    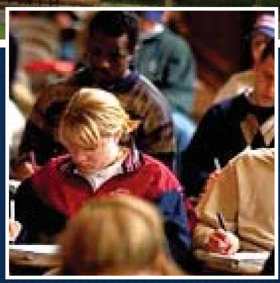

University of Pennsylvania
Annual Financial Report
Fiscal Year 2015

Penn
UNIVERSITY of PENNSYLVANIA

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Fiscal Year 2015 Financial Review

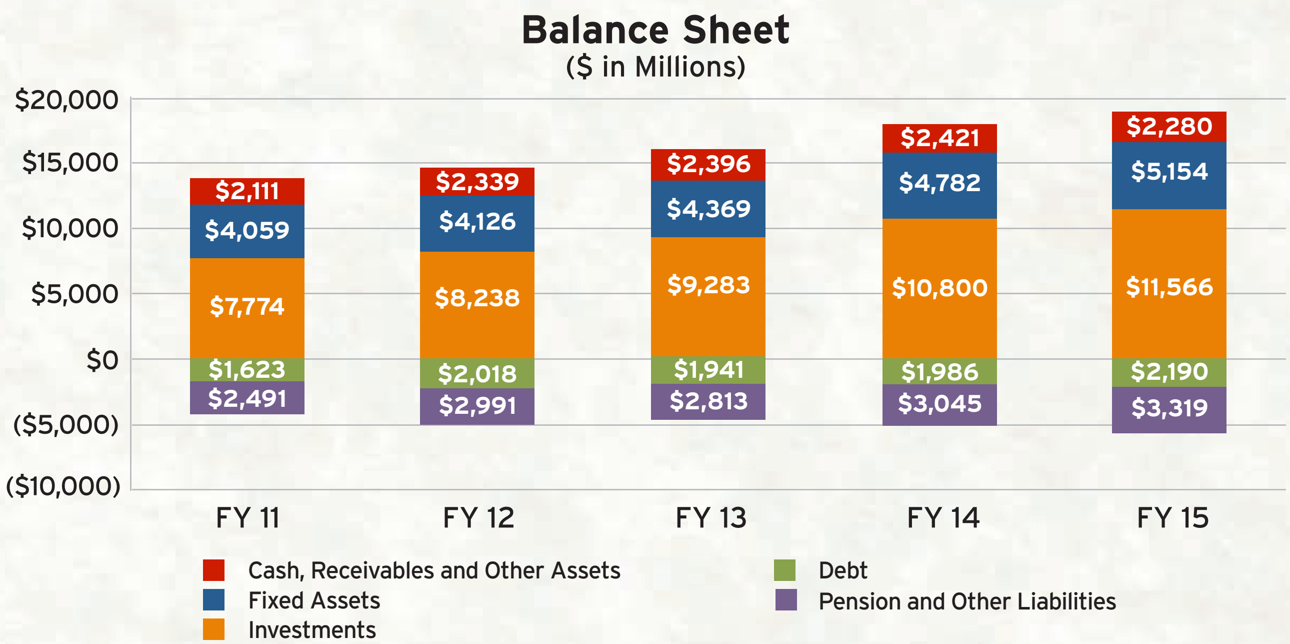
From the Vice President for Finance and Treasurer Stephen D. Golding

Fiscal year 2015 concluded on a high note for the University of Pennsylvania with outstanding financial results and extraordinary performance achievements. The University expanded in remarkable ways in FY15, including the opening of the *Penn Wharton China Center* and the groundbreaking of the *Pennovation Center*. In FY15, the University of Pennsylvania Health System (UPHS) signed a definitive agreement to integrate Lancaster General Health (LGH) as a member of UPHS effective August 2015. Additionally, Dr. Amy Gutmann announced the selection of five undergraduates to be awarded the inaugural *Presidential Engagement Prize* created to strengthen the University of Pennsylvania's commitment under the *Penn Compact 2020* to global, national, and local student engagement.

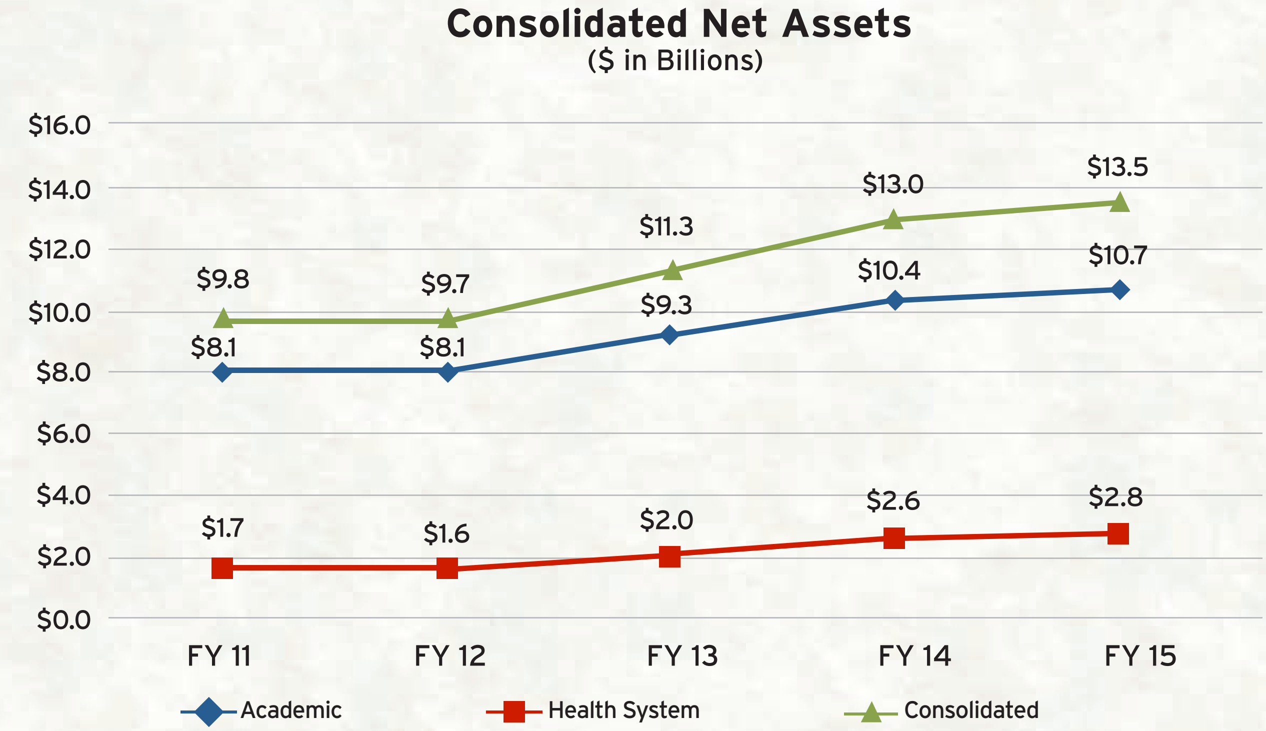
Nearly every source of operating revenue increased in FY15, including patient care revenue (+9.2%), net tuition and fees (+3.4%), and sponsored research revenues (+3.2%). Penn's endowment returned 7.4% in FY15 and total endowment value increased to $10.1 billion from $9.6 billion in FY14 as a result of prudent investment management, despite significant financial market volatility during the fiscal year. Overall, net assets from operating activities increased $396.9 million, or +51.6% compared to FY14.

Balance Sheet and Net Assets

Total assets for FY15 reached $19.0 billion and reflected increases over the prior year in fixed assets (+7.8%) and investments (+7.1%). Liabilities totaled $5.5 billion, with pension liability and debt increasing as a result of updated mortality assumptions in actuarial tables and the Health System's $150 million bond issuance, respectively. Cash and Cash equivalents decreased 16.3% to $934 million. This decrease is reflective of planned increases in capital spending and the Health System's additional $200 million investment of cash into the Intermediate Term Fund (ITF), partially offset by the $150 million UPHS borrowing and robust operating cash flow.

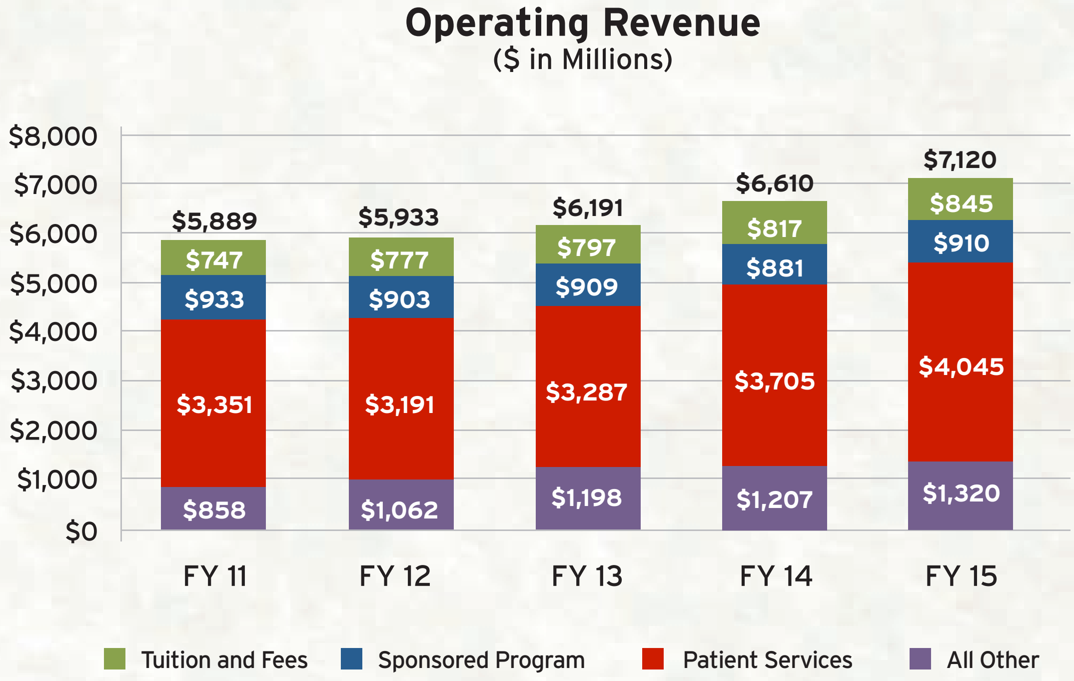


Net assets totaled $13.5 billion, an increase of $519.2 million (+4.0%) from FY14, driven by the strong operating and investment performance. Since FY11, consolidated net assets have grown by 37.2%, reflective of continued outstanding investment and operating performance, as well as strong fundraising results.



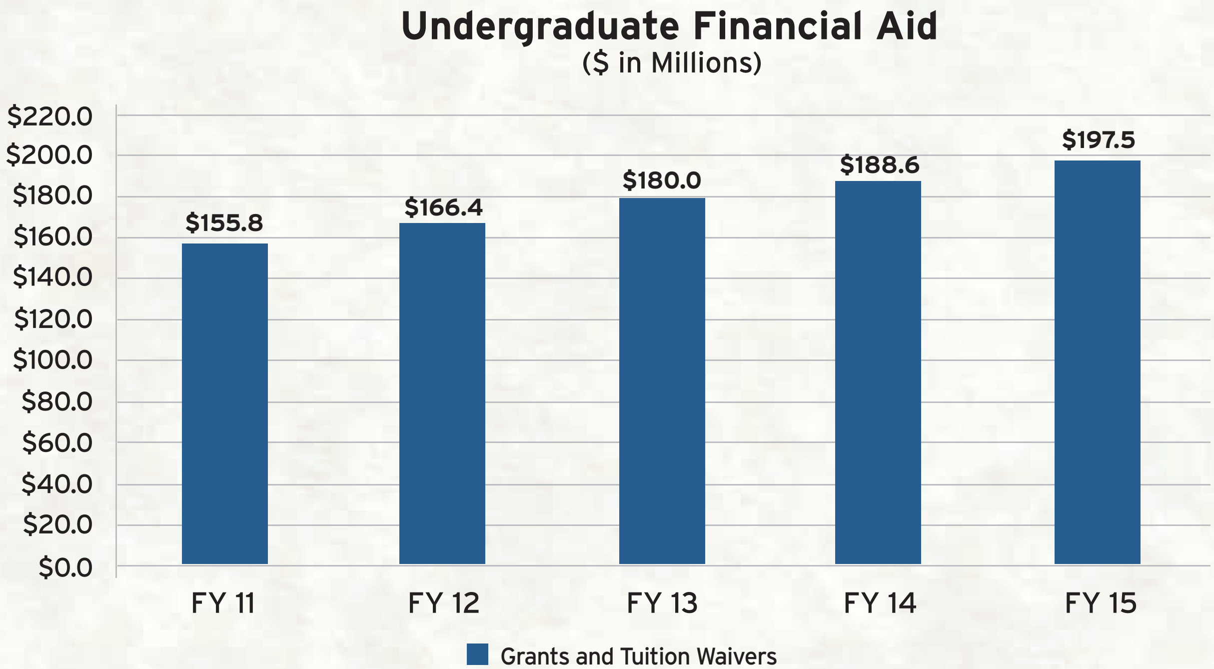
Operating Revenue

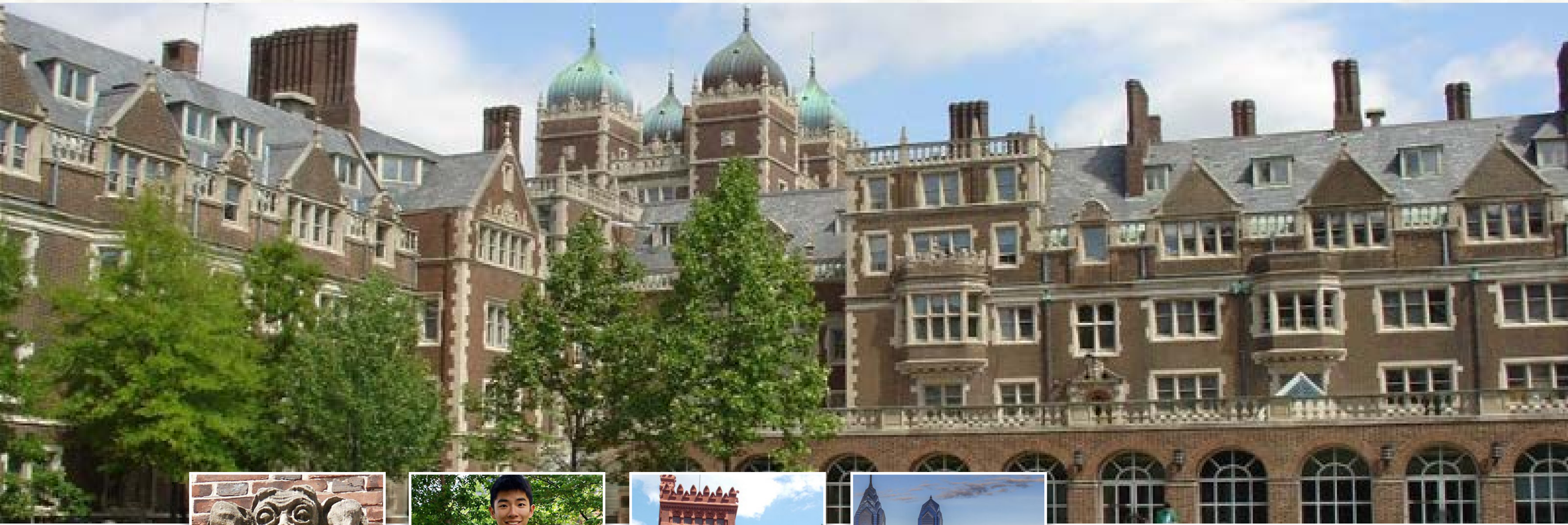
Total operating revenue increased by 7.7%, rising from $6.6 billion in FY14 to $7.1 billion in FY15. Nearly every source of revenue increased over the prior year.

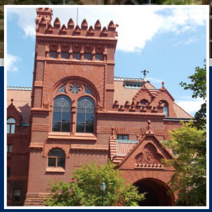


Tuition and Fees/Student Financial Aid

Tuition and student fee revenue increased 3.4% over FY14, from $817.3 million to $845.3 million, representing 11.9% of total operating revenue in FY15. This total is net of $306.8 million in undergraduate and graduate financial aid — grants and scholarships — which increased by $12.2 million (+4.1%) over the prior fiscal year.







In fulfillment of the goals of the Penn Compact 2020, the University continues to offer an unparalleled education to the students of families from all income levels with its commitment to meet 100% of a student's determined financial need. Penn's commitment to inclusion and increasing access is evidenced in its all-grant undergraduate financial aid packages, as well as its need-blind admission policy, in which admission decisions are independent of a student's ability to pay.

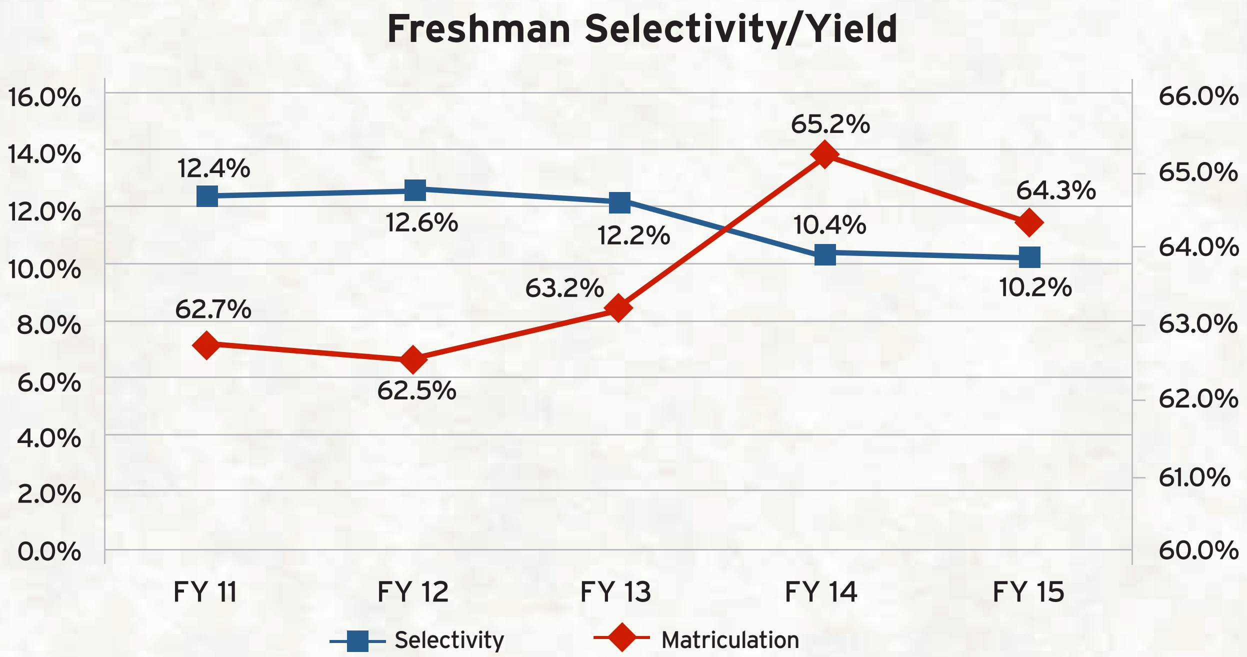
The average University grant-aided freshman aid package was $45,194, an increase of 2.0% over the previous year, and an increase of 34.5% over the average aid package of $33,608 in fiscal year 2008, the year the all-grant aid policy was announced.

Year after year, Penn's stellar graduate program and incomparable educational resources attract the most exceptional graduate and professional students with new fellowships, grants, and programs. With generous support from Penn's diverse network of donors, the University continued to deliver on its promise to provide increased financial aid to our graduate and professional students. Approximately 7,600 graduate and professional students and PhD candidates funded all or part of their education from financial aid, receiving $174.2 million in grants, including teaching and research fellowships, $209.2 million in educational loans and $2.2 million in work-study programs.

Penn's student aid is primarily supported by operating funds, which provided 77.6% of the support, with the remaining 22.4% coming from endowment income. The University's endowment spending policy was modified in FY09 to establish a dual—payout rate strategy to further our commitment to increasing access. In FY15, the dual payout rates were 6.5% for student financial aid and 4.7% for all other uses. Beginning in FY16, there will be a three year phase-out of the higher spending rule rate for aid endowments. Over the past five years, financial aid from the endowment has increased by 38.3% and aid from operating funds has increased by 30.8%.

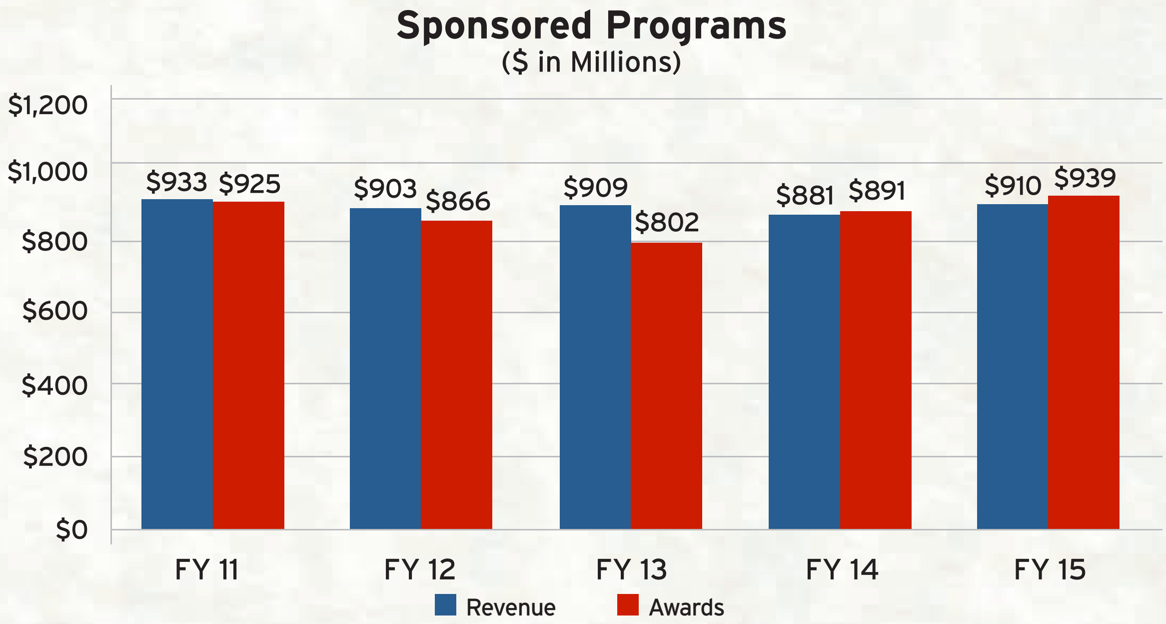
Admissions

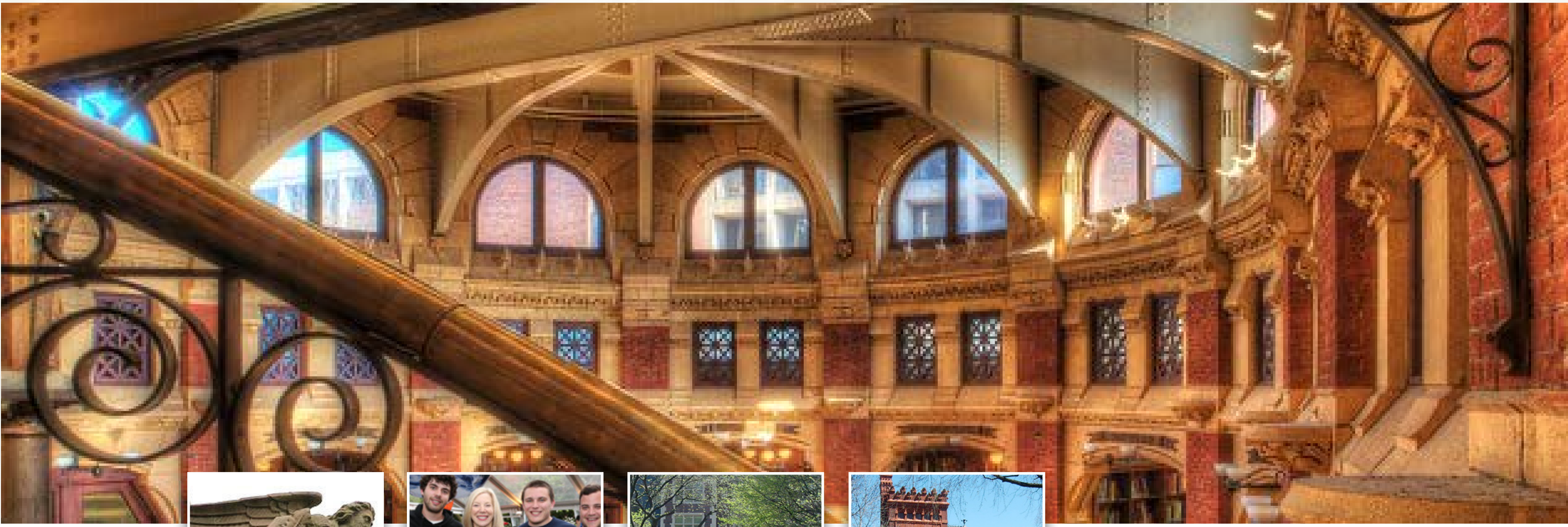
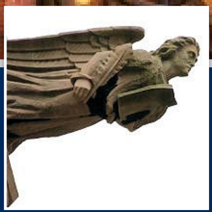
Student demand in FY15 increased 3.9% over FY14, with 37,268 applications for the freshman class that entered in the fall of 2015. Of this applicant total, 3,787 were admitted and 64.3% of those admitted chose to matriculate at Penn. The trend of highly selective admission and high matriculation rates over the past five years has continued as a result of recruiting the most talented applicants.

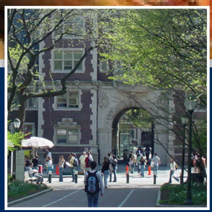


Sponsored Programs

Sponsored program revenue, comprised of funding from government and private-sponsored grants and contracts, represented 12.8% of total operating revenue and increased 3.2% from the prior fiscal year, from $881.3 million to $909.9 million. In FY15, a total of $683.8 million, or 75.2%, of sponsored program revenue came from the federal government, the largest source of research funding for the university. Of the federal government amount, $521.8 million, or 76.3%, came from the National Institutes of Health (NIH). Industry and foundations accounted for $177.3 million, or 19.5%, of total sponsored program revenue. Total awards issued to Penn in FY15 increased by 5.4%, from $890.6 million to $938.8 million.






Research at Penn is pushing the frontiers of cell and gene therapy enabled by multi-million dollar grants from industrial and federal sponsors. In the Perelman School of Medicine Jean Bennet, MD, PhD and her team are finding strategies to treat inherited blindness, Carl June, MD and his team have found promising new treatments for cancer, and James Wilson, MD, PhD team is advancing science underlying genetic disease. This year Penn received 5 large interdisciplinary grants from the National Science Foundation for nearly $20M. Professor Russ Composto of the School of Engineering and Applied Science launched an international collaboration entitled REACT (Research and Education in Active Coating Technology) that is advancing technologies to enable water purification, bacteria suppression and energy conversion, some of the most serious global challenges today.

Contributions

FY15 contributions, defined as new gifts and pledges, totaled $322.1 million, a $200.9 million decrease from the FY14 post-campaign total of $523.0 million. FY15 contributions are comprised of $134.9 million to support operations, $154.6 million restricted endowment, $10.7 million to unrestricted ("quasi") endowment, and $21.9 million towards capital.

During FY15, Penn received 88 gifts of more than $1 million, with 25 of those coming from first-time donors at that level. Contributions to the Penn Fund increased 2.2% from $31.6 million to $32.3 million and annual giving increased by 7.0% from $68.3 million to $73.1 million. There were 92 new endowed undergraduate scholarships.

Investment Income

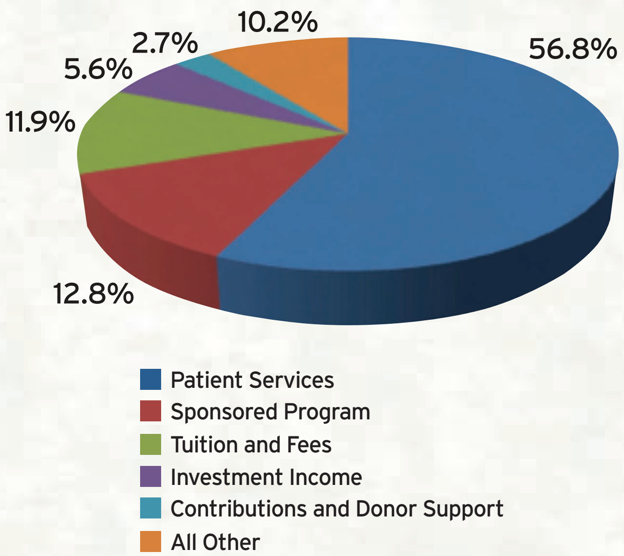
Operating investment income, primarily endowment paid out in accordance with the University's spending rule policy, increased by $25.0 million (+6.6%) from $377.1 million in FY14 to $402.1 million in FY15. The spending rule policy is described in more detail under the Endowment section of this report.

Other Revenue Sources

Other operating revenue sources for the Consolidated University totaled $724.8 million, representing 10.2% of total revenue, and include appropriations from the Commonwealth of Pennsylvania, sales and services of auxiliary enterprises, revenue from independent operations and other income. Commonwealth appropriations, which predominantly provides support for the University's School of Veterinary Medicine, decreased by 0.3%, from $31.6 million to $31.5 million in FY15. Other income increased 12.7% from $445.2 million in FY14 to $501.7 in FY15. The increase was driven primarily by increased commercialization of intellectual property as well as growth in the specialty pharmacy area for the Health System.

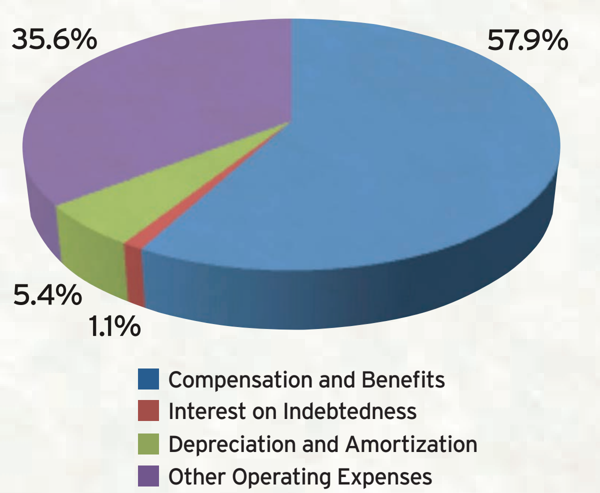
FY 15 Operating Revenues by Source

$7.1 Billion



FY 15 Operating Expenses by Source

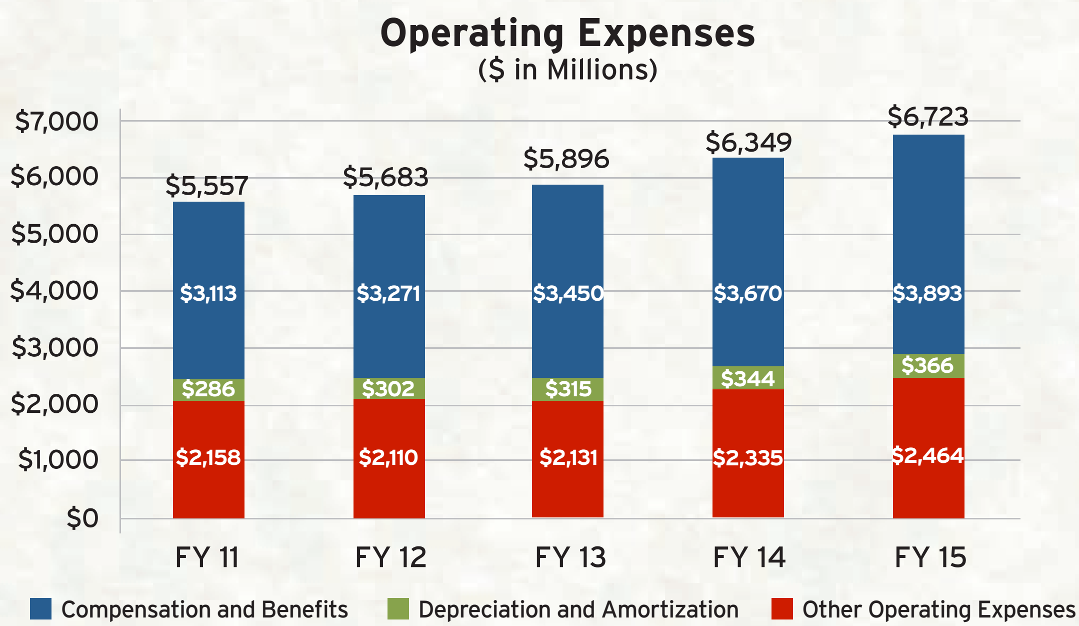
$6.7 Billion



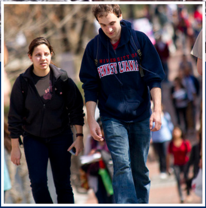
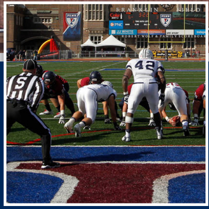
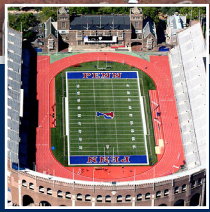
Operating Expense

Total operating expenses increased by 5.9%, rising from $6.4 billion in FY14 to $6.7 billion in FY15. Compensation and benefits, the combination of salary, wages and employee fringe benefits, is the largest expense component, representing 57.9% of total operating expenses. Salaries and wages increased from $2.9 billion in FY14 to $3.0 billion in FY15. Employee benefits increased from $816.7 million in FY14 to $847.5 million in FY15. These increases are primarily due to general wage and staffing increases.

Depreciation and amortization of $366.3 million, representing 5.4% of total operating expenses, increased 6.6% over FY14. Interest on indebtedness totaled $73.1 million, accounting for 1.1% of total operating expenses. Interest expense decreased 2.7% from FY14 to FY15, reflecting in part savings from refunding of certain outstanding debt issues.





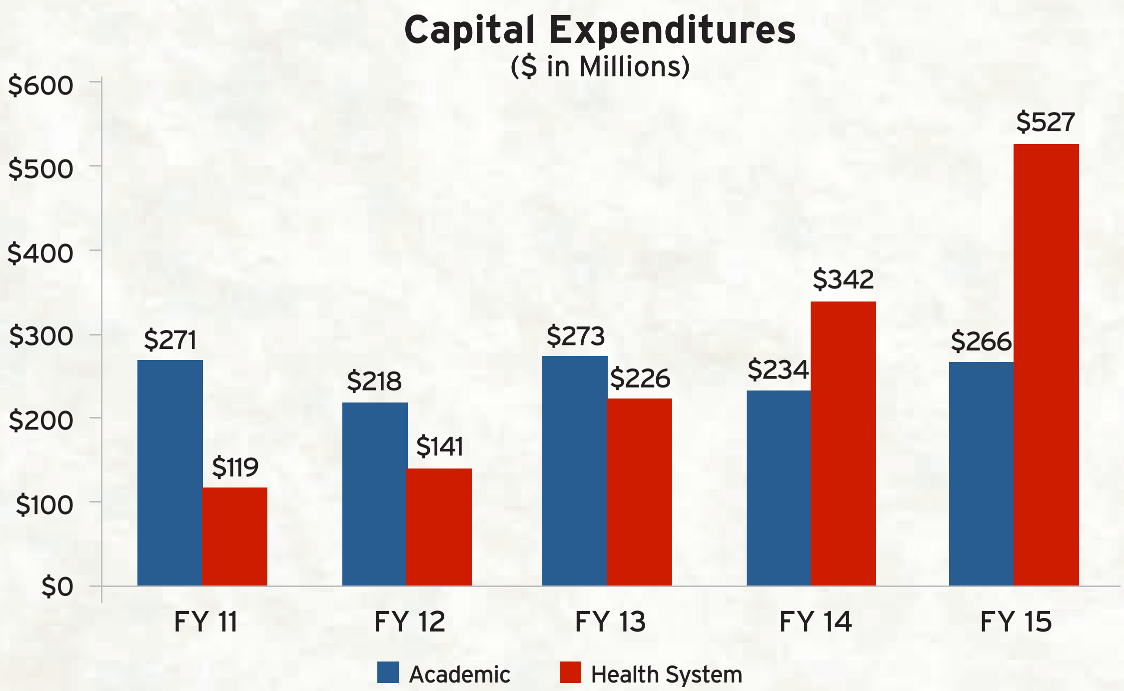
Other operating expenses, predominantly purchases of supplies and services, increased 5.8%, from $2.3 billion in FY14 to $2.4 billion in FY15, and represent 35.6% of total operating expense.

Capital Expenditures

Capital expenditures for the Consolidated University increased from $575.9 million in FY14 to $793.3 million in FY15.

In FY15, capital expenditures for the academic portion of the University totaled $265.7 million, up from $234.4 million in FY14. Several major projects were completed or continued, including several energy efficiency projects funded by the Century Bond program to upgrade HVAC and lighting in several campus buildings and renovation projects. Additionally in FY15, work continued on two major projects, the New College House and the Neural Behavioral Science Building.

FY15 also marked the groundbreaking of the Pennovation Center which is anticipated to open in FY16. The Pennovation Center is a 58,000 square foot space housing many of the Penn Center for Innovation's (PCI) start-up programs and activities that will nurture collaboration among researchers, innovators and entrepreneurs to foster interaction, creativity, and discoveries, and is located at the Pennovation Works, (formerly known as South Bank) across the Schuylkill River from Penn's main campus. The Pennovation Works 23-acre site will house a unique blend of offices, labs, and production space being developed by the University to connect and commercialize the enormous creative potential at Penn and the surrounding region as well as to further economic development.



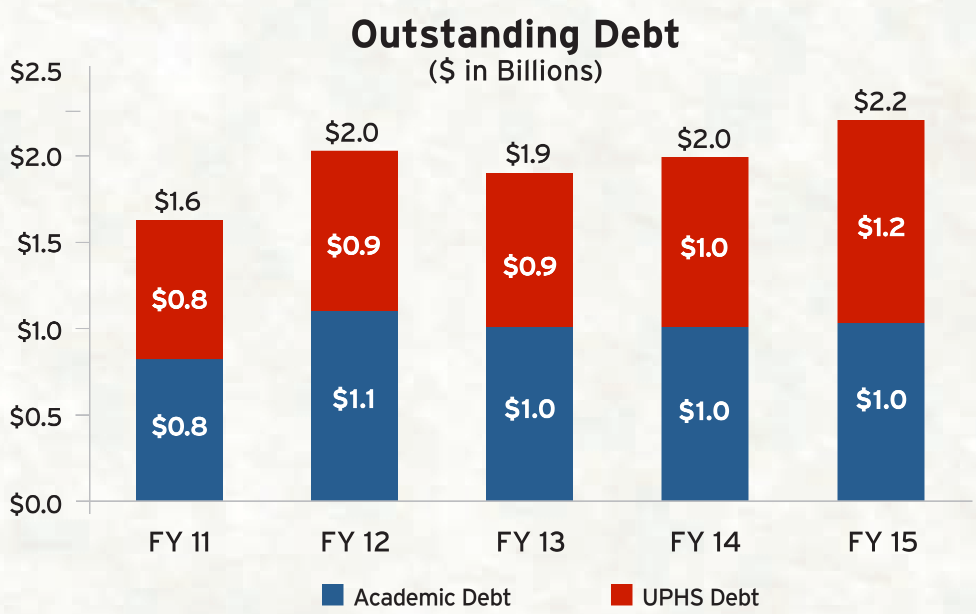
In accordance with the mission of *Penn Connects 2.0*, a plan to transform Penn's campus and establish a University presence along the Schuylkill River Corridor, the University has planned numerous additional capital projects to further integrate Penn's twelve schools and academic centers. These projects will result in providing a supportive learning environment to encourage connections on campus and throughout the community while upholding the University's sustainability goals and development objectives.

In addition to these capital initiatives, the University of Pennsylvania Health System invested $527 million in capital in FY15, described in more detail in the University of Pennsylvania Health System section of this report.

Debt

Consolidated debt totaled $2.2 billion in FY15, an increase of $204.2 million, or 10.3%, from FY14.

The University and UPHS carefully monitor debt and liquidity levels while preserving working capital as strategic plans for infrastructure growth and maintenance needs are implemented. During FY15, given a favorable interest rate environment with historically low rates and a number of debt maturities approaching call dates, the University seized the opportunity to refinance existing debt for savings and to restructure debt to better match the longer asset life. Additionally, UPHS issued $150 million in new debt to be used primarily for the future development of the Hospital of the University of Pennsylvania (HUP) campus. The University closed on $378.8 million refunding bonds in April, 2015, and the Health System successfully closed on $357.6 million of Series 2015 Revenue Bonds in May 2015. In combination, these transactions yielded an impressive total net present value savings of approximately $45 million.



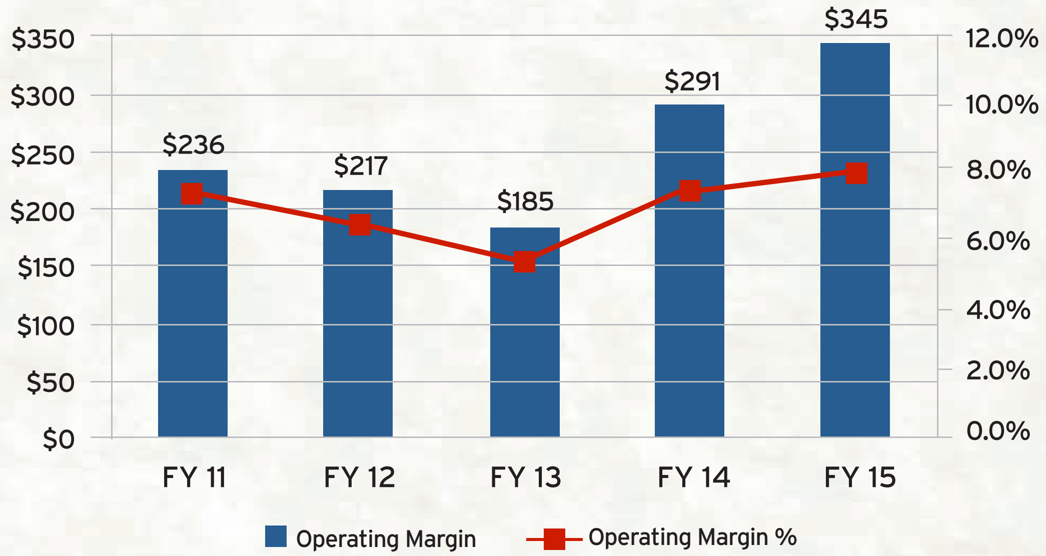
Penn's credit rating from Standard and Poor's and Moody's Investors Services is "AA+/Aa2" for the Consolidated University and "AA-/Aa3" for the Health System. In FY15, Moody's upgraded the University's outlook from stable to positive.

University of Pennsylvania Health System

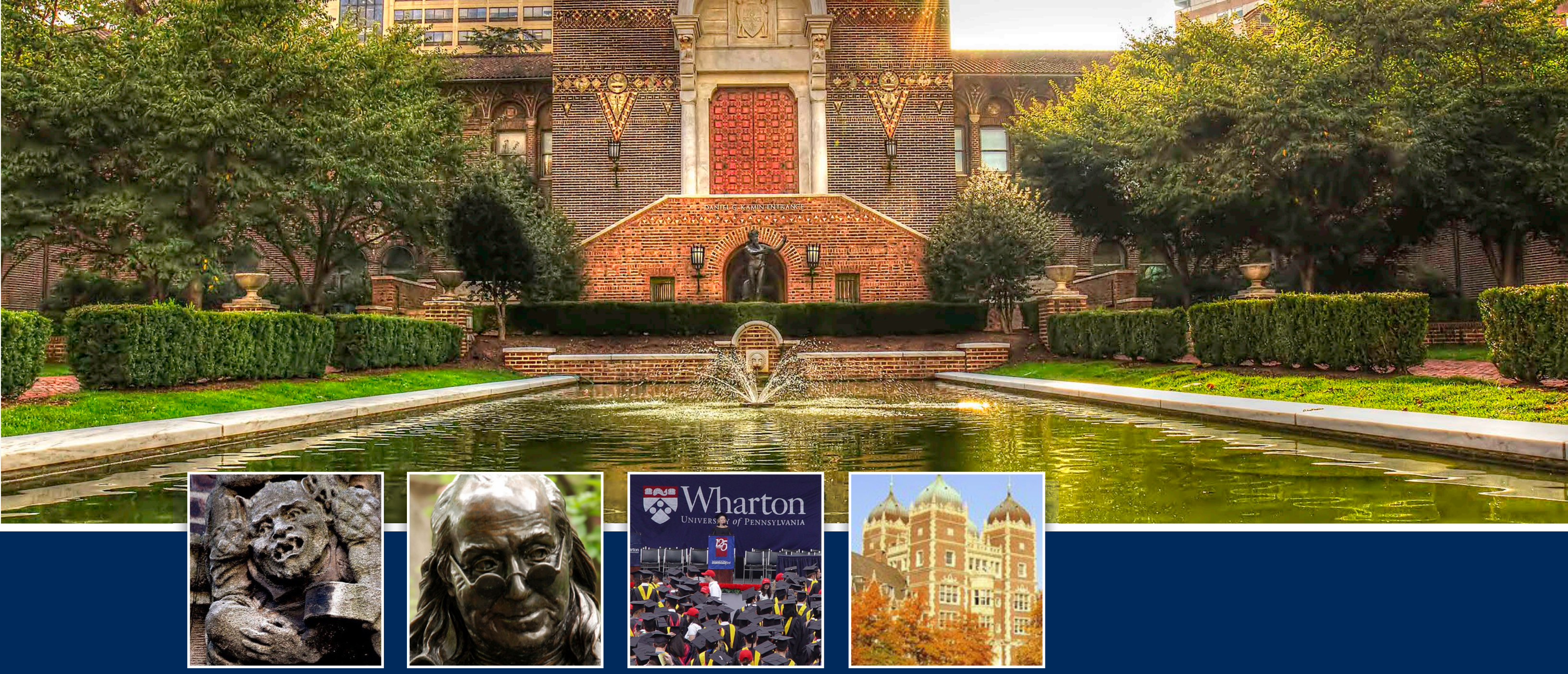
The University of Pennsylvania Health System (UPHS) includes four major hospitals – the Hospital of the University of Pennsylvania (HUP), Pennsylvania Hospital (PAH), Penn Presbyterian Medical Center (PPMC) and Chester County Hospital. On September 1, 2013, under terms of a member substitution, the Chester County Hospital and Health System (TCCHHS) became part of UPHS. With the faculty-based Clinical Practices of the University of Pennsylvania (CPUP), home care and hospice services, and physician practices and facilities in communities throughout the Delaware County, UPHS is recognized world-wide as a premier health system. The University's Perelman School of Medicine (PSOM) joins with the Health System as a part of Penn Medicine, a leader among the nation's research institutions with a three-part mission to pioneer research, achieve academic excellence and provide outstanding clinical care.

The University of Pennsylvania Health System marked its fifteenth consecutive year of positive operating performance. The FY15 UPHS net operating income of $345.2 million represents an increase of $53.8 million compared to FY14. Patient services revenue, the largest revenue component at 56.8% share of total Consolidated University operating revenue, increased by 9.2% from $3.7 billion in FY14 to $4.0 billion in FY15. For FY14, the Statement of Activities reflects ten months of TCCHHS activity.

UPHS Operating Margin
($ in Millions)

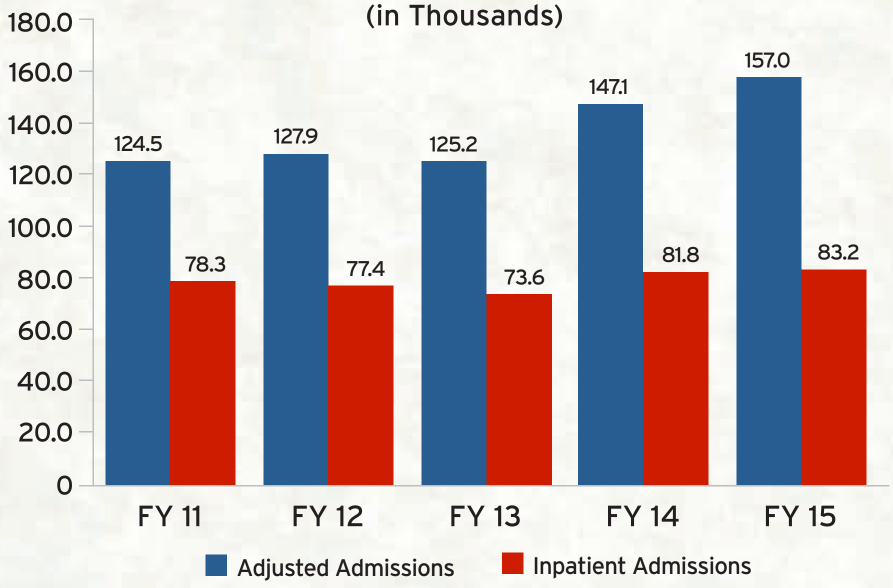


Total UPHS operating revenues for FY15 were $4.3 billion, reflecting a $386.4 million increase over the prior year. Total adjusted admissions — admissions adjusted for outpatient activity — were higher than the prior year by 6.7%. Patient acuity, as measured by case mix index (CMI), increased 3.0% over the prior year. Activity growth in target outpatient programs such as chemotherapy, proton therapy and outpatient surgery contributed to the revenue growth.



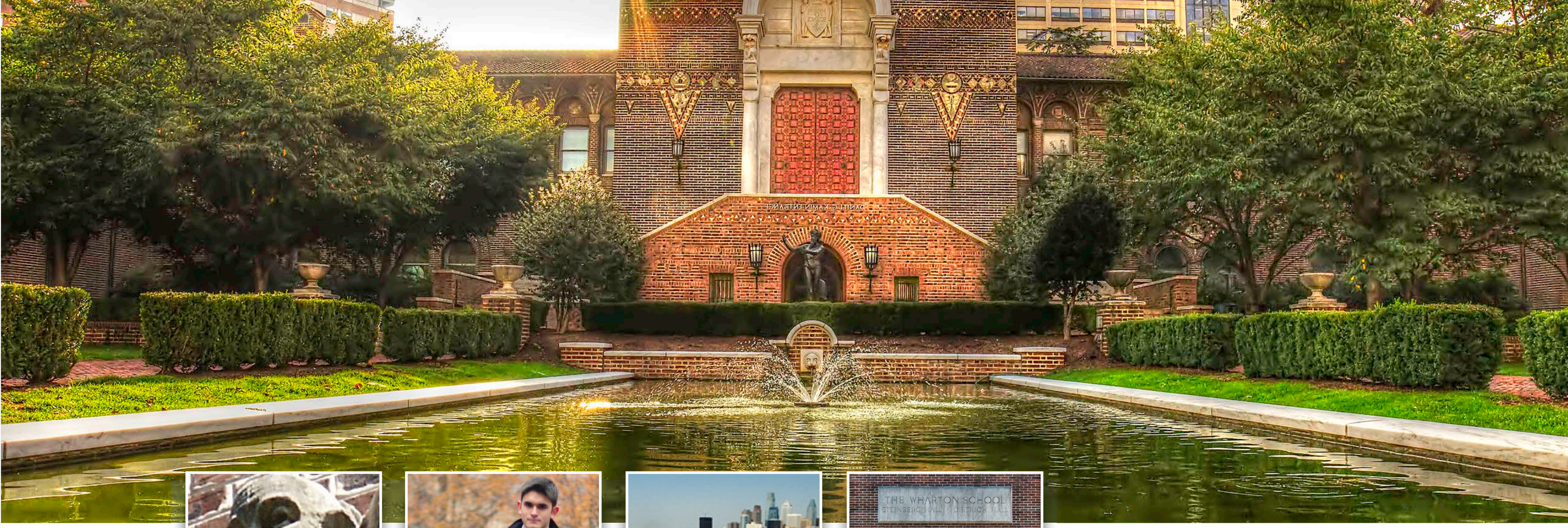
UPHS Adjusted and Inpatient Admissions

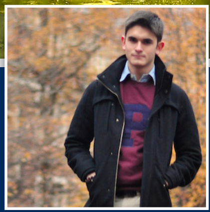
(Adjusted for outpatient activity)
(in Thousands)

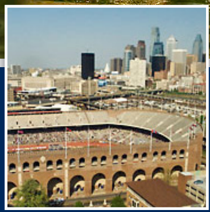


UPHS operating expenses for FY15 were $4.0 billion, an increase of $332.7 million over the prior year. Strong expense management limited expenses to a lower rate of growth than revenue.

Increase in net assets for the Health System for FY15, including non-operating revenue and realized/unrealized gain on investments, totaled $156.4 million, which was lower than the prior year by $406.4 million. The lower increase was primarily due to the $156.3 million contribution recognized in FY14 related to the TCCHHS membership substitution, lower investment returns and the $139.8 million pension and other postretirement plan adjustment attributable to actuarial changes reflecting updated mortality assumptions.







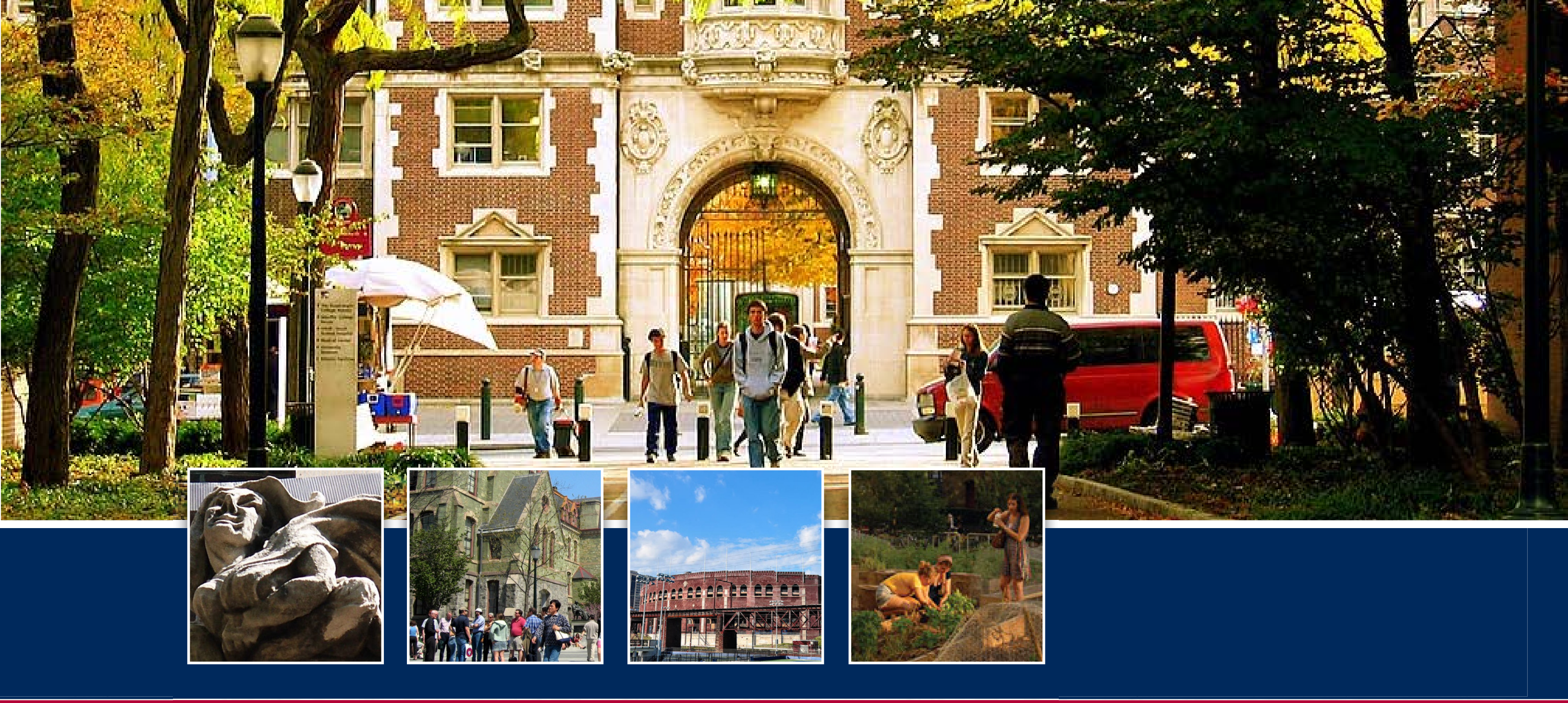
Days cash on hand in FY15 was 226 days, compared to 241 days for the prior year. Debt-to-capitalization was 34.3%, compared to 31.8% for the prior year due to the issuance of $150.0 million in new debt.

UPHS capital expenditures for FY15 were $527.0 million, an increase of $185.0 million over the prior year. FY15 was the first year of operation for Penn Medicine at University City (PMUC) and the Pavilion for Advanced Care (PAC) at Penn Presbyterian Medical Center (PPMC). PMUC is a 150,000 square foot outpatient facility that offers advanced treatment options and various specialties under one roof. PAC, a 178,000 square foot acute care facility, provides overall upgrades and greater capacity to PPMC and has also supported the trauma program move from the Hospital of the University of Pennsylvania (HUP). Additionally, the Perelman Center South Pavilion Extension was completed in FY15.

Endowment

The University of Pennsylvania's endowment totaled $10.1 billion as of June 30, 2015, an increase of $551.2 million over the past year. Penn's endowment is comprised of over 6,500 individual endowment funds benefiting the University's schools, centers, and Health System.

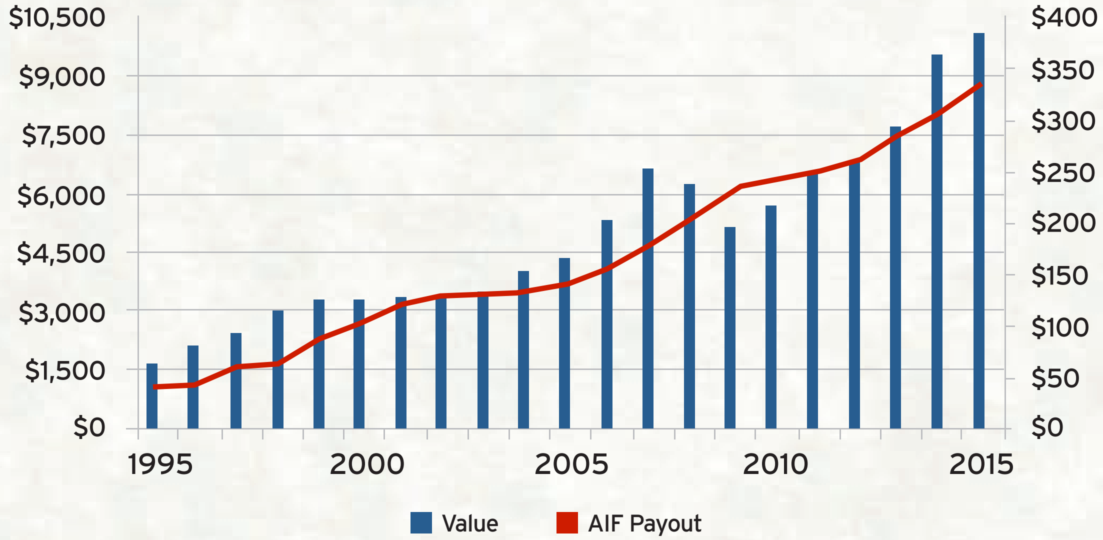
The vast majority of Penn's endowment is invested in the Associated Investments Fund (AIF), a pooled investment vehicle in which the many individual endowments and trusts hold shares or units. An Investment Board appointed by the Trustees of the University oversees the investment of the AIF. The University's Office of Investments is responsible for the day-to-day management of the AIF and implements the policies approved by the Investment Board.

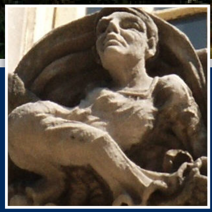


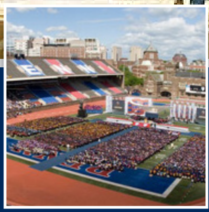
The purpose of Penn's endowment is to provide stable and perpetual support for the mission and programs of the University. Achieving this objective requires an investment and spending program that supports intergenerational equity. The AIF must provide substantial and stable spending today, but it also must preserve purchasing power in order to provide comparable resources to future generations. Penn seeks to resolve the tension between these competing needs by investing in a diversified, equity oriented portfolio and by adhering to a disciplined spending rule that smooths the impact of changes in AIF value on the operating budget.

Endowment Growth and AIF Payout

($ in the Millions)

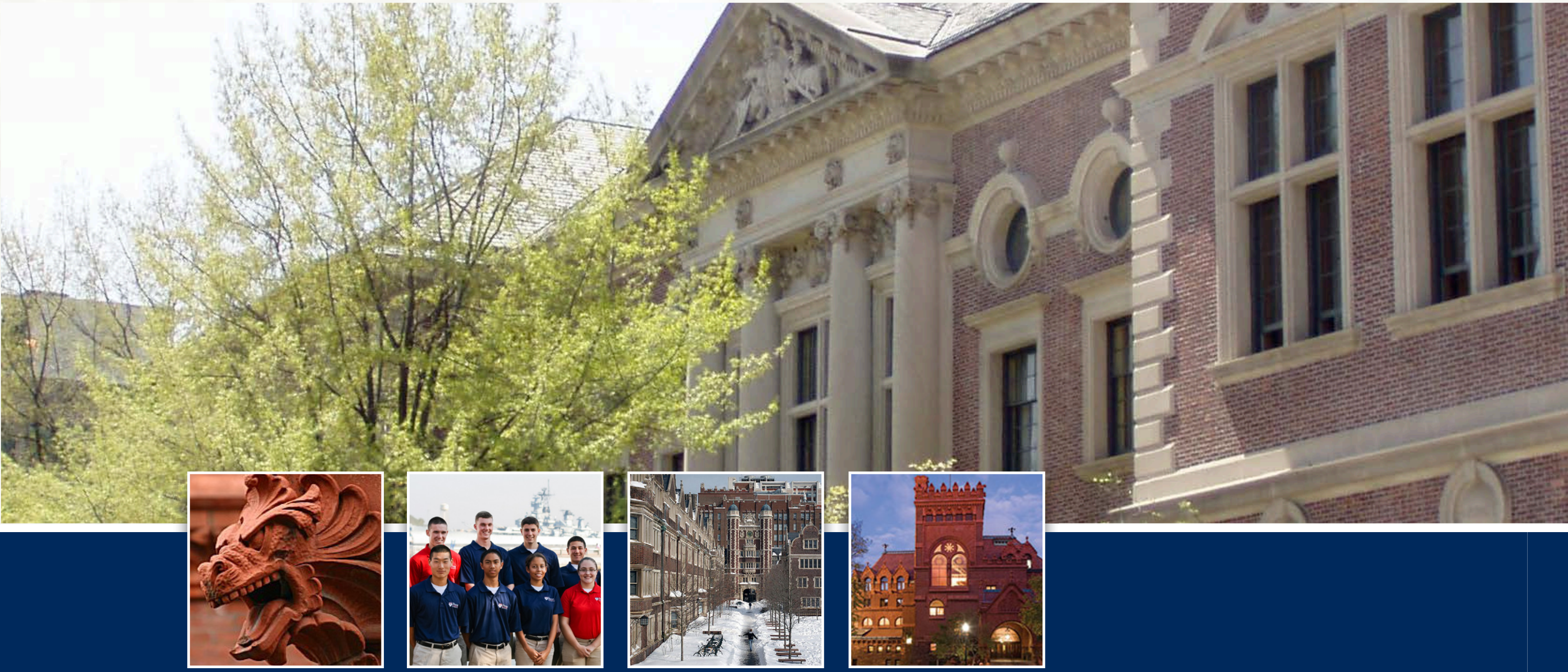






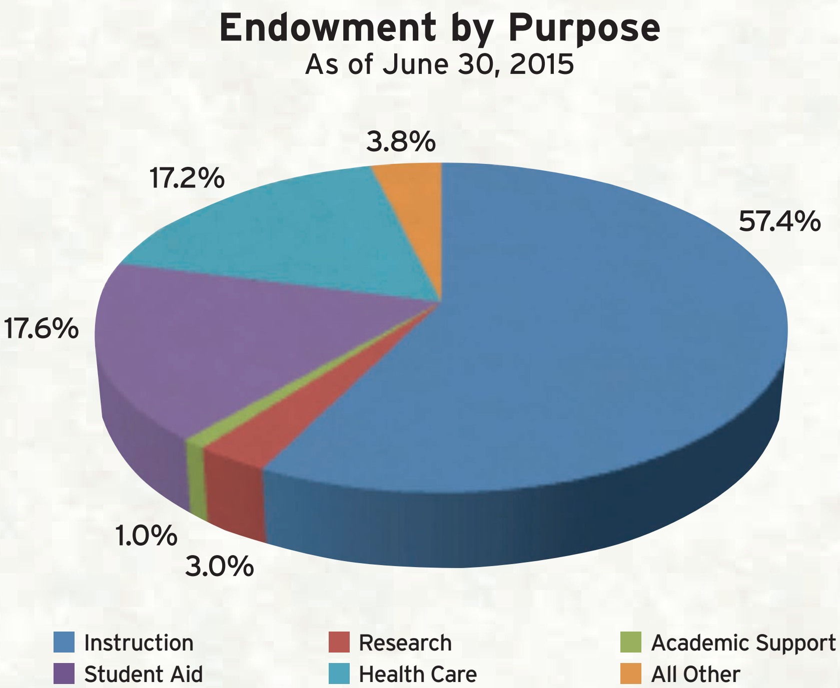
The University's endowment spending policy balances the objectives of maximizing budgetary support to endowed programs and maintaining purchasing power of the endowment into perpetuity. The actual payout in any given year is determined by a formula designed to smooth the impact of short-term changes in the endowment's value on spending distributions. 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 lagged fiscal year-end fair value of the AIF, multiplied by 6.5% for financial aid funds and 4.7% for all other funds.

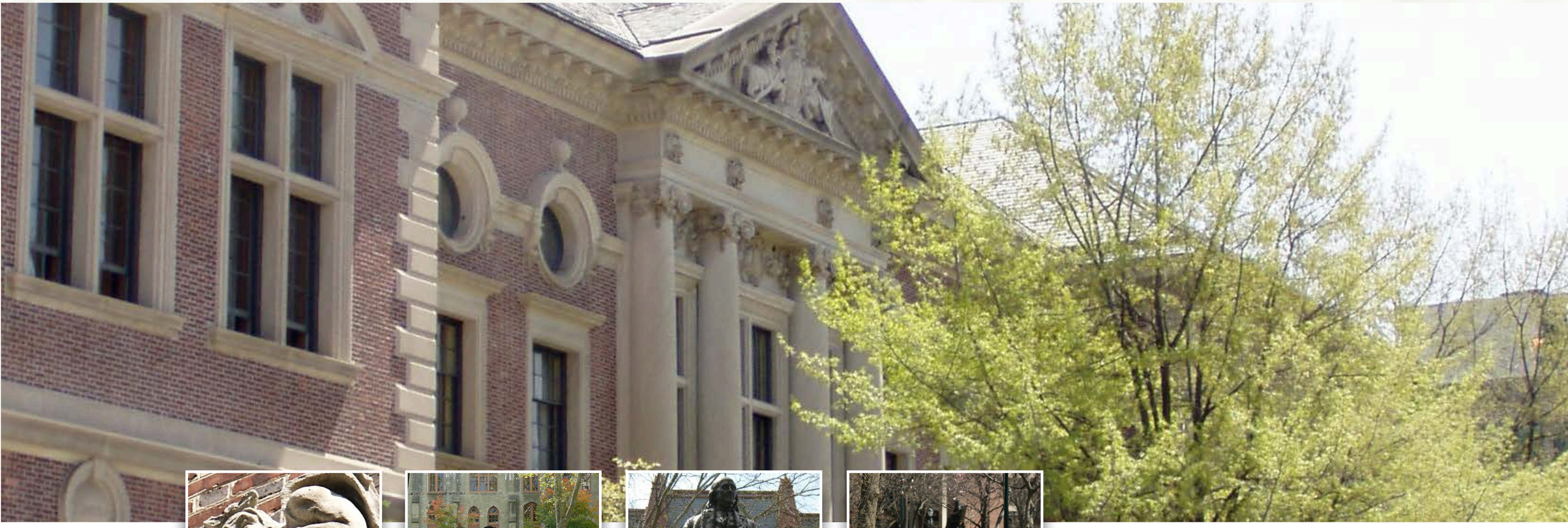
Payouts from the endowment provided $342.2 million in budgetary support to the University during the fiscal year. Spending support from the AIF for University operations has grown steadily over the past decade, increasing even through the financial crisis. For the year ended June 30, 2015, spending distributions from the AIF, which were $336.5 million of the total endowment payout, supported approximately 11.5% of the University's academic operating budget.



The endowment supports a wide range of purposes across the institution, with the significant majority of funds dedicated to instructional use and student financial aid.

The University temporarily increased the multiplier for financial aid funds in 2009 with the implementation of the expanded financial aid program. This rate will converge back to 4.7% over the next three years.

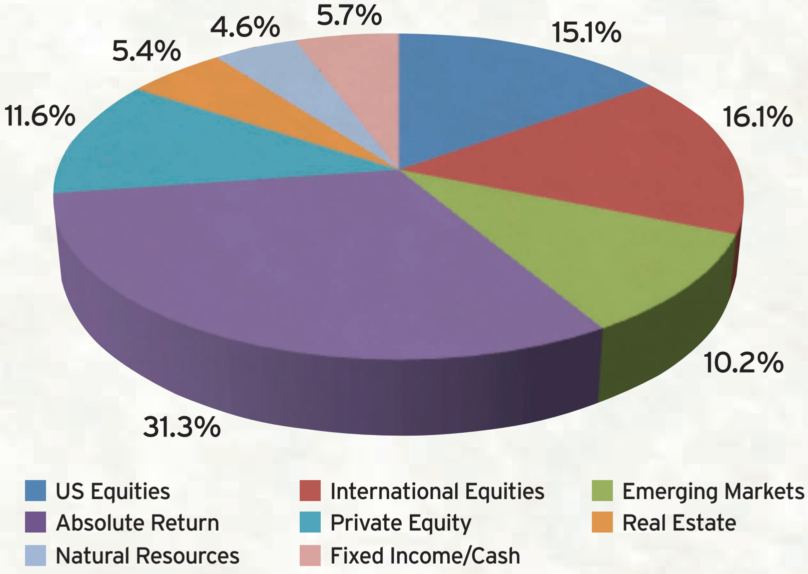


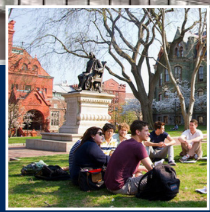


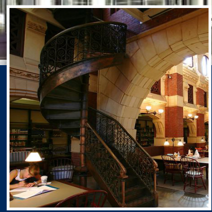
AIF Investment Program

Penn builds its investment program around several simple tenets. First, in order to achieve the high returns necessary to preserve purchasing power after spending, the AIF is invested with a strong equity orientation. With the exception of fixed income, Penn expects that all asset classes in which it invests can earn equity-like returns over long periods of time. Second, Penn builds a portfolio that is diversified across different fundamental drivers of return. The University focuses on areas with the greatest inefficiencies across asset classes, strategies, and geographies. Finally, Penn capitalizes upon the perpetual nature of the University to invest with a long time horizon, creating a significant advantage relative to the many market participants who must focus on near-term certainty instead of long-term attractiveness when evaluating investments.

AIF Asset Allocation
As of June 30, 2015



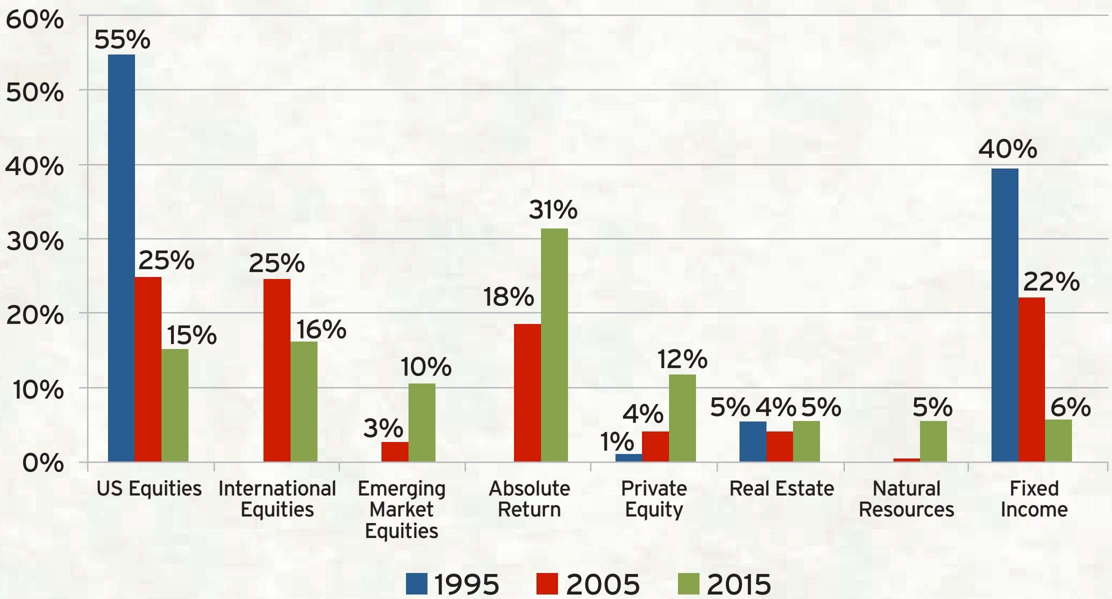




Penn has established a Strategic Asset Allocation (SAA), with investment class target ranges which represent reasonable allocation ranges for the portfolio in a normal environment. Portfolios within these ranges reflect the broad equity orientation and diversification that Penn seeks. The SAA guidelines consist of ranges rather than point targets, a reflection of the impossibility of knowing the future investment opportunity set facing the University. As the portfolio evolves towards the SAA ranges, Penn uses an Interim Policy Portfolio (IPP) to guide our asset allocation over shorter periods. Over time, we expect the IPP to approach the SAA ranges.

Penn revisits its asset allocation ranges and targets periodically to ensure that they appropriately reflect both the University's long-term investment needs and the opportunity set facing Penn. The most recent review occurred in June 2015.

Penn's Portfolio Diversification Over Time



The evolution of Penn's asset allocation towards a stronger equity orientation, greater diversification and more inefficient markets has been steady over time.

The AIF portfolio includes investments in illiquid funds, some of which require Penn to make capital commitments that will be drawn down and invested over a period of time. As of June 30, 2015, the AIF had $2.1 billion in outstanding commitments to various limited partnerships. The AIF maintains a conservative liquidity profile and can meet these commitments easily in both normal environments and periods of market stress or dislocation.

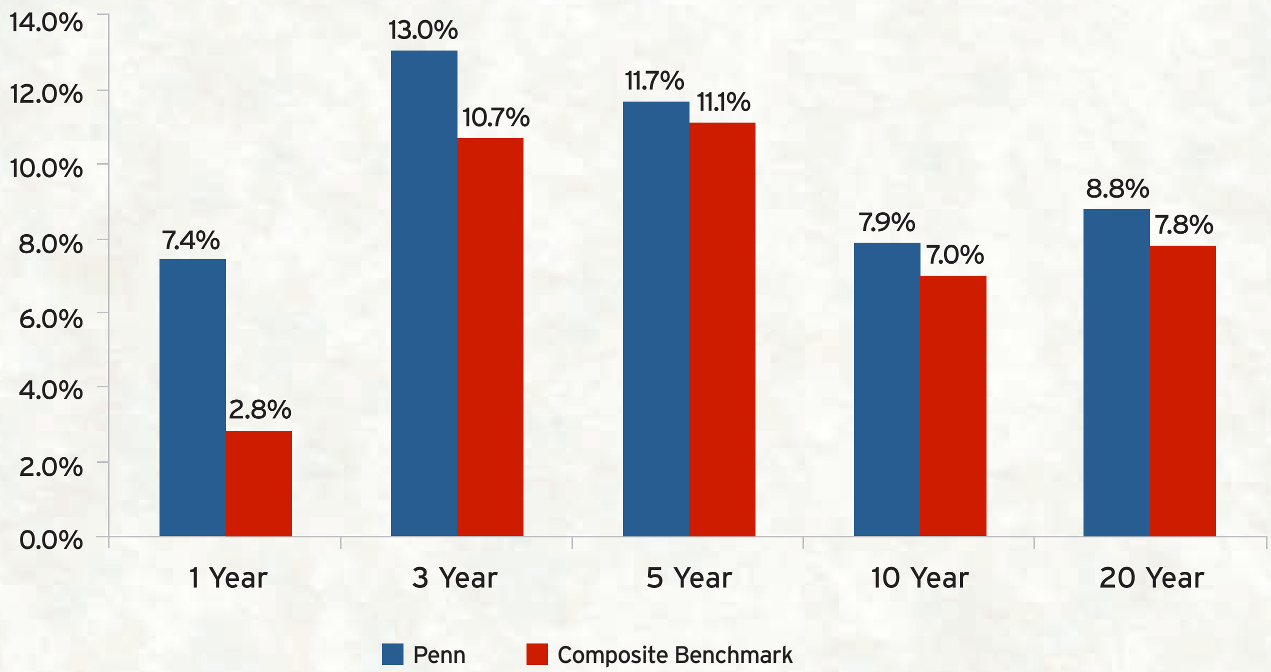
AIF Performance

The AIF returned 7.4% in FY15, which resulted in gains of $656.3 million. After spending, gifts and other transfers, the AIF increased by $560.3 million, ending the fiscal year with a value of $9.7 billion. The broad endowment ended the year at $10.1 billion, an increase of $551.2 million.

Performance for the year was led by the extraordinary returns from Penn's venture capital portfolio, which was bolstered by continued private investor exuberance for early and growth-stage technology-related business. The AIF benefited from strong performance in a number of other asset classes as well. Penn's developed foreign equity and emerging equity portfolios produced significant outperformance, benefitting from the wide dispersion in country, currency and security returns over the past year. Absolute return generated solid performance, outpacing equity markets. Real estate continued to rebound from the financial crisis, producing a strong return on the strength of solid leasing activity and robust exit markets. Penn's natural resources performance was negatively impacted by the sharp fall in commodity prices.

Penn's longer-term performance has enabled the AIF to exceed its goal of maintaining real purchasing power after spending distributions. Performance over time has also outpaced Penn's composite benchmark, a blend of asset class benchmarks.

Comparative Returns



Future Outlook

Drawing upon the enormous contributions from our esteemed faculty, dedicated staff and exceptional student body, Penn is well-positioned to build upon the impressive financial results and tremendous growth achieved in fiscal year 2015 in fulfilling all of its essential priorities. As we look towards fiscal year 2016 and beyond, Penn will continue to incorporate the tenants of *Penn Compact 2020: Building on a Decade of Progress*, with an unrelenting focus on increasing access to Penn's world-class education, fostering pathways to innovation, and implementing plans to advance our impact in even more far-reaching ways than ever before. Notwithstanding continued budgetary pressures on federal and other governmental funding sources, volatility in the financial markets and changing health care economics, we have built a strong financial foundation with which to meet these strategic goals. As always, the generosity of our donors will continue to play a critical role in allowing Penn to carry out its mission and achieve excellence in all that we do.

Stephen D. Golding
Vice President for Finance and Treasurer

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, Pricewaterhouse Coopers 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

Independent Auditor's Report

To the Trustees of the University of Pennsylvania:

We have audited the accompanying consolidated financial statements of the University of Pennsylvania (the “University”), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

October 2, 2015

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19013-7042
T: (267) 330 - 3000, F: (267) 330 - 3000, www.pwc.com/us

Consolidated Statements of Financial Position

University of Pennsylvania
(in thousands)

	June 30, 2015	June 30, 2014
Assets		
Cash and cash equivalents	$ 933,984	$ 1,116,472
Accounts receivable, net of allowances of $13,480 and $15,856	312,577	298,512
Patient receivables, net of allowances of $178,299 and $177,599	464,309	401,490
Contributions receivable, net	271,574	328,522
Loans receivable, net of allowances of $3,892 and $3,656	97,047	94,078
Other assets	200,927	181,646
Investments, at fair value	11,565,722	10,800,334
Plant, net of depreciation	5,154,095	4,781,561
Total assets	$ 19,000,235	$ 18,002,615
Liabilities		
Accounts payable	$ 188,870	$ 186,556
Accrued expenses and other liabilities	1,429,762	1,425,904
Deferred income	170,099	165,699
Deposits, advances, and agency funds	116,133	122,098
Federal student loan advances	80,349	79,938
Liabilities associated with investments	207,158	183,211
Accrued retirement benefits	1,127,085	881,787
Debt obligations	2,189,759	1,985,585
Total liabilities	5,509,215	5,030,778
Net assets		
Unrestricted	7,153,207	6,869,201
Temporarily restricted	3,026,715	2,960,272
Permanently restricted	3,311,098	3,142,364
	13,491,020	12,971,837
Total liabilities and net assets	$ 19,000,235	$ 18,002,615

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

Consolidated Statements of Activities

University of Pennsylvania
for the years ended June 30, 2015 and 2014
(in thousands)

	2015	2014
Unrestricted		
Revenue and other support:		
Tuition and fees, net	$ 845,313	$ 817,285
Commonwealth appropriations	31,514	31,617
Sponsored programs	909,869	881,298
Contributions and donor support	193,417	175,580
Investment income	402,059	377,122
Net patient service revenue	4,044,499	3,705,148
Sales and services of auxiliary enterprises	119,196	112,446
Other income	501,673	445,190
Independent operations	72,457	64,836
	7,119,997	6,610,522
Expenses:		
Compensation and benefits	3,892,829	3,670,471
Depreciation and amortization	366,290	343,506
Interest on indebtedness	73,092	75,123
Other operating expenses	2,390,904	2,259,698
	6,723,115	6,348,798
Increase in net assets from operations	**396,882**	**261,724**
Nonoperating revenue, net gains, reclassifications and other:		
Gain on investments, net	285,137	614,487
Investment income, net of amounts classified as operating revenue	(98,594)	(80,486)
Pension, OPEB and other, net	(339,626)	(39,856)
Contributions and donor support for capital related activities	40,207	180,206
Total nonoperating revenue, net gains, reclassifications and other	(112,876)	674,351
Increase in unrestricted net assets	284,006	936,075
Temporarily Restricted		
Contributions	91,440	149,856
Gain on investments, net	316,822	710,697
Investment income	32,238	28,198
Net assets released from restrictions	(374,057)	(362,477)
Increase in temporarily restricted net assets	66,443	526,274
Permanently Restricted		
Contributions	151,909	170,042
Gain on investments, net	16,111	44,589
Investment income	714	731
Increase in permanently restricted net assets	168,734	215,362
Increase in net assets from nonoperating and restricted revenue, net gains, reclassifications and other	**122,301**	**1,415,987**
Increase in total net assets	**519,183**	**1,677,711**
Net assets, beginning of year	12,971,837	11,294,126
Net assets, end of year	$ 13,491,020	$ 12,971,837

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, 2015 and 2014
(in thousands)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	$ 519,183	$ 1,677,711
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	366,290	343,506
Provision for bad debts	236,210	247,502
Gain on investments, net	(618,070)	(1,369,773)
Loss on disposal of plant, property and equipment	57,392	8,638
Donated equipment	(939)	(4,503)
Proceeds from split-interest agreements designated for operations	22,530	22,500
Receipt of contributed securities	(67,154)	(78,201)
Proceeds from contributed securities	28,159	25,099
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(169,937)	(320,245)
Pension, OPEB and other, net	286,515	39,856
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(316,832)	(324,081)
Contributions receivable	58,091	10,379
Other assets	(33,545)	1,961
Accounts payable, accrued expenses and accrued retirement benefits	98,060	45,135
Deposits, advances and agency funds	(5,867)	(831)
Deferred income	4,400	(3,951)
Net cash provided by operating activities	464,486	320,702
Cash flows from investing activities:		
Purchase of investments	(10,443,898)	(9,021,417)
Proceeds from sale of investments	10,293,702	9,009,628
Purchase of plant, property and equipment	(793,332)	(575,857)
Cash acquired in Chester County Health System (TCCHHS) membership substitution	-	15,397
Net cash used by investing activities	(943,528)	(572,249)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	171,052	161,260
Proceeds from contributed securities received designated for the acquisition of long-lived assets and long-term investment	36,974	43,031
Federal student loan advances	411	898
Repayment of long-term debt	(61,883)	(178,540)
Proceeds from issuances of long-term debt	150,000	100,000
Net cash provided by financing activities	296,554	126,649
Net decrease in cash and cash equivalents	(182,488)	(124,898)
Cash and cash equivalents, beginning of year	1,116,472	1,241,370
Cash and cash equivalents, end of year	$ 933,984	$ 1,116,472
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 78,483	$ 78,899
Contributed securities received	67,154	78,201
Accrued plant, property and equipment acquisitions	111,737	165,233
Assets contributed under split-interest agreements	5,024	2,914
Assets acquired in TCCHHS membership substitution	-	275,183
Liabilities assumed in TCCHHS membership substitution	-	118,883
Contribution received in TCCHHS membership substitution	-	156,300

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

1. Significant Accounting Policies

Organization

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

Basis of Presentation

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

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

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

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

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

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

Consolidated Notes to Financial Statements

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

Temporarily Restricted

	2015	2014
Net assets released from restrictions	$ (374,057)	$ (362,477)

Unrestricted

	2015	2014
Contributions and donor support	$ 114,707	$ 102,813
Investment income	219,143	209,766
Contributions and donor support for capital related activities	40,207	49,898
Net assets released from restrictions	$ 374,057	$ 362,477

Gains or losses associated with investment activities are included in net gains (losses) on investments. Gains or losses associated with all other activities, such as property, plant and equipment sales, debt retirements and pension and postretirement plan actuarial valuation adjustments are reported in Pension, Other post-retirement employee benefits (OPEB) and other, net.

Certain reclassifications have been made to previously reported amounts in the Consolidated Notes to Financial Statements to conform to the current presentation.

The University monitors for material subsequent events that may require adjustment to or disclosure in the consolidated financial statements through October 2, 2015, the date the consolidated financial statements were available to be issued.

Fair Value

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

Assets and liabilities are disclosed in the Consolidated Notes to Financial Statements within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. The University's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy. The fair value of assets and liabilities using Level 3 inputs are generally determined by using pricing models or discounted cash flow methods, 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 holds investments in its portfolio which are generally valued based on the most current NAV. This amount represents fair value of these investments at June 30, 2015 and 2014.

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.

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, a component of 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):

	2015		2014	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Federally-sponsored student loans	$ 72,313		$ 71,218	
Other student loans	17,376	$ 3,675	16,844	$ 3,452
Total	$ 89,689	$ 3,675	$ 88,062	$ 3,452

Changes in the allowance for doubtful accounts related to Student loans receivable as of June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
July 1	$ 3,452	$ 3,250
Add: Provisions	285	244
Less: Recoveries	(62)	(42)
June 30	$ 3,675	$ 3,452

The University regularly assesses the adequacy of the allowance for doubtful accounts related to Student loans receivable by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan program, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University also performs a detailed review of the aging of the Student loan receivable balances and of the default rate by loan program in comparison to prior years. The level of the allowance is adjusted based on the results of this analysis. The University considers the allowance recorded at June 30, 2015 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

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

Investments, at Fair Value

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

Short-Term

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

Equity

Equity investments consist of direct holdings of public securities in managed accounts as well as exchange traded funds, mutual funds, commingled funds and limited partnerships. The securities held in managed accounts, along with mutual funds and exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Commingled funds and limited partnerships are valued at NAV.

Debt

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

Absolute Return

Absolute return investments are made up of allocations to partnerships. The fund managers invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Illiquid investments, if any, are generally designated as a side pocket by hedge fund managers and may be valued based on an appraised value, discounted cash flow, industry comparables or some other method. Limited partnership interests are valued at NAV.

Private Equity

Investments in private equity are in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV.

Real Estate

Investments in real estate are primarily in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV. Real estate investments also include an open-ended real estate investment trust valued at NAV.

Natural Resources

Investments in natural resources are made up of limited partnership interests, securities in managed accounts and a commingled fund. The limited partnership fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV. The University directly holds the securities held in the managed accounts through a custodial relationship. The securities held in the managed accounts are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. The commingled fund is valued at NAV.

Derivatives

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

Investment Risks

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

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

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

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

Endowment

The University's endowment consists of 5,718 donor-restricted permanent or term endowment funds and 863 unrestricted endowment funds established by management for a variety of purposes. The University reports all endowment investments at fair value. The majority of the endowment funds of the University have been pooled in the University's AIF, which is invested in equities, bonds, hedge funds, natural resources, private equity and real estate limited partnerships. The endowment funds not pooled in the AIF are primarily invested in equities and bonds.

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

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

In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board of Trustees has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2015, 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.

Effective for Fiscal Year 2016, the University revised its spending rate to cap spendable income on financial aid endowments at a 5.9% growth rate over the Fiscal Year 2015 and hold spendable income on non-financial aid endowments at 4.7%.

Plant

Plant, including equipment, is reported net of related depreciation. Donated Plant is reported based on estimated fair value at the date of acquisition. Capital leases are categorized as buildings or equipment and are reflected at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. All other Plant, including land, is reported at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 50 years for buildings and improvements and 4 to 20 years for equipment or the shorter of the lease term or estimated useful life of the asset for capital lease assets. Rare books and other collectibles are not capitalized. Contributions of rare books and other collectibles are not recorded for financial statement presentation, while purchases are recorded as Other operating expenses on the Consolidated Statement of Activities in the period acquired.

Split-Interest Agreements

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

The University recognizes assets contributed to charitable remainder trusts, charitable gift annuities and pooled income funds, where it serves as trustee, at fair value, recognizes a liability to the beneficiaries based on the present value of the estimated future payments to beneficiaries to be made over the estimated remaining life of those beneficiaries using current market rates at the date of the contribution, and recognizes the difference as contribution revenue. Subsequently, the trust assets, invested in equity and debt securities, are measured at fair value at quoted market prices, and are categorized as Level 1, with the changes reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. Liabilities to beneficiaries are revalued based on current market rates, and are categorized as Level 2, with the changes reported as an adjustment to Liabilities associated with investments on the Consolidated Statements of Position and Gains or losses on investments 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 Gains or losses on investment on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. The primary unobservable input used in the fair value measurement of the Charitable remainder trust assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value.

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

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

Income Taxes

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

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

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

Tuition and Fees

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. This policy provides financial aid to eligible students in the form of direct grants and employment during the academic year. The University maintains an all-grant aid program whereby any qualified undergraduate student with demonstrated financial need receives an all-grant aid package which includes only grants and a work-study award. Students may still borrow at their discretion to supplement their aid packages. Tuition and fees have been reduced by certain grants and scholarships in the amount of $306,831,000 in 2015 and $294,621,000 in 2014.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2015 and 2014, grant and contract revenue earned from governmental sources totaled $705,987,000 and $724,989,000, respectively, of which revenue earned under the American Recovery and Reinvestment Act (ARRA) totaled $3,460,000 and $9,773,000. The University recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on federally-sponsored programs are generally based on predetermined reimbursement rates which are stated as a percentage and distributed based on the modified total direct costs incurred. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Contributions

Unrestricted Contributions and donor support includes net assets released as a result of corresponding expenditures which met donor imposed restrictions. Contributions, including unconditional promises to donate, cash and other assets, are recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating revenue, net gains, reclassifications and other. Unconditional pledges received prior to July 1, 2010 are recognized at their estimated net present value using current market rates, at the date of the pledge, ranging from 3.97% to 5.82%, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category.

Effective July 1, 2010, the University elected to fair value new unconditional pledges received under the FASB Fair Value Option standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, ranging from 1.32% to 3.49%, matched to the payment period of the agreement, and accordingly categorizes these assets as Level 3. The primary unobservable input used in the fair value measurement of the University's Contributions receivable is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change.

Net Patient Service Revenue

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

Allocation of Certain Expenses

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

Use of Estimates

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

Recent Authoritative Pronouncements

In April 2015, the FASB issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015. University management is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2017.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. University management is evaluating the impact this will have on the consolidated financial statements beginning in Fiscal Year 2019.

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

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

Throughout the year, certain transactions are conducted between UPHS and the University. The effect of these transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services and support for the Perelman School of Medicine) is included in the summarized financial information of UPHS. The University owed UPHS $7,081,000 and $1,008,000 at June 30, 2015 and June 30, 2014, respectively. This represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers to the University of $113,279,000 and $110,926,000 in 2015 and 2014, respectively, to further the research and educational activities of the Perelman School of Medicine and $34,516,000 and $2,601,000 in 2015 and 2014, respectively, for other activities. In addition, UPHS recognized operating expenses of $20,676,000 and $21,411,000 in 2015 and 2014, 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.

The Health Information Technology for Economic and Clinical Health Act provision within ARRA allowed for incentives of $19 billion to hospitals who implement and meaningfully use EHR technology by 2014. In accordance with FASB's standard on *Gain Contingencies*, when all contingencies have been met and the funds have been received, UPHS recognizes these incentives as Other revenue. UPHS received $13,266,000 and $15,432,000 as of June 30, 2015 and 2014, respectively.

Net Patient Service Revenue

Net patient service revenue, net of contractual allowances and discounts, excluding bad debt, is as follows for the year ending June 30, 2015 (in thousands):

	Third Party Payors	Self-Pay	Total All Payors
Net Patient Service Revenue	$ 4,069,179	$ 214,167	$ 4,283,346

Net patient service revenue for the years ending June 30, 2015 and 2014 is derived from the following payors:

	2015	2014
Medicare (including Managed Medicare)	28%	26%
Medicaid (including Managed Medicaid)	12%	14%
Managed Care	32%	33%
Independence Blue Cross	19%	17%
Commercial	4%	4%
Self Pay	5%	6%
	100%	100%

The provision for bad debt is based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. UPHS provides care to patients who do not have health insurance or meet the criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain amounts are deemed to be uncollectible. These amounts are classified in the Provision for bad debt in the UPHS summarized financial information. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including not covered by insurance, and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt to establish an appropriate allowance for uncollectible accounts. No significant modifications were made for Fiscal Years 2015 or 2014. After satisfaction of amounts due from insurance and reasonable efforts to collect from patients have been exhausted, UPHS follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by UPHS. Account receivables are written off after collection efforts have been followed in accordance with UPHS' policy. UPHS' provision for bad debts totaled $231,955,000 and $239,649,000 for 2015 and 2014, respectively, which is reported as a reduction to Net patient service revenue in the UPHS summarized financial information.

Third-Party Payors

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

During 2010, UPHS and Aetna reached agreement on terms of a new 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. Effective August 1, 2015, a new five-year agreement was reached with terms similar to the previous agreement.

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

Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled. The 2015 and 2014 net patient service revenue was increased by $28,021,000 and $1,197,000, respectively, as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary.

Charity Care

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

In accordance with the FASB standard on *Measuring Charity Care for Disclosure,* UPHS estimates the costs of providing charity care services based on data derived from a combination of UPHS' cost accounting system and the ratio of costs to charges. Of the Total expenses reported by UPHS below, an estimated $7,077,000 and $10,680,000 were incurred as a result of providing services to charity patients for the years ended June 30, 2015 and 2014, respectively.

Summarized financial information for UPHS as of and for the years ended June 30, 2015 and 2014, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2015	2014
Net patient service revenue	$ 4,283,346	$ 3,951,103
Provision for bad debt	(231,955)	(239,649)
Net patient service revenue less bad debts	4,051,391	3,711,454
Other revenue	274,262	227,772
Total expenses	(3,980,490)	(3,647,836)
Excess of revenue over expenses from operations	345,163	291,390
Nonoperating, net	(188,797)	271,327
Increase in net assets	$ 156,366	$ 562,717
Total current assets	$ 1,062,050	$ 1,200,386
Assets whose use is limited		
(including board designated funds of $1,223,513 and $1,147,562 and		
trustee held funds of $7,686 and $8,546 for 2015 and 2014, respectively)	1,904,286	1,818,089
Plant, net of depreciation	2,187,607	1,852,090
Investments and other assets	820,253	619,870
Total assets	$ 5,974,196	$ 5,490,435
Total current liabilities	$ 634,653	$ 619,555
Long-term debt, net of current portion	1,121,910	917,425
Other liabilities	1,458,010	1,350,198
Total liabilities	3,214,573	2,887,178
Net assets		
Unrestricted	2,211,529	2,057,377
Temporarily restricted	382,287	380,837
Permanently restricted	165,807	165,043
Total net assets	2,759,623	2,603,257
Total liabilities and net assets	$ 5,974,196	$ 5,490,435

Effective August 1, 2015, UPHS and Lancaster General Hospital ('LGH') entered into an affiliation agreement whereby UPHS became the sole corporate member of LGH. LGH operates three hospitals in South Central Pennsylvania, including Lancaster General Hospital, a 533-bed general acute care hospital, Women & Babies Hospital, a 98-bed facility specializing in women's health and maternity services, and Lancaster Rehabilitation Hospital, a 59-bed rehabilitation hospital, as well as 14 outpatient centers, three urgent care sites, and a physician practice network with nearly 200 primary care and specialty practices at 40 practice sites.

No consideration was exchanged for the net assets contributed. UPHS will record non-operating contribution income in fiscal year 2016 reflecting the fair value of the contributed net assets of LGH on August 1, 2015. The book value of the net assets as of June 30, 2015 were $1,076,932,000 unrestricted, $11,270,000 temporarily restricted and $12,716,000 permanently restricted. As of October 2, 2015, the fair value of the contributed net assets of LGH had not been finalized. A summary of selected unrestricted financial results of LGH for the years ended June 30, 2015 and 2014 is as follows (unaudited and in thousands):

	2015	2014
Total Operating Revenue	$ 1,037,876	$ 969,194
Total Operating Expense	985,630	922,511
Excess of revenue over expenses from operations	52,246	46,683
Non-operating Gain	24,969	101,296
Excess of revenue over expenses	$ 77,215	$ 147,979

A summary of selected balance sheet data at book value is as follows (unaudited and in thousands):

	June 30, 2015	June 30, 2014
Total Assets	$ 1,770,902	$ 1,621,968
Total Liabilities	$ 669,984	$ 562,499

Historical information was used for presentation of the data above. The data presented above does not reflect the impact, if any, of aligning accounting policies or other transaction related costs or impacts.

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $13,480,000 and $15,856,000 at June 30, 2015 and 2014, respectively, are as follows (in thousands):

	2015	2014
Sponsored research	$ 141,507	$ 115,251
Malpractice	80,951	99,106
Student	17,579	16,266
Trade	36,508	33,895
Investment income	6,011	5,845
Other	30,021	28,149
Total Accounts receivable	$ 312,577	$ 298,512

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2015 and 2014 (in thousands):

	2015	2014
Unconditional promises expected to be collected in:		
Less than one year	$ 151,446	$ 161,293
One year to five years	144,036	191,781
Over five years	23,827	35,399
	319,309	388,473
Less: Discount	(15,806)	(24,987)
Less: Allowance for doubtful amounts	(31,929)	(34,964)
Total Contributions receivable, net	$ 271,574	$ 328,522

At June 30, 2015 and 2014, the University has outstanding unrecorded conditional promises to give, including non-legally binding bequests, of $292,691,000 and $213,487,000, respectively. When they become unconditional promises to give or are received in cash, 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, 2015 and 2014, respectively, are as follows (in thousands):

	2015	2014
Goodwill	$ 24,888	$ 24,888
Inventory	34,086	33,624
Prepaid expenses	68,715	65,941
Deferred financing fees	13,030	12,302
Interest in partnerships	22,382	21,080
Other	37,826	23,811
Total Other assets	$ 200,927	$ 181,646

Goodwill of $24,888,000 at June 30, 2015 and 2014, 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 2015.

6. Investments, at Fair Value

For Fiscal Year ending June 30, 2015, the University has adopted the standard on *Fair Value Measurement and Disclosure Requirements in Certain Entities That Calculated Net Asset Value (NAV) per Share*. As a result of the adoption, investments reported at net asset value per share, as a practical expedient, are no longer included within levels 1, 2, or 3 in the fair value hierarchy. Application is retrospective and, therefore, prior period financial data has been restated to conform to current year presentation.

Consolidated Notes to Financial Statements

A summary of investments, including the AIF, measured at fair value in accordance with the *Fair Value Measurements* standard, as of June 30, 2015 and June 30, 2014 is as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Investments at NAV	2015
Short-term	$ 793,370				$ 793,370
Equity:					
US equities	949,346			$ 893,408	1,842,754
International equities	395,287			666,056	1,061,343
Emerging market equities	152,088	$ 4,964		905,680	1,062,732
Total Equity	1,496,721	4,964		2,465,144	3,966,829
Debt:					
US treasuries	1,179,144			121,535	1,300,679
Corporate bonds		35,851			35,851
High yield				921	921
Total Debt	1,179,144	35,851		122,456	1,337,451
Split-interest agreements	74,639		$ 416,382		491,021
Absolute return				2,850,658	2,850,658
Real estate		60	44,767	482,372	527,199
Private equity			9,635	1,132,606	1,142,241
Natural resources	282,678			132,862	415,540
Derivative instruments	2,972	16,387			19,359
Other		19,800	2,254		22,054
Total assets	$ 3,829,524	$ 77,062	$ 473,038	$ 7,186,098	$ 11,565,722

Assets	Level 1	Level 2	Level 3	Investments at NAV	2014
Short-term	$ 801,019				$ 801,019
Equity:					
US equities	1,158,554	$ 1,120		$ 763,773	1,923,447
International equities	442,956			837,200	1,280,156
Emerging market equities	113,801	31,136		738,802	883,739
Total Equity	1,715,311	32,256		2,339,775	4,087,342
Debt:					
US treasuries	1,258,771				1,258,771
Corporate bonds		40,763			40,763
High yield				1,225	1,225
Total Debt	1,258,771	40,763		1,225	1,300,759
Split-interest agreements	77,198		$ 431,677		508,875
Absolute return				2,446,745	2,446,745
Real estate		59		455,383	455,442
Private equity			8,773	845,444	854,217
Natural resources	73,680			265,698	339,378
Derivative instruments	776	4,048			4,824
Other			1,733		1,733
Total assets	$ 3,926,755	$ 77,126	$ 442,183	$ 6,354,270	$ 10,800,334

A summary of Liabilities associated with investments as of June 30, 2015 and 2014 is as follows (in thousands):

Liabilities	Level 1	Level 2	Level 3	Investments at NAV	2015
Securities sold, not yet purchased	$ 113,897	$ 9,756			$ 123,653
Derivative instruments	1,956	7,617			9,573
Split-interest agreements		44,799			44,799
Other	9,203	19,930			29,133
Total liabilities	$ 125,056	$ 82,102	$ -	$ -	$ 207,158

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

Included in Short-term investments is $2,033,000 and $3,053,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2015 and 2014, respectively.

At June 30, 2015 and 2014, Short-term investments include $49,039,000 and $86,485,000, respectively, of outstanding receivables from trading activities. At June 30, 2015 and 2014, Short-term investments include $36,928,000 and $65,813,000, respectively, of outstanding payables from trading activities.

As of June 30, 2015 and 2014 there were no transfers between Level 1 and 2.

Consolidated Notes to Financial Statements

The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. The University has also made commitments to various limited partnerships. The University expects these funds to be called over the next 5 years. The total amount of unfunded commitments is $2,098,126,000 which represents 21.5% of the AIF value as of June 30, 2015. Details on the fair value, remaining estimated life, outstanding commitments, current redemption terms and restrictions by strategy and type of investment are provided below (in thousands):

Strategy	Fair Value June 30, 2015	Fair Value June 30, 2014	Remaining Life	Outstanding Commitments	Redemption Terms	Redemption Restrictions
Short-term	$ 793,370	$ 801,019	N/A	$ -	Daily	None
Equity						
Managed accounts	1,108,414	1,277,980	N/A	-	Daily, monthly and semi-annually	None
Mutual funds	-	188,029	N/A	-	Daily	None
Exchange traded funds	-	39,541	N/A	-	Daily	None
Commingled funds	949,036	998,822	N/A	15,400	Weekly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years
Partnerships	1,909,379	1,582,970	N/A	116,506	Quarterly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years. Excludes $27 million in one fund with no redemptions permitted and $10 million of sidepocket investments
Total Equity	3,966,829	4,087,342		131,906		
Debt						
Managed accounts	1,206,012	1,299,534	N/A	-	Daily	None
Partnership	131,439	1,225	N/A	-	Daily to annually with varying notice periods	$900,000 of side pocket investments
Total Debt	1,337,451	1,300,759				
Absolute return	2,850,658	2,446,745	N/A	367,056	Quarterly, annually, and 2 years with varying notice periods. Excludes 18 limited partnerships with no redemptions permitted. Distributions received as underlying investments are liquidated	Lock-up provisions ranging from 0 to 2 years with some earlier redemptions permitted subject to redemption fee. Excludes $379 million in 18 limited partnerships with no redemptions permitted and $107 million of side pocket investments
Real estate	527,199	455,442	1 to 16 years	489,844	Redemptions not permitted. Distributions received as underlying investments are liquidated. Excludes 1 fund with quarterly liquidity on 90 day notice period	N/A
Private equity	1,142,241	854,217	1 to 14 years	899,077	Redemptions not permitted. Distributions received as underlying investments are liquidated	N/A
Natural resources						
Managed account	282,678	73,680	N/A	-	Daily and quarterly	Lock-up provisions range from 0 to 2 years
Commingled fund	-	76,033	N/A	-	Daily	None
Partnerships	132,862	189,665	1 to 16 years	210,243	Redemptions not permitted. Distributions received as underlying investments are liquidated	N/A
Total Natural resources	415,540	339,378		210,243		
Totals	$ 11,033,288	$ 10,284,902		$ 2,098,126		

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 $74,639,000 and $77,198,000 at June 30, 2015 and 2014, respectively. Level 3 Split-interest agreement investments are managed and invested outside of the University by external trustees.

Invested in the AIF with an aggregate fair value of $150,173,000 and $144,559,000 at June 30, 2015 and 2014, respectively, is a perpetual trust managed by an external trustee who has delegated investment decisions to the University. The University invests the assets of this trust in accordance with its Endowment Policy.

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $30,100,000 and $31,171,000 as of June 30, 2015 and 2014, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

A summary of Level 3 assets included in Split-interest agreements, where the University is not trustee, measured at fair value, as of June 30, 2015 and 2014 is as follows (in thousands):

	2015	2014
Charitable remainder trusts	$ 10,966	$ 6,974
Charitable lead trusts	129,445	148,208
Perpetual trusts	275,971	276,495
Total	$ 416,382	$ 431,677

Changes to the reported amounts of Split-interest agreements measured at fair value using unobservable (Level 3) inputs as of June 30, 2015 and 2014 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2014	$ 6,974	$ 148,208	$ 276,495	$ 431,677
Net realized gains			815	815
Net unrealized (losses)/ gains	(56)	2,750	(1,163)	1,531
Acquisitions	4,048	1,017		5,065
Liquidations		(22,530)	(176)	(22,706)
June 30, 2015	$ 10,966	$ 129,445	$ 275,971	$ 416,382

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

The following tables set forth the fair value, related gain (loss) and notional amount of the University's derivative instruments by contract type as of June 30, 2015 and 2014 (in thousands):

2015

	Notional Amount	Gross Derivative Assets	Gross Derivative Liabilities	Dervative Gains (Losses)
Foreign currency contracts	$ 68,059	$ 570	$ 1,717	$ 18,904
Futures contracts	(48)	205	56	2,807
Options contracts	451	5,371	1,956	(3,080)
Swaps	153,853	13,213	5,844	8,646
Total	$ 222,315	$ 19,359	$ 9,573	$ 27,277

2014

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

The notional amount is representative of the volume and activity of the respective derivative type during the years ended June 30, 2015 and 2014.

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

A summary of the University's total investment return for the years ended June 30, 2015 and 2014 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2015	2014
AIF investment income	$ 66,830	$ 84,206
AIF realized and unrealized gains	628,322	1,315,855
Return on AIF	695,152	1,400,061
Other investment income and gains	40,192	85,511
Total Return on investments	$ 735,344	$ 1,485,572

7. Endowment

The composition and changes to the amount of the University's endowment at June 30, 2015 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 2,442,269	$ 3,278,680	$ 5,720,949
Quasi-endowment funds	$ 4,412,620			4,412,620
June 30, 2015	$ 4,412,620	$ 2,442,269	$ 3,278,680	$ 10,133,569

	Quasi Unrestricted	Donor Restricted Temporarily	Donor Restricted Permanently	Total
Net assets, June 30, 2014	$ 4,159,362	$ 2,312,089	$ 3,110,884	$ 9,582,335
Investment return:				
Investment income, net of expenses	14,128	18,762	324	33,214
Other income	2,331		40	2,371
Gains, realized and unrealized	285,062	335,749	6,783	627,594
Total investment return	301,521	354,511	7,147	663,179
New gifts	10,955	2,409	152,029	165,393
Allocation of endowment assets for expenditure	(336,543)			(336,543)
Other investment allocation	(5,631)			(5,631)
Transfers to create board designated funds	68,802			68,802
Other transfers	(14,212)	1,626	8,620	(3,966)
Released from restriction	228,366	(228,366)		
Net assets, June 30, 2015	$ 4,412,620	$ 2,442,269	$ 3,278,680	$ 10,133,569

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

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

	Quasi Unrestricted	Donor Restricted Temporarily	Donor Restricted Permanently	Total
Net assets, June 30, 2013	$ 3,457,955	$ 1,816,718	$ 2,899,492	$ 8,174,165
Investment return:				
Investment income, net of expenses	20,506	21,948	455	42,909
Gains, realized and unrealized	594,021	713,090	29,357	1,336,468
Total investment return	614,527	735,038	29,812	1,379,377
New gifts	24,302	4,681	156,599	185,582
Allocation of endowment assets for expenditure	(305,990)			(305,990)
Other investment allocation	(1,430)			(1,430)
Transfers to create board designated funds	164,454			164,454
Other transfers	(2,678)	(39,163)	9,870	(31,971)
TCCHHS membership substitution		3,037	15,111	18,148
Released from restriction	208,222	(208,222)		
Net assets, June 30, 2014	$ 4,159,362	$ 2,312,089	$ 3,110,884	$ 9,582,335

The fair value of certain permanently restricted endowment funds is less than the original donated value by $79,000 and $182,000 as of June 30, 2015 and 2014, respectively, and is reflected as a reduction of Temporarily restricted assets.

8. Plant, net of depreciation

The components of plant at June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Land and land improvements	$ 290,951	$ 249,231
Buildings and fixed equipment	6,843,301	6,295,973
Moveable equipment and other	1,711,059	1,594,993
Construction-in-progress	476,926	518,071
	9,322,237	8,658,268
Less: Accumulated depreciation	(4,168,142)	(3,876,707)
Plant, net of depreciation	$ 5,154,095	$ 4,781,561

During Fiscal Year 2015, the University elected to revise its policy to no longer capitalize rare books and other collectibles and to write-off such assets previously capitalized. As a result, rare books and other collectibles aggregate $0 at June 30, 2015 and $50,530,000 at June 30, 2014.

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

The University recorded $365,204,000 and $342,451,000 of depreciation expense for the years ended June 30, 2015 and 2014, respectively.

The University capitalized $9,777,000 and $7,630,000 of interest costs for the years ended June 30, 2015 and 2014, respectively, in accordance with the FASB standard on *Capitalization of Interest*.

9. Conditional Asset Retirement Obligations

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

	2015	2014
July 1	$ 23,968	$ 22,789
Less: Payments	(1,216)	(1,369)
Add: Additions		1,878
Add: Accretion	717	670
June 30	$ 23,469	$ 23,968

10. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2015 and 2014 are as follows (in thousands):

2015	Assets	Liabilities	Net Assets
June 30, 2014	$ 508,875	$ (36,607)	$ 472,268
New contributions	10,254	(6,377)	3,877
Investment income	1,527	(1,310)	217
Realized and unrealized gain, net	2,240		2,240
Payments and settlements	(31,875)	9,606	(22,269)
Actuarial adjustment		(10,111)	(10,111)
Net change	(17,854)	(8,192)	(26,046)
June 30, 2015	$ 491,021	$ (44,799)	$ 446,222

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

11. Medical Professional Liability Claims

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

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

In accordance with the FASB standard on *Presentation of Insurance Claims and Related Insurance Recoveries*, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are presented separately on the Consolidated Statement of Financial Position in Accounts Receivable, net of allowances and Accrued expenses and other liabilities, respectively. The University accrues for estimated risks arising from both asserted and unasserted medical professional liability claims. The estimate of the gross liability and corresponding receivable for unasserted claims arising from unreported incidents is based on analysis of historical claims data by an independent actuary, which is recorded utilizing a 2.25% as a discount rate as of June 30, 2015 and 2014. The gross liability recorded under this program is $636,552,000 and $626,482,000 at June 30, 2015 and 2014, respectively, with a corresponding receivable of $80,951,000 and $99,106,000 at June 30, 2015 and 2014, respectively.

12. Contingencies, Guarantees and Commitments

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

	2015		2014	
	Amount Guaranteed	Recognized Liability	Amount Guaranteed	Recognized Liability
Mortgage Loans	$ 1,610		$ 3,856	
Student Loans	66,857	$ 6,173	61,101	$ 6,164
Other	1,494	248	3,667	277
	$ 69,961	$ 6,421	$ 68,624	$ 6,441

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, $921,000 and $2,912,000 at June 30, 2015 and 2014, respectively, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees. The University does not anticipate that any significant net payments will result from these guarantees. FASB standard *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* does not require a guarantee liability to be recognized for employee mortgages.

The University offers various loan programs for students and families to pay tuition, fees and other costs. Certain loans issued by private lending institutions are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. The University recognizes a liability for the greater of the fair value of the guarantee or defaults in the portfolio of guaranteed loans per FASB's standard on *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The amount of the liability recognized for which the fair value of the guarantee exceeds defaults in the portfolio of guaranteed loans is $3,402,000 and $3,112,000 at June 30, 2015 and 2014, respectively. The remaining balance of the liability recognized represents defaults in the portfolio which exceed the estimated fair value of the guarantee. These recognized liabilities reflect effective default reserve rates of 30.9% and 32.7% at June 30, 2015 and 2014, respectively.

The Other category principally includes guarantees of indebtedness for certain businesses in the University's geographic area whose activities benefit employees, students and the community. Of the amount guaranteed, $0 at June 30, 2015 and $2,031,000 at June 30, 2014, 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, 2015, approximately $270,971,000 has been committed by the University.

13. Pension and Other Postretirement Benefit Costs

Retirement benefits are principally provided to employees through contributory defined contribution plans. The Academic Component's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries, while the UPHS contribution can be up to 6.5%. The University's contributions to these plans amounted to $125,812,000 and $119,386,000 as of June 30, 2015 and 2014, respectively.

TCCHHS has a number of affiliates with either 403(b) or 401(k) defined contribution savings plans. All affiliates share the same employer discretionary matching process; each affiliate will match 50% of an employee's contribution (subject to the IRS annual contribution limit) up to a total of 4% of the employee's salary in a given year. Total contributions to the plans were $1,978,000 as of June 30, 2015 and $1,406,000 from September 1, 2013 through June 30, 2014.

TCCHHS also has a defined contribution profit sharing plan covering all eligible employees, as defined. TCCHHS may choose to contribute a discretionary amount to the plan each year. No amount was funded as of June 30, 2015 or from September 1, 2013 through June 30, 2014.

CCA and certain other UPHS entities have a non-contributory defined contribution retirement plan covering all eligible employees, which was frozen to new entrants effective July 1, 2010. Employees enrolled in this plan were moved into the new UPHS defined contribution plan effective January 1, 2011. CCA 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 $665,000 and $672,000 as of June 30, 2015 and 2014, respectively.

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

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

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

The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation (PBO) or accumulated postretirement benefit obligation (APBO). The difference between actual amounts and estimates based on actuarial assumptions are recognized as Pension, OPEB and other, net 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	**2015**	**2014**	**2015**	**2014**
Service cost	$ 64,537	$ 58,737	$ 27,334	$ 24,349
Interest cost	83,907	81,187	33,711	34,192
Expected return on plan assets	(114,248)	(98,184)	(25,987)	(21,967)
Amortization of:				
Net prior service cost		210	27	27
Net losses	23,104	21,630	7,261	7,233
Net periodic benefit cost	$ 57,300	$ 63,580	$ 42,346	$ 43,834

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	**2015**	**2014**	**2015**	**2014**
Benefit obligation at beginning of year	$ 1,889,105	$ 1,646,120	$ 771,183	$ 705,139
Service cost	64,537	58,737	27,334	24,349
Interest cost	83,907	81,187	33,711	34,192
Plan participants' contributions	158	156	6,055	5,460
Retiree drug subsidy			163	235
Net actuarial loss due to plan experience	112,223	143,397	71,631	24,555
Benefits paid from fund	(47,803)	(40,492)	(18,437)	(15,066)
Benefits paid outside of fund			(8,805)	(7,681)
Benefit obligation at end of year	$ 2,102,127	$ 1,889,105	$ 882,835	$ 771,183
Accumulated benefit obligation	$ 1,807,474	$ 1,615,682	$ 882,835	$ 771,183

Change in Plan Assets	Pension Benefits 2015	Pension Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Fair value of plan assets at beginning of year	$ 1,443,378	$ 1,237,854	$ 341,584	$ 290,698
University contributions	62,286	64,801	27,800	22,800
Benefits paid by University			8,215	7,051
Plan participants' contributions	158	156	6,055	5,460
Benefits paid from fund	(47,803)	(40,492)	(18,437)	(15,066)
Benefits paid outside of fund			(8,805)	(7,681)
Retiree drug subsidy			163	235
Actual return on assets	38,180	181,059	13,376	38,087
Fair value of plan assets at end of year	$ 1,496,199	$ 1,443,378	$ 369,951	$ 341,584

Funded Status	Pension Benefits 2015	Pension Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Projected benefit obligation / accumulated postretirement benefit obligation	$ (2,102,127)	$ (1,889,105)	$ (882,835)	$ (771,183)
Plan assets at fair value	1,496,199	1,443,378	369,951	341,584
Funded status at end of year	$ (605,928)	$ (445,727)	$ (512,884)	$ (429,599)

Net Amounts Recognized in the Consolidated Statements of Financial Position (in thousands)

Unrestricted Net Assets	Pension Benefits 2015	Pension Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Net actuarial loss	$ 618,231	$ 453,044	$ 256,019	$ 179,037
Net prior service cost			(147)	(117)
Total	$ 618,231	$ 453,044	$ 255,872	$ 178,920
Adjustment to unrestricted net assets	$ 165,187	$ 38,681	$ 76,952	$ 1,175

The University recorded year-end actuarial valuation adjustments to its pension and other postretirement benefits plans of a $242,139,000 loss and a $39,856,000 loss for the years ended June 30, 2015 and 2014 respectively, in Pension, OPEB and other, net on the Consolidated Statements of Activities.

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2016 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of prior service cost	-	$ 27
Amortization of net losses	$ 36,458	11,702

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

	Pension Benefits 2015	Pension Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Accrued retirement benefits	$ (605,928)	$ (445,727)	$ (512,884)	$ (429,599)
Funded status at end of year	$ (605,928)	$ (445,727)	$ (512,884)	$ (429,599)

Reported Accrued retirement benefits includes $8,273,000 and $6,461,000 for faculty early retirement programs at June 30, 2015 and 2014, respectively.

Information for Plans with PBO/APBO in Excess of Plan Assets	Pension Benefits 2015	Pension Benefits 2014	Other Postretirement Benefits 2015	Other Postretirement Benefits 2014
Projected benefit obligation / accumulated postretirement benefit obligation	$ 2,102,127	$ 1,889,105	$ 882,835	$ 771,183
Accumulated benefit obligation / accumulated postretirement benefit obligation	1,807,474	1,615,682	882,835	771,183
Fair value of plan assets	1,496,199	1,443,378	369,951	341,584

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	**2015**	**2014**	**2015**	**2014**
Discount rate	4.50%	4.50%	4.45%	4.41%
Salary increase	3.92%	3.97%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	4.50%	5.00%	4.44%	4.93%
Expected long-term return on plan assets	7.93%	7.92%	7.50%	7.50%
Salary increase	3.92%	4.00%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial trend rate	N/A	N/A	6.72%	6.19%
Ultimate trend rate	N/A	N/A	4.70%	4.84%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2023	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	
	2015	**2014**	**2015**	**2014**
Effect on total of service and interest cost	14,832	12,115	(11,253)	(9,318)
Effect on accumulated postretirement benefit obligation	161,082	130,042	(126,432)	(103,502)

Plan Assets

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

The University's Office of Investments is responsible for the day-to-day management of the investments of the pension and other postretirement benefits. The investments are made in accordance with policies set out by the Investment Board which has been appointed by the Trustees. The pension and other postretirement benefit investments are similar in nature to those investments discussed in Note 1 – Investments, at Fair Value. However, the actual allocations to specific investments within each asset class may vary due to certain restrictions imposed by investment managers and ERISA regulations.

Derivatives

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

As of June 30, 2015 and 2014, the University had forward currency contracts in the plan assets with a notional exposure of $17,946,000 and $23,705,000, respectively. The notional amount is representative of the volume and activity of the respective derivative type during the years ended June 30, 2015 and 2014.

Investment Risk

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

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

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

Unfunded Commitments

As of June 30, 2015, the University has unfunded commitments to limited partnerships totaling $171,192,000, which are expected to be called over the next 5 years.

A summary of plan assets, measured at fair value in accordance with the *Employers' Disclosures about Pensions and Other Postretirement Benefits* standard, as of June 30, 2015 and 2014 is as follows (in thousands):

Pension Benefits:

Assets	Level 1	Level 2	Level 3	Investments at NAV	2015
Short-term	$ 96,443				$ 96,443
Equity:					
US equities	198,709			$ 85,391	284,100
International equities	28,092			240,225	268,317
Emerging market equities	32,254			109,478	141,732
Debt:					
US treasuries	157,061				157,061
Corporate bonds		$ 6,507		43,371	49,878
Absolute return				382,305	382,305
Real estate				17,732	17,732
Private equity				8,441	8,441
Natural resources	88,890			1,480	90,370
Derivative instruments:					
Forward currency contracts		8			8
Total assets	$ 601,449	$ 6,515	$ -	$ 888,423	$ 1,496,387

Liabilities	Level 1	Level 2	Level 3	Investments at NAV	2015
Derivative instruments		$ 188			$ 188
Total liabilities	$ -	$ 188	$ -	$ -	$ 188

Assets	Level 1	Level 2	Level 3	Investments at NAV	2014
Short-term	$ 85,331				$ 85,331
Equity:					
US equities	342,569			$ 57,927	400,496
International equities	34,862			243,709	278,571
Emerging market equities	34,283			89,908	124,191
Debt:					
US treasuries	135,644				135,644
Corporate bonds		$ 9,170		48,391	57,561
High yield				11,475	11,475
Absolute return				330,204	330,204
Real estate				13,982	13,982
Private equity				4,284	4,284
Natural resources				1,786	1,786
Total assets	$ 632,689	$ 9,170	$ -	$ 801,666	$ 1,443,525

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

Other Postretirement Benefits:

Assets	Level 1	Level 2	Level 3	Investments at NAV	2015
Short-term	$ 29,452				$ 29,452
Equity:					
US equities	59,314			$ 13,560	72,874
International equities	7,736			79,551	87,287
Emerging market equities	4,319			28,017	32,336
Debt:					
US treasuries	31,715				31,715
Corporate bonds		$ 1,821		9,476	11,297
Absolute return				75,655	75,655
Private equity				172	172
Natural resources	28,945			269	29,214
Derivative instruments:					
Forward currency contracts		4			4
Total	$ 161,481	$ 1,825	$ -	$ 206,700	$ 370,006

Liabilities	Level 1	Level 2	Level 3	Investments at NAV	2015
Derivative instruments		$ 55			$ 55
Total	$ -	$ 55	$ -	$ -	$ 55

Assets	Level 1	Level 2	Level 3	Investments at NAV	2014
Short-term	$ 24,065				$ 24,065
Equity:					
US equities	91,498			$ 7,054	98,552
International equities	10,028			76,573	86,601
Emerging market equities	4,786			13,990	18,776
Debt:					
US treasuries	68,158				68,158
Corporate bonds		$ 14,784			14,784
High yield bonds				2,875	2,875
Absolute return				27,818	27,818
Total	$ 198,535	$ 14,784	$ -	$ 128,310	$ 341,629

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

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2015 and 2014 there were no transfers between Level 1 and 2.

	Pension Benefits			Other Postretirement Benefits		
Allocation of Plan Assets	**Target**	**2015**	**2014**	**Target**	**2015**	**2014**
Short-term		6.4%	5.9%		8.0%	7.0%
Equity:						
US equities	18.6%	19.0%	27.7%	15.0%	19.7%	28.9%
International equities	18.6%	17.9%	19.3%	20.0%	23.6%	25.4%
Emerging markets equities	10.0%	9.5%	8.6%	10.0%	8.7%	5.5%
Debt:						
US treasuries	17.7%	10.5%	9.4%	20.0%	8.6%	20.0%
Corporate bonds		3.3%	4.0%		3.0%	4.3%
High yield			0.8%			0.8%
Absolute return	29.0%	25.6%	22.9%	30.0%	20.5%	8.1%
Real estate	2.0%	1.2%	1.0%	5.0%		
Private equity	1.0%	0.6%	0.3%		7.9%	
Natural resources	3.1%	6.0%	0.1%			
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The average quality of debt investments at June 30, 2015 was Aaa/AA+ with an effective duration of 17.34 years.

Cash Flows & Estimated Future Benefit Payments (in thousands)

University contributions for the year ending:	**Pension Benefits**	**Other Postretirement Benefits**
June 30, 2014	$ 64,801	$ 29,851
June 30, 2015	62,286	36,015
June 30, 2016	80,280	30,683
Benefits paid from outside of the fund for the year ending:		
June 30, 2014	N/A	$ 7,681
June 30, 2015	N/A	8,805
June 30, 2016	N/A	9,237
Plan participants' contributions for the year ending:		
June 30, 2014	$ 156	$ 5,460
June 30, 2015	158	6,055
June 30, 2016	160	6,442

Benefits Payments in Total (in thousands)

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, 2014	$ 40,492	$ 22,747	$ 235
June 30, 2015	47,803	27,242	163
Expected benefit payments for the year ending:			
June 30, 2016	$ 53,391	$ 25,756	$ 306
June 30, 2017	58,031	27,521	327
June 30, 2018	63,812	29,781	349
June 30, 2019	69,525	31,854	370
June 30, 2020	76,147	34,043	388
June 30, 2021 to June 30, 2025	494,276	205,665	2,141

14. Debt Obligations

Debt obligations at June 30, 2015 and 2014 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2015	2015	2014
Academic Component:				
Fixed rate debt obligations:				
The Trustees of the University of Pennsylvania				
Series 2012 Taxable Bonds	09/2112	4.674%	$ 300,000	$ 300,000
Pennsylvania Higher Educational				
Facilities Authority (PHEFA)				
Series A of 2015 revenue bonds	10/2045	2.50% - 5.50%	205,670	
Unamortized premium			21,938	
Series B of 2015 revenue bonds	10/2035	3.00% - 5.00%	165,150	
Unamortized premium			30,036	
Series C of 2015 revenue bonds	10/2035	3.677%	8,020	
Series A of 2011 revenue bonds	09/2041	4.00% - 5.00%	131,805	150,000
Unamortized premium			710	851
Series of 2010 revenue bonds	09/2033	4.00% - 5.00%	50,045	71,410
Unamortized premium			3,061	4,648
Series B of 2009 revenue bonds	09/2032	4.00% - 5.00%	20,075	35,990
Unamortized premium			433	821
Series C of 2009 revenue bonds	09/2019	5.000%	15,105	28,755
Unamortized premium			494	1,156
Series A of 2009 revenue bonds				204,750
Unamortized premium				11,874
Series C of 2005 revenue bonds	07/2015	4.00% - 5.00%	5,255	119,600
Unamortized premium			52	2,717
Series A of 2005 revenue bonds	09/2015	5.000%	3,920	12,805
Unamortized premium			63	372
Series B of 2005 revenue bonds	09/2015	5.250%	8,495	16,555
Other loans	05/2031	3.000%	775	812
Total Fixed rate debt obligations:			971,102	963,116
Variable rate debt obligations:				
PHEFA				
Series of 1990 revenue bonds	12/2020	0.30%	6,500	6,500
Washington County Authority				
Series of 2004	07/2034	0.04%	55,500	56,500
Total Variable rate debt obligations			62,000	63,000
Total Academic Component debt obligations			$ 1,033,102	$ 1,026,116

	Final Maturity	Interest Rate at June 30, 2015	2015	2014
UPHS:				
Fixed rate debt obligations:				
PHEFA				
Series A of 2015 revenue bonds	08/2045	3.00% - 5.00%	$ 357,565	
Unamortized premium			40,101	
Series A of 2012 revenue bonds	08/2032	3.00% - 5.00%	136,950	$ 136,950
Unamortized premium			10,891	11,546
Series A of 2011 revenue bonds	08/2042	4.75% - 5.875%	150,000	150,000
Unamortized discount			(917)	(972)
Series A of 2009 revenue bonds	08/2024	3.00% - 5.25%	74,370	77,645
Unamortized premium			851	1,006
Series B of 2008 revenue bonds	08/2018	5.50%	52,000	149,230
Unamortized discount			(481)	(1,562)
Series A of 2005 revenue bonds	08/2015	5.00%	19,680	152,570
Unamortized premium				2,942
Series B of 2005 revenue bonds	08/2015	3.75% - 5.00%	8,185	33,030
Unamortized premium				302
Build to suit lease			123,038	47,598
Mortgages	04/2022	4.875% - 6.25%	8,714	16,774
Total Fixed rate debt obligations:			980,947	777,059
Variable rate debt obligations:				
PHEFA				
Series A of 2014 revenue bonds	06/2045	0.49%	100,000	100,000
Series A of 2008 revenue bonds	01/2038	0.07%	75,710	81,210
Pennsylvania economic development financing authority				
Series C of 1994 revenue bonds	09/2014	0.17%		1,200
Total Variable rate debt obligations			175,710	182,410
Total UPHS debt obligations			1,156,657	959,469
Total University debt obligations			$ 2,189,759	$ 1,985,585

The fair value of the University's existing debt obligations was $2,211,566,000 and $2,091,089,000 at June 30, 2015 and 2014, respectively. The University determines the fair value of its existing fixed rate debt obligations based on trade data, broker/dealer quotes and other observable market data. The carrying amounts of its variable rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the carrying amounts. The University considers this to be a Level 2 measurement.

Contractual maturities of debt obligations and build-to-suit lease payments are as follows (in thousands):

Fiscal Year	Bond and Other Loan Obligations	Build-to-Suit Lease Payments	Total
2016	$ 54,355	$ 10,023	$ 64,378
2017	48,871	10,257	59,128
2018	49,495	10,496	59,991
2019	103,432	10,742	114,174
2020	50,160	10,992	61,152
Thereafter	1,653,176	180,176	1,833,352
Total Principal	$1,959,489	$ 232,686	$2,192,175
Unamortized net premium	107,232		107,232
Build-to-suit lease related interest		(109,648)	(109,648)
Total Debt	$2,066,721	$ 123,038	$2,189,759

Academic Component

The University has variable rate debt in the amount of $62,000,000 which is subject to optional tender by the holders upon seven days' notice. These bonds are reflected in the table above based on original scheduled maturities. In the event that the University receives notice of any optional tender on its variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds. However, in the event that the entire remarketing effort were to fail, the University would have the general obligation to purchase the bonds and the 2016 principal payments in the debt obligations maturity table above would increase from $19,608,000 to $81,608,000. On June 10, 2011, the University entered into a five year agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement the University's liquidity relating to its variable rate demand bonds and for other general purposes of the University. The University pays a fee annually on the unused amount of the line of credit. As of June 30, 2015, there have been no draws under the agreement.

On April 16, 2015, PHEFA issued Series A of 2015 refunding revenue bonds (PHEFA 2015A bonds) with an aggregate principal amount of $205,670,000. The proceeds were used to fund an escrow which will be used to refund $199,605,000 from the PHEFA Series A of 2009 revenue bonds (refunded PHEFA 2009A bonds). The refunded PHEFA 2009A bonds were legally defeased, and as such, are no longer included among the University's reported liabilities. Interest on the PHEFA 2015A bonds is fixed with coupons ranging between 2.50% and 5.50%. The PHEFA 2015A bonds have serial maturities which are due in amounts ranging from $4,685,000 in 2016 to $7,550,000 in 2036 and one term maturity in the amount of $89,260,000 maturing in 2045, which will be subject to mandatory sinking fund redemption. The bonds are subject to optional redemption by the University on or after October 1, 2020 for the term bond or October 1, 2025 for the serial bonds at a price equal to 100% of the principal amount plus accrued interest.

On April 16, 2015, PHEFA issued Series B of 2015 refunding revenue bonds (PHEFA 2015B bonds) with an aggregate principal amount of $165,150,000. The proceeds were used to fund an escrow which will be used to refund $181,780,000 from the PHEFA Series A of 2005 revenue bonds, PHEFA Series C of 2005 revenue bonds, PHEFA Series B of 2009 revenue bonds, PHEFA Series C of 2009 revenue bonds, PHEFA Series 2010 revenue bonds and PHEFA Series A of 2011 revenue bonds. These refunded amounts were legally defeased, and as such, are no longer included among the University's reported liabilities. Interest on the PHEFA 2015B bonds is fixed with coupons ranging between 3.00% and 5.00%. The PHEFA 2015B bonds have serial maturities which are due in amounts ranging from $1,355,000 in 2016 to $18,965,000 in 2025, with a final maturity in 2035 and one term maturity in the amount of $28,595,000 maturing in 2038, which will be subject to mandatory sinking fund redemption. The serial bonds and the term bond are subject to optional redemption by the University on or after October 1, 2025 at a price equal to 100% of the principal amount plus accrued interest.

On April 16, 2015, PHEFA issued Series C of 2015 refunding revenue bonds (PHEFA 2015C bonds) with an aggregate principal amount of $8,020,000. The proceeds were used to fund an escrow which will be used to refund $5,145,000 from the refunded PHEFA 2009A bonds and fund the issuance cost of the PHEFA 2015A and PHEFA 2015B bonds. The refunded PHEFA 2009A bonds were legally defeased, and as such, are no longer included among the University's reported liabilities. Interest on the PHEFA 2015C bonds is fixed with coupon of 3.677%. The PHEFA 2015C bonds have a single maturity in 2035 and are subject to optional redemption by the University prior to maturity at the price equal to the greater of 100% of the principal of the redeemed bonds or the present value of the remaining scheduled payments of the principal amount plus accrued interest discounted at the Treasury Rate plus 20 basis points.

As a result of the legal defeasance of debt associated with the issuance of PHEFA 2015A, 2015B and 2015C bonds, the University reported a loss on early extinguishment of debt in Pension, OPEB and other, net on the Consolidated Statements of Activities in the amount of $26,418,000 for the year ended June 30, 2015.

The University has letters of credit with various financial institutions to secure certain self-insured liabilities in the amount of $3,907,000 at June 30, 2015 and 2014. These letters of credit have evergreen provisions for automatic renewal. There have been no draws under these letters of credit.

UPHS

Pennsylvania Higher Educational Facilities Authority Revenue Bonds

UPHS Series A of 2015 were issued May 19, 2015, of which $134.4 million was used to redeem UPHS Series A and B of 2005 bonds and $114.5 million was used to redeem UPHS Series B of 2008 bonds. This portion of the refinancing has been reflected as a non-cash transaction in the Statement of Cash Flows. In addition to the refundings, the bonds provided $150,000,000 of funds to reimburse UPHS for expenses already paid in relation to various projects and capital expenditures. The bonds mature in varying annual amounts from $1,690,000 to $38,135,000 through 2045 and have stated interest rates that range from 3.00% to 5.00%. The bonds maturing on and after August 15, 2026 are subject to optional redemption by the University, the obligated group agent, on or after August 15, 2025 at a redemption price of 100% plus accrued interest. UPHS Series A of 2005 Bonds were issued on February 16, 2005 for the purpose of legally defeasing the non-current maturities of the Health Services Series A of 1996 Bonds. The bonds were partially defeased by the UPHS Series A Bonds of 2015 and have a final maturity of $19,680,000 on August 15, 2015. The bond has stated interest rate of 5.00%.

UPHS Series B of 2005 Bonds were issued on February 16, 2005 for the purpose of funding various UPHS capital expenditures. The bonds were partially defeased by the UPHS Series A Bonds of 2015 and have a final maturity of $8,185,000 on August 15, 2015. The bonds have stated interest rates of 3.75% and 5.00%.

UPHS Series B of 2008 Bonds were issued on November 12, 2008 for the purpose of redeeming the UPHS Series C of 2005 and UPHS Series D of 2005. The bonds were partially defeased by the UPHS Series A Bonds of 2015 and have a final maturity of $52,000,000 on August 15, 2018. The bond has stated interest rate of 5.50%.

As a result of the legal defeasance of debt associated with the issuance of Series A Bonds of 2015, UPHS reported a loss on early extinguishment of debt in Pension, OPEB and other, net on the Consolidated Statements of Activities in the amount of $17,958,000 for the year ended June 30, 2015.

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

The PHEFA Revenue Bonds are secured by master notes issued under the UPHS Master Trust Indenture (MTI). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness, and among other things, require UPHS to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met, within six months of the close of that fiscal year UPHS must retain the services of a consultant to make recommendations to improve the coverage requirement. UPHS must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. UPHS will not be considered to be in default of the provisions of the MTI so long as UPHS has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. In both 2015 and 2014, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

UPHS has various mortgage payables with monthly installments ranging from $85,000 to $4,125,000, including interest. The mortgages have interest rates between 4.875% and 6.25%. The mortgages will fully amortize on or before April 1, 2022 and are collateralized by land and buildings of approximately $20,000,000.

UPHS entered into a three year agreement with a financial institution on April 30, 2013, subsequently amended on July 13, 2013, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement liquidity for general purposes of the health system. UPHS paid an upfront facility fee and a fee on the unused amount of the line of credit. As of June 30, 2015, there are no draws under the agreement.

UPHS has variable rate debt in the amount of $75,710,000 (PHEFA 2008A Revenue Bonds) which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. These bonds are secured by a letter of credit, which expires April 2018, in the amount of $77,141,000 as of June 30, 2015. As of June 30, 2015, there have been no draws under this agreement.

Interest Rate Swap Agreements

The University and UPHS enter into interest rate swap agreements to synthetically modify the interest rate terms of its long term debt portfolio. These agreements are not entered into for trading or speculative purposes. Fair value of these agreements is determined by obtaining quotes from Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) and Merrill Lynch, respectively, which are 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 quotes provided also represent the amount the University and UPHS would accept or be required to pay to transfer the agreement to GSMMDP and Merrill Lynch, respectively, or exit price as defined by the Fair Value Measurements standard. The University and UPHS also take into account the risk of nonperformance.

The following table summarizes the terms of the University's and UPHS's interest rate swap agreements:

	University Goldman Sachs Mitsui Marine Derivative Products, L.P.	UPHS Merrill Lynch Capital Services / Bank of America	UPHS Merrill Lynch Capital Services / Bank of America	UPHS Merrill Lynch Capital Services / Bank of America
Notional Amounts	$ 101,950,000	$ 25,065,000	$ 25,065,000	$ 75,710,000
Trade Date	11/6/2007	7/15/2009	1/7/2010	10/24/2007
Maturity Date	7/1/2034	8/15/2023	8/15/2023	1/1/2038
Rates:				
Receive	67% of 1-Month LIBOR	3.184%	2.902%	67% of 1-Month LIBOR
Pay	3.573%	SIFMA index	SIFMA index	3.755%
Default Optional Termination @ Market Value	Default by University	Default by UPHS	Default by UPHS	Default by UPHS
Optional Termination @ Market Value	University only	UPHS only	UPHS only	UPHS only
Collateral Liability Thresholds:				
AAA/Aaa	$25M	Infinite	Infinite	Infinite
AA(+/-) / Aa(1,2,3)	$25M - $15M	$40M	$40M	$40M
A(+/-) / A(1,2,3)	$10M - $5M	$20M	$20M	$20M
BBB+ / Baaa1	$2M	$10M	$10M	$10M
BBB / Baa2	$1M	N/A	N/A	N/A
Collateral Posted	$ 3,000,000	$ -	$ -	$ -

The following tables summarize the fair value of the interest rate swap agreements, not designated as hedging instruments, as of June 30, 2015 and 2014, 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, 2015 and 2014 (in thousands):

Statements of Position

	Line Item	2015	2014
Asset interest rate swaps			
UPHS	Other assets	$ 4,608	$ 4,582
Total Asset interest rate swaps		$ 4,608	$ 4,582
Liability interest rate swaps			
Academic Component	Accrued expenses and other liabilities	$ 22,924	$ 20,830
UPHS	Accrued expenses and other liabilities	5,349	7,046
Total Liability interest rate swaps		$ 28,273	$ 27,876

Statements of Activities

	Line Item	2015	2014
Academic Component	Gains or losses on investments	$ (5,623)	$ (4,277)
UPHS	Gains or losses on investments	365	(454)
Total		$ (5,258)	$ (4,731)

15. Energy Hedges

The University enters International Swaps and Derivatives Association agreements (ISDA agreements) to stabilize expected electricity costs over the long term.

The University determines the fair value of these agreements by obtaining quotes from an energy consultant generated by market transactions involving identical or comparable assets by using published New York Mercantile Exchange (NYMEX). The University has categorized the hedges as Level 2.

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.

The following table summarizes the terms of the University's energy hedges:

	Electricity Counterparties
Notional Amounts	$ 9,498,000
Trade Date	6/2012 - 6/2015
Maturity Date	7/2015 - 8/2017
Megawatt hours (Mwhs)	224,965
Collateral Liability Thresholds	$20M - $25M
Collateral Posted	$ -

The following tables summarize the fair value of the University's ISDA agreements as of June 30, 2015 and 2014, and the effect of these agreements on the Consolidated Statements of Activities for the years ended June 30, 2015 and 2014 (in thousands):

	Statements of Position Line Item	2015	2014
Asset position	Other assets	$ -	$ 2,130
Liability position	Accrued expenses and other liabilities	$ 531	$ -

	Statements of Activities Line Item	2015	2014
Unrealized (Loss) Gain	Gains or losses on investment	$ (2,661)	$ 6,063
Realized (Loss) Gain	Other operating expenses	$ (1,203)	$ 3,439

16. Net Assets

The major components of net assets at June 30, 2015 and 2014 are as follows (in thousands):

2015	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,683,568	$ 256,176		$ 2,939,744
Sponsored programs	47,200			47,200
Capital		178,642		178,642
Student loans	9,819		$ 17,304	27,123
Planned giving agreements		149,628	15,114	164,742
Endowment	4,412,620	2,442,269	3,278,680	10,133,569
Total	$ 7,153,207	$ 3,026,715	$ 3,311,098	$ 13,491,020

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

17. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through March 2036. Rental expense for the years ended June 30, 2015 and 2014 totaling $78,730,000 and $71,829,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2015, future minimum lease payments under existing operating leases were as follows (in thousands):

2016	$ 75,876
2017	69,980
2018	60,748
2019	47,571
2020	42,148
Thereafter	305,159
Total Minimum lease payments	$ 601,482

18. Functional Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation and benefits	Depreciation and amortization	Interest on indebtedness	Other operating expense	June 30, 2015	June 30, 2014
Instruction	$ 750,273	$ 56,590	$ 5,043	$ 369,784	$ 1,181,690	$ 1,159,168
Research	388,988	43,163	24,978	279,484	736,613	722,970
Hospital and physician practices	2,295,300	175,388	35,792	1,464,389	3,970,869	3,634,265
Auxiliary enterprises	30,883	27,968	5,766	75,186	139,803	137,105
Other educational activities	121,191	11,378	323	63,536	196,428	187,995
Student services	46,627		16	31,797	78,440	77,802
Academic support	35,670	30,077	285	12,959	78,991	78,211
Management and general	216,392	17,727	345	39,184	273,648	287,234
Independent operations	7,505	3,999	544	54,585	66,633	64,048
Total	$ 3,892,829	$ 366,290	$ 73,092	$ 2,390,904	$ 6,723,115	$ 6,348,798

Trustees of the University of Pennsylvania

As of June 30, 2015

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Provost
Dr. Vincent Price

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and Dean, School of Medicine
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Senior Vice President and General Counsel
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University of Pennsylvania Health System
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Comptroller
Mr. John Horn

University of Pennsylvania
Nondiscrimination Statement

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The 2014/2015 Annual Financial Report was produced by the Office of the VP for Finance and Treasurer

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- Russell DiLeo
- Mary Ellen Lovejoy

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2014-15
FINANCIAL REPORT