits	
Net Periodic Cost	**2011**	**2010**	**2011**	**2010**
Service cost	$ 46,302	$ 35,428	$ 20,506	$ 15,609
Interest cost	67,391	61,526	30,614	30,309
Expected return on plan assets	(73,391)	(59,416)	(15,816)	(13,426)
Amortization of:				
Net prior service cost/(credit)	1,520	1,634	332	(1,718)
Net losses	23,808	19,496	8,986	7,317
Curtailment loss recognized	593			
Net periodic benefit cost	$ 66,223	$ 58,668	$ 44,622	$ 38,091

Obligation and Funded Status

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

	Pension Benefits		Other Postretirement Benefits	
Change in Benefit Obligation	**2011**	**2010**	**2011**	**2010**
Benefit obligation at beginning of year	$ 1,211,807	$ 999,582	$ 567,834	$ 495,230
Service cost	46,302	35,428	20,506	15,609
Interest cost	67,391	61,526	30,614	30,309
Plan participants' contributions	139	132	4,252	3,578
Plan curtailments	(7,538)			
Retiree drug subsidy			1,285	1,482
Net actuarial loss (gain) due to				
plan experience	50,573	142,714	(14,421)	42,769
Benefits paid from fund	(29,546)	(27,575)	(17,878)	(14,549)
Benefits paid by University			(8,196)	(6,594)
Benefit obligation at end of year	$ 1,339,128	$ 1,211,807	$ 583,996	$ 567,834
Accumulated benefit obligation	$ 1,157,940	$ 1,041,786	$ 583,996	$ 567,834
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 818,944	$ 704,383	$ 184,079	$ 154,646
University contributions	68,224	54,853	31,311	28,796
Plan participants' contributions	139	132	4,252	3,578
Benefits paid from fund	(29,546)	(27,575)	(17,878)	(14,549)
Benefits paid by University			(8,196)	(6,594)
Retiree drug subsidy			1,285	1,482
Actual return on assets	154,960	87,151	34,666	16,720
Fair value of plan assets at end of year	$ 1,012,721	$ 818,944	$ 229,519	$ 184,079
Funded Status				
Projected benefit obligation / accumulated				
postretirement benefit obligation	$ (1,339,128)	$ (1,211,807)	$ (583,996)	$ (567,834)
Plan assets at fair value	1,012,721	818,944	229,519	184,079
ERRP adjustment			422	
Funded status at end of year	$ (326,407)	$ (392,863)	$ (354,055)	$ (383,755)

Net Amounts Recognized in the Consolidated Statements of Financial Position

	Pension Benefits		Other Postretirement Benefits	
Unrestricted Net Assets	**2011**	**2010**	**2011**	**2010**
Net actuarial loss	$ 332,015	$ 394,357	$ 147,280	$ 189,959
Net prior service cost	2,941	5,055	1,031	1,364
Total	$ 334,956	$ 399,412	$ 148,311	$ 191,323
Adjustment to unrestricted net assets	$ (64,456)	$ 93,848	$ (43,012)	$ 33,877

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2012 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of prior service cost	$ 1,406	$ 343
Amortization of net losses	20,256	6,264

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

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
Accrued retirement benefits	$ (326,407)	$ (392,863)	$ (354,055)	$ (383,755)
Funded status at end of year	$ (326,407)	$ (392,863)	$ (354,055)	$ (383,755)

Reported Accrued retirement benefits includes $9,702,000 and $6,816,000 for faculty early retirement programs at June 30, 2011 and 2010, respectively.

	Pension Benefits		Other Postretirement Benefits	
Information for Plans with PBO/APBO in Excess of Plan Assets	**2011**	**2010**	**2011**	**2010**
Projected benefit obligation / accumulated postretirement benefit obligation	$ 1,339,128	$ 1,211,807	$ 583,996	$ 567,834
Accumulated benefit obligation / accumulated postretirement benefit obligation	1,157,940	1,041,786	583,996	567,834
Fair value of plan assets	1,012,721	818,944	229,519	184,079

Information for Pension Plans with ABO in Excess of Plan Assets	**2011**	**2010**
Projected benefit obligation / accumulated postretirement benefit obligation	$ 1,153,483	$ 1,211,807
Accumulated benefit obligation / accumulated postretirement benefit obligation	979,255	1,041,786
Fair value of plan assets	832,444	818,944

Consolidated Notes to Financial Statements

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	**2011**	**2010**	**2011**	**2010**
Discount rate	5.50%	5.50%	5.39%	5.50%
Salary increase	4.000%	4.000%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	5.50%	6.25%	5.50%	6.25%
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	7.50%	8.25%
Ultimate trend rate	N/A	N/A	4.86%	4.84%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2021	2021

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

	1-Percentage Point Increase		1-Percentage Point Decrease	
	2011	2010	2011	2010
Effect on total of service and interest cost	9,428	9,484	(7,403)	(7,407)
Effect on accumulated postretirement benefit obligation	91,931	88,951	(74,098)	(72,314)

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 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, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt Investments

Debt investments consist of a separate account. 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 was valued at NAV as of June 30, 2010 and is categorized as Level 2. The fund was liquidated prior to June 30, 2011.

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. As of June 30, 2011, the University has an unfunded commitment of $10,500,000 to one limited partnership which is expected to be called over the next 2 to 3 years.

Derivatives

As described in Note 1 of these financial statements, the University enters into forward foreign currency and futures contracts. Forward foreign currency contracts are categorized as Level 2. Futures contracts are categorized as Level 1.

As of June 30, 2011, the University had fourteen forward currency contracts in the plan assets with a notional exposure of $19,663,000. As of June 30, 2010, the University had eleven forward currency contracts in the plan assets with a notional exposure of $11,062,000. The University also had three futures contracts outstanding as of June 30, 2011 with a notional exposure of ($1,095,000) and did not enter into any futures contracts during the year ended June 30, 2010. The number of futures and forward currency contracts outstanding is generally indicative of the volume of trading activity during the year ending June 30, 2011 and 2010, respectively.

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 account	Daily	None
Absolute return	Quarterly to annually with varying notice periods, except one limited partnership with no redemptions permitted. Distributions received as underlying investments are liquidated.	Lock-up provisions ranging from 0 to 2 years with earlier redemptions permitted subject to redemption fee, except $5 million in one limited partnership with no redemptions permitted and $8 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, 2011 and 2010 is as follows (in thousands):

Pension Benefits:

Assets	Level 1	Level 2	Level 3	2011
Short-term investments	$ 60,364			$ 60,364
Equity investments:				
US equities	336,652			336,652
International equities	69,525	$ 134,789		204,314
Emerging market equities	11,781	29,810		41,591
Debt investments:				
US treasuries	184,675			184,675
Corporate bonds		9,790		9,790
Absolute return		119,557	$ 55,677	175,234
Derivative instruments:				
Forward currency contracts		127		127
Total	$ 662,997	$ 294,073	$ 55,677	$ 1,012,747

Liabilities	Level 1	Level 2	Level 3	2011
Derivative instruments:				
Forward currency contracts		$ 12		$ 12
Futures contracts	$ 14			14
Total	$ 14	$ 12	$ -	$ 26

Assets	Level 1	Level 2	Level 3	2010
Short-term investments	$ 70,415			$ 70,415
Equity investments:				
US equities	225,603			225,603
International equities	51,471	$ 113,935	$ 5,021	170,427
Emerging market equities	8,453	23,442		31,895
Debt investments:				
US treasuries	185,570			185,570
Corporate bonds		5,259		5,259
High yield		27,851		27,851
Absolute return		50,340	51,863	102,203
Total	$ 541,512	$ 220,827	$ 56,884	$ 819,223

Liabilities	Level 1	Level 2	Level 3	2010
Derivative instruments:				
Forward currency contracts		$ 279		$ 279
Total	$ -	$ 279	$ -	$ 279

Other Postretirement Benefits:

Assets	Level 1	Level 2	Level 3	2011
Short-term investments	$ 16,545			$ 16,545
Equity investments:				
US equities	94,424			94,424
International equities	14,343	$ 39,055		53,398
Emerging market equities	2,332	6,563		8,895
Debt investments:				
US treasuries	53,174			53,174
Corporate bonds		3,045		3,045
Derivative instruments:				
Forward currency contracts		42		42
Total	$ 180,818	$ 48,705	$ -	$ 229,523

Liabilities	Level 1	Level 2	Level 3	2011
Derivative instruments:				
Forward currency contracts		$ 4		$ 4
Total	$ -	$ 4	$ -	$ 4

Assets	Level 1	Level 2	Level 3	2010
Short-term investments	$ 20,173			$ 20,173
Equity investments:				
US equities	63,920			63,920
International equities	11,732	$ 30,120		41,852
Emerging market equities		5,004		5,004
Debt investments:				
US treasuries	51,401			51,401
Corporate bonds	523	1,299		1,822
Total	$ 147,749	$ 36,423	$ -	$ 184,172

Liabilities	Level 1	Level 2	Level 3	2010
Derivative instruments:				
Forward currency contracts		$ 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, 2011 and 2010 are as follows (in thousands):

Pension Benefits:

	June 30, 2010	Net unrealized gains/(losses)	Net purchases, sales and settlements	Transfers in	Transfers out	June 30, 2011
Equity investments:						
International equities	$ 5,021	$ 1,682			$ (6,703)	$ -
Absolute return	51,863	714	$ 19,500		(16,400)	55,677
Total	$ 56,884	$ 2,396	$ 19,500	$ -	$ (23,103)	$ 55,677

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

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2011 and 2010 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2011 were due to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in the Absolute Return portfolio. Transfers in and out of Level 3 as of June 30, 2010 were primarily the result of a strategy change at an underlying partnership during the year resulting in a transfer between asset classes within the pension portfolio.

	Pension Benefits			Other Postretirement Benefits		
Allocation of Plan Assets	**Target**	**2011**	**2010**	**Target**	**2011**	**2010**
Short-term investments		6.0%	8.6%		7.2%	11.0%
Equity investments:						
US equities	35.7%	32.8%	27.2%	45.0%	41.1%	35.2%
International equities	19.4%	20.3%	20.8%	27.0%	23.3%	21.2%
Emerging markets equities	3.0%	4.1%	3.9%	3.0%	3.9%	3.7%
Debt investments:						
US treasuries	21.9%	18.4%	22.7%	25.0%	23.2%	27.9%
Corporate bonds		1.0%	0.9%		1.3%	1.0%
High yield			3.4%			
Absolute return	20.0%	17.4%	12.5%			
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The average quality of debt investments at June 30, 2011 was AAA with an effective duration of 1.88 years.

Cash Flows & Estimated Future Benefit Payments

University contributions for the year ending:	Pension Benefits	Other Postretirement Benefits
June 30, 2010	$ 54,853	$ 28,796
June 30, 2011	68,224	31,311
June 30, 2012	58,389	30,959
Benefits paid directly by the University for the year ending:		
June 30, 2010	N/A	$ 6,594
June 30, 2011	N/A	8,196
June 30, 2012	N/A	10,053
Plan participants' contributions for the year ending:		
June 30, 2010	$ 132	$ 3,578
June 30, 2011	139	4,252
June 30, 2012	140	4,835

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, 2010	$ 27,575	$ 21,143	$ 1,482
June 30, 2011	29,546	26,074	1,285
Expected benefit payments for the year ending:			
June 30, 2012	$ 38,396	$ 24,078	$ 359
June 30, 2013	42,257	25,469	393
June 30, 2014	46,415	26,787	425
June 30, 2015	50,478	28,192	447
June 30, 2016	55,067	29,829	468
June 30, 2017 to June 30, 2021	363,553	176,671	2,598

13. Debt Obligations

Debt obligations at June 30, 2011 and 2010 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2011	2011	2010
Academic Component:				
Fixed rate debt obligations:				
Pennsylvania Higher Educational				
Facilities Authority (PHEFA)				
Series A of 2011 revenue bonds	9/2041	4.00% - 5.00%	$ 150,000	
Unamortized premium			984	
Series of 2010 revenue bonds	9/2033	4.00% - 5.00%	71,410	
Unamortized premium			5,537	
Series B of 2009 revenue bonds	9/2032	3.00% - 5.00%	41,245	$ 42,860
Unamortized premium			1,114	1,220
Series C of 2009 revenue bonds	9/2022	4.00% - 5.00%	28,755	28,755
Unamortized premium			1,801	2,016
Series A of 2009 revenue bonds	9/2019	5.00%	204,750	204,750
Unamortized premium			18,705	20,825
Series C of 2005 revenue bonds	7/2038	3.50% - 5.00%	133,315	137,535
Unamortized premium			3,266	3,463
Series A of 2005 revenue bonds	9/2025	3.50% - 5.00%	22,965	26,110
Unamortized premium			678	818
Series B of 2005 revenue bonds	9/2015	5.25%	38,310	44,815
Unamortized premium			1,134	1,736
Series of 1998 revenue bonds	7/2033	4.63 - 4.75%		75,695
Unamortized discount				(506)
Other loans	5/2031	3.00% - 7.85%	926	985
Total Fixed rate debt obligations:			724,895	591,077
Variable rate debt obligations:				
PHEFA				
Series of 1990 revenue bonds	12/2020	0.34%	6,500	6,500
Series of 1985 revenue bonds	12/2015	0.34%	10,610	10,610
Washington County authority				
Series of 2004	7/2034	0.05%	60,500	61,500
Other loans	4/2014	0.66% - 0.69%	18,300	18,300
Total Variable rate debt obligations			95,910	96,910
Total Academic Component debt obligations			$ 820,805	$ 687,987

	Final Maturity	Interest Rate at June 30, 2011	2011	2010
UPHS:				
Fixed rate debt obligations:				
PHEFA				
Series A of 2011 revenue bonds	08/2042	4.75% - 5.875%	$ 150,000	
Unamortized discount			(1,139)	
Series A of 2009 revenue bonds	08/2024	3.00% - 5.25%	86,185	$ 89,060
Unamortized premium			1,501	1,675
Series B of 2008 revenue bonds	08/2027	5.00% - 6.00%	201,230	201,230
Unamortized discount			(2,320)	(2,583)
Series A of 2008 revenue bonds	03/2038	3.75%	96,520	101,249
Series A of 2005 revenue bonds	08/2023	4.25% - 5.00%	203,415	218,740
Unamortized premium			6,875	8,644
Series B of 2005 revenue bonds	08/2018	3.00% - 5.00%	54,935	61,700
Unamortized premium			800	1,028
Total Fixed rate debt obligations:			798,002	680,743
Variable rate debt obligations:				
Pennsylvania economic development				
financing authority				
Series C of 1994 revenue bonds	09/2014	0.18%	4,200	5,100
Total Variable rate debt obligations			4,200	5,100
Total UPHS debt obligations			802,202	685,843
Total University debt obligations			$ 1,623,007	$ 1,373,830

The University determines the fair value of its existing debt obligations by obtaining quoted market prices. The fair value was $1,707,234,000 and $1,437,045,000 at June 30, 2011 and 2010, respectively.

The University has letters of credit with various financial institutions to secure certain self insured liabilities in the amounts of $4,432,000 and $41,720,000 at June 30, 2011 and 2010, respectively. These letters of credit have evergreen provisions for automatic renewal. There have been no draws under these letters of credit.

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

Fiscal Year	Amount
2012	$ 49,123
2013	60,196
2014	114,581
2015	56,207
2016	65,188
Thereafter	1,238,776
Total Principal	1,584,071
Unamortized net premium/(discount)	38,936
Total Debt	$ 1,623,007

Academic Component

On March 2, 2011, the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Revenue Bonds Series A of 2011 (PHEFA 2011A Bonds) with an aggregate principal amount of $150,000,000. The proceeds were used to fund or reimburse the University for the cost of various capital projects. Interest on the PHEFA 2011A Bonds is fixed with coupons ranging from 4.00% to 5.00%. The PHEFA 2011A Bonds have serial maturities which are due in amounts ranging from $3,370,000 in 2016 to $6,335,000 in 2031 and one term maturity in the amount of $84,290,000 maturing in 2041, which will be subject to mandatory sinking fund redemption. The bonds are callable on or after March 1, 2021 at a price equal to 100% of the principal amount plus accrued interest.

On October 13, 2010, PHEFA issued Revenue Bonds Series of 2010 (PHEFA 2010 Bonds) with an aggregate principal amount of $71,410,000. The proceeds were used to fund an escrow which refunded $75,695,000 from the PHEFA Revenue Bonds Series 1998 on October 15, 2010. Interest on the PHEFA 2010 Bonds is fixed with coupons ranging between 4.00% and 5.00%. The PHEFA 2010 Bonds have serial maturities which are due in amounts ranging from $4,950,000 in 2023 to $8,245,000 in 2033. The bonds are callable on or after September 1, 2020 at a price equal to 100% of the principal amount plus accrued interest.

The University has variable rate debt in the amount of $86,610,000 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 2012 principal payments in the debt obligations maturity table on page 37 would increase from $17,283,000 to $102,893,000. On June 10, 2011, the University entered into a five year agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement the University's liquidity relating to its variable rate demand bonds and for other general purposes of the University. The University will pay a fee on the unused amount of the line of credit. As of June 30, 2011, there have been no draws under the agreement.

UPHS

Pennsylvania Higher Educational Facilities Authority Revenue Bonds

On March 2, 2011, UPHS issued the Series A of 2011 Bonds for the purpose of funding various UPHS capital expenditures. The bonds mature in varying amounts ranging from $3,200,000 to $26,600,000 with a final maturity of $17,810,000 in 2042. The bonds have stated interest rates that range from 4.75% to 5.875%. The bonds maturing, on or after August 15, 2021 are subject to optional redemption by the University at redemption price of 100% plus accrued interest.

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, the obligated group agent, on or after August 15, 2019 at the redemption price of 100% plus accrued interest.

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 2011 and 2010, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

On April 13, 2011, UPHS 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 liquidity for general purposes of the health system. UPHS paid an upfront facility fee and a fee on the unused amount of the line of credit. As of June 30, 2011, there have been no draws under the agreement.

Consolidated Notes to Financial Statements

UPHS has letters of credit with various financial institutions to secure certain bonds. PHEFA 2008A Revenue Bonds are secured by a letter of credit, which expires April 2013, in the amount of $98,345,000 and $103,164,000 as of June 30, 2011 and 2010, respectively. This letter of credit has an annual renewal option. PHEFA 1994C Revenue Bonds are secured by a letter of credit, which expires September 2014, in the amount of $4,324,000 and $5,251,000 as of June 30, 2011 and 2010, respectively. As of June 30, 2011, there have been no draws under these agreements.

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, 2011 and 2010, and the effect of the interest rate swap agreements on the Consolidated Statements of Activities, both realized and unrealized, for the years ended June 30, 2011 and 2010 (in thousands):

Statements of Position

	Line Item	2011	2010
Liability interest rate swaps			
Academic Component	Accrued expenses and other liabilities	$ 14,547	$ 18,344
UPHS	Accrued expenses and other liabilities	7,394	9,641
Total Liability interest rate swaps		$ 21,941	$ 27,985
Asset interest rate swaps			
UPHS	Other assets	$ 2,472	$ 2,444
Total Asset interest rate swaps		$ 2,472	$ 2,444

Statements of Activities

	Line Item	2011	2010
Academic Component	Gain on investment, net	$ 328	$ (5,623)
UPHS	Gain on investment, net	361	(1,437)
Total		$ 689	$ (7,060)

Academic Component

To protect against the risk of future interest rate changes in its debt portfolio, the Academic Component of the University entered into an interest swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) on November 6, 2007. Under the agreement, commencing on November 3, 2008, GSMMDP began paying the University interest on the notional amount of $101,950,000 based on 67% of London Inter-Bank Offered Rate (LIBOR) and the University began paying GSMMDP interest at a fixed rate of 3.573% on a monthly basis. The swap agreement matures July 1, 2034. The University has the right to terminate, cancel and cash settle this agreement, in whole or in part, at current fair value, on any business day. The University determines the fair value of this agreement by obtaining a quote from GSMMDP which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers this to be a Level 2 measurement. The quote provided by GSMMDP also represents the amount the University would accept or be required to pay to transfer the agreement to GSMMDP, or exit price as defined by the Fair Value Measurements standard. The University also takes into account the risk of nonperformance. The agreement also contains a provision that requires the University to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2011, 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. The Agreement was not entered into for trading or speculative purposes. UPHS has the option under the Agreement to terminate the Agreement at zero on January 1, 2018 and every 6 months thereafter.

UPHS determines the fair value of its three interest rate swap agreements by obtaining a quote from Merrill Lynch which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers the agreements to be Level 2 measurements. The quote provided by Merrill Lynch also represents the amount UPHS would accept or be required to pay to transfer the Agreement to Merrill Lynch, or exit price as defined by the Fair Value Measurements standard. UPHS verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. UPHS also assesses the risk of nonperformance by reviewing bond ratings. The Agreements also contain provisions that require UPHS to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on UPHS's credit rating. At June 30, 2011, the threshold was $40,000,000 and therefore no collateral was required to be posted.

14. Energy Hedges

During Fiscal Year 2011, the University entered into several International Swaps and Derivatives Association agreements (ISDA agreements) to stabilize expected electricity costs over the long term. Under the agreements, the University has purchased hedges in the notional amount of $48,856,000 for specific time periods and 960,515 Megawatt hours (MWhs) as of June 30, 2011. When the hedges settle at various maturities, there will be a cash transaction based on the number of MWhs that month for all of the hedges.

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

These agreements are subject to credit risk in excess of the amount recorded on the University's Statement of Position in accordance with generally accepted accounting principles. Credit risk represents the potential loss that may occur because a counterparty fails to perform according to the terms of the agreement. The University considers counterparty credit risk and its own credit risk, which did not have a material impact on its determination of fair values. The agreements also contain provisions that would require the University to post collateral in the amount by which the fair value of the agreement liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2011, the minimum thresholds range from $20,000,000 to $25,000,000. The University evaluated its position as of June 30, 2011 and determined no collateral was required to be posted.

Consolidated Notes to Financial Statements

The following tables summarize the fair value of the University's ISDA agreements as of June 30, 2011 and 2010, and the effect of these agreements on the Consolidated Statements of Activities for the years ended June 30, 2011 and 2010 (in thousands):

	Statements of Position Line Item	2011	2010
Asset position	Other assets	$ 2,130	$ -

	Statements of Activities Line Item	2011	2010
Unrealized Gain	Gain on investment, net	$ 2,130	$ -
Realized Loss	Program and support expenses	$ (346)	$ -

15. Net Assets

The major components of net assets at June 30, 2011 and 2010 are as follows (in thousands):

2011	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,681,552	$ 104,032		$ 2,785,584
Sponsored programs	40,594			40,594
Capital		196,797		196,797
Student loans	12,842	212	$ 17,918	30,972
Planned giving agreements		178,950	14,868	193,818
Endowment	2,367,738	1,627,050	2,587,242	6,582,030
Total	$ 5,102,726	$ 2,107,041	$ 2,620,028	$ 9,829,795

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

16. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through March 2027. Rental expense for the years ended June 30, 2011 and 2010 totaling $64,554,000 and $63,859,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2011, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2012	$ 51,668
2013	45,589
2014	41,820
2015	37,279
2016	32,442
Thereafter	185,304
Total Minimum lease payments	$ 394,102

17. Natural Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation	Student Aid	Depreciation	Interest	Operating	Total
June 30, 2011						
Instruction	$ 619,484	$ 59,374	$ 47,745	$ 3,249	$ 294,802	$ 1,024,654
Research	389,462	10,845	34,786	12,282	272,825	720,200
Hospital and physician practices	1,719,226		126,165	28,646	1,254,049	3,128,086
Auxiliary enterprises	27,151		24,393	2,016	66,366	119,926
Other educational activities	107,674	45	9,516	226	56,294	173,755
Student services	39,938	189		35	25,424	65,586
Academic support	31,989		25,423	270	12,237	69,919
Management and general	178,074	240	13,487	389	719	192,909
Independent operations	8,734	4	7,149	800	45,510	62,197
Total	$ 3,121,732	$ 70,697	$ 288,664	$ 47,913	$ 2,028,226	$ 5,557,232
June 30, 2010	$ 2,988,095	$ 68,044	$ 268,539	$ 44,124	$ 1,894,299	$ 5,263,101

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As of June 30, 2011

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