2020-2021

ANNUAL FINANCIAL REPORT

Penn
UNIVERSITY *of* PENNSYLVANIA

Contents

UNIVERSITY OF PENNSYLVANIA

FINANCIAL OVERVIEW

From the Vice President for Finance and Treasurer
MaryFrances McCourt

Despite the many challenges presented by COVID-19, Fiscal Year 2021 represented a period of great financial growth for the University of Pennsylvania, resulting in historic operating and non-operating results for both the Academic Component and the Health System. Financial highlights from the year are included below:

- Consolidated operating revenue increased 11.9%, rising from $11.3 billion in FY20 to $12.7 billion in FY21.
- Total net assets totaled $26.9 billion, an increase of $7.4 billion, or 37.7%, from FY20.
- Change in net assets from operations topped $1 billion, a record 8.3% of revenue, with Penn Medicine achieving its 21st consecutive year of positive operating margin at 7%, or $610.9 million.
- Record royalty income was positively impacted by licensed mRNA vaccine technology developed by Penn's faculty, Dr. Drew Weisman and Dr. Katalin Karikó.

ENDOWMENT RETURNS

- Penn's Associated Investment Fund (AIF) returned a remarkable 41.1% in FY21, increasing the endowment by $5.6 billion to $20.5 billion. This the highest return for the AIF since 1983.
- To continue strategic investment while navigating the financial pressures caused by COVID-19, the University temporarily increased its target payout rate from its baseline 5% to 7% for FY21, resulting in $797 million in budgetary support for the highest University priorities.

FUNDRAISING

- The *Power of Penn* campaign culminated at fiscal year-end, raising a record $5.4 billion, exceeding its goal by $1.3 billion, or 32%.
- The exceptional commitment from almost 400,000 donors resulted in the creation of 830 new undergraduate scholarships, 186 new faculty and staff endowments, and over $660 million raised to support capital projects.

- $878 million was raised for financial aid, with $453 million raised for undergraduate financial aid and $425 million raised to support graduate and professional students.
- Additionally, the Weitzman School of Design and Carey Law School were named during this campaign. In FY21, Penn's alumni, parents, and loyal supporters contributed $542.3 million in new gifts and pledges to the University.

SOCIAL IMPACT

- Penn is highly invested and engaged in the local community, achieving notable levels of economic and social impact.
- Despite the financial pressures related to COVID-19, the University made an historic $100 million commitment to the Philadelphia School District over the next 10 years, focused on asbestos and lead paint removal.
- Penn Medicine provided $302.2 million in charity and underfunded care for Medicaid families and has partnered with the Wharton Social Impact Initiative to invest $5 million in the Fund for Health, which invests in companies that address social determinants of health.
- Initiatives to expand enterprise-wide local and diversity spending are continually enhanced with increasingly impactful results. Penn purchased $110 million in products and services from local West Philadelphia businesses, with $28 million, or 26%, sourced from diverse suppliers. Across all procurement, Penn's purchases from diverse suppliers totaled $96 million, or 11%.

STUDENTS

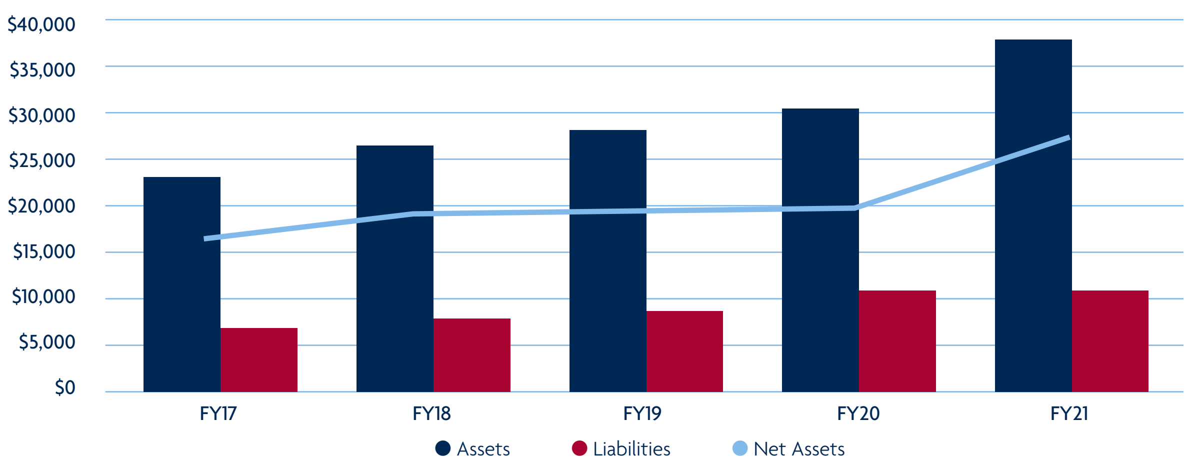
- The Class of 2025 is made up of 2,418 students from 88 nations and 48 states, as well as the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. 130 first-year students are from Philadelphia.
- Selectivity for our incoming class was 5.9% with a record 73.2% matriculating.
- 46% of undergraduate students received grant/scholarship aid, with an average need-based financial aid package for an incoming first-year student of $54,553, including work-study.
- Only 19% of aided undergraduate students incurred federal loans in FY21, compared to 76% in FY08 when Penn launched its grant-based financial aid program.

Balance Sheet and Net Assets

Total net assets of $26.9 billion reflect historic performance, up $7.4 billion, or 37.7%, over prior year. Assets increased by $7.4 billion, from $30.4 billion in FY20 to $37.8 billion in FY21. This is primarily driven by a $6.1 billion increase in investments. Liabilities held virtually flat at $10.9 billion with increases in payables/accruals and debt offset by a $770.9 million favorable pension adjustment.

Since FY17, consolidated net assets have grown by 65.9%, impacted by favorable investment and operating performance, strong fundraising efforts, UPHS regional expansion, and mRNA vaccine royalties.

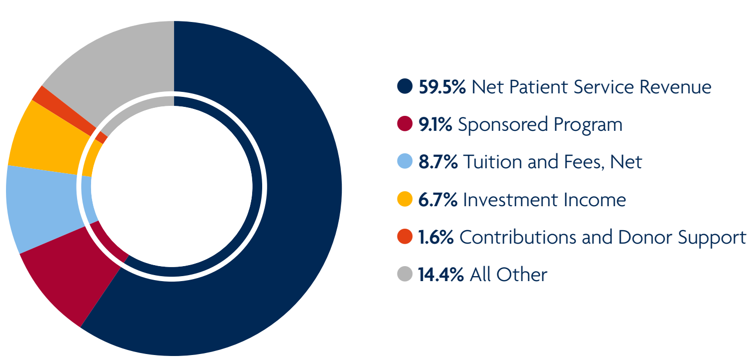
BALANCE SHEET ($ in Millions)



Operating Revenue

Total operating revenue increased by 11.9%, rising from $11.3 billion in FY20 to $12.7 billion in FY21.

FY21 OPERATING REVENUES BY SOURCE – $12.7 BILLION

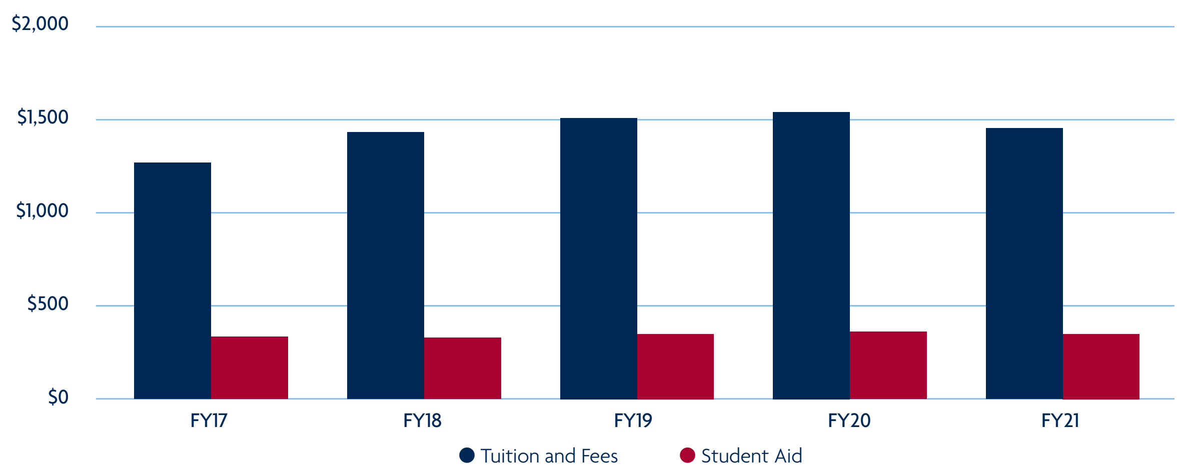


TUITION AND FEES

Net tuition and student fee revenue decreased 6.1% from $1.2 billion in FY20 to $1.1 billion in FY21, representing 8.7% of FY21 total operating revenue. FY21 net tuition and fees is net of $349.6 million in undergraduate and graduate financial aid grants and scholarships, which decreased by $11.3 million, or 3.1%, over the prior fiscal year. The reduction in tuition and fee revenue and financial aid expenditures is a result of a rollback of the planned FY21 tuition and fee increase for fall 2020 as instruction remained virtual and on-campus housing was delayed until spring.

The *Penn Compact 2022's* principles of Inclusion, Innovation, and Impact continue to serve as Penn's strategic vision. For more than a decade, Penn has been expanding access to a world-class education for families of all income levels by meeting 100% of a student's demonstrated financial need. To promote inclusion and increased access, Penn provides grant-based undergraduate financial aid packages and adheres to a need-blind admission policy, in which admission decisions are not affected by a student's ability to pay.

TUITION AND FEES ($ in Millions)

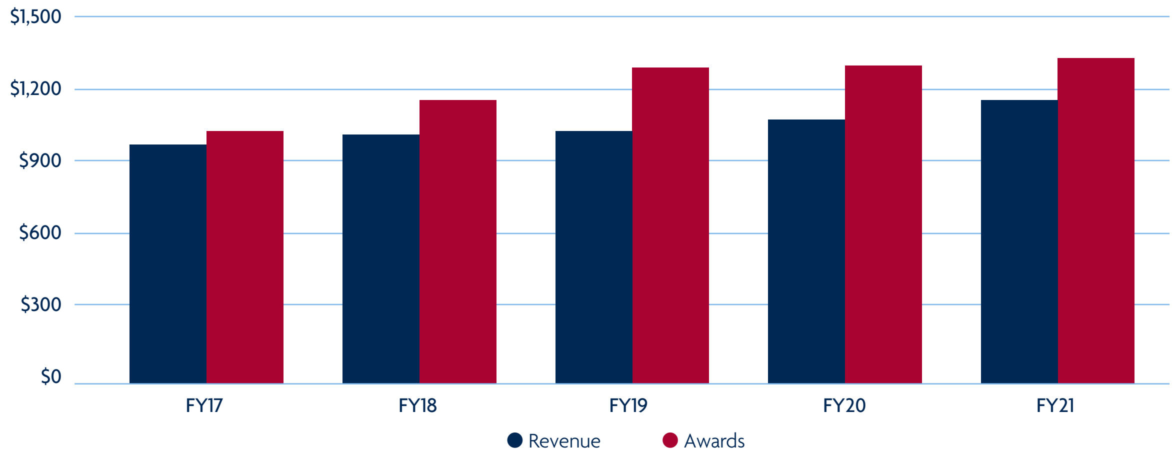


SPONSORED PROGRAMS

Sponsored program revenue, comprising funding from government and private-sponsored grants and contracts, totaled $1.2 billion in FY21, an increase of $75.6 million or 7% over the prior fiscal year. Sponsored program revenue represented 9.1% of total operating revenue.

As one of the nation's top research universities, the funding provided to Penn is vital in generating advances in the physical and social sciences, medicine, and other leading-edge fields. Private sector partnering and commercialization of technologies enabled by innovators across the University are making vital contributions to a growing number of COVID-19 diagnostics, therapeutics, vaccines, clinical interventions, and technical solutions. Breakthroughs made by Penn faculty members are core components of numerous high-profile product candidates, including the BioNTech platform that is used to manufacture the Pfizer COVID-19 vaccine.

SPONSORED PROGRAMS ($ in Millions)



In FY21, a total of $809.1 million, or 70.3%, of Sponsored Program activities were awarded from federal agencies, Penn's largest source of research funding. Of the federal funding, $566.6 million, or 70%, came from the National Institutes of Health (NIH). The Perelman School of Medicine was among the top five medical schools nationwide in grants awarded by the NIH. Overall, total federal government awards issued to Penn in FY20 increased by $58.9 million, or 11.6%.

Industry and foundation awards accounted for $313.4 million, or 27.3%, of total sponsored program awards. Other funding sources totaled $40.4 million, or 3.2%, of sponsored program awards.

CONTRIBUTIONS

Contributions, defined as new gifts and pledges, totaled $542.3 million in FY21, a $9.5 million, or 1.7%, decrease from the FY20 total of $551.8 million. FY21 contributions included $202.7 million to restricted endowment, $248.2 million to support operations, and $91.4 million toward capital.

Under Council for Advancement and Support of Education reporting standards, during FY21 Penn received 156 gifts of more than $1 million, with 66 of those coming from first-time donors at that level.

Contributions to The Penn Fund increased 7.1% from $43.6 million in FY20 to $46.7 million in FY21 and annual giving increased by 5.3% from $89.8 million to $94.6 million. Donors established 124 new undergraduate scholarships (115 endowed, 9 term).

INVESTMENT INCOME

Operating investment income, primarily endowment paid out in accordance with Penn's spending rule policy, increased by $108.6 million, or 14.6%, from $744.9 million in FY20 to $853.6 million in FY21. The spending rule policy is described in more detail under the Endowment section later in this report.

OTHER REVENUE SOURCES

Other income increased 40.4% from $1.3 billion in FY20 to $1.8 billion in FY21 with mRNA vaccine royalties positively impacting these results. Commonwealth appropriations, which predominantly provide support for Penn's School of Veterinary Medicine, held steady for FY21 at $35.1 million.

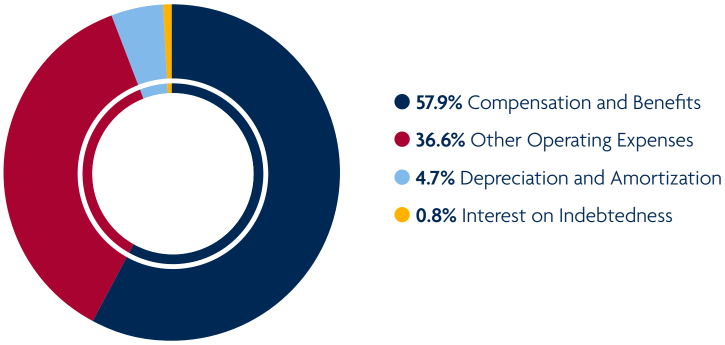
Operating Expense

Total operating expenses increased by 6.0%, rising from $10.9 billion in FY20 to $11.6 billion in FY21. 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 3.8%, from $5.0 billion in FY20 to $5.2 billion in FY21. Employee benefits increased 16.1% from $1.3 billion in FY20 to $1.5 billion in FY21, impacted by a $101 million expense for a special faculty retirement initiative.

Depreciation and amortization of $552.9 million, representing 4.8% of total operating expenses, increased 3.4% from FY20. Interest on indebtedness totaled $88.0 million, accounting for 0.8% of total operating expenses and remaining virtually flat to prior year.

Other operating expenses increased 5.9% from $4.0 billion in FY20 to $4.2 billion in FY21 and represented 36.6% of total operating expense. Operating expenses were impacted by the full booking of Penn's $100 million voluntary pledge to support the Philadelphia School District over 10 years, partially mitigated by a significant reduction in travel and other current expenditures as a result of remote work.

FY21 OPERATING EXPENSES BY SOURCE – $11.6 BILLION



Capital Expenditures

Capital expenditures for the Consolidated University decreased from $1.4 billion in FY20 to $958 million in FY21.

In FY21, capital expenditures for the Academic Component of the University totaled $290 million, a decrease of $53 million, or 15.5%, from FY20.

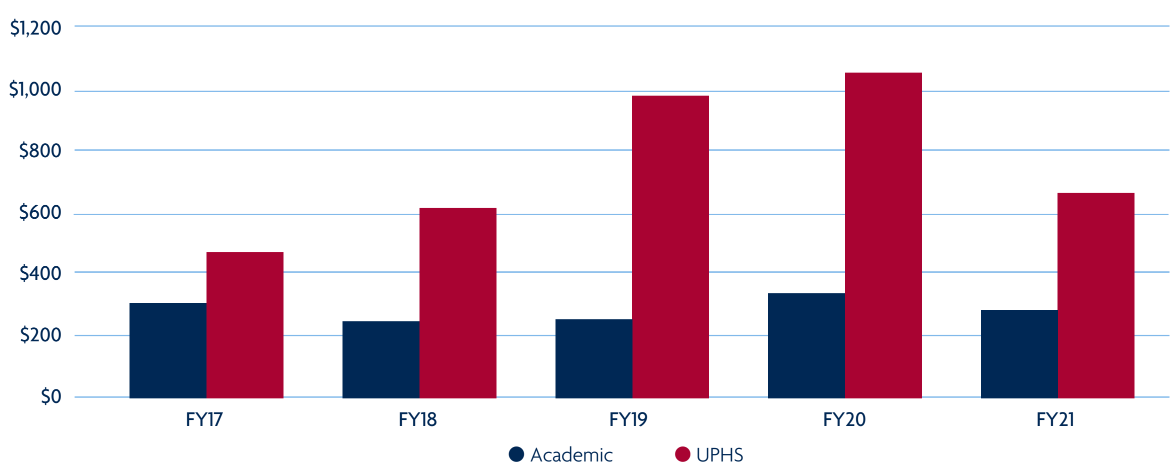
These capital projects represent Penn's fulfillment of the objectives outlined in *Penn Connects 3.0*, a land use and urban design campus plan that advances Penn as a premier urban research university. *Penn Connects* employs University sustainability goals and objectives to inform future development and balance new construction projects with reinvestments in existing buildings and infrastructure.

Academic project highlights include:

- New College House West, a 250,000 square foot dormitory located at 40th Street and Locust Walk, was completed in summer 2021 and welcomed its first student residents in the fall 2021 semester. The College House includes 450 bedrooms and is targeted for LEED-Silver certification.
- The Academic Research Building was completed in 2020 and includes two floors programmed for active student use and two floors for academic research, including the Wharton Statistics Department and Customer Analytics Initiative. The project also incorporated the replacement of the electric substation at 37th and Spruce Streets.
- Tangen Hall, located at 40th and Sansom Streets, brings new vibrancy to the western edge of campus and is the largest entrepreneurship hub of its kind at any college campus. The building is designed to encourage collaboration and transparency, highlighting Penn students' innovative spirit. The project was completed in 2020.

As described later in this report, UPHS invested $668 million in capital projects, highlighted by their New Patient Pavilion, which was completed in 2021.

CAPITAL EXPENDITURES ($ in Millions)



PENN'S CLIMATE ACTION PLAN

In October 2019, Penn announced its Climate & Sustainability Action Plan 3.0, outlining the University's goals for improved environmental performance for the next five years. As part of these ongoing initiatives, Penn has committed to achieving 100% carbon neutrality by 2042. Since FY09, Penn has achieved a 44.3% reduction in overall carbon emissions and a 41% reduction in building-related emissions.

Debt

Consolidated debt totaled $4.6 billion in FY21, an increase of $151.4 million, or 3.4%, from FY20. In July 2020, the University issued $300 million in 30-year taxable bonds at a 2.396% interest rate. Penn will use the newly borrowed funds for general corporate purposes, including but not limited to the financing or refinancing of research-focused capital projects.

In April 2021, UPHS issued $79.8 million in bonds to redeem 2014 bonds at a 2.97% interest rate. This was necessary due to a tender of the 2014 bonds that would have taken place in June 2021. Forward delivery bonds were also priced, to be issued in May 2022, in the amount of $109.7 million at a 2.78% interest rate. The proceeds were used to refund 2012 bonds, producing a net present value savings of $18.9 million.

Penn's credit ratings from Moody's Investors Service and S&P Global Ratings are Aa1 and AA+ for the University and Aa3 and AA for UPHS, respectively.

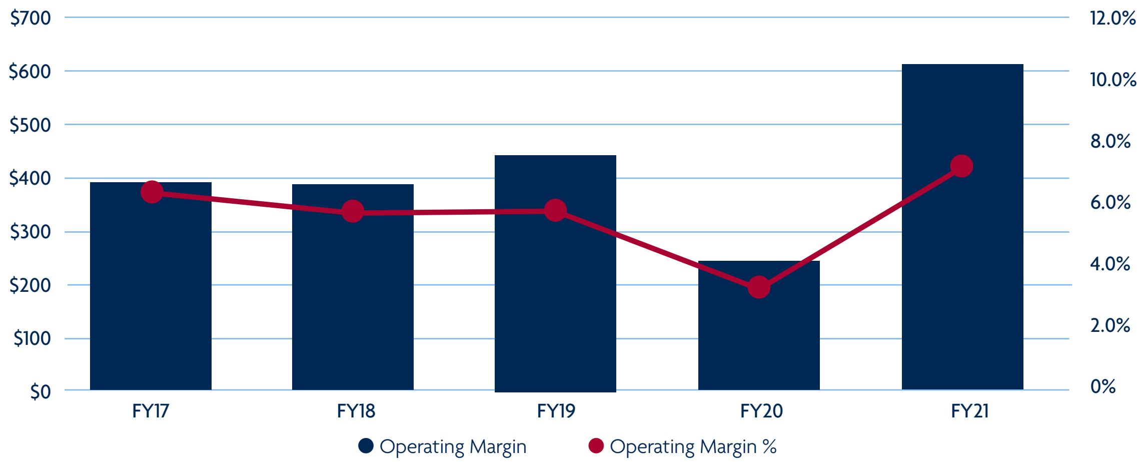
University of Pennsylvania Health System

UPHS includes six major hospitals – the Hospital of the University of Pennsylvania (HUP), Penn

Presbyterian Medical Center, Pennsylvania Hospital, Chester County Hospital, Lancaster General Hospital, and the University Medical Center of Princeton. UPHS is recognized internationally as a leading healthcare system with the faculty-based Clinical Practices of the University of Pennsylvania, home care and hospice services, and physician practices and facilities in communities throughout the Delaware Valley. The University's Perelman School of Medicine joins with UPHS as a part of Penn Medicine, a world-renowned academic medical center with hospitals ranked among the highest in the nation by *U.S. News and World Report*.

As noted above, UPHS marked its 21st consecutive year of positive operating performance with a FY21 UPHS operating margin of 7.0%, or $610.9 million.

UPHS OPERATING MARGIN ($ in Millions)



Total FY21 UPHS operating revenues were $8.7 billion, reflecting an 11.1% increase over the prior year. Net patient services revenue, the largest revenue component at 59.5% of total Consolidated University operating revenue, increased by 10.8% from $6.8 billion in FY20 to $7.5 billion in FY21. The increase was primarily attributed to better performance from the prior year which was impacted by COVID-19 and related disruptions to the nation's healthcare systems.

UPHS operating expenses for FY21 were $8.1 billion, an increase of 6.6% over the prior year. The increase in unrestricted net assets for UPHS, including non-operating revenue and realized/unrealized gain on investments, totaled $2.1 billion for FY21, an increase of $2.3 billion from prior year. The increase was attributable to improved operations after the COVID-19 pandemic in FY20, strong investment performance, and a favorable pension adjustment.

FY21 Days Cash on Hand was 287 days, an increase of 29 days from the prior year primarily due to better operating and investment performance, as well as a favorable impact from Medicare Advance Payments and FICA deferrals as part of the CARES Act. Debt-to-capitalization decreased to 27.1% in FY21 from 35.4% in FY20.

UPHS capital expenditures for FY21 were $668 million, a decrease of $386.6 million over the prior year. The decrease in expenditures was primarily attributable to reduced spending levels on strategic projects including the New Patient Pavilion at HUP, patient towers at Chester County, and Radnor facility master plan.

The $1.6 billion New Patient Pavilion, expected to fully open in 2022, will support Penn's world-renowned researchers, clinicians, and faculty, and will include 500 private patient rooms, 50 operating and procedure rooms, and an Emergency Department.

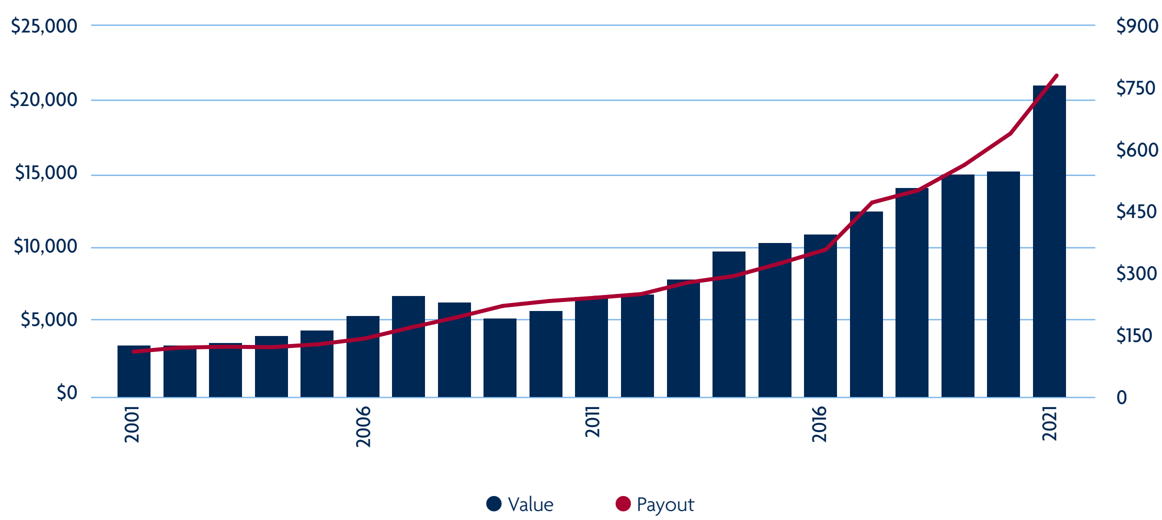
Endowment

The University of Pennsylvania's endowment totaled $20.5 billion as of June 30, 2021, an increase of $5.6 billion over the past year. Penn's endowment consists of more than 8,000 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 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 Millions)

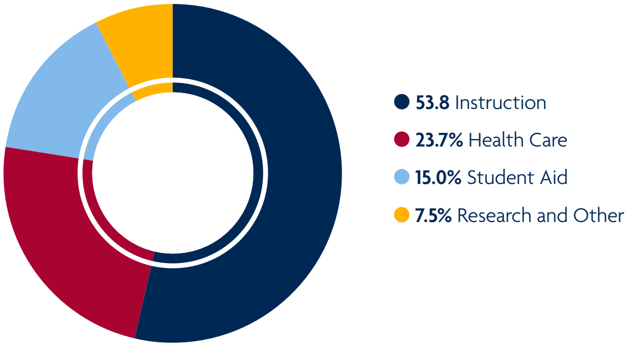


The University's endowment spending policy balances the objectives of maximizing budgetary support to endowed programs and maintaining purchasing power of the endowment into perpetuity. The actual payout in any given year is determined by a spending rule formula designed to smooth the impact of short-term changes in the AIF's value on spending distributions. For FY21, AIF spending distribution amounts were 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 market value, multiplied by Penn's 7.0% target spending rate. Typically, Penn uses a target spending rate of 5.0%. In light of pandemic-driven needs and opportunities, the target payout rate was temporarily increased to 7.0% for FY21.

Payouts from the endowment provided $797 million in budgetary support to the University during the fiscal year. Spending support from the AIF for University operations has grown by an annualized 12.2% over the last decade and now represents approximately 16.4% of the University's academic operating budget, up from 9.6% a decade ago.

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

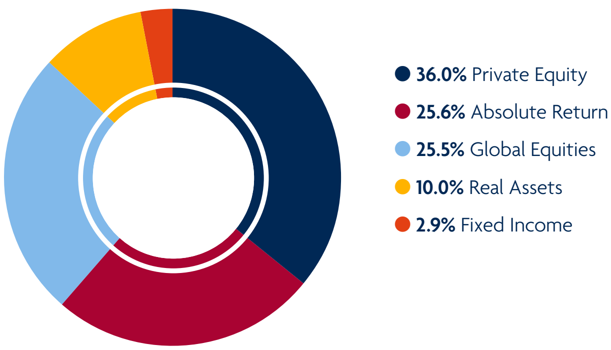
ENDOWMENT BY PURPOSE (As of June 30, 2021)



AIF Investment Program

Penn builds its investment program around several simple tenets. First, to achieve the high returns necessary to preserve purchasing power after spending, the AIF is invested with a strong equity orientation. Except for 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, 2021)



Penn has established a Strategic Asset Allocation (SAA), with investment class target ranges that 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 to reflect 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 asset allocation over shorter periods.

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 2021.

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, 2021, the AIF had $4.1 billion in outstanding commitments to various limited partnerships. The AIF maintains a conservative liquidity profile that can accommodate these commitments in both normal environments and periods of market stress or dislocation.

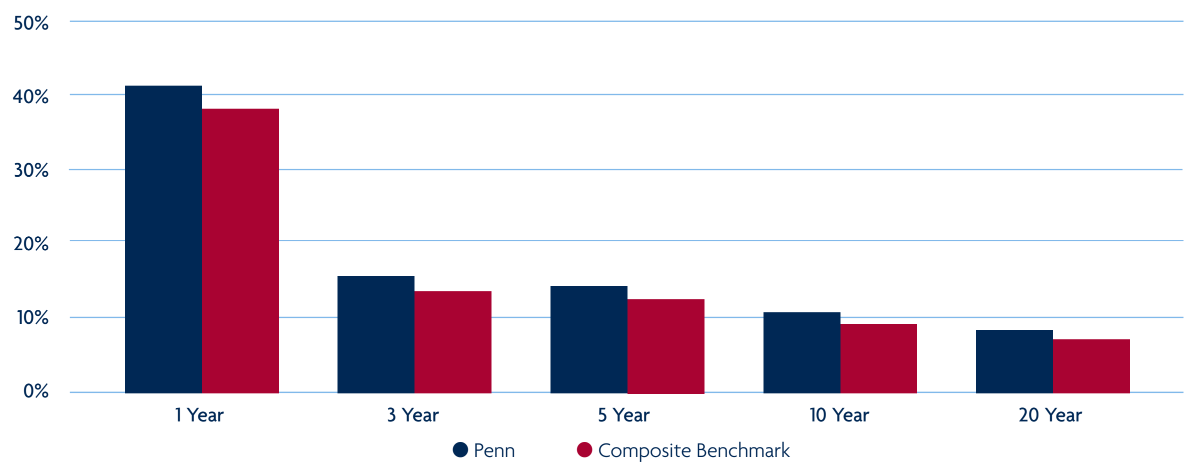
AIF Performance

The AIF returned 41.1% in FY21, increasing by $5.6 billion to a total value of $19.9 billion after spending, gifts, and other transfers. The total endowment, which includes funds held in trust invested outside of the AIF, ended the year at $20.5 billion, an increase of $5.6 billion as well.

All major equity markets produced very strong returns in FY21. Outperformance relative to Penn's composite benchmark (a blend of asset class benchmarks) was driven by notable relative performance in the global equities and private equity portfolios.

Over longer periods, Penn's performance has consistently outpaced the composite benchmark. Importantly, Penn's long-term performance has enabled the AIF to exceed its goal of maintaining purchasing power after spending distributions.

COMPARATIVE RETURNS



Future Outlook

Penn has skillfully managed through the disruptions caused by the pandemic with known and unknown challenges still on the horizon. Yet, opportunities abound as the result of historic royalty income from our mRNA vaccine technology, the opening of the world-class HUP Patient Pavilion, a record-breaking fundraising campaign, and a strong pipeline for sponsored research. We have increased our commitment to strategic investment to capitalize on opportunities in research, healthcare, and the academy as we combat some of the world's most pressing issues. We look forward to a strong and successful FY22.

Statutory Officers

President
Dr. Amy Gutmann

Provost
Dr. Wendell E. Pritchett

Senior Executive Vice President
Mr. Craig R. Carnaroli

Executive Vice President of the University of Pennsylvania for the Health System and Dean, Perelman School of Medicine
Dr. J. Larry Jameson

Senior Vice President and Chief of Staff
Mr. Gregory Rost

Senior Vice President and General Counsel of the University of Pennsylvania and the University of Pennsylvania Health System
Wendy S. White, Esq.

Senior Vice President for Development and Alumni Relations
Mr. John H. Zeller

Senior Vice President for Institutional Affairs and Chief Diversity Officer
Ms. Joann Mitchell

Vice President for Audit, Compliance, and Privacy
Mr. Gregory J. Pellicano

Vice President, Budget Planning and Analysis
Mr. Trevor C. Lewis

Vice President for Business Services
Ms. Marie Witt

Vice President for Facilities and Real Estate Services
Ms. Anne Papageorge

Vice President for Finance and Treasurer
Ms. MaryFrances McCourt

Vice President for Government and Community Affairs
Mr. Jeffrey Cooper

Vice President for Human Resources
Dr. John J. Heuer

Vice President for Information Technology and University Chief Information Officer
Mr. Thomas H. Murphy

Vice President for Institutional Research & Analysis
Dr. Stacey J. Lopez

Vice President for Public Safety
Ms. Maureen Rush

Vice President for Social Equity and Community
Dr. Charles L. Howard

Vice President for University Communications
Mr. Stephen J. MacCarthy

Vice President and University Secretary
Ms. Medha Narvekar

Comptroller
Mr. Russell Di Leo

As of June 30, 2021

Trustees of the University of Pennsylvania

University of Pennsylvania

Consolidated Financial Statements
June 30, 2021 and 2020

University of Pennsylvania
Index
June 30, 2021 and 2020

Report of Independent Auditors

To the Trustees of the University of Pennsylvania

We have audited the accompanying consolidated financial statements of the University of Pennsylvania, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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.

Auditors' 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 Company'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 Company'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, 2021 and 2020, and the results of its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 23, 2021

PricewaterhouseCoopers LLP, 2001 Market Street, Suite 1800, Philadelphia, PA 19103
T: (267) 330 3000 , F: (267)330 3300, www.pwc.com/us

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

University of Pennsylvania
(in thousands)

	June 30, 2021	June 30, 2020
ASSETS		
Cash and cash equivalents	$ 2,406,233	$ 2,117,979
Accounts receivable, net	1,729,614	1,233,120
Contributions receivable, net	473,580	478,150
Loans receivable, net	60,953	63,398
Other assets	951,435	872,383
Investments, at fair value	23,039,002	16,870,116
Property, plant and equipment, net	9,176,028	8,778,085
TOTAL ASSETS	**$ 37,836,845**	**$ 30,413,231**
LIABILITIES		
Accounts payable	$ 384,829	$ 313,884
Accrued expenses and other liabilities	4,126,911	3,646,811
Deferred income	190,697	189,920
Deposits and advances	215,936	220,114
Federal student loan advances	47,039	51,822
Accrued retirement benefits	1,314,769	1,968,251
Debt obligations	4,607,594	4,456,160
TOTAL LIABILITIES	**10,887,775**	**10,846,962**
NET ASSETS		
Without donor restrictions	15,903,927	11,366,361
With donor restrictions	11,045,143	8,199,908
TOTAL NET ASSETS	**26,949,070**	**19,566,269**
TOTAL LIABILITIES AND NET ASSETS	**$ 37,836,845**	**$ 30,413,231**

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, 2021 and 2020
(in thousands)

	2021	2020
WITHOUT DONOR RESTRICTIONS:		
REVENUE AND OTHER SUPPORT		
Tuition and fees, net	$ 1,105,104	$ 1,176,737
Commonwealth appropriations	35,144	35,144
Sponsored programs	1,150,055	1,074,494
Contributions and donor support	202,184	210,894
Investment income	853,555	744,911
Net patient service revenue	7,536,453	6,803,782
Other income	1,774,703	1,264,004
TOTAL REVENUE AND OTHER SUPPORT	**12,657,198**	**11,309,966**
EXPENSES		
Compensation and benefits	6,713,886	6,313,668
Depreciation and amortization	552,935	535,003
Interest on indebtedness	88,036	87,760
Other operating expenses	4,246,611	4,008,255
TOTAL EXPENSES	**11,601,468**	**10,944,686**
INCREASE IN NET ASSETS FROM OPERATIONS	**1,055,730**	**365,280**
NONOPERATING ACTIVITIES		
Return on investments, net of amounts classified as operating revenue	2,704,552	(114,855)
Pension, OPEB and other, net	740,871	(374,803)
Contributions and donor support for capital related activities	36,413	98,487
TOTAL NONOPERATING ACTIVITIES	**3,481,836**	**(391,171)**
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**4,537,566**	**(25,891)**
WITH DONOR RESTRICTIONS:		
Contributions	460,862	478,490
Return on investments, net	2,903,720	231,372
Net assets released from restrictions	(519,347)	(542,535)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	**2,845,235**	**167,327**
INCREASE IN TOTAL NET ASSETS	**7,382,801**	**141,436**
Total net assets, beginning of year	19,566,269	19,424,833
TOTAL NET ASSETS, END OF YEAR	**$26,949,070**	**$19,566,269**

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, 2021 and 2020
(in thousands)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in total net assets	$ 7,382,801	$ 141,436
Adjustments to reconcile increase in total net assets to net cash provided by operating activities:		
Depreciation and amortization	533,111	516,878
Provision for bad debts	9,793	7,925
Gain on investments, net	(5,940,709)	(372,476)
(Gain) loss on disposal of plant, property and equipment	(13,029)	1,824
Donated equipment	(318)	-
Receipt of contributed securities	(109,309)	(134,329)
Proceeds from contributed securities	28,426	26,350
Receipt of contributions designated for the acquisition of long-lived assets and long-term investment	(246,724)	(231,406)
Pension, OPEB and other, net	(740,871)	374,803
Changes in operating assets and liabilities:		
Accounts and loans receivable	(504,074)	(3,700)
Contributions receivable	4,801	10,878
Other assets	(24,912)	(49,605)
Accounts payable, accrued expenses and accrued retirement benefits	532,585	685,623
Deposits and advances	(5,880)	30,310
Deferred income	777	(2,382)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**906,468**	**1,002,129**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(16,837,731)	(16,043,267)
Proceeds from sale of investments	16,734,521	16,168,730
Purchase of property, plant and equipment	(957,675)	(1,397,560)
NET CASH USED BY INVESTING ACTIVITIES	**(1,060,885)**	**(1,272,097)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	246,723	231,407
Proceeds from contributed securities received designated for the acquisition of long-lived assets and long-term investment	79,748	107,643
Federal student loan advances	(4,783)	(19,443)
Repayment of debt obligations	(234,545)	(598,091)
Proceeds from issuances of debt obligations	407,000	1,290,962
NET CASH PROVIDED BY FINANCING ACTIVITIES	**494,143**	**1,012,478**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**339,726**	**742,510**
Cash and cash equivalents, beginning of year	2,117,979	1,375,469
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 2,457,705**	**$ 2,117,979**
RECONCILIATION TO CONSOLIDATED STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents, end of year	$ 2,457,705	$ 2,117,979
Cash included in Investments, at fair value	(51,472)	-
CASH AND CASH EQUIVALENTS, CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	**$ 2,406,233**	**$ 2,117,979**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 97,375	$ 83,526
Contributed securities received	109,309	134,329
Decrease in accrued plant, property and equipment	(6,946)	(53,778)
Operating cash flows for operating leases	72,127	61,093
Right-of-use assets obtained in exchange for lease liabilities	64,950	497,406

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

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The University of Pennsylvania ("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 in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 measurement alternative – at cost adjusted for impairment, if any, unless an observable transaction for an identical or similar security occurs.

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

> <u>Without donor restrictions</u> – includes net assets that are not subject to donor-imposed restrictions.
>
> <u>With donor restrictions</u> – includes net assets that are (i) subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time, and (ii) the original values 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 net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions 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 net assets with donor restrictions and released from restrictions to net assets without donor restrictions when the asset is placed in service or in accordance with donor-specified terms.

Expirations of restrictions on contributions and investment income, reported as Net assets released from restrictions, and the corresponding amounts are included in the Consolidated Statements of Activities as follows (in thousands):

Net Assets Without Donor Restrictions	**2021**	**2020**
Contributions and donor support	$ 120,760	$ 137,572
Investment income	362,174	306,476
Contributions and donor support for capital related activities	36,413	98,487
Net assets released from restrictions	**$ 519,347**	**$ 542,535**

Net Assets With Donor Restrictions	**2021**	**2020**
Net assets released from restrictions	**$ (519,347)**	**$ (542,535)**

Gains or losses associated with investment activities are included in Return on investments, net. Gains and losses associated with property, plant and equipment disposals are included in Other income and Other operating expenses, respectively. Gains or losses associated with all other activities, such as debt retirements and pension and postretirement plan actuarial valuation adjustments, are reported in Pension, other postretirement employee benefits (OPEB) and other, net.

Fair Value

The University values certain financial and non-financial assets and liabilities by applying the FASB pronouncement on Fair Value Measurements*.* The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability and are 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 Notes to Consolidated 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 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 U.S. 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, 2021 and 2020. Investments reported at NAV, as a practical expedient, are not included within levels 1, 2, or 3 in the fair value hierarchy.

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 demand deposits and liquid investments available for current operations with maturities of three months or less, which would be considered Level 1 investments under the fair value hierarchy. All short-term, highly liquid investments, otherwise qualifying as cash equivalents or restricted cash equivalents, included in the University's investments are treated as Investments, at fair value and are therefore excluded from Cash and cash equivalents in the Statements of Cash Flows.

Investments, at Fair Value

The majority of the University's investments are held in the Associated Investments Fund (AIF). The AIF is invested in accordance with the investment policies set out by an Investment Board which has been appointed by the Trustees of the University of Pennsylvania (the Trustees). The Office of Investments is responsible for the day-to-day management of the AIF including identifying, selecting and monitoring a variety of external investment managers to implement the strategic asset allocation set forth by the Investment Board. The AIF may include marketable and not readily marketable securities that it intends to hold for an indefinite period of time. The University also holds other investments which are not invested in the AIF due to various restrictions. The majority of these investments are in highly liquid short-term and equity type investments. Changes in the fair value of investments are reported in Return on investments, net 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 mutual funds and private funds. The securities held in managed accounts, along with mutual funds, are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Private funds are valued at NAV.

Debt

Debt investments consist of direct holdings of securities in managed accounts and private funds. 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 and sovereign bonds, 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 inputs are unobservable as Level 3. Private funds are valued at NAV.

Absolute Return

Absolute return investments are made up of allocations to private funds. The fund managers of these private funds invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Private funds are valued at NAV.

Real Estate

Investments in real estate are primarily in the form of private funds. The fund managers of these private funds primarily invest in investments for which there is no readily determinable market value. The fund managers may value the underlying investments based on an appraised value, discounted cash flow, industry comparables or some other method. Private funds are valued at NAV.

Private Equity

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

Natural Resources

Investments in natural resources are made up of private funds and securities in managed accounts. The fund managers of these private funds primarily invest in investments for which there is no readily determinable market value. The fund managers may value the underlying investments based on an appraised value, discounted cash flow, industry comparables or some other method. Private funds are valued at NAV. The securities held in 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.

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. The University 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 7,196 donor-restricted endowment funds and 944 quasi-endowment funds established by management for a variety of purposes. The University reports all endowment investments at fair value. Most of the endowment funds of the University have been pooled in the University's AIF. 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 the following as net assets with donor restrictions for reporting purposes: (i) the original value of donated assets required to be invested in perpetuity; (ii) the original value of subsequent donated assets required to be invested in perpetuity; (iii) accumulations to the donated assets invested in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund; and (iv) donated assets and accumulations that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure between 2% and 7% (increased to 10% for fiscal years 2020 through 2022) of the endowment fair value, determined at least annually and averaged over a period of three or more preceding years, including funds whose fair value is less than the original donated value.

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, including funds whose fair value is less than the original donated value, is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For fiscal year 2021, the spending rule payout is based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by a 7% target spending rate for all funds. The payout or allocation to operations exceeded actual income, net of expenses, by $797,492,000 and $654,691,000 in 2021 and 2020, respectively.

Property, Plant and Equipment

Property, plant and equipment (PPE) is reported net of related depreciation. Donated PPE is reported based on estimated fair value at the date of acquisition. All other PPE is reported at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, or the shorter of the lease term or estimated useful life for leased assets. Contributions of library materials, as well as 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 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 Financial Position and Return on investments, net 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 Accrued expense and other liabilities on the Consolidated Statements of Financial Position and Return on investments, net on the Consolidated Statements of Activities.

Charitable remainder trust assets, where the University does not serve as trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution. The initially contributed assets are categorized as Level 3, and reported as Investments, at fair value on the Consolidated Statements of Financial Position and 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 Financial Position and Return on investments, net 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.

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 Financial 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 Financial Position and Return on investments, net 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.

The University reports charitable lead trust 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 Financial 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 Financial Position and Return on investments, net 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.

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 are subject to federal "Unrelated Business Income Tax."

The University regularly evaluates its tax position and does not believe it has any uncertain tax positions that require disclosure or adjustment to the consolidated financial statements.

Tuition and Fees

Tuition and fees includes tuition, room and board, and other student fees which are recognized as revenue over time during the fiscal year in which the related academic services are rendered. Tuition and fees received in advance of services to be rendered are reported as Deferred income on the Consolidated Statements of Financial Position. The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance, as well as meeting in full the demonstrated financial need of those admitted. Tuition and fees have been reduced by certain grants and scholarships in the amount of $349,592,000 and $360,863,000 in 2021 and 2020, respectively.

Sponsored Programs

Sponsored programs includes revenue from exchange and conditional non-exchange agreements with governments, foundations and private sources, generally for research activities. Revenue from exchange agreements is generally recognized at a point in time when performance obligations are met, and revenue from conditional non-exchange agreements is generally recognized as the related costs are incurred. Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return/release of assets received/promised and a barrier. These agreements become unconditional as barriers are met. At June 30, 2021, the University has unrecorded conditional agreements of $2,437,286,000. In 2021 and 2020, sponsored programs revenue earned from governmental sources totaled $833,004,000 and $753,901,000, respectively. 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. The University negotiates its federal indirect rates with its cognizant federal agency. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Contributions

Contributions are revenues from unconditional non-exchange agreements with private sources and foundations. Contributions are recognized in the period received and reported as increases in the appropriate net asset category based on the presence or absence of donor-imposed restrictions. Non-exchange agreements are considered conditional if the terms of the agreement include both a right of return/release of assets received/promised and a barrier. These agreements become unconditional as barriers are met. Contributions and donor support without donor restrictions also includes net assets released as a result of corresponding expenditures which met donor-imposed restrictions. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating activities.

The University reports unconditional pledges at fair value by discounting future cash flows using current market rates at the measurement date, ranging from 0.32% to 2.26%, 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. Changes in the fair value of the University's Contributions receivable due to fluctuations in the discount rate are reported as Contributions revenue on the Consolidated Statements of Activities.

Net Patient Service Revenue

Net patient service revenue is derived from contracts with patients of UPHS in which its performance obligation is to provide health care services. Net patient service revenue is recorded over time during the period these performance obligations are satisfied and at the determined transaction price, which represents the estimated net realizable amounts due from patients, third-party payers and others for health care services rendered. Estimated net realizable amounts represent amounts due, net of implicit and explicit price concessions. Implicit price concessions are based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. 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. Patient receivables are written off after collection efforts have been followed in accordance with UPHS' policy. Certain revenue received from third-party payers is subject to audit and retroactive adjustment. Any changes in estimates under these contracts are recorded in operations currently.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

COVID-19

In January 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a Public Health Emergency of International Concern. During fiscal year 2020, the COVID-19 pandemic caused disruptions to our nation's healthcare and higher education systems, including the University's. Such disruptions included reductions in availability of staffing and in the availability of personal protective equipment to prevent spread of the disease during patient treatment. Generally, elective procedures were postponed by physicians and acute care facilities to prepare for the expected volume of COVID-19 patients and reduce the risk of exposure to COVID-19. Other negatively impacted areas in fiscal year 2020 included but were not limited to, student enrollment, housing and dining revenues, research, faculty, staff & student travel, investment performance, philanthropy and increased financial need of students, with some impacts carrying over into fiscal year 2021. The University continues to monitor legislative developments, including future relief funding opportunities, and directives from federal, state, and local officials to determine additional precautions and procedures that may need to be implemented.

In response, on March 27, 2020, the Federal Government passed the Coronavirus Aid, Relief, and Economic Stimulus Act (CARES Act) which made funds available to UPHS and the Academic Component through various provisions of the legislation, including provider relief funding and advanced payments from the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advanced Payments Program. Furthermore, the CARES Act allowed employers to defer the deposits and payments of the employer's share of the Social Security taxes. The following table summarizes the related impact on the Consolidated Financial Statements as of June 30, 2021 and 2020, and for the years then ended (in thousands):

	Line Item	2021	2020
Consolidated Statements of Activities:			
UPHS Provider relief funding	Other Income	$ 201,281	$ 213,160
Consolidated Statements of Financial Position:			
UPHS CMS Accelerated and Advanced Payments Program	Accrued expenses and other liabilities	$ 535,787	$ 599,498
Deferral of Social Security taxes	Accrued expenses and other liabilities	180,763	62,045

UPHS recognized revenue related to the CARES Act funding based on information available at June 30, 2021 and 2020, respectively, based upon laws and regulations governing the funding as well as interpretations issued by the Department of Health and Human Services. Due to the volatility of the reporting requirements, there is at least a reasonable possibility that amounts recorded under CARES Act funding may change in future periods.

Recent Authoritative Pronouncements

Periodically, the Financial Accounting Standards Board (FASB) issues updates to the Accounting Standards Codification (ASC) which impacts the University's financial reporting and related disclosures. The paragraphs which follow summarize a number of relevant updates.

In February 2016, the FASB issued a standard on Leases. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily depends on its classification as a finance or operating lease. The University adopted this standard for fiscal year 2020 on a modified retrospective basis.

In November 2016, the FASB issued a standard on Restricted Cash. This standard requires the Consolidated Statements of Cash Flows explain the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents during a fiscal year. It is also required that this total be reconciled to the amounts reported on the Consolidated Statements of Financial Position and that the nature of the restrictions be disclosed. The University adopted this standard for fiscal year 2020 on a retrospective basis.

2. UNIVERSITY OF PENNSYLVANIA HEALTH SYSTEM - SUMMARIZED FINANCIAL AND RELATED INFORMATION

The Trustees formed Penn Medicine, the governance structure which oversees the activities of UPHS and the University of Pennsylvania Perelman School of Medicine (PSOM) in order to operate, oversee and coordinate its academic, research and clinical missions.

UPHS is comprised of the following operating entities: Clinical Practices of the University of Pennsylvania; Clinical Care Associates; Hospital of the University of Pennsylvania; Penn Presbyterian Medical Center; Pennsylvania Hospital of the University of Pennsylvania Health System; Chester County Hospital and Health System; Lancaster General Health (LGH); Wissahickon Hospice of the University of Pennsylvania Health System; Princeton HealthCare System (PHCS); Franklin Casualty Insurance Company, a wholly owned Risk Retention Group; and, Quaker Insurance Company Ltd., a wholly owned offshore captive insurance company, (collectively referred to as RRG/Captive).

Throughout the year, certain transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services and support for PSOM) are conducted between UPHS and the University. Nonoperating, net, as shown below, includes transfers from UPHS to the University of $181,414,000 and $207,085,000 in 2021 and 2020, respectively, to further the research and educational activities of PSOM, and $61,008,000 and $6,581,000 in 2021 and 2020, respectively, for other activities. In addition, UPHS recognized operating expenses of $21,583,000 and $19,618,000 in 2021 and 2020, respectively, to support academic operating activities in the clinical departments of PSOM.

The effect of all these transactions is included in the following summarized financial information of UPHS as of and for the years ended June 30, 2021 and 2020 (in thousands):

	2021	2020
Net patient service revenue	$ 7,545,629	$ 6,813,226
Other revenue and support	1,132,479	994,662
Total expenses	(8,067,225)	(7,565,166)
Excess of revenue over expenses from operations	610,883	242,722
Nonoperating, net	1,725,343	(393,237)
Increase (decrease) in net assets	**$ 2,336,226**	**$ (150,515)**
Total current assets	$ 2,478,737	$ 2,554,537
Assets whose use is limited:		
Held by trustees	186,258	139,028
RRG/ Captive	283,865	243,622
Donor restricted and other	867,329	657,776
Designated	3,946,161	2,833,871
Property and equipment, net	5,700,083	5,369,409
Investments and other assets	1,580,799	1,361,266
Total assets	**$ 15,043,232**	**$ 13,159,509**
Total current liabilities	$ 1,977,367	$ 1,973,427
Long-term debt, net of current portion	2,617,838	2,692,254
Other liabilities	2,340,540	2,722,567
Total liabilities	**$ 6,935,745**	**$ 7,388,248**
Net assets		
Without donor restrictions	$ 7,217,776	$ 5,098,229
With donor restrictions	889,711	673,032
Total net assets	**$ 8,107,487**	**$ 5,771,261**
Total liabilities and net assets	**$ 15,043,232**	**$ 13,159,509**

Net Patient Service Revenue

Net Patient Service Revenue (NPSR) for the years ended June 30, 2021 and 2020 is derived from the following payers:

	2021	2020
Medicare (including Managed Medicare)	32%	32%
Medicaid (including Managed Medicaid)	12%	12%
Managed care	35%	36%
Independence Blue Cross (IBC)	16%	15%
Commercial	4%	4%
Self pay	1%	1%
	100%	100%

Third-party payers

UPHS has agreements with the following third-party payers that provide for payments at amounts that differ from its established rates:

Medicare and Medicaid

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. UPHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by each hospital and audits thereof by the Medicare fiscal intermediary.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Additional amounts are allocated to each hospital for training residents and serving a disproportionate indigent population.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

IBC and Commercial

During 2017, UPHS and IBC reached agreement on terms of a five-year agreement. Payments made for inpatient services provided to IBC traditional and managed care subscribers are effected on a per case rate basis for most 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. On September 10, 2021, this agreement was extended from June 30, 2022 to June 30, 2025.

During 2015, UPHS and Aetna reached agreement on terms of a five-year agreement. A one-year bridge agreement, effective July 1, 2020, remains in effect until a new agreement is reached. The terms of the agreement provide payments for inpatient hospital services on a per case rate basis. Payments for outpatient services continue to be predominantly based upon negotiated fee schedules.

UPHS also has reimbursement agreements with other 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.

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 for these patients, such amounts have been excluded from NPSR. 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 above by UPHS, an estimated $27,335,000 and $29,793,000 were incurred as a result of providing services to charity patients for the years ended June 30, 2021 and 2020, respectively.

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), various commercial insurance companies and risk retention programs.

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.

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 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% to 3.50% discount rate as of June 30, 2021 and 2020. The gross liability recorded under this program is $765,755,000 and $750,633,000 at June 30, 2021 and 2020, respectively, with a corresponding receivable of $113,343,000 and $119,255,000 at June 30, 2021 and 2020, respectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable are reported at their net realizable value. The major components of receivables, net of allowances for doubtful accounts of $29,040,000 and $22,771,000 at June 30, 2021 and 2020, respectively, are as follows (in thousands):

	2021	2020
Patient	$ 927,009	$ 726,081
Intellectual property	321,287	14,186
Sponsored research	149,303	159,528
Malpractice	113,343	119,255
Trade	44,884	49,047
Student	29,150	26,450
Other	144,638	138,573
TOTAL ACCOUNTS RECEIVABLE, NET	**$ 1,729,614**	**$ 1,233,120**

4. LOANS RECEIVABLE

Loans receivable, and related allowances for doubtful accounts, consist of the following at June 30, 2021 and 2020 (in thousands):

2021

	Receivable	Allowance	Net
Student Loans:			
Federally-sponsored	$ 36,974		$ 36,974
Other	12,547	$ 2,902	9,645
Total Student loans	$ 49,521	$ 2,902	$ 46,619
Other	15,001	667	14,334
TOTAL	**$ 64,522**	**$ 3,569**	**$ 60,953**

2020

	Receivable	Allowance	Net
Student Loans:			
Federally-sponsored	$ 42,410		$ 42,410
Other	13,748	$ 2,994	10,754
Total Student loans	$ 56,158	$ 2,994	$ 53,164
Other	10,658	424	10,234
TOTAL	**$ 66,816**	**$ 3,418**	**$ 63,398**

Loans receivable primarily consists of student loans. Student loans include federally-sponsored student loans and donor-restricted student loans with mandated interest rates and repayment terms. The federally-sponsored student loans represent amounts due from current and former students under various Federal Government funded loan 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; 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 Financial Position. Determination of the fair value of student loans receivable is not practicable.

Loans receivable are reported at their net realizable value. The University regularly assesses the adequacy of the allowances for credit losses of its loans by performing ongoing evaluations, including such factors as aging, differing economic risks associated with each loan category, financial condition of specific borrowers, economic environment in which the borrowers operate, level of delinquent loans, value of collateral and existence of guarantees or indemnifications.

5. CONTRIBUTIONS RECEIVABLE

A summary of contributions receivable at June 30, 2021 and 2020, is as follows (in thousands):

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	$ 164,432	$ 169,979
One year to five years	232,207	249,791
Over five years	138,684	120,726
	535,323	540,496
Less: Discount	(31,618)	(27,699)
Less: Allowances for doubtful amounts	(30,125)	(34,647)
TOTAL CONTRIBUTIONS RECEIVABLE, NET	**$ 473,580**	**$ 478,150**

At June 30, 2021 and 2020, the University has outstanding unrecorded conditional promises to give, including non-legally binding bequests, of $512,434,000 and $467,797,000, respectively. When conditional promises to give become unconditional or non-legally binding bequests cash payments are received, they are recorded and are generally restricted for operations, endowment and capital projects as stipulated by the donors.

6. INVESTMENTS, AT FAIR VALUE

A summary of investments, including the AIF, as of June 30, 2021 and 2020, categorized in accordance with the fair value hierarchy, is as follows (in thousands):

2021	Level 1	Level 2	Level 3	Investments at NAV	Total
Short-term:	$ 1,237,141				$ 1,237,141
Equity:					
US equities	1,193,240			$ 1,803,025	2,996,265
International equities	225,447			1,240,442	1,465,889
Emerging market equities	178,608			1,524,253	1,702,861
Total Equity	1,597,295			4,567,720	6,165,015
Debt:					
US treasuries	1,378,651	$ 23,746			1,402,397
Corporate bonds	87,678	236,088			323,766
Total Debt	1,466,329	259,834			1,726,163
Split-interest agreements	103,128		$ 395,694		498,822
Absolute return				4,423,435	4,423,435
Real estate		2,059		1,042,564	1,044,623
Private equity			21,754	6,995,732	7,017,486
Natural resources	175,758			747,025	922,783
Derivative instruments		667			667
Other			2,867		2,867
TOTAL INVESTMENTS, AT FAIR VALUE	**$ 4,579,651**	**$ 262,560**	**$ 420,315**	**$ 17,776,476**	**$ 23,039,002**

2020	Level 1	Level 2	Level 3	Investments at NAV	Total
Short-term	$ 594,126				$ 594,126
Equity:					
US equities	719,227			$ 1,299,712	2,018,939
International equities	141,939			1,111,548	1,253,487
Emerging market equities	175,705			1,087,617	1,263,322
Total Equity	1,036,871			3,498,877	4,535,748
Debt:					
US treasuries	1,642,721	$ 19,999			1,662,720
Corporate bonds	1,449	114,512			115,961
High yield				119	119
Total Debt	1,644,170	134,511		119	1,778,800
Split-interest agreements	87,085		$ 325,701		412,786
Absolute return				3,893,852	3,893,852
Real estate		59		978,372	978,431
Private equity			14,473	4,110,984	4,125,457
Natural resources	86,075			445,171	531,246
Derivative instruments		17,132			17,132
Other			2,538		2,538
TOTAL INVESTMENTS, AT FAIR VALUE	**$ 3,448,327**	**$ 151,702**	**$ 342,712**	**$ 12,927,375**	**$ 16,870,116**

Included in Short-term investments is $23,259,000 and $20,947,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2021 and 2020, respectively.

At June 30, 2021 and 2020, Short-term investments include $284,569,000 and $40,915,000, respectively, of outstanding receivables from trading activities. At June 30, 2021 and 2020, Short-term investments also include $64,517,000 and $64,542,000, respectively, of outstanding payables from trading activities.

Liabilities related to equity short positions of $389,222,000 and $329,955,000 at June 30, 2021 and 2020, respectively, are reported in Accrued expenses and other liabilities on the Consolidated Statements of Financial Position. These liabilities are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets.

Split-interest agreement investments included in Level 1 above are readily marketable assets invested by the University separately from the AIF where the University serves as trustee. These amounts include assets related to the University Academic Component charitable gift annuities totaling $49,757,000 and $43,979,000 at June 30, 2021 and 2020, respectively. Included in these split-interest agreement investments are amounts held to meet legally mandated annuity reserves of $28,009,000 and $29,006,000 as of June 30, 2021 and 2020, respectively, as required by the laws of the following states where certain individual donors reside: California, Maryland, New Jersey and New York. Level 3 split-interest agreement investments are managed and invested outside of the University by external trustees.

A summary of Level 3 assets included in split-interest agreement investments, where the University is not trustee, measured at fair value, as of June 30, 2021 and 2020 is as follows (in thousands):

	2021	2020
Charitable remainder trusts	$ 18,874	$ 19,487
Charitable lead trusts	6,523	5,763
Perpetual trusts	370,297	300,451
Total	**$ 395,694**	**$ 325,701**

Changes to the reported amounts of split-interest agreement investments measured at fair value using unobservable (Level 3) inputs as of June 30, 2021 and 2020 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2020	$ 19,487	$ 5,763	$ 300,451	$ 325,701
Net realized gains			10,170	10,170
Net unrealized gains/(losses)	(571)	812	59,647	59,888
Acquisitions			29	29
Liquidations	(42)	(52)		(94)
June 30, 2021	$ 18,874	$ 6,523	$ 370,297	$ 395,694

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2019	$ 18,511	$ 4,568	$ 299,552	$ 322,631
Net realized gains			2,974	2,974
Net unrealized gains/(losses)	976	1,225	(2,610)	(409)
Acquisitions			535	535
Liquidations		(30)		(30)
June 30, 2020	$ 19,487	$ 5,763	$ 300,451	$ 325,701

The following tables set forth the fair value, related gains (losses) and notional amounts of the University's derivative instruments by contract type as of June 30, 2021 and 2020 (in thousands):

2021	Notional Amount	Gross Derivative Assets	Gross Derivative Liabilities	Derivative Gains (Losses)
Foreign currency contracts	$ 132,341	$ 309	$ 723	$ (5,078)
Futures contracts	(431,857)	166		(225,995)
Options contracts	(101,311)	192	333	4,553
Total	**$ (400,827)**	**$ 667**	**$ 1,056**	**$ (226,520)**

2020	Notional Amount	Gross Derivative Assets	Gross Derivative Liabilities	Derivative Losses
Foreign currency contracts	$ 112,672	$ 301	$ 916	$ (2,442)
Futures contracts	(542,830)	16,403		(17,423)
Options contracts	(125,284)	428	1,306	(7,606)
Total	**$ (555,442)**	**$ 17,132**	**$ 2,222**	**$ (27,471)**

The notional amount is representative of the volume and activity of the respective derivative type during the years ended June 30, 2021 and 2020.

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

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):

	Fair Value at June 30,		Outstanding	Redemption	Redemption
Strategy	**2021**	**2020**	**Commitments**	**Terms**	**Restrictions**
Short-term	$ 1,237,141	$ 594,126		Daily	None
Equity:					
Managed accounts	1,259,520	761,773		Daily and semi-annually with varying notice periods	None
Mutual funds	337,776	275,098		Daily	None
Private funds (1)	4,567,719	3,498,877	$ 55,050	Weekly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 years and side pocket investments (2)
Total Equity	**6,165,015**	**4,535,748**	55,050		
Debt:					
Managed accounts	1,726,163	1,778,681		Daily	None
Private funds (1)		119		Daily	None; side pocket investments (2)
Total Debt	**1,726,163**	**1,778,800**			
Absolute return	**4,423,435**	**3,893,852**	341,836	Range from monthly to annually and close-ended funds not available for redemption	Lock-up provisions ranging from 0 to 5 years with earlier redemptions subject to redemption fee, close-ended funds not available for redemption, and side pocket investments (2)
Real estate	**1,044,623**	**978,431**	934,876	Close-ended funds not available for redemption	Close-ended funds not available for redemption
Private equity	**7,017,486**	**4,125,457**	2,646,161	Close-ended funds not available for redemption	Close-ended funds not available for redemption
Natural Resources:					
Managed accounts	175,758	86,075		Daily	None
Private funds (1)	747,025	445,171	170,320	Close-ended funds not available for redemption	Close-ended funds not available for redemption
Total Natural Resources	**922,783**	**531,246**	170,320		
Total	**$ 22,536,646**	**$ 16,437,660**	$ 4,148,243		

(1) Private funds consist of close-ended and open-ended funds generally in the form of limited partnerships. Close-ended funds have varying remaining fund terms between 1 to 15 years.

(2) Side pocket investments represent investments designated by a manager that are not available for liquidity in an otherwise liquid fund vehicle.

Invested in the AIF with an aggregate fair value of $226,422,000 and $168,792,000 at June 30, 2021 and 2020, 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.

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 $4,148,243,000 which represents 20.7% of the AIF value as of June 30, 2021.

A summary of the University's total investment return, net of external and direct internal investment expenses, for the years ended June 30, 2021 and 2020 is presented below (in thousands):

	2021	2020
AIF investment income	$ 55,780	$ 59,105
AIF realized and unrealized gains	5,781,692	457,907
Total return on AIF	5,837,472	517,012
Other investment gains	262,182	37,940
Total return on investments, net	**$ 6,099,654**	**$ 554,952**

7. ENDOWMENT

The composition and changes to the amount of the University's endowment at June 30, 2021 are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		$ 10,186,280	$ 10,186,280
Quasi-endowment funds	$ 10,337,266		10,337,266
June 30, 2021	**$ 10,337,266**	**$ 10,186,280**	**$ 20,523,546**

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2020	$ 7,363,736	$ 7,513,627	$ 14,877,363
Investment return	2,974,220	2,848,798	5,823,018
New gifts	7,385	209,055	216,440
Allocation of endowment assets for expenditure	(797,492)		(797,492)
Other investment allocation	(4,239)		(4,239)
Transfers to create board designated funds	380,634		380,634
Donor-imposed income reinvestments		11,371	11,371
Other transfers	50,007	(33,556)	16,451
Released from restriction	363,015	(363,015)	-
Net assets, June 30, 2021	**$ 10,337,266**	**$ 10,186,280**	**$ 20,523,546**

The composition and changes to the amount of the University's endowment as of June 30, 2020 are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds		$ 7,513,627	$ 7,513,627
Quasi-endowment funds	$ 7,363,736		7,363,736
June 30, 2020	**$ 7,363,736**	**$ 7,513,627**	**$ 14,877,363**

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2019	$ 7,252,228	$ 7,397,533	$ 14,649,761
Investment return	123,658	216,502	340,160
New gifts	11,219	236,657	247,876
Allocation of endowment assets for expenditure	(654,691)		(654,691)
Other investment allocation	(6,918)		(6,918)
Transfers to create board designated funds	302,623		302,623
Donor-imposed income reinvestments		955	955
Other transfers	21,940	(24,343)	(2,403)
Released from restriction	313,677	(313,677)	-
Net assets, June 30, 2020	**$ 7,363,736**	**$ 7,513,627**	**$ 14,877,363**

At June 30, 2021 and 2020, the aggregate amount of funds reported in Net assets with donor restrictions for which the fair value was below historic value was $0 and $1,265,000, respectively.

8. PROPERTY, PLANT AND EQUIPMENT, NET

The components of PPE at June 30, 2021 and 2020 are as follows (in thousands):

	Estimated Useful Life in years	2021	2020
Land and land improvements	N/A to 20	$ 446,746	$ 423,467
Buildings and fixed equipment	5 to 50	11,100,395	10,475,473
Moveable equipment and other	4 to 20	2,294,762	2,136,837
Construction-in-progress		2,043,096	2,046,652
		15,884,999	15,082,429
Less: Accumulated depreciation		(6,708,971)	(6,304,344)
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		**$ 9,176,028**	**$ 8,778,085**

The University recorded $552,221,000 and $533,289,000 of depreciation expense for the years ended June 30, 2021 and 2020, respectively.

The University capitalized $65,649,000 and $55,940,000 of interest costs for the years ended June 30, 2021 and 2020, respectively.

9. SPLIT-INTEREST AGREEMENTS

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2021 and 2020 are as follows (in thousands):

2021	Assets	Liabilities	Net Assets
June 30, 2020	$ 412,786	$ (50,836)	$ 361,950
New contributions	2,505	(4,385)	(1,880)
Investment income	1,984	(1,446)	538
Realized and unrealized gain, net	89,903	-	89,903
Payments and settlements	(8,356)	9,124	768
Actuarial adjustment		(5,474)	(5,474)
Net change	**86,036**	**(2,181)**	**83,855**
June 30, 2021	$ 498,822	$ (53,017)	$ 445,805

2020	Assets	Liabilities	Net Assets
June 30, 2019	$ 409,123	$ (50,311)	$ 358,812
New contributions	7,418	(3,951)	3,467
Investment income	2,038	(1,673)	365
Realized and unrealized gain, net	2,515		2,515
Payments and settlements	(8,308)	7,517	(791)
Actuarial adjustment		(2,418)	(2,418)
Net change	**3,663**	**(525)**	**3,138**
June 30, 2020	$ 412,786	$ (50,836)	$ 361,950

10. CONTINGENCIES, GUARANTEES, AND COMMITMENTS

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 totaling $15,341,000 and $20,644,000 at June 30, 2021 and 2020, respectively. 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. The recognized liability is $2,826,000 and $3,005,000 at June 30, 2021 and 2020, respectively and reflects the fair value of the guarantee on these outstanding loan balances.

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 therefrom 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, 2021, approximately $405,963,000 has been committed by the University.

11. PENSION AND OTHER POSTRETIREMENT BENEFITS 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 $247,158,000 and $231,054,000 as of June 30, 2021 and 2020, respectively.

The University also has non-contributory defined benefit pension plans. Benefits under the plans generally are based on the employee's years of service and compensation during the years preceding retirement. Contributions to the plans are made in amounts necessary to at least satisfy the minimum required contributions as specified in the Internal Revenue Service Code and related regulations. The Academic Component's plan was frozen to new full-time entrants effective July 1, 2000 and part-time entrants effective July 1, 2018. UPHS' primary plan was frozen to new entrants effective July 1, 2010; the benefit accruals for all participants of the LGH and PHCS plans were frozen effective June 30, 2013 and December 31, 2011, respectively. During the years ended June 30, 2021 and 2020, UPHS paid $25,814,000 and $78,879,000, respectively, from plan assets to insurance companies to buy out the total pension benefit for a portion of its retired participants.

The University also has faculty retirement incentive plans which are included in Other retirement programs shown below. The net liability under these plans is $95,139,000 and $8,279,000 as of June 30, 2021 and 2020, respectively, with the increase primarily attributable to the University's offering of a special one-time faculty retirement plan during the year ended June 30, 2021.

Additionally, the University provides certain healthcare and life insurance benefits (OPEB) for retired employees. Only a limited number of employees may become eligible for such benefits if they reach retirement age while working for the University. These and similar benefits for active and certain retired employees are provided through insurance contracts.

The University uses a measurement date of June 30 for its defined benefit pension and OPEB plans.

Change in Plan Assets/Obligation and Funded Status

The funded status of the plans is measured as the difference between the plan assets at fair value and the projected benefit obligation (PBO) for Pension Benefits or accumulated postretirement benefit obligation (APBO) for Other Postretirement Benefits. The resulting net liability is recorded in Accrued retirement benefits on the Statements of Financial Position. The following shows changes in the benefit obligation, plan assets and funded status for the years ended June 30, 2021 and June 30, 2020 (in thousands):

2021	Pension Benefits	Other Postretirement Benefits	Total
Change in Benefit Obligation:			
Benefit obligation, beginning of year (PBO/APBO)	$ 4,121,716	$ 1,090,300	$ 5,212,016
Service cost	79,683	41,638	121,321
Interest cost	122,483	35,292	157,775
Plan participants' contributions	144	9,133	9,277
Settlements	(13,366)		(13,366)
Net actuarial (gain)/loss	(12,159)	(38,799)	(50,958)
Benefits paid	(120,546)	(41,422)	(161,968)
Benefit obligation, end of year (PBO/APBO)	$ 4,177,955	$ 1,096,142	$ 5,274,097
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 2,792,335	$ 554,951	$ 3,347,286
University contributions	143,707	30,875	174,582
Plan participants' contributions	144	9,133	9,277
Settlements	(13,366)		(13,366)
Actual return on plan assets	684,259	163,798	848,057
Benefits paid	(120,546)	(41,422)	(161,968)
Fair value of plan assets, end of year	$ 3,486,533	$ 717,335	$ 4,203,868
Funded status, end of year	**$ 691,422**	**$ 378,807**	**$ 1,070,229**
Other retirement programs			227,551
			1,297,780
Plans with fair value of plan assets in excess of PBOs*			16,989
ACCRUED RETIREMENT BENEFITS			**$ 1,314,769**

* Included in Other assets on the Consolidated Statements of Financial Position

2020	Pension Benefits	Other Postretirement Benefits	Total
Change in Benefit Obligation:			
Benefit obligation, beginning of year (PBO/APBO)	$ 3,750,476	$ 1,014,328	$ 4,764,804
Service cost	77,085	35,476	112,561
Interest cost	136,674	38,148	174,822
Plan participants' contributions	151	8,729	8,880
Net actuarial (gain)/loss	342,211	30,238	372,449
Benefits paid	(184,881)	(36,619)	(221,500)
Benefit obligation, end of year (PBO/APBO)	$ 4,121,716	$ 1,090,300	$ 5,212,016
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 2,696,740	$ 522,365	$ 3,219,105
University contributions	130,008	42,698	172,706
Plan participants' contributions	151	8,729	8,880
Actual return on plan assets	150,317	17,778	168,095
Benefits paid	(184,881)	(36,619)	(221,500)
Fair value of plan assets, end of year	$ 2,792,335	$ 554,951	$ 3,347,286
Funded status, end of year	**$ 1,329,381**	**$ 535,349**	**$ 1,864,730**
Other retirement programs			103,521
ACCRUED RETIREMENT BENEFITS			**$ 1,968,251**

The Accumulated Benefit Obligation for the Pension Benefits was $3,827,175,000 and $3,766,340,000 at June 30, 2021 and 2020, respectively.

For the year ended June 30, 2021, the net actuarial gain in the Benefit Obligation for the Pension Benefits was principally driven by a change in mortality assumptions. For the year ended June 30, 2020, the net actuarial loss in the Benefit Obligation for the Pension Benefits was primarily attributable to a reduction in the weighted average discount rate from 3.72% to 3.05%.

Net Periodic Benefit Cost

The components of net periodic benefit cost for pension benefits and other postretirement benefits are detailed below (in thousands). In the Consolidated Statements of Activities, service cost is reported as Compensation and benefits while the remaining components of net periodic benefit cost are reported as Pension, OPEB and other, net.

2021		**Pension Benefits**		**Other Postretirement Benefits**		**Total**
Service cost	$	79,683	$	41,638	$	121,321
Interest cost		122,483		35,292		157,775
Expected return on plan assets		(173,940)		(41,671)		(215,611)
Amortization of:						
Net prior service cost				(387)		(387)
Net losses		77,169		9,765		86,934
Settlement/Curtailment Expense		1,000				1,000
Net periodic benefit cost	**$**	**106,395**	**$**	**44,637**	**$**	**151,032**

2020		**Pension Benefits**		**Other Postretirement Benefits**		**Total**
Service cost	$	77,085	$	35,476	$	112,561
Interest cost		136,674		38,148		174,822
Expected return on plan assets		(184,845)		(39,251)		(224,096)
Amortization of:						
Net prior service cost				(387)		(387)
Net losses		53,500		6,992		60,492
Net periodic benefit cost	**$**	**82,414**	**$**	**40,978**	**$**	**123,392**

Net Assets Without Donor Restrictions

The University recorded the following year-end valuation adjustments to its Pension and Other Postretirement Benefit Plans in Pension, OPEB and other, net in the Consolidated Statements of Activities (in thousands):

2021		**Pension Benefits**		**Other Postretirement Benefits**		**Total**
Net Assets Without Donor Restrictions:						
Net actuarial loss	$	651,333	$	69,196	$	720,529
Net prior service cost/(credit)				(1,986)		(1,986)
Total	$	651,333	$	67,210	$	718,543
Adjustment to net assets without donor restrictions (gain)/loss	**$**	**(600,589)**	**$**	**(170,303)**	**$**	**(770,892)**

2020		Pension Benefits		Other Postretirement Benefits		Total
Net Assets Without Donor Restrictions:						
Net actuarial loss	$	1,251,922	$	239,885	$	1,491,807
Net prior service cost/(credit)				(2,372)		(2,372)
Total	$	1,251,922	$	237,513	$	1,489,435
Adjustment to net assets without donor restrictions (gain)/loss	**$**	**323,237**	**$**	**45,107**	**$**	**368,344**

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	**2021**	**2020**	**2021**	**2020**
Discount rate	3.04%	3.05%	3.29%	3.28%
Salary increase	3.20%	3.22%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	3.05%	3.72%	3.27%	3.81%
Expected long-term return on plan assets	7.14%	7.26%	7.50%	7.50%
Salary increase	3.23%	4.03%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial trend rate	N/A	N/A	6.20%	6.24%
Ultimate trend rate	N/A	N/A	4.72%	4.72%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2037	2037

Expected Contributions

The University expects to contribute $34,082,000 and $31,528,000 for pension benefits and other postretirement benefits, respectively, during the fiscal year ending June 30, 2022.

Expected Benefits Payments (in thousands):

Expected benefit payments for the year ending:		Pension Benefits		Other Postretirement Benefits before Medicare Part D Subsidy		Medicare Part D Subsidy
June 30, 2022	$	137,170	$	28,499	$	75
June 30, 2023		142,130		30,388		77
June 30, 2024		150,866		32,644		79
June 30, 2025		159,320		34,611		81
June 30, 2026		167,879		36,399		84
June 30, 2027 to June 30, 2031		955,325		211,640		438

Plan Assets and Allocations

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 majority 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 Notes 1 and 6 – 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.

A summary of plan assets, measured at fair value, as of June 30, 2021 and 2020, is as follows (in thousands):

Pension Benefits:

2021	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets:					
Short-term	$ 155,966				$ 155,966
Equity:					
US equities	288,098	$ 564		$ 224,600	513,262
International equities	159,911			246,411	406,322
Emerging market equities	1,373			224,024	225,397
Debt:					
US treasuries	329,630	7,923			337,553
Corporate bonds	131,152	125,821		230,796	487,769
Absolute return				764,295	764,295
Real estate				88,727	88,727
Private equity	438			382,274	382,712
Natural resources	94,163			30,502	124,665
Total assets	$ 1,160,731	$ 134,308	$ -	$ 2,191,629	$ 3,486,668
Liabilities:					
Derivative instruments		$ 135			$ 135
Total liabilities	$ -	$ 135	$ -	$ -	$ 135
Fair value of plan assets, end of year	**$ 1,160,731**	**$ 134,173**	**$ -**	**$ 2,191,629**	**$ 3,486,533**

2020	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets:					
Short-term	$ 49,251				$ 49,251
Equity:					
US equities	197,651	$ 949		$ 195,134	393,734
International equities	143,448			225,478	368,926
Emerging market equities	135			158,366	158,501
Debt:					
US treasuries	250,287	10,160		1,944	262,391
Corporate bonds	121,245	114,848		211,629	447,722
Absolute return				660,490	660,490
Real estate				76,464	76,464
Private equity	2,016			261,780	263,796
Natural resources	51,196			60,232	111,428
Total assets	$ 815,229	$ 125,957	$ -	$ 1,851,517	$ 2,792,703
Liabilities:					
Derivative instruments		$ 368			$ 368
Total liabilities	$ -	$ 368	$ -	$ -	$ 368
Fair value of plan assets, end of year	**$ 815,229**	**$ 125,589**	**$ -**	**$ 1,851,517**	**$ 2,792,335**

Other Postretirement Benefits:

2021	Level 1	Level 2	Level 3	Investments at NAV	Total
Assets:					
Short-term	$ 44,598				$ 44,598
Equity:					
US equities	12,503			$ 81,196	93,699
International equities				92,334	92,334
Emerging market equities				65,903	65,903
Debt:					
US treasuries	19,821				19,821
Corporate bonds				11,514	11,514
Absolute return				215,675	215,675
Real estate				38,665	38,665
Private equity				95,435	95,435
Natural resources	31,284			8,452	39,736
Total assets	$ 108,206	$ -	$ -	$ 609,174	$ 717,380
Liabilities:					
Derivative instruments		$ 45			45
Total liabilities	$ -	$ 45	$ -	$ -	$ 45
Fair value of plan assets, end of year	**$ 108,206**	**$ (45)**	**$ -**	**$ 609,174**	**$ 717,335**

2020	Level 1	Level 2	Level 3	Investments at NAV	2020
Assets:					
Short-term	$ 28,467				$ 28,467
Equity:					
US equities	4,685			$ 67,369	72,054
International equities				82,376	82,376
Emerging market equities	70			43,251	43,321
Debt:					
US treasuries	20,692				20,692
Corporate bonds				11,077	11,077
Absolute return				185,917	185,917
Real estate				33,203	33,203
Private equity				59,059	59,059
Natural resources	12,122			6,781	18,903
Total assets	$ 66,036	$ -	$ -	$ 489,033	$ 555,069
Liabilities:					
Derivative instruments		$ 118			$ 118
Total liabilities	$ -	$ 118	$ -	$ -	$ 118
Fair value of plan assets, end of year	**$ 66,036**	**$ (118)**	**$ -**	**$ 489,033**	**$ 554,951**

As of June 30, 2021, the University has unfunded commitments to limited partnerships totaling $447,051,000, which are expected to be called over the next 5 years.

Plan asset allocations by category are as follows:

2021	Pension Benefits		Other Postretirement Benefits	
Allocation of Plan Assets	**Target**	**Actual**	**Target**	**Actual**
Short-term	0.0%	4.4%	0.0%	6.1%
Equity:				
US equities	12.3%	14.7%	11.0%	13.1%
International equities	12.4%	11.7%	13.0%	12.9%
Emerging markets equities	6.4%	6.5%	10.0%	9.2%
Debt:				
US treasuries	26.4%	9.7%	6.0%	2.8%
Corporate bonds	0.1%	14.0%	0.0%	1.6%
Absolute return	23.9%	21.9%	34.0%	30.1%
Real estate	3.4%	2.5%	6.5%	5.4%
Private equity	11.7%	11.0%	13.0%	13.3%
Natural resources	3.4%	3.6%	6.5%	5.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

12. DEBT OBLIGATIONS

Debt obligations at June 30, 2021 and 2020 are as follows (in thousands):

	Final Maturity	Effective Interest Rate at June 30, 2021	2021	2020
Academic Component:				
Fixed rate debt obligations:				
The Trustees of the University of Pennsylvania				
Series A of 2020 Taxable Bonds	10/2050	2.40%	$ 300,000	
Series A of 2019 revenue bonds	02/2119	3.610%	300,000	$ 300,000
Series 2012 Taxable Bonds	09/2112	4.670%	300,000	300,000
Pennsylvania Higher Educational Facilities Authority (PHEFA)				
Series B of 2019 revenue bonds	02/2045	2.40% - 2.97%	213,585	213,585
Series A of 2018 revenue bonds	08/2048	2.08% - 4.70%	183,145	183,145
Series A of 2017 revenue bonds	08/2046	2.26% - 3.72%	178,395	178,395
Series A of 2016 revenue bonds	08/2041	1.27% - 2.93%	119,435	120,680
Series A of 2015 revenue bonds	10/2045	1.59% - 2.63%	43,640	49,125
Series B of 2015 revenue bonds	10/2038	1.59% - 3.38%	153,595	159,460
Series C of 2015 revenue bonds	10/2035	3.680%	8,020	8,020
Series A of 2011 revenue bonds	09/2021	3.68%	3,885	7,590
Series B of 2009 revenue bonds	09/2020	N/A	-	2,245
Other loans	05/2031	3.00% - 5.53%	20,703	21,468
Variable rate debt obligations:				
PHEFA Series of 1990 revenue bonds	12/2020	N/A	-	6,500
Washington County Authority Series of 2004	07/2034	0.02%	46,500	48,900
Total Academic Component outstanding bonds payable			1,870,903	1,599,113
Unamortized issuance costs, premiums and discounts, net			58,518	66,130
Total Academic Component debt obligations			$ 1,929,421	$ 1,665,243
UPHS:				
Fixed rate debt obligations:				
Lancaster County Hospital Authority (LCHA)				
Series A of 2016 revenue bonds	08/2042	1.45% - 3.52%	$ 152,150	$ 156,455
Series B of 2016 revenue bonds	08/2046	1.43% - 3.58%	128,050	128,050
PHEFA				
Series A of 2021 revenue bonds	08/2044	1.61% - 2.11%	79,810	-
Series A of 2019 revenue bonds	08/2049	1.67% - 3.22%	534,870	534,870
Series A of 2017 revenue bonds	08/2047	2.60% - 3.68%	400,000	400,000
Series C of 2016 revenue bonds	08/2041	1.10% - 3.08%	128,125	128,435
Series A of 2015 revenue bonds	08/2045	1.80% - 4.00%	235,055	257,495
Series A of 2012 revenue bonds	08/2042	2.50% - 4.08%	132,140	134,650
Series A of 2009 revenue bonds	08/2021	4.67%	1,545	12,115
New Jersey Health Care Facilities Financing Authority (NJHCFFA)				
Princeton Healthcare System Series A of 2016	07/2039	1.86% - 3.875%	168,400	173,660
University of Pennsylvania Health System Taxable Note	08/2047	4.01%	200,000	200,000
Lancaster General Hospital 2015 Taxable Note	08/2022	2.66%	65,193	67,798
Mortgages, notes and other	Various	Various	110,429	160,914
Variable rate debt obligations:				
PHEFA Series A of 2014 revenue bonds	08/2044	N/A	-	100,000
PHEFA Series A of 2008 revenue bonds	01/2038	0.02%	69,995	69,995
NJHCFFA Princeton Healthcare System Series B of 2016	07/2045	0.61%	65,000	65,000
NJHCFFA Princeton Healthcare System Series C of 2016	07/2045	0.62%	20,000	20,000
Total UPHS outstanding bonds payable			2,490,762	2,609,437
Unamortized issuance costs, premiums and discounts, net			187,411	181,480
Total UPHS debt obligations			2,678,173	2,790,917
TOTAL DEBT OBLIGATIONS			**$ 4,607,594**	**$ 4,456,160**

Contractual maturities of debt obligations are as follows (in thousands):

Fiscal Year	Academic Component	UPHS	Total
2022	$ 26,086	$ 60,335	$ 86,421
2023	26,520	116,642	143,162
2024	35,151	58,741	93,892
2025	29,128	62,262	91,390
2026	44,545	64,453	108,998
Thereafter	1,709,473	2,128,329	3,837,802
Total Principal	1,870,903	2,490,762	4,361,665
Unamortized issuance costs, premiums & discounts	58,518	187,411	245,929
TOTAL DEBT OBLIGATIONS	**$ 1,929,421**	**$ 2,678,173**	**$ 4,607,594**

The University has letters of credit with various financial institutions to secure certain self-insured liabilities totaling $12,535,000 and $19,096,000 at June 30, 2021 and 2020, respectively, of which $3,065,000 and $8,843,000 and were issued under a line of credit. The letters of credit have evergreen provisions for automatic renewal. There have been no draws under the letters of credit.

Academic Component

On July 14, 2020, the Trustees of the University of Pennsylvania (the "University") issued Taxable Bonds, Series A of 2020 in the aggregate principal amount of $300,000,000. The proceeds of the sale of the Series A of 2020 Bonds will be used by the University for its general corporate purposes, including the financing or refinancing of capital projects and the payment of the cost of issuing the Series A of 2020 Bonds. Interest on the Series A of 2020 is fixed with coupons of 2.396%.

On August 6, 2019, the Trustees of the University of Pennsylvania (the "University") issued Taxable Bonds, Series A of 2019 in the aggregate principal amount of $300,000,000. The proceeds of the sale of the Series A of 2019 Bonds will be used by the University for its general corporate purposes, including the financing or refinancing of capital projects and the payment of the cost of issuing the Series A of 2019 Bonds. Interest on the Series A of 2019 is fixed with coupons of 3.61%.

On August 14, 2019, Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series B of 2019 Taxable Refunding Revenue Bonds (PHEFA 2019B bonds) with an aggregate principal amount of $213,585,000. The proceeds were used to fund an escrow which will be used to refund $16,935,000 from the PHEFA Series 2010 revenue bonds, $136,745,000 PHEFA Series A of 2015, and $45,570,000 from the PHEFA Series A of 2016. The refunded bonds were legally defeased, and as such are no longer included among the University's reported liabilities. Interest on the PHEFA 2019B bonds is fixed with coupons ranging between 2.40% and 2.97%.

As a result of the legal defeasance of debt associated with the issuance of PHEFA 2019B 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 $3,618,000 for the year ended June 30, 2020.

The University has variable rate debt in the amount of $46,500,000 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.

On June 14, 2016, 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 for general purposes of the University. The agreement ended on June 13, 2021. On June 14, 2021, the University entered into a new five-year agreement with a financial institution to provide a line of credit in the amount of $100,000,000 for general purposes of the University. The University pays a fee annually on the unused amount of the line of credit. As of June 30, 2021 and 2020, amounts drawn under these agreements total $0 and $1,000,000, respectively.

UPHS

The PHEFA Revenue Bonds, Lancaster County Hospital Authority (LCHA) Revenue Bonds and New Jersey Health Care Facilities Financing Authority (NJHCFFA) 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 debt service for the fiscal year. In both 2021 and 2020, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

On April 13, 2021, Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series A of 2021 Refunding Revenue Bonds (PHEFA 2021A bonds) with an aggregate principal amount of $79,810,000. The proceeds were immediately used to fully redeem $100,000,000 from the PHEFA Series A of 2014 revenue bonds. The redeemed bonds are no longer included among UPHS' reported liabilities. Interest on the PHEFA 2021A bonds is fixed with coupons ranging between 1.61% and 2.11%.

As a result of the redemption of debt associated with the issuance of PHEFA 2021A bonds, 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 $310,000 for the year ended June 30, 2021.

On May 18, 2022, Pennsylvania Higher Educational Facilities Authority (PHEFA) will issue Series B of 2021 Refunding Revenue Bonds (PHEFA 2021B bonds), which will be a forward delivery, with an aggregate principal amount of $109,735,000. The proceeds will be used to fund an escrow which will be used to refund $122,275,000 from the PHEFA Series A of 2012 revenue bonds. The refunded bonds will be legally defeased and will no longer be included among UPHS' reported liabilities. Interest on the PHEFA 2021B bonds is fixed with coupons ranging between 0.82% and 2.70%.

On December 5, 2019, Pennsylvania Higher Educational Facilities Authority (PHEFA) issued UPHS Series A of 2019 revenue bonds in an aggregate principal amount of $534,870,000. The proceeds were used to reimburse UPHS for $484,738,000 incurred in relation to various capital projects, and $112,276,000 of the remaining proceeds, including the issued premium, were deposited in a capital project fund held by trustee to be drawn upon for future capital expenditures. This portion of the financing is reflected as a noncash transaction in the Statement of Cash Flows. Future reimbursements from the capital project fund will be accounted for as a cash inflow from investing activities in the Statement of Cash Flows. The bonds have stated interest rates that range between 3.00% and 5.00%.

UPHS has variable rate debt in the amount of $69,995,000 which is subject to optional tender by the holders upon seven days' notice. These bonds are reflected in the debt obligations maturity table above based on original scheduled maturities. In the event that UPHS 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, UPHS has in place a renewable direct pay letter of credit issued by Bank of America with an expiration date of April 15, 2023. In the event that the letter of credit cannot be drawn upon, UPHS would have the general obligation to purchase the bonds.

UPHS secured an $82,132,000 loan on December 21, 2018 for the sole purpose of funding the development of a new ambulatory building. As of June 30, 2020, the entire balance has been drawn down to reimburse construction costs incurred by UPHS and is accounted for as a cash inflow from investing activities in the Statement of Cash Flows.

UPHS maintains a $100,000,000 line of credit with a maturity date of April 13, 2022 to supplement liquidity and issue letters of credit to cover balances due on construction projects and reinsurance agreements. There were no outstanding balances as of June 30, 2021 and 2020.

Interest Rate Swap Agreements

The University enters 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 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 also takes into account the risk of nonperformance.

The following table summarizes the terms of the University’s remaining interest rate swap agreements (in thousands):

	Academic Component	UPHS		
Notional Amounts	$ 101,950	$ 10,790	$ 10,790	$ 20,900
Trade Date	11/6/2007	7/15/2009	1/7/2010	7/28/2006
Maturity Date	7/1/2034	8/15/2023	8/15/2023	7/1/2041
Rates:				
Receive	67% of 1-Month LIBOR	3.184%	2.902%	70% of 1-Month LIBOR
Pay	3.573%	SIFMA Index	SIFMA Index	3.980%

The following table summarizes the fair value of the interest rate swap agreements, not designated as hedging instruments, as of June 30, 2021 and 2020, and the related gains/(losses) on the interest rate swap agreements, both realized and unrealized, for the years ended June 30, 2021 and 2020 (in thousands):

	Line Item	2021	2020
Consolidated Statements of Financial Position:			
Asset interest rate swaps:			
UPHS	Other assets	$ 757	$ 1,425
Total asset interest rate swaps		**$ 757**	**$ 1,425**
Liability interest rate swaps:			
Academic Component	Accrued expenses and other liabilities	$ 21,372	$ 28,801
UPHS	Accrued expenses and other liabilities	6,517	8,854
Total liability interest rate swaps		**$ 27,889**	**$ 37,655**
Consolidated Statements of Activities:			
Academic Component	Return on investments, net	$ 3,583	$ (9,772)
UPHS	Return on investments, net	2,334	511
Total		**$ 5,917**	**$ (9,261)**

13. NET ASSETS

The major components of net assets at June 30, 2021 and 2020 are as follows (in thousands):

2021	**Without donor restrictions**	**With donor restrictions**	**Total**
General operating	$ 5,489,628	$ 612,678	$ 6,102,306
Sponsored programs	69,896		69,896
Capital		179,635	179,635
Student loans	7,137		7,137
Planned giving agreements		66,550	66,550
Quasi-endowment	10,337,266		10,337,266
Endowment, subject to spending rule		5,552,009	5,552,009
Endowment, held in perpetuity		4,634,271	4,634,271
TOTAL NET ASSETS	**$ 15,903,927**	**$ 11,045,143**	**$ 26,949,070**

2020	**Without donor restrictions**	**With donor restrictions**	**Total**
General operating	$ 3,931,320	$ 503,062	$ 4,434,382
Sponsored programs	63,592		63,592
Capital		130,462	130,462
Student loans	7,713		7,713
Planned giving agreements		52,757	52,757
Quasi-endowment	7,363,736		7,363,736
Endowment, subject to spending rule		3,109,738	3,109,738
Endowment, held in perpetuity		4,403,889	4,403,889
TOTAL NET ASSETS	**$ 11,366,361**	**$ 8,199,908**	**$ 19,566,269**

14. LEASES

The University leases research labs and office space under operating leases expiring through December 2043. On the Consolidated Statements of Financial Position, lessees are required to record Right-of-Use assets, representing the right to use the underlying assets for the lease term, and Lease liabilities, representing the obligation to make lease payments arising from the lease based on the present value of lease payments over the lease term. The University has made the following elections: (1) to adopt a package of practical expedients relating to reassessment, (2) to exclude leases with a term of less than one year, and (3) to use an incremental borrowing rate for discounting leases, as applicable. At June 30, 2021, Right-of-Use assets recorded in Other assets were $482,065,000 and Lease liabilities recorded in Accrued expenses and other liabilities were $488,329,000. At June 30, 2021, the weighted average remaining lease term was 10.0 years and the weighted average discount rate was 2.72%. Rental expense, for the years ended June 30, 2021 and 2020, totaled $137,693,000 and $136,529,000 (including amortizations related to Right-of-Use assets and Lease liabilities of $35,931,000 and $68,189,000), respectively. Rental expense is included in Other operating expenses on the Consolidated Statements of Activities.

Future maturities of lease liabilities at June 30, 2021 are as follows (in thousands):

Year ending June 30,		
2022	$	86,434
2023		73,136
2024		69,201
2025		63,704
2026		49,282
Thereafter		242,104
Total lease payments	$	583,861
Less imputed interest		(95,532)
Total Future lease payments	**$**	**488,329**

15. FUNCTIONAL CLASSIFICATION OF EXPENDITURES

Expenses for the years ended June 30, 2021 and 2020 are categorized on a functional basis as follows (in thousands):

2021		**Instruction, student services & academic support**		**Hospital & physician practices**		**Research**		**Institutional support**		**Enterprises & independent operations**		**Total**
Compensation and benefits	$	1,194,366	$	4,526,333	$	519,767	$	282,531	$	190,889	$	6,713,886
Depreciation and amortization		91,631		333,710		46,595		21,546		59,453		552,935
Interest on indebtedness		15,844		35,597		23,912		184		12,499		88,036
Other operating expense		532,615		3,155,502		390,292		26,623		141,579		4,246,611
Total operating expense		1,834,456		8,051,142		980,566		330,884		404,420		11,601,468
Non-service net periodic benefit cost		5,285		20,031		2,300		1,251		844		29,711
Total	**$**	**1,839,741**	**$**	**8,071,173**	**$**	**982,866**	**$**	**332,135**	**$**	**405,264**	**$**	**11,631,179**

2020	Instruction, student services & academic support	Hospital & physician practices	Research	Institutional support	Enterprises & independent operations	Total
Compensation and benefits	$ 1,095,779	$ 4,256,950	$ 490,783	$ 266,324	$ 203,832	$ 6,313,668
Depreciation and amortization	88,149	324,642	44,648	20,510	57,054	535,003
Interest on indebtedness	16,027	36,741	23,637	207	11,148	87,760
Other operating expense	532,648	2,929,459	332,312	42,231	171,605	4,008,255
Total operating expense	1,732,603	7,547,792	891,380	329,272	443,639	10,944,686
Non-service net periodic benefit cost	1,880	7,302	842	457	350	10,831
Total	**$ 1,734,483**	**$ 7,555,094**	**$ 892,222**	**$ 329,729**	**$ 443,989**	**$ 10,955,517**

Operation and maintenance of PPE and depreciation are allocated to functional classifications based on square footage. Interest expense is generally allocated to functional classifications of the activity that directly benefited from the proceeds of the debt. Non-service net periodic benefit cost is allocated to functional classifications based on compensation and benefits.

16. LIQUIDITY AND AVAILABILITY

As of June 30, 2021 and 2020, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt and capital construction costs not financed with debt, were as follows (in thousands):

	2021	2020
Financial assets:		
Cash & cash equivalents	$ 2,406,233	$ 2,117,979
Receivables, net	1,591,996	1,213,513
Pledge payments available for operations	65,743	65,559
Investments	8,823,927	7,103,005
Total financial assets available within one year	**12,887,899**	**10,500,056**
Liquidity resources:		
Bank lines of credit	196,935	340,157
Total financial assets and liquidity resources available within one year	**$ 13,084,834**	**$ 10,840,213**

The University's cash flows have seasonal variations during the year attributable to tuition billing, patient service reimbursement and a concentration of contributions received at calendar and fiscal year-end. To manage liquidity, the University maintains lines of credit with several banks that are drawn upon as needed during the year to manage cash flows. Management has the discretion to utilize the full amount of quasi-endowment funds for general expenditures.

17. SUBSEQUENT EVENTS

The University has evaluated subsequent events for the period from June 30, 2021 through September 23, 2021, the date the consolidated financial statements were issued.