Annual Financial Report 2012 13

Penn
University of Pennsylvania

UNIVERSITY OF PENNSYLVANIA FINANCIAL REPORT 2012-2013

"The impact of the Making History Campaign on increasing educational access, integrating knowledge across disciplines, and putting that knowledge to good work in the world has been nothing short of transformational."

Amy Gutmann
President University of Pennsylvania

Undergraduate Financial Aid

Expands access for most talented students from all walks of life.

Graduate & Professional Student Aid

Supports the scholarship of a vibrant community of future leaders.

Faculty & Staff

Advances intellectual exchange, campus-wide collaboration, and ground-breaking research.

Embodying the principles of the Penn Compact, the seven-year *Making History* campaign came to its conclusion on December 31, 2012. Hailed as the most ambitious fund raising effort in Penn's history, the campaign sought to raise $3.5 billion for strategic goals targeted to strengthen Penn's unwavering commitment to education and research. With the support of 326,952 donors, the final tally was an extraordinary $4.3 billion. The unparalleled success of the campaign will impact students, faculty, campus and community for years to come. The photos on the following pages spotlight just a few of the many highlights from the campaign- it is truly Penn's *Time to Shine*…

Buildings & Facilities

Creates the most dynamic and environmentally sustainable urban campus for the Penn community.

Programs & Research

Develops innovative academic programs and advances research that impacts the lives of people around the world.

Alumni Engagement

Connects Penn alumni around the world, as they rediscover the importance of community and lifelong learning.

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1. **40 NEW ENDOWED CHAIRS**

   Forty new endowed faculty positions for Penn Medicine—an increase of one-third—were created during the *Making History* Campaign. Created by appreciative patients, devoted students, committed faculty, legacy gifts, experienced philanthropists, and others, all are founded on the belief that a great faculty will create a bright future.

2. **22 PIK PROFESSORSHIPS**

   The Penn Integrates Knowledge (PIK) professorships elevated the prestige of Penn while strengthening its interdisciplinary nature—a core priority of the Penn Compact. Twenty-two PIK professorships were created over the course of the Campaign, attracting the brightest minds to share and create new knowledge.

3. **NETTER CENTER FOR COMMUNITY PARTNERSHIPS**

   The Netter Center's Agatston Urban Nutrition Initiative (AUNI) established a farm and community garden where an abandoned baseball field and a worn-down tennis court once stood. AUNI engages Penn faculty and students while improving nutrition education and food access for 10,000 public school students across Philadelphia.

FY13 FINANCIAL REVIEW

FROM THE VICE PRESIDENT FOR FINANCE AND TREASURER STEPHEN D. GOLDING

Fiscal year 2013 was a remarkable year that produced exceptional achievements and robust financial results. Among the highlights:

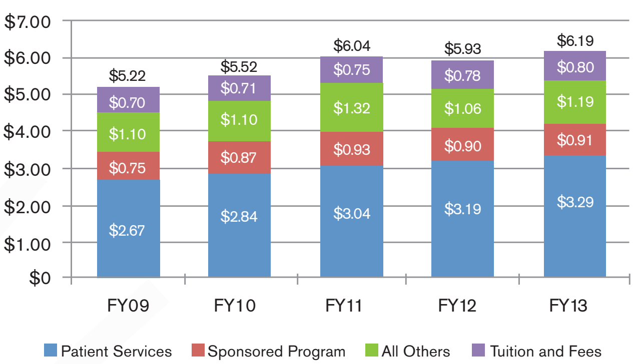
- The conclusion of the *Making History* Campaign produced an extraordinary total of $4.3 billion in fundraising, exceeding the campaign's goal of $3.5 billion by 22.9%
- Penn realized breakthroughs in innovation and technology transfer with the development and monetization of royalties in Juxtapid™, a new drug therapy, and the announcement of a partnership with Novartis to expand research for T-Cell therapy for cancer treatment
- Penn's endowment returned a substantial 14.4% in FY 2013

Financial results were positively impacted by a number of key factors during FY 2013. Total operating revenue increased by 4.4%, rising from $5.93 billion in FY 2012 to $6.19 billion in FY 2013. The five largest revenue components – Tuition and Fees, Sponsored Programs, Patient Services, Contributions and Investment Income – all increased over the prior year. Strong financial market and investment management performance contributed to endowment growth, and higher interest rates toward the end of the fiscal year improved the pension and post-retirement benefits valuation. As a result, total net assets increased 16.5% from $9.69 billion to $11.29 billion. Our credit ratings from Standard and Poor's and Moody's Investors Services remained stable at "AA+/Aa2" for the University and "AA-/Aa3" for the Health System.

PENN *MAKING HISTORY* CAMPAIGN EXCEEDS EXPECTATIONS, TRANSFORMING THE UNIVERSITY

Launched in 2007, the Campaign surpassed its $3.5 billion financial target, raising $4.3 billion by the December 31, 2012 conclusion. It was a broad-based campaign, attracting gifts from 326,952 donors changing Penn's landscape and that of Philadelphia.

Total Operating Revenue
($ in Billions)



For FY 2013, Tuition and Student Fees revenue increased 2.6% over FY 2012, from $776.7 million to $797.1 million, representing 12.9% of total operating revenue. This total is net of $280.2 million in financial aid grants and scholarships, which increased by $20.0 million – 7.7% – over the prior fiscal year.

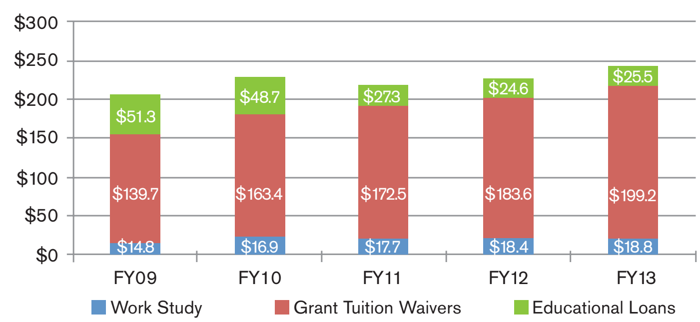
The University is committed to increased access and inclusion, as evidenced in Penn's expanded financial aid that has enabled us to meet the full financial need of undergraduates with all-grant, no-loan aid packages during a period of sustained high unemployment. The Class of 2013 marked the first class to have participated in the all-grant, no-loan program for all four years of their undergraduate education.

Approximately 5,700 undergraduates funded all or part of their education with $199.2 million from grants or tuition waivers, $18.8 million from work-study programs and $25.5 million from educational loans. The average University grant-aided freshman aid package was $42,783, an increase of 4.0% over the previous year, and an increase of 27.3% over the average aid package of $33,608 in FY 2008, the year the all-grant, no-loan policy was announced.

New fellowships, grants, and programs enable Penn to continue to attract the most accomplished post-graduate students. Aided by the *Making History* campaign, we were able to provide increased financial aid to our graduate and professional students, critical to their education and Penn's ongoing research programs. Approximately 7,800 graduate and professional students and PhD candidates funded all or part of their education from financial aid, receiving $164.8 million in grants, including teaching and research fellowships, $208.7 million in educational loans and $2.7 million in work-study programs.

The majority of Penn's student aid – 77.8% – is directly supported by operating funds, with the remaining 22.2% coming from endowment income. The endowment spending policy continued the dual-payout rate that was established in FY 2009 to reinforce our commitment to *Increasing Access* with a payout rate of 6.5% for student financial aid and 4.7% for all other uses. Over the past five years, financial aid from the endowment has increased by 152.4% and aid from operating funds has increased by 61.3%.

Undergraduate Financial Aid
($ in Millions)



*Penn's all-grant, no-loan program means students are no longer required to take out loans to support their education. However, loans are available at the student's discretion, to substitute for work study or summer earnings and/or to cover other expenses not included in the standard academic year cost of attendance.

1. **UNDERGRADUATE FINANCIAL AID**
   8,475 DONORS

   Increasing access to Penn's education was a priority outlined in the Penn Compact in 2004. Since then, Penn has moved closer to achieving the Compact's goals. Hear how donor contributions have made a difference in students' lives and in the Penn community. http://finalreport.upenn.edu/campaign/undergrad.php

2. **GRADUATE & PROFESSIONAL STUDENT AID**
   7,899 DONORS

   Alumni, friends, and organizations helped to create and support over 800 fellowships and financial aid funds. Contributions have funded traveling scholarships and fellowships that support study abroad and participation in conferences and events around the world.

3. **SCHOOL OF ARTS AND SCIENCES**
   8,287 DONORS

   More than 40 percent of students in the College receive scholarship aid, and over 300 new scholarships were created, enabling these promising young people to graduate free of burdensome debt.

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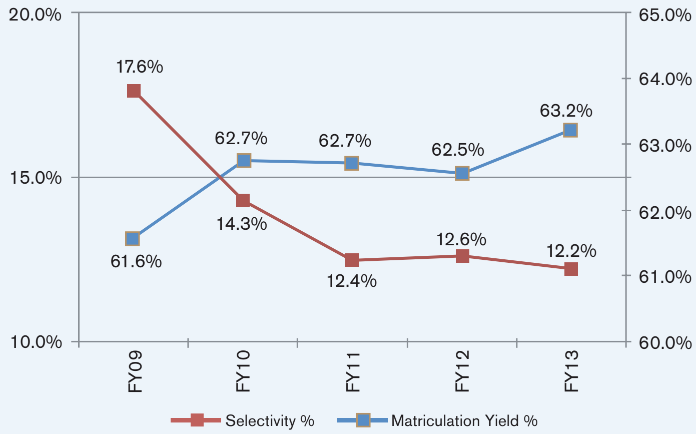
Student demand continued to strengthen, with 31,283 applications for the freshman class that entered in the fall of 2013. Of this applicant total, 12.2% were admitted and 63.2% of those admitted chose to matriculate at Penn. Penn has become increasingly selective in admissions while continuing to attract even more high-caliber applicants, as seen in lower admission and higher matriculation rates over the past five years.

Trend in Freshman Admit Rate/Yield

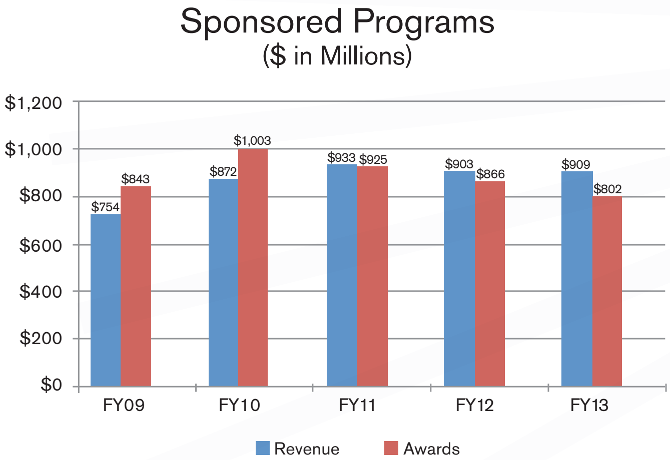


THE WHARTON SCHOOL
21,800 DONORS

More than 250 new undergraduate scholarships and 65 graduate fellowships were established at the Wharton School, increasing access to the highest caliber of business education at both the undergraduate and graduate levels.

Sponsored Program revenue, representing 14.7% of total operating revenue, increased 0.6% from the prior fiscal year, from $903.0 million to $908.8 million. Total awards issued to Penn in FY 2013 decreased by 7.4%, declining from $866.0 million to $801.7 million, primarily due to declining federal research funding. This decline was driven largely by the federal budget sequestration, which resulted in decreases in research and development budgets across most federal agencies.

The federal government is the largest source of research funding for the University. A total of $568.2 million, or 70.8%, of Sponsored Program awards came from the federal government in FY 2013, with $445.2 million – 78.3% – of the federal total coming from the National Institutes of Health (NIH). Industry and Foundations accounted for $100.1 million, or 12.5%.



Appropriations from the Commonwealth of Pennsylvania increased by $1.4 million, or 4.5%, from $30.1 million to $31.5 million.

Growth in the University's endowment comes from two sources – fundraising and returns on investment, offset by liquidations to meet the spending distribution.

In FY 2013, Penn's investment performance returned a robust 14.4% as Penn's investment team leveraged strong equity market performance with prudent asset and investment management. Total endowment value increased by 14.6%, from $6.75 billion to $7.74 billion.

The *Making History* campaign (http://finalreport.upenn.edu/) a seven-year fundraising effort with a $3.5 billion goal, came to an end on December 31, 2012. The theme of this report, *Time to Shine*, is the epilogue of the Campaign. At of the end of the campaign, a final total of $4.3 billion had been reached, surpassing the goal by over $800 million. The University saw record engagement across Penn including the support of over 326,000 donors consisting of alumni, Penn parents, foundations, corporations, associations and friends. The success of the campaign impacted students, faculty, staff, alumni, our community and the world. As seen in the photos and theme of this report, Campaign goals were met on the following broad areas: Undergraduate Financial Aid, Graduate and Professional Student Aid, Faculty and Staff, Buildings and Facilities, Programs and Research, and Alumni Engagement.

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1. **PENN MUSEUM**
8,309 DONORS

A Digital Media Center was established at the Penn Museum which led to the building of an online collections gallery where people from all over the world may explore over one million artifacts in the special collections.

2. **PENN LIBRARIES**
1,559 DONORS

The Penn Libraries added 76 new collection acquisition funds and attracted many great collection gifts. Penn's collection of rare books attracts scholars from around the world and gives students a hands-on approach to history.

3. **PERELMAN SCHOOL OF MEDICINE**
76,809 DONORS

Raymond and the late Ruth Perelman gave $225 million to name the Perelman School of Medicine – the largest single gift ever made in the University's history. They wanted their gift "to allow Penn Medicine…to bring the best and brightest new minds and train them to be the best doctors in the world."

In FY 2013, total contributions – which include new gifts and pledges – totaled an impressive $448.8 million which was a $61.1 million increase above the FY 2012 total. Total contributions in FY 2013 broke down as follows: $163.9 million to support operations, $35.8 million to unrestricted ("quasi") endowment, $149.1 million to endowment and other non-operating and $100.0 million towards capital.

During FY 2013, Penn received 81 gifts of more than $1.0 million, with 30 of those coming from first-time donors at that level. Contributions to the Penn Fund decreased 3.9% from $31.0 million to $29.8 million and Annual Giving decreased by 2.7% from $62.9 million to $61.2 million. There were 98 new undergraduate scholarships.

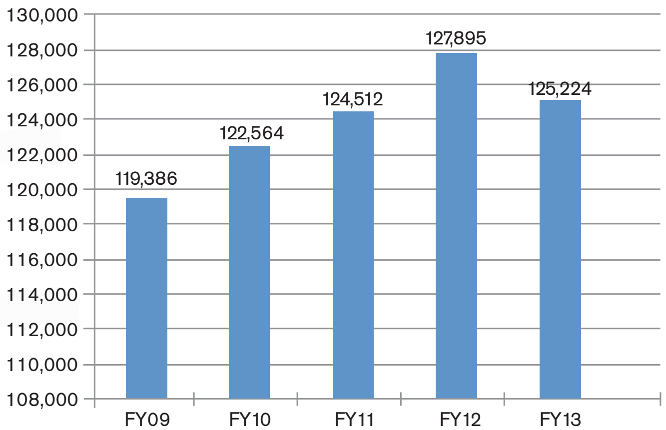
The University of Pennsylvania Health System (UPHS) marked its thirteenth consecutive year of positive operating performance as Patient Services, the largest revenue component at 53.1% share of total operating revenue, increased by 3.0% from $3.19 billion to $3.29 billion.

Adjusted admissions, a measure that combines inpatient admissions with outpatient activity, decreased 2.1% from prior year resulting from general market utilization declines and private practice physician changes. Chemotherapy volume increased 9.2% over the previous year. Total surgery volume decreased by 1.7% compared to the prior year. While outpatient surgery increased by 1.4%, inpatient surgery decreased 5.3%.

SCHOOL OF VETERINARY MEDICINE
16,457 DONORS

The Buerger Family Foundation Minimally Invasive Surgery Suite is the first of its kind at any veterinary teaching hospital, offering a variety of minimally invasive surgery techniques, such as laparoscopy, endoscopy, and arthroscopy to enhance animal health.

UPHS Adjusted Admissions
(adjusted for out-patient activity)



Other Income, representing 7.8% of total operating revenue, increased significantly at 17.3% over FY 2012, from $409.6 million to $480.3 million. Much of this increase resulted from Penn's research commercialization and technology transfer programs. Earlier in the fiscal year, the University completed a breakthrough partnership agreement with Novartis Pharmaceuticals for cancer treatment based on T-Cell therapy research. Under this agreement, Penn receives facilities support, research support and royalty payments.
Also during FY 2013, Penn executed a $55 million sale of a portion of future royalty payments for Juxtapid™, a drug treatment therapy for patients with acute hyper cholesterol conditions.

Total operating expenses increased by 3.8%, rising from $5.68 billion in FY 2012 to $5.90 billion in FY 2013.

Compensation and benefits – composed of salary, wages and employee fringe benefits – is the largest expense component, representing 58.5% of total operating expenses. Salaries and wages increased by 3.4%, increasing from $2.55 billion in FY 2012 to $2.64 billion in FY 2013. Employee benefits increased by 13.0%, rising from $716.9 million in FY 2012 to $809.9 million in FY 2013. The benefits increase was driven by growth in the cost of medical benefits for employees and retirees.

Depreciation and amortazation of $315.0 million represents 5.3% of total operating expenses. This category increased 4.3% over FY 2012. Interest on indebtedness totaled $77.4 million, accounting for 1.3% of total operating expenses. This category increased 18.8% from FY 2012 to FY 2013 with the addition of the Series 2012 Taxable Century bonds and Health System Series A 2012 revenue bonds.

Other operating expenses of $2.05 billion represent 34.8% of total operating expense. This category remained virtually flat year over year as our efforts to continue to control the cost of supplies, materials and purchased services were successful.

On the Balance Sheet, total assets were $16.02 billion in FY 2013, with total liabilities at $4.72 billion. Net assets, totaling $11.29 billion, increased $1.60 billion from FY 2012. Cash and cash equivalents rose 10.4% to $1.24 billion, while overall receivables grew only 1.8% despite strong pledge activity related to the campaign. Additionally, higher discount rates significantly reduced the University's and Health System's pension and post-benefit retirement liability, increasing net assets by $310.2 million.

1. **SCHOOL OF DENTAL MEDICINE**
   3,516 DONORS

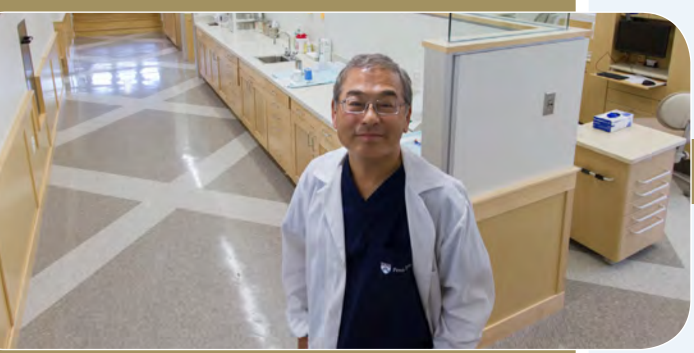
   Just completed in December 2012, the Syngcuk Kim Endodontic Clinic features 23 dental chairs, 2 surgical suites, and a consultation room. This renovated clinic is outfitted for real-time video streaming of cases to classrooms, continued education programs, and national and international meetings.

2. **SCHOOL OF ENGINEERING AND APPLIED SCIENCE**
   5,582 DONORS

   The Krishna P. Singh Center for Nanotechnology will house research that will strengthen ties not only between engineering disciplines, but also throughout the University, the city and the region.

3. **MORRIS ARBORETUM**
   18,703 DONORS

   The Horticulture Center at Bloomfield Farm is the first new construction within the University to reflect Penn's commitment to moving toward carbon neutrality. The Center was awarded Platinum-level LEED certification for it's sustainable design and construction.



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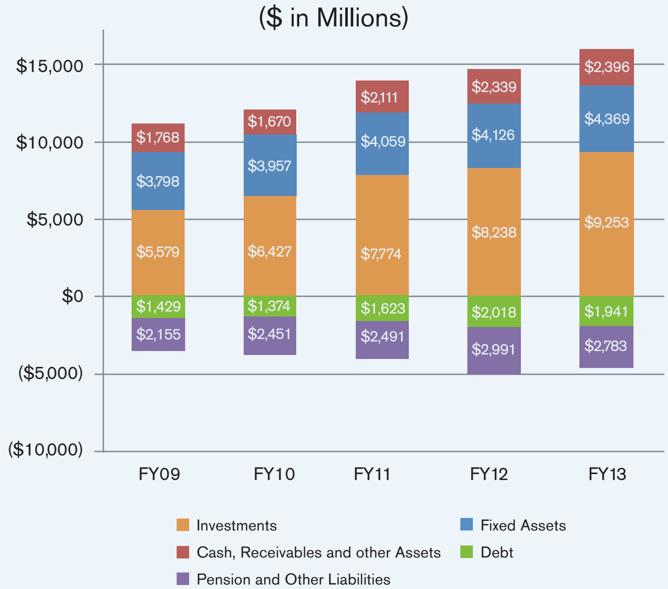
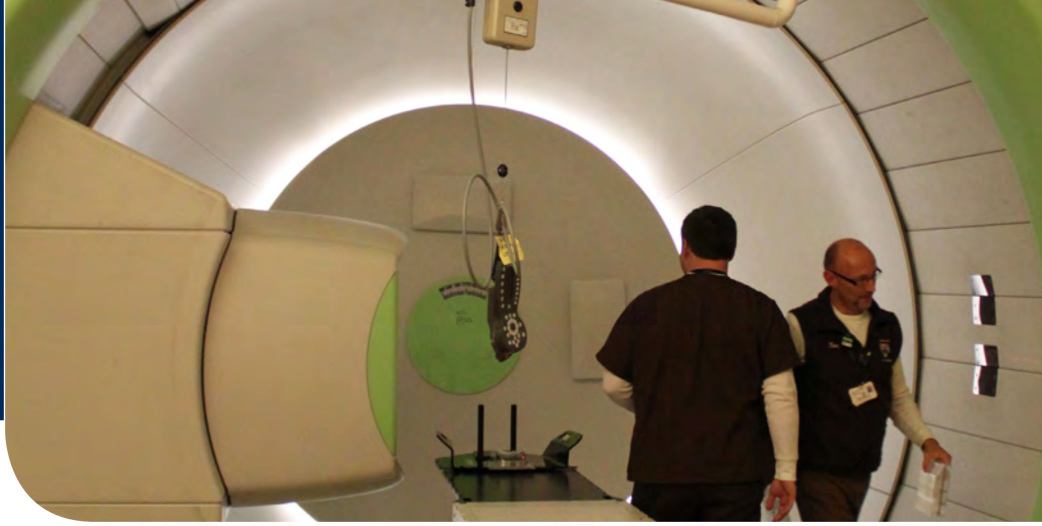
Capital expenditures for FY 2013 totaled $498.7 million, up from $359.1 million in FY 2012. Several major projects were completed or continued, including the completion of additional research space fit out at the Smilow Center for Translational Research ($45.8 million) and continued construction on the Singh Center for Nanotechnology ($37.2 million), a joint project of the School of Engineering and Applied Science and the School of Arts and Sciences. Additionally, renovations were made to the TSE Sports Center at Hutchinson Gymnasium ($14.1 million) and new construction began on the Steinberg-Dietrich four story addition ($13.4 million). Penn's capital expenditures are part of Penn's long-range vision for campus expansion and revitalization, *Penn Connects* (http://www.pennconnects.upenn.edu/growing_greener/penn_connects_2.0.php), which began in 2006 with the acquisition of the U.S. Postal lands.

Balance Sheet
($ in Millions)



PROGRAMS & RESEARCH
211,498 DONORS

Research funding is the engine of innovation, and Penn people are tackling the pressing issues of today with the support of new laboratories, research centers, and academic initiatives.



As we move into Fiscal Year 2014, the fundamental principles of the Penn Compact 2020 (http://www.upenn.edu/president/penn-compact/penn-compact-landing) will continue to guide Penn's path, as we focus on our commitment to inclusion, innovation and impact. In keeping with the Compact's priorities, the University will continue to meet the full financial need of undergraduates through our all-grant, no-loan aid packages, expand on recruiting and retaining eminent faculty, promote collaboration with inter-school research and teaching programs, and incorporate Penn Connects 2.0's master plan to create a vibrant and sustainable urban campus.

With the support of our alumni and friends as well as the dedication of our exceptional faculty and staff, the University anticipates a future of opportunities and achievements.

Stephen D. Golding
Vice President for Finance and Treasurer

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1. **PENN LAW**
   8,399 DONORS

   Penn Law now has the finest urban law school campus in the country. The 40,000-square foot Golkin Hall includes a state-of-the-art courtroom, 350-seat auditorium, and classrooms and administrative offices.

2. **ANNENBERG SCHOOL FOR COMMUNICATION**
   3,336 DONORS

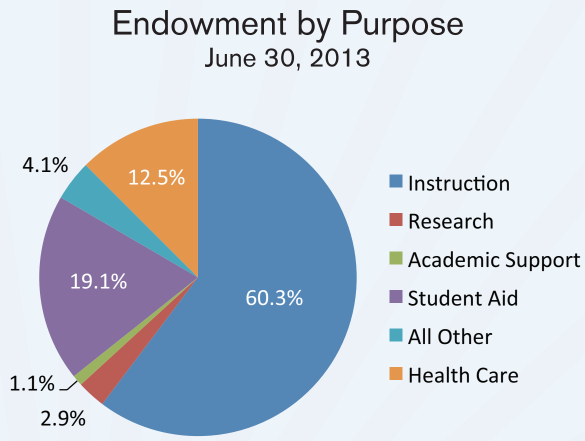
   Completed in 2009, The Annenberg Public Policy Center's beautifully designed building on 36th Street Walk houses more than a dozen APPC institutes, centers and offices, and is also home to the Annenberg School's Center for Global Communication Studies.

3. **PENN ATHLETICS ENDOWMENTS**

   Penn Athletics now has seven new head coaching endowments: Men's Heavyweight Rowing, Men's Lacrosse, Women's Lacrosse, Women's Track and Field, Volleyball, Squash, and Men's Basketball. These crucial positions solidify the financial future of Penn Athletics and help us attract and retain the best coaches from around the world.

ENDOWMENT AND INVESTMENTS

The Penn endowment is comprised of 6,192 individual endowment funds benefiting the University's schools and centers as well as UPHS. The endowment supports a wide range of purposes across the institution, with the majority of funds dedicated to instructional use. The total value of the endowment was $7.7 billion as of June 30, 2013. Payouts from the endowment provided $290.0 million in budgetary support to the University during the fiscal year.



ASSOCIATED INVESTMENTS FUND

The vast majority of the 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.

SCHOOL OF NURSING
4,819 DONORS

Generous contributions to the Hillman Scholars Program in Nursing Innovation at Penn Nursing will streamline the student path from BSN to PhD to prepare nurses who are dedicated to discovering the science that changes the healthcare system and communities around the world.

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

AIF Asset Allocation
as of June 30, 2013

	AIF
US Equities	19.1%
International Equities	18.1%
Emerging Markets	5.7%
Absolute Return	28.9%
Private Equity	8.6%
Real Estate	5.8%
Natural Resources	3.8%
High Yield	0.4%
Fixed Income/Cash	9.6%
Total	100.0%

As of June 30, 2013, the AIF had $971 million in outstanding commitments to private equity, real estate and natural resources partnerships as well as to certain managers in the absolute return portfolio. The AIF maintains a conservative liquidity profile and can meet these comitments. As of June 30, 2013, the AIF could convert over half of the portfolio into cash by calendar year end through the sale of directly held securities as well as redemptions and withdrawals from various equity and absolute return funds.

AIF PERFORMANCE

The AIF returned a positive 14.4% for the fiscal year, surpassing its composite benchmark return of 12.7%. The AIF's significant exposure to public equities, both domestic and foreign, provided a tailwind during the year as the US and developed public markets were up strongly.

Portfolio allocations to international equity and absolute return performed particularly well relative to their individual benchmarks. The AIF's less liquid assets classes trailed marketable asset classes for the year but produced solid absolute performance. While the AIF lagged the composite benchmark over the past three years, returns for the AIF over longer periods have surpassed the benchmark.

Annualized Returns for Periods
ending June 30, 2013

	1 Year	3 Year	5 Year	10 Year
AIF	14.4%	11.3%	5.5%	8.0%
Composite Benchmark	12.7%	12.0%	4.6%	7.4%

GEORGE A. WEISS, CHAIR,
***MAKING HISTORY* CAMPAIGN**

"Name what matters most to you – groundbreaking medical and scientific research, access to education, environmental sustainability, global connections- and Penn has the knowledge and skill to make a significant impact."

AIF SPENDING RULE

The University's endowment spending policy balances the objectives of maximizing budgetary support to endowed programs and maintaining purchasing power of the endowment into perpetuity. The actual payout in any given year is determined by a formula designed to smooth the impact of short-term changes in the endowment's value on spending distributions. The spending rule target payout is based on the sum of: (i) 70% of the prior fiscal year distributed adjusted by an inflation factor; and (ii) 30% of the lagged fiscal year-end fair value of the AIF, multiplied by 6.5% for financial aid funds and 4.7% for all other funds.

The University expects to use the current spending rule formula with no adjustments for Fiscal Year 2014.

A Five-Year Review of Investments
(in thousands)

investment	2013	2012	2011	2010	2009
stocks	$3,337,504	$3,013,823	$2,879,696	$2,200,115	$2,095,480
bonds	1,273,390	1,393,199	1,273,437	1,204,031	742,814
short-term	505,707	601,663	496,232	458,701	478,070
split	484,658	473,140	467,451	383,901	344,030
real estate	451,633	362,931	296,771	237,364	250,565
absolute	2,209,648	1,535,108	1,628,223	1,394,827	1,251,953
private	684,639	607,969	542,827	407,484	318,304
natural	292,671	247,192	186,336	134,519	96,187
other	12,869	2,530	2,905	5,621	1,325
total	$9,252,719	$8,237,555	$7,773,878	$6,426,563	$5,578,728
endowment					
fair value	$7,741,396	$6,754,658	$6,582,030	$5,668,937	$5,170,539
aif	$7,800,626	$6,770,032	$6,564,863	$5,518,093	$4,955,689

* Total investments held by the University not invested in the Associated Investment Fund include $485 million held in trust, $7 million in assets held under indenture and escrow agreements, $596 million in other investments held by UPHS and $364 million in other investments held by the University.

MANAGEMENT RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

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

The University maintains a system of internal controls over financial reporting, which is designed to provide a reasonable assurance to the University's management and Boards of Trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of the internal control system can change with circumstances.

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

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

Independent Auditor's Report

To the Trustees of the University of Pennsylvania:

We have audited the accompanying consolidated financial statements of the University of Pennsylvania (the "University"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of operations and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania at June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 20, 2013

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19013-7042
T: (267) 330 - 3000, F: (267) 330 - 3300, www.pwc.com/us

University of Pennsylvania
(in thousands)

		June 30, 2013		June 30, 2012
Assets				
Cash and cash equivalents	$	1,241,370	$	1,123,975
Accounts receivable, net of allowances of $13,337 and $12,682		252,286		275,776
Patient receivables, net of allowances of $148,345 and $131,101		339,744		352,468
Contributions receivable, net		334,610		278,718
Loans receivable, net of allowances of $3,454 and $3,219		93,870		96,013
Other assets		133,881		212,352
Investments, at fair value		9,252,719		8,237,555
Plant, net of depreciation		4,369,373		4,125,743
Total assets	$	16,017,853	$	14,702,600
Liabilities				
Accounts payable	$	150,805	$	149,661
Accrued expenses and other liabilities		1,429,738		1,339,836
Deferred income		169,650		177,267
Deposits, advances, and agency funds		122,387		130,914
Federal student loan advances		79,040		78,655
Accrued retirement benefits		830,996		1,114,156
Debt obligations		1,941,111		2,018,485
Total liabilities		4,723,727		5,008,974
Net assets				
Unrestricted		5,933,126		4,913,911
Temporarily restricted		2,433,998		2,017,544
Permanently restricted		2,927,002		2,762,171
		11,294,126		9,693,626
Total liabilities and net assets	$	16,017,853	$	14,702,600

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, 2013 and 2012
(in thousands)

	2013	2012
Unrestricted		
Revenue and other support:		
Tuition and fees, net	$ 797,144	$ 776,651
Commonwealth appropriations	31,480	30,129
Sponsored programs	908,795	903,009
Contributions and donor support	189,975	142,313
Investment income	324,449	310,882
Net patient service revenue	3,287,168	3,190,845
Sales and services of auxiliary enterprises	108,382	108,467
Other income	480,256	409,572
Independent operations	63,384	60,695
	6,191,033	5,932,563
Expenses:		
Compensation and benefits	3,449,781	3,270,645
Depreciation and amortization	314,980	301,873
Interest on indebtedness	77,355	65,092
Other operating expenses	2,054,315	2,045,393
	5,896,431	5,683,003
Increase in net assets from operations	**294,602**	**249,560**
Nonoperating revenue, net gains, reclassifications and other:		
Gain (loss) on investments, net	412,443	(17,680)
Investment income, net of amounts classified as operating revenue	(59,540)	(59,746)
Pension and other postretirement plan adjustments	310,150	(418,991)
Contributions and donor support for capital related activities	61,560	58,042
Total nonoperating revenue, net gains, reclassifications and other	724,613	(438,375)
Increase (decrease) in unrestricted net assets	1,019,215	(188,815)
Temporarily Restricted		
Contributions	207,651	171,889
Gain on investments, net	503,520	7,903
Investment income	42,351	29,794
Net assets released from restrictions	(337,068)	(299,083)
Increase (decrease) in temporarily restricted net assets	416,454	(89,497)
Permanently Restricted		
Contributions	142,727	143,579
Gain (loss) on investments, net	21,011	(2,255)
Investment income	1,093	819
Increase in permanently restricted net assets	164,831	142,143
Increase (decrease) in net assets from nonoperating and restricted revenue, net gains, reclassifications and other	**1,305,898**	**(385,729)**
Increase (decrease) in total net assets	**1,600,500**	**(136,169)**
Net assets, beginning of year	9,693,626	9,829,795
Net assets, end of year	$ 11,294,126	$ 9,693,626

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

University of Pennsylvania
for the years ended June 30, 2013 and 2012
(in thousands)

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 1,600,500	$ (136,169)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	314,980	301,873
Provision for bad debts	197,916	188,382
(Gain) loss on investments, net	(936,974)	12,032
Loss on disposal of plant, property and equipment	393	5,452
Donated equipment	(10,048)	(1,243)
Proceeds from split-interest agreements designated for operations	22,504	
Receipt of contributed securities	(77,880)	(47,569)
Proceeds from contributed securities	16,497	7,704
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	(159,016)	(186,969)
Pension and other postretirement plan adjustments	(310,150)	418,991
Changes in operating assets and liabilities:		
Patient, accounts and loans receivable	(157,106)	(209,146)
Contributions receivable	(57,616)	(30,755)
Other assets	75,135	(11,238)
Accounts payable, accrued expenses and accrued retirement benefits	84,177	32,350
Deposits, advances and agency funds	(8,925)	(16,808)
Deferred income	(7,617)	16,610
Net cash provided by operating activities	586,770	343,497
Cash flows from investing activities:		
Purchase of investments	(9,589,906)	(6,787,443)
Proceeds from sale of investments	9,480,421	6,365,522
Purchase of plant, property and equipment	(498,735)	(359,060)
Net cash used by investing activities	(608,220)	(780,981)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	154,698	165,552
Proceeds from contributed securities received designated for the acquisition of long-lived assets and long-term investment	57,539	34,842
Federal student loan advances	385	368
Repayment of long-term debt	(73,777)	(50,863)
Proceeds from issuances of long-term debt		446,464
Net cash provided by financing activities	138,845	596,363
Net increase in cash and cash equivalents	117,395	158,879
Cash and cash equivalents, beginning of year	1,123,975	965,096
Cash and cash equivalents, end of year	$ 1,241,370	$ 1,123,975
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 79,876	$ 63,856
Contributed securities received	$ 77,880	$ 47,569
Accrued plant, property and equipment acquisitions	$ 121,481	$ 51,386
Assets contributed under split-interest agreements	$ 4,816	$ 21,417

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

1. Significant Accounting Policies

Organization

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

Basis of Presentation

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

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

> Unrestricted - Net assets that are not subject to donor-imposed restrictions.
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> Temporarily restricted - Net assets that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time. These net assets include gifts donated for specific purposes and appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.
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> Permanently restricted – The original value of donor restricted net assets, the use of which is limited to investment and can only be appropriated for expenditure by the University in accordance with the Pennsylvania Uniform Principal and Income Act (Pennsylvania Act).

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

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

Temporarily Restricted

	2013	2012
Net assets released from restrictions	$ 337,068	$ 299,083

Unrestricted

	2013	2012
Contributions and donor support	$ 91,598	$ 70,137
Investment income	183,910	170,904
Contributions and donor support for capital related activities	61,560	58,042
Net assets released from restrictions	$ 337,068	$ 299,083

Gains on operating assets and liabilities, such as property, plant and equipment sales, license sales, contract settlements and debt retirements are reported in Other income. Losses on operating assets and liabilities are reported in the appropriate expense category. Gains or losses associated with investment activities are included in net gains (losses) on investments.

Certain reclassifications have been made to previously reported amounts in the consolidated financial statements and disclosures to conform to the current presentation. These include the following reclassifications in the Fiscal Year 2012 Consolidated Statements of Activities: adoption of a single column presentation, release of temporarily restricted net assets to unrestricted Contributions and donor support, Investment income and Contributions and donor support for capital related activities, reporting of UPHS non-patient related revenues as Other income, presentation of Expenses by natural classification and reporting of UPHS bad debt as a direct reduction to Net patient service revenue.

The University monitors for material subsequent events that may require adjustment to or disclosure in the consolidated financial statements through September 20, 2013, the date the consolidated financial statements were available to be issued.

Fair Value

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

As a practical expedient, the University is permitted under the pronouncement to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). Adjustment is required if the University expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles (US GAAP). The University's investments in private equity, natural resources, real estate and certain hedge funds in the absolute return portfolio are generally valued based on the most current NAV adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2013 and 2012.

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

Cash and Cash Equivalents

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

Loans Receivable

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

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

	2013		2012	
	Receivable Balance	Related Allowance	Receivable Balance	Related Allowance
Federally-sponsored student loans	$ 70,915		$ 72,544	
Other student loans	16,561	$ 3,250	16,269	$ 2,997
Total	$ 87,476	$ 3,250	$ 88,813	$ 2,997

Changes in the allowance for doubtful accounts related to Other student loans receivable as of June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
July 1	$ 2,997	$ 2,844
Add: Provisions	284	277
Less: Write-offs		(17)
Less: Recoveries	(31)	(107)
June 30	$ 3,250	$ 2,997

The University regularly assesses the adequacy of the allowance for doubtful accounts related to Student loans receivable by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan program, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University also performs a detailed review of the aging of the Student loan receivable balances and of the default rate by loan program in comparison to prior years. The level of the allowance is adjusted based on the results of this analysis. The University considers the allowance recorded at June 30, 2013 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

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

Investments, at Fair Value

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

Short-Term

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

Equity

Equity investments consist of direct holdings of securities in managed accounts and exchange traded funds, as well as mutual funds, commingled funds and limited partnerships. The securities held in managed accounts, mutual funds and exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt

Debt investments consist of direct holdings of securities in managed accounts and a single limited partnership. Securities such as US Treasuries, held in managed accounts, are valued based on quoted market prices in active markets and are categorized as Level 1. Securities such as corporate bonds, high yield bonds and bank loans, also held in managed accounts, are valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3. A limited partnership interest in a fund dedicated to credit investments is valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV, the investment is classified at Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Absolute Return

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

Private Equity

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

Real Estate

Investments in real estate are primarily in the form of close-ended limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3. Real estate investments also include an open-ended real estate investment trust which is categorized as a Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Natural Resources

Investments in natural resources are made up of limited partnership interests, securities in a managed account, an exchange traded fund and a commingled fund. The limited partnership fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These limited partnership investments are valued at NAV, are not redeemable within 180 days and are categorized as Level 3. The University directly holds the securities held in the managed account and the exchange traded fund through a custodial relationship. The securities held in the managed account and the exchange traded fund are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. The commingled fund is valued at NAV and is categorized as Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Derivatives

i. Forward Currency Contracts

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

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

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

ii. Futures Contracts

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

Investment Risk

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

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

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

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

Endowment

The University's endowment consists of 5,363 donor-restricted permanent or term endowment funds and 829 unrestricted endowment funds established by the Board of Trustees for a variety of purposes. The University reports all endowment investments at fair value. The majority of the endowment funds of the University have been pooled in the University's AIF, which is invested in equities, bonds, hedge funds, natural resources, private equity and real estate limited partnerships. The endowment funds not pooled in the AIF are primarily invested in equities and bonds.

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

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

In accordance with the Pennsylvania Act, the University has elected to adopt and follow an investment policy seeking a total return for the investments held by the AIF, whether the return is derived from appreciation of capital or earnings and distributions with respect to capital or both. The endowment spending policy which the Board has elected to govern the expenditure of funds invested in the AIF is designed to manage annual spending levels and is independent of the cash yield and appreciation of investments for the year. For Fiscal Year 2013, the spending rule target payout was based on the sum of: (i) 70% of the prior fiscal year distribution adjusted by an inflation factor; and (ii) 30% of the prior fiscal year-end fair value of the AIF, lagged one year, multiplied by 6.5% for financial aid funds and 4.7% for all other funds. The payout or allocation to operations exceeded actual income, net of expenses and net of income permanently reinvested, by $209,372,000 in 2013 and by $206,460,000 in 2012.

The University expects to use the current spending rule formula with no adjustments for Fiscal Year 2014.

Plant

Plant is stated at cost, or fair value at the date of donation based on independent appraisals, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 50 years for buildings and improvements and 4 to 20 years for contents and equipment. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting net gain or loss is included in other income or total expenses, respectively. Rare books and other collectibles, which appreciate in value, are not subject to depreciation.

Split-Interest Agreements

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

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

Charitable remainder trust assets, where the University does not serve as trustee, are initially valued using the current fair value of the underlying assets, using observable market inputs based on its beneficial interest in the trust, discounted to a single present value using current market rates at the date of the contribution. The initially contributed assets are categorized as Level 3, and reported as Investments, at fair value on the Consolidated Statements of Position and as Contribution revenue on the Consolidated Statements of Activities. Subsequent valuation follows this same approach with changes in fair value reported as an adjustment to Investments, at fair value on the Consolidated Statements of Position and Gains or losses on investment on the Consolidated Statements of Activities. The primary unobservable input used in the fair value measurement of the Charitable remainder trust assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value.

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

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

Income Taxes

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

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

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

Tuition and Fees

The University maintains a policy of offering qualified undergraduate applicants admission to the University without regard to financial circumstance. This policy provides financial aid to eligible students in the form of direct grants and employment during the academic year. The University maintains a no-loan policy whereby any qualified undergraduate student with demonstrated financial need receives a loan-free aid package. Students may still borrow at their discretion to supplement their aid packages. Tuition and fees have been reduced by certain grants and scholarships in the amount of $280,189,000 in 2013 and $260,227,000 in 2012.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2013 and 2012, grant and contract revenue earned from governmental sources totaled $764,155,000 and $794,698,000, respectively, of which revenue earned under the American Recovery and Reinvestment Act (ARRA) totaled $31,102,000 and $44,586,000. The University recognizes revenue associated with the direct and the applicable indirect costs of sponsored programs as the related costs are incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on federally-sponsored programs are generally based on predetermined reimbursement rates which are stated as a percentage and distributed based on the modified total direct costs incurred. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

Contributions

Unrestricted Contributions and donor support includes net assets released as a result of corresponding expenditures which met donor imposed restrictions. Contributions, including unconditional promises to donate, cash and other assets, are recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. Contributions designated for the acquisition of long-lived assets and long-term investment are reported in Nonoperating revenue, net gains, reclassifications and other. Unconditional pledges received prior to July 1, 2010 are recognized at their estimated net present value using current market rates, at the date of the pledge, ranging from 0.90% to 5.82%, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category.

Effective July 1, 2010, the University elected to fair value new unconditional pledges received under the FASB *Fair Value Option* standard to more appropriately approximate the value that would be received if the right to these future payments could be sold. The University values these assets by discounting future cash flows using current market rates at the measurement date, ranging from 0.97% to 3.38%, matched to the payment period of the agreement, and accordingly categorizes these assets as Level 3. The primary unobservable input used in the fair value measurement of the University's Contributions receivable is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change.

Net Patient Service Revenue

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

Allocation of Certain Expenses

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

Use of Estimates

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

Recent Authoritative Pronouncements

In October 2012, the FASB issued a standard on *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This standard defines the appropriate financial reporting for the receipt of donated securities in the Statement of Cash Flows. Donated securities with no donor-imposed restrictions are to be included in the Operating section of the statement, while donated securities with donor-imposed long-term restrictions should be included in the financing section. The University has adopted this standard in Fiscal Year 2013 and disclosures pertaining to this topic have been included in the Consolidated Financial Statements.

In July 2011, FASB issued a standard on *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This standard requires reporting of provision for bad debts associated with patient service revenue as a reduction of patient service revenue (net of contractual allowances and discounts) rather than an operating expense for entities that recognize revenue at the time services are rendered without assessing a patient’s ability to pay. This standard also requires the enhanced disclosure of revenue recognition and bad debt assessment policies as well as qualitative and quantitative information regarding change in allowance for doubtful accounts. The University has adopted this standard in Fiscal Year 2013 and disclosures pertaining to this topic have been included in the Consolidated Financial Statements.

In May 2011, FASB issued a standard on *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This standard requires disclosure of the valuation process, including quantitative information about the unobservable inputs, for Level 3 fair value measurements. The University has adopted this standard in Fiscal Year 2013 and disclosures pertaining to this topic have been included in the Consolidated Financial Statements.

2. University of Pennsylvania Health System - Summarized financial information

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

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

Throughout the year, certain transactions are conducted between UPHS and the University. The effect of these transactions (primarily billings for allocations of common costs, physicians' salaries and benefits, certain purchased services and support for the Perelman School of Medicine) is included in the summarized financial information of UPHS. UPHS owed the University $119,000 at June 30, 2013. The University owed UPHS $930,000 at June 30, 2012. This represents normal current inter-entity activity which is eliminated in the consolidated financial statements.

Nonoperating, net includes transfers to the University of $87,354,000 and $100,186,000 in 2013 and 2012, respectively, to further the research and educational activities of the Perelman School of Medicine and $3,576,000 and $2,421,000 in 2013 and 2012, respectively, for other activities. In addition, UPHS recognized operating expenses of $21,966,000 and $20,676,000 in 2013 and 2012, respectively, to support academic operating activities in the clinical departments of the Perelman School of Medicine. These transfers are eliminated in the consolidated financial statements.

During 2012, UPHS received the initial payment of the incentive relating to Electronic Health Records (EHR), as part of ARRA. The Health Information Technology for Economic and Clinical Health Act provision within ARRA allowed for incentives of $19 billion to hospitals who implement and meaningfully use EHR technology by 2014. In accordance with FASB's standard on *Gain Contingencies*, when all contingencies have been met and the funds have been received, UPHS recognizes these incentives as Other revenue. UPHS received $23,974,000 and $5,118,000 as of June 30, 2013 and 2012, respectively.

Net Patient Service Revenue

Net patient service revenue, net of contractual allowances and discounts, excluding bad debt, is as follows for the year ending June 30, 2013:

	Third Party Payors	Self-Pay	Total All Payors
Net Patient Service Revenue	$ 3,313,268	$ 174,383	$ 3,487,651

Net patient service revenue for the years ending June 30, 2013 and 2012 is derived from the following payors:

	2013	2012
Medicare (including Managed Medicare)	26%	27%
Medicaid (including Managed Medicaid)	15%	14%
Managed Care	33%	33%
Independence Blue Cross	17%	17%
Commercial	4%	4%
Self Pay	5%	5%
	100%	100%

The provision for bad debt is based on management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage and other collection indicators. UPHS provides care to patients who do not have health insurance or meet the criteria to qualify for its charity care policy. UPHS pursues collection of these amounts, however certain amounts are deemed to be uncollectible. These amounts are classified in the Provision for bad debt in the UPHS summarized financial information below. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including not covered by insurance, and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt to establish an appropriate allowance for uncollectible accounts. No significant modifications were made for Fiscal Years 2013 and 2012. After satisfaction of amounts due from insurance and reasonable efforts to collect from patients have been exhausted, UPHS follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by UPHS. Account receivables are written off after collection efforts have been followed in accordance with UPHS' policy. UPHS' provision for bad debts totaled $191,479,000 and $182,044,000 for 2013 and 2012, respectively, which is reported as a reduction to Net patient service revenue in the table on the following page.

Third-Party Payors

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

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

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

Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled. The 2013 and 2012 net patient service revenue was increased by $4,726,000 and $12,817,000, respectively, as a result of final settlements and the revision or removal of allowances previously estimated that were no longer necessary.

Charity Care

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

In accordance with the FASB standard on *Measuring Charity Care for Disclosure,* UPHS estimates the costs of providing charity care services based on data derived from a combination of UPHS' cost accounting system and the ratio of costs to charges. Of the Total expenses reported by UPHS below, an estimated $8,530,000 and $8,012,000 were incurred as a result of providing services to charity patients for the years ended June 30, 2013 and 2012, respectively.

Summarized financial information for UPHS as of and for the years ended June 30, 2013 and 2012, prior to eliminations for transactions between UPHS and other entities of the University, is as follows (in thousands):

	2013	2012
Net patient service revenue	$ 3,487,651	$ 3,374,627
Provision for bad debt	(191,479)	(182,044)
Net patient service revenue less bad debt	3,296,172	3,192,583
Other revenue	204,806	189,218
Total expenses	(3,315,846)	(3,164,621)
Excess of revenues over expenses from operations	185,132	217,180
Other unrestricted income, net	111,206	37,912
Excess of revenue over expenses	296,338	255,092
Nonoperating, net	141,822	(388,820)
Unrealized gain (loss), net	36,192	(7,990)
Increase (decrease) in net assets	$ 474,352	$ (141,718)
Total current assets	$ 1,158,609	$ 1,071,065
Assets whose use is limited		
(including board designated funds of $542,916 and $477,548 and		
trustee held funds of $13,586 and $105,619 for 2013 and 2012, respectively)	1,124,645	1,107,585
Plant, net of depreciation	1,471,979	1,338,179
Investments and other assets	984,876	882,657
Total assets	$ 4,740,109	$ 4,399,486
Total current liabilities	$ 613,214	$ 619,679
Long-term debt, net of current portion	796,887	798,848
Other liabilities	1,289,468	1,414,771
Total liabilities	2,699,569	2,833,298
Net assets		
Unrestricted	1,581,325	1,139,429
Temporarily restricted	321,370	293,139
Permanently restricted	137,845	133,620
Total net assets	2,040,540	1,566,188
Total liabilities and net assets	$ 4,740,109	$ 4,399,486

3. Accounts Receivable

The major components of receivables, net of reserve for doubtful accounts of $13,337,000 and $12,682,000 at June 30, 2013 and 2012, respectively, are as follows (in thousands):

	2013	2012
Sponsored research	$ 89,796	$ 93,087
Malpractice insurance recoveries	72,445	85,198
Student	13,575	11,511
Trade	31,233	53,120
Investment income	16,200	6,640
Other	29,037	26,220
Total Accounts receivable	$ 252,286	$ 275,776

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2013 and 2012 (in thousands):

	2013	2012
Unconditional promises expected to be collected in:		
Less than one year	$ 146,793	$ 155,400
One year to five years	214,847	167,762
Over five years	40,834	21,877
	402,474	345,039
Less: Discount	(32,863)	(31,133)
Less: Allowance for doubtful amounts	(35,001)	(35,188)
Total Contributions receivable, net	$ 334,610	$ 278,718

At June 30, 2013 and 2012, the University has outstanding unrecorded conditional promises to give, including non-legally binding bequests, of $212,552,000 and $179,133,000, respectively. When they become unconditional promises to give or are received in cash or kind, they will be recorded and generally will be restricted for operations, endowment and capital projects as stipulated by the donors.

5. Other Assets

The major components of other assets at June 30, 2013 and 2012, respectively, are as follows (in thousands):

	2013	2012
Goodwill	$ 24,888	$ 24,888
Inventory	27,239	26,036
Prepaid expenses	40,295	37,194
Deferred financing fees	12,778	13,820
FICA refund	4,820	82,905
Other	23,861	27,509
Total Other assets	$ 133,881	$ 212,352

Goodwill of $24,888,000 at June 30, 2013 and 2012, respectively, associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into UPHS, is reviewed for impairment on an annual basis by comparing the reporting unit's carrying value to its fair value calculated using a discounted cash flow approach, which incorporates market participant data, or sooner if indicators of impairment arise. There were no goodwill impairments during Fiscal Year 2013.

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical and dental residents are excepted from the Federal Insurance Contributions Act (FICA) taxes based on the student exception under the IRS Code section 3121(b)(10). The IRS started making payments to the University for tax and interest during Fiscal Year 2012. Other assets includes estimated payments due from the IRS of $4,820,000 and $82,905,000, at June 30, 2013 and 2012, respectively. Accrued expenses and other liabilities includes the estimated amounts payable to the residents of $44,989,000 and $43,638,000 at June 30, 2013 and 2012, respectively. Since the employer tax and interest was estimated in prior periods, the statements of activities for Fiscal Year 2013 and 2012 were not significantly impacted.

6. Investments, at Fair Value

A summary of investments, including the AIF, measured at fair value in accordance with the *Fair Value Measurements* standard on a recurring basis, as of June 30, 2013 and 2012 is as follows (in thousands):

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 505,707			$ 505,707
Equity:				
US equities	1,194,211	$ 218,695	$ 224,440	1,637,346
International equities	324,845	716,858	135,138	1,176,841
Emerging market equities	111,698	338,487	73,132	523,317
Total Equity	1,630,754	1,274,040	432,710	3,337,504
Debt:				
US treasuries	1,199,303			1,199,303
Corporate bonds		42,717	1	42,718
High yield		29,422	1,947	31,369
Total Debt	1,199,303	72,139	1,948	1,273,390
Split-interest agreements	69,946		414,712	484,658
Absolute return		563,703	1,645,945	2,209,648
Real estate		40,984	410,649	451,633
Private equity			684,639	684,639
Natural resources	63,213	55,805	173,653	292,671
Derivative instruments:				
Forward currency contracts		3,450		3,450
Futures contracts	7,790			7,790
Other			1,629	1,629
Total	$ 3,476,713	$ 2,010,121	$ 3,765,885	$ 9,252,719

Liabilities	Level 1	Level 2	Level 3	2013
Derivative instruments:				
Forward currency contracts		$ 4		$ 4
Total	$ -	$ 4	$ -	$ 4

Assets	Level 1	Level 2	Level 3	2012
Short-term	$ 601,663			$ 601,663
Equity:				
US equities	1,525,963	$ 168,300	$ 1,578	1,695,841
International equities	335,377	484,054	111,911	931,342
Emerging market equities	50,788	241,784	94,068	386,640
Total Equity	1,912,128	894,138	207,557	3,013,823
Debt:				
US treasuries	1,329,193			1,329,193
Corporate bonds		31,203	600	31,803
High yield		28,880	3,323	32,203
Total Debt	1,329,193	60,083	3,923	1,393,199
Split-interest agreements	59,143		413,997	473,140
Absolute return		624,471	910,637	1,535,108
Real estate		59	362,872	362,931
Private equity			607,969	607,969
Natural resources	47,655		199,537	247,192
Derivative instruments:				
Forward currency contracts		1,395		1,395
Other			1,135	1,135
Total	$ 3,949,782	$ 1,580,146	$ 2,707,627	$ 8,237,555

Liabilities	Level 1	Level 2	Level 3	2012
Derivative instruments:				
Forward currency contracts		$ 597		$ 597
Futures contracts	$ 48			48
Total	$ 48	$ 597	$ -	$ 645

Included in Short-term investments is $7,470,000 and $101,770,000 of amounts held by trustees under indenture and escrow agreements at June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012, Short-term investments include $72,480,000 and $84,885,000, respectively, of outstanding receivables from trading activities. At June 30, 2013 and 2012, Short-term investments include $57,152,000 and $72,473,000, respectively, of outstanding payables from trading activities.

Changes in the fair value of the University's Level 3 investments as of June 30, 2013 and 2012 are as follows (in thousands):

	June 30, 2012	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2013
Equity:								
US equities	$ 1,578		$ 4,440	$ 220,000			$ (1,578)	$ 224,440
International equities	111,911		23,227					135,138
Emerging market equities	94,068		(3,544)	27,601	$ (74)		(44,919)	73,132
Debt:								
Corporate bonds	600				(2)		(597)	1
High yield	3,323		785		(2,161)			1,947
Split-interest agreements	413,997	$ 4,080	18,864	1,465	(23,694)			414,712
Absolute return	910,637	10,637	178,340	518,544	(155,537)	$ 183,324		1,645,945
Real estate	362,872	16,292	15,026	74,109	(57,650)			410,649
Private equity	607,969	62,234	7,429	111,100	(105,776)	1,683		684,639
Natural resources	199,537	34,220	(27,708)	22,599	(54,995)			173,653
Other	1,135	(122)	19			597		1,629
Total	$ 2,707,627	$ 127,341	$ 216,878	$ 975,418	$ (399,889)	$ 185,604	$ (47,094)	$ 3,765,885

	June 30, 2011	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2012
Equity:								
US equities	$ 1,578							$ 1,578
International equities	52,431		$ 4,268			$ 107,644	$ (52,432)	111,911
Emerging market equities	65,272		7,007	$ 39,000			(17,211)	94,068
Debt:								
Corporate bonds	601				$ (1)			600
High yield	5,899		352		(2,928)			3,323
Split-interest agreements	402,758	$ (4,203)	14,381	1,392	(331)			413,997
Absolute return	1,014,870	2,922	43,850	47,651	(75,775)	3,372	(126,253)	910,637
Real estate	294,012	18,212	311	82,183	(31,846)			362,872
Private equity	542,827	41,319	(17,560)	113,178	(71,795)			607,969
Natural resources	186,336	16,607	(5,426)	34,470	(32,450)			199,537
Other	1,238		(103)					1,135
Total	$ 2,567,822	$ 74,857	$ 47,080	$ 317,874	$ (215,126)	$ 111,016	$ (195,896)	$ 2,707,627

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2013 and 2012 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2013 and 2012 were due primarily to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in Absolute Return investments.

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 outstanding commitments is $971,084,000 which represents 11.1% of the associated portfolio depicted below as of June 30, 2013. The University has considerable liquidity within its investment portfolio to meet these commitments. Details on the fair value, remaining estimated life, outstanding commitments, current redemption terms and restrictions by strategy and type of investment are provided below (in thousands):

Strategy	Fair Value (in thousands)	Remaining Life	Outstanding Commitments (in thousands)	Redemption Terms	Redemption Restrictions
Short-term	$ 505,707	N/A	$ -	Daily	None
Equity					
Managed accounts	1,300,958	N/A	-	Daily and semi-annually	Lock-up provisions range from none to 1 year
Mutual funds	294,517	N/A	-	Daily	None
Exchange traded funds	35,279	N/A	-	Daily	None
Commingled funds	803,724	N/A	-	Weekly to quarterly with notice periods of 3 to 180 days	None
Partnerships	903,026	N/A	4,000	Quarterly to annually with notice periods of 30 to 60 days	Lock-up provisions ranging from 0 to 2 years and $9 million of side pocket investments
Total Equity	3,337,504				
Debt					
Managed accounts	1,271,443	N/A	-	Daily	None
Partnership	1,947	N/A	-	N/A	Illiquid side pocket investments
Total Debt	1,273,390				
Absolute return	2,209,648	N/A	74,355	Quarterly, annually, and 2 years with varying notice periods. Excludes 11 limited partnerships with no redemptions permitted. Distributions received as underlying investments are liquidated.	Lock-up provisions ranging from 0 to 2 years with some earlier redemptions permitted subject to redemption fee. Excludes $345 million in 11 limited partnerships with no redemptions permitted and $139 million of side pocket
Real estate	451,633	1 to 16 years	315,961	Redemptions not permitted. Distributions received as underlying investments are liquidated. Excludes 1 fund with quarterly liquidity on 90 day notice period.	N/A
Private equity	684,639	1 to 15 years	506,695	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Natural resources					
Managed account	63,213	N/A	-	Daily	None
Commingled fund	55,805	N/A	-	Daily	None
Partnerships	173,653	3 to 15 years	70,073	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A
Total Natural resources	292,671		70,073		
Totals	$ 8,755,192		$ 971,084		

Included in Level 1 Split-interest agreement investments above are readily marketable assets invested by the University separately from the AIF where the University serves as trustee with an aggregate fair value of $69,947,000 and $59,144,000 at June 30, 2013 and 2012, respectively. Level 3 Split-interest agreement investments are managed and invested outside of the University by external trustees.

Invested in the AIF with an aggregate fair value of $128,984,000 and $118,343,000 at June 30, 2013 and 2012, respectively, is a perpetual trust managed by an external trustee who has delegated investment decisions to the University. The University invests the assets of this trust in accordance with its Endowment Policy.

Included in Split-interest agreements are amounts held to meet legally mandated annuity reserves of $33,387,000 and $29,423,000 as of June 30, 2013 and 2013, respectively, as required by the laws of the following states where certain individual donors reside: California, New Jersey and New York.

A summary of Level 3 assets included in Split-interest agreements, where the University is not trustee, measured at fair value on a recurring basis, as of June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Charitable remainder trusts	$ 6,089	$ 5,675
Charitable lead trusts	171,224	186,157
Perpetual trusts	237,399	222,165
Total	$ 414,712	$ 413,997

Changes to the reported amounts of Split-interest agreements measured at fair value on a recurring basis using unobservable (Level 3) inputs as of June 30, 2013 and 2012 are as follows (in thousands):

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2012	$ 5,675	$ 186,157	$ 222,165	$ 413,997
Net realized gains	274		3,806	4,080
Net unrealized gains	3	7,571	11,290	18,864
Acquisitions	1,327		138	1,465
Liquidations	(1,190)	(22,504)		(23,694)
June 30, 2013	$ 6,089	$ 171,224	$ 237,399	$ 414,712

	Charitable Remainder Trusts	Charitable Lead Trusts	Perpetual Trusts	Total
June 30, 2011	$ 6,006	$ 163,765	$ 232,987	$ 402,758
Net realized (losses)/gains	(1)	210	(4,412)	(4,203)
Net unrealized (losses)/gains	(9)	22,182	(7,792)	14,381
Acquisitions			1,392	1,392
Liquidations	(321)		(10)	(331)
June 30, 2012	$ 5,675	$ 186,157	$ 222,165	$ 413,997

The following tables set forth the fair value of the University's derivative instruments by contract type as of June 30, 2013 and 2012 and the University's gains (losses) related to derivative activities for the year ended June 30, 2013 and 2012 (in thousands):

	Consolidated Statements of Position Line Item	2013	2012
Assets			
Forward currency contracts	Investments, at fair value	$ 3,450	$ 1,395
Futures contracts	Investments, at fair value	7,790	
Total		$ 11,240	$ 1,395
Liabilities			
Forward currency contracts	Accrued expenses and other liabilities	$ 4	$ 597
Futures contracts	Accrued expenses and other liabilities		48
Total		$ 4	$ 645

Derivative gains (losses)

	Consolidated Statements of Activities Line Item	2013	2012
Forward currency contracts	Gains or losses on investment	$ 15,551	$ 2,232
Futures contracts	Gains or losses on investment	11,924	(554)
Total		$ 27,475	$ 1,678

As of June 30, 2013, the University had thirteen outstanding forward currency contracts with a notional exposure of $142,574,000. As of June 30, 2012, the University had twelve outstanding forward currency contracts with a notional exposure $172,259,000. The University had thirty-two futures contracts outstanding as of June 30, 2013 with a notional exposure of $6,016,000 and had ten futures contracts outstanding as of June 30, 2012 with a notional exposure of ($18,009,000). The number of futures and forward currency contracts outstanding is generally indicative of the volume of activity during the year ending June 30, 2013 and 2012, respectively.

A summary of the University's total investment return for the years ended June 30, 2013 and 2012 as reported in the Consolidated Statements of Activities is presented below (in thousands):

	2013	2012
AIF investment income	$ 98,354	$ 85,421
AIF realized and unrealized gains	891,019	43,188
Return on AIF	989,373	128,609
Other investment income and (losses)/gains	72,044	(29,796)
Total Return on investments	$ 1,061,417	$ 98,813

7. Endowment

The composition of the University's endowment at June 30, 2013 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,816,718	$ 2,899,492	$ 4,716,210
Quasi-endowment funds	$ 3,025,186			3,025,186
June 30, 2013	$ 3,025,186	$ 1,816,718	$ 2,899,492	$ 7,741,396

Changes to the reported amount of the University's endowment as of June 30, 2013 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2012	$ 2,536,862	$ 1,485,239	$ 2,732,557	$ 6,754,658
Investment return:				
Investment income, net of expenses	31,397	40,670	772	72,839
Gains (realized and unrealized)	342,641	492,665	20,038	855,344
Total investment return	374,038	533,335	20,810	928,183
New gifts	53,198	702	148,039	201,939
Allocation of endowment assets for expenditure	(268,877)			(268,877)
Transfers	129,048	(1,641)	(1,914)	125,493
Released from restriction	200,917	(200,917)		
Net assets, June 30, 2013	$ 3,025,186	$ 1,816,718	$ 2,899,492	$ 7,741,396

The composition of the University's endowment at June 30, 2012 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 1,485,239	$ 2,732,557	$ 4,217,796
Quasi-endowment funds	$ 2,536,862			2,536,862
June 30, 2012	$ 2,536,862	$ 1,485,239	$ 2,732,557	$ 6,754,658

Changes to the reported amount of the University's endowment as of June 30, 2012 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2011	$ 2,367,738	$ 1,627,050	$ 2,587,242	$ 6,582,030
Investment return:				
Investment income, net of expenses	20,541	27,849	503	48,893
Gains/(losses) (realized and unrealized)	16,982	19,831	(8,180)	28,633
Total investment return	37,523	47,680	(7,677)	77,526
New gifts	22,183	4,350	147,378	173,911
Allocation of endowment assets for expenditure	(245,210)			(245,210)
Transfers	166,930	(6,143)	5,614	166,401
Released from restriction	187,698	(187,698)		
Net assets, June 30, 2012	$ 2,536,862	$ 1,485,239	$ 2,732,557	$ 6,754,658

The fair value of certain permanently restricted endowment funds is less than the original donated value by $4,542,000 and $20,562,000 as of June 30, 2013 and 2012, respectively, and is reflected as a reduction of Temporarily restricted assets.

8. Plant, net of depreciation

The components of plant at June 30, 2013 and 2012 are as follows (in thousands):

	2013	2012
Land and land improvements	$ 225,619	$ 217,774
Buildings and fixed equipment	5,572,242	5,276,928
Contents	1,690,443	1,599,958
Construction-in-progress	330,829	217,305
	7,819,133	7,311,965
Less: Accumulated depreciation	(3,449,760)	(3,186,222)
Plant, net of depreciation	$ 4,369,373	$ 4,125,743

Included in Construction-in-progress above are two build-to-suit lease arrangements, related to Pennsylvania Hospital and Penn Presbyterian Medical Center, where UPHS is involved in the construction of structural improvements prior to the commencement of the lease or takes some level of construction risk. UPHS is considered the owner of the assets during the construction period under U.S.GAAP. The assets, with a corresponding financial obligation in Accrued expenses and other liabilities, are recorded on the Consolidated Statements of Position in the amount of $69,063,000 and $17,257,000 for years ended June 30, 2013 and 2012, respectively. Upon completion of construction, the projects will not meet the "sale-leaseback" criteria and the leased properties will be reported similar to assets acquired under a capital lease.

Plant, net of depreciation, includes $3,209,000 of land at June 30, 2013 and 2012, as well as $8,146,000 and $8,496,000 of completed facilities at June 30, 2013 and 2012, respectively, which serve as collateral for debt obligations.

The University recorded $313,947,000 and $299,783,000 of depreciation expense for the years ended June 30, 2013 and 2012, respectively. Rare books and other collectibles aggregate $46,396,000 at June 30, 2013 and $39,736,000 at June 30, 2012.

The University capitalized $2,912,000 and $3,030,000 of interest costs for the years ended June 30, 2013 and 2012, respectively, in accordance with the FASB standard on *Capitalization of Interest*.

9. Conditional Asset Retirement Obligations

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

	2013	2012
July 1	$ 20,234	$ 20,040
Less: Payments	(747)	(1,015)
Add: Additions	2,683	479
Add: Accretion	619	730
June 30	$ 22,789	$ 20,234

10. Split-Interest Agreements

Changes in the value of assets, liabilities and net assets pursuant to split-interest agreements as of June 30, 2013 and 2012 are as follows (in thousands):

2013	Assets	Liabilities	Net Assets
June 30, 2012	$ 473,140	$ (36,164)	$ 436,976
New contributions	12,971	(6,357)	6,614
Investment income	1,611	(1,131)	480
Realized and unrealized gain, net	28,894		28,894
Payments and settlements	(31,958)	7,349	(24,609)
Actuarial adjustment		(2,453)	(2,453)
Net change	11,518	(2,592)	8,926
June 30, 2013	$ 484,658	$ (38,756)	$ 445,902

2012	Assets	Liabilities	Net Assets
June 30, 2011	$ 467,451	$ (38,165)	$ 429,286
New contributions	5,944	(2,507)	3,437
Investment income	933	(748)	185
Realized and unrealized gain, net	9,688		9,688
Payments and settlements	(10,876)	8,417	(2,459)
Actuarial adjustment		(3,161)	(3,161)
Net change	5,689	2,001	7,690
June 30, 2012	$ 473,140	$ (36,164)	$ 436,976

11. Medical Professional Liability Claims

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

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

In accordance with FASBs standard on *Presentation of Insurance Claims and Related Insurance Recoveries*, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are presented separately on the Consolidated Statement of Financial Position in Accounts Receivable, net of allowances and Accrued expenses and other liabilities, respectively. The University accrues for estimated retained 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 2.25% and 2.5% as a discount rate as of June 30, 2013 and 2012, respectively. The gross liability recorded under this program is $591,118,000 and $567,331,000 at June 30, 2013 and 2012, respectively, with a corresponding receivable of $72,445,000 and $85,198,000 at June 30, 2013 and 2012, respectively.

12. Contingencies, Guarantees and Commitments

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

	2013		2012	
	Amount Guaranteed	Recognized Liability	Amount Guaranteed	Recognized Liability
Mortgage Loans	$ 4,619		$ 3,004	
Student Loans	62,590	$ 6,429	57,505	$ 6,406
Other	4,374	14	5,055	95
	$ 71,583	$ 6,443	$ 65,564	$ 6,501

To encourage home ownership and home improvement in the University's geographic area and beyond, certain University and affiliate employee mortgage loans are guaranteed. Under this program, the University guarantees the employee's first mortgage amount that is in excess of 80% loan-to-value, up to 105% loan-to-value. The maximum amount that will be guaranteed on any single loan is limited to $250,000. For all loans guaranteed upon default by the borrower, the University may be required to pay any loss incurred following the lender's foreclosure process or the University may be required to purchase the loan. If the University purchases the loan, it will work with the borrower to make the loan current or it may foreclose and recover a portion of any loan from the sale of the mortgaged property. Of the amount guaranteed, $3,004,000 and $3,466,000 at June 30, 2013 and 2012, respectively, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees. The University does not anticipate that any significant net payments will result from these guarantees. FASB standard *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* does not require a guarantee liability to be recognized for employee mortgages.

The University offers various loan programs for students and families to pay tuition, fees and other costs. Certain loans issued by private lending institutions are guaranteed by the University. Upon default by the borrower, the University is required to pay all or a portion of the outstanding loan balance. The University recognizes a liability for the greater of the fair value of the guarantee or defaults in the portfolio of guaranteed loans per FASB's standard on *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The amount of the liability recognized for which the fair value of the guarantee exceeds defaults in the portfolio of guaranteed loans is $2,740,000 and $2,209,000 at June 30, 2013 and 2012, respectively. The remaining balance of the liability recognized represents defaults in the portfolio which exceed the estimated fair value of the guarantee. These recognized liabilities reflect effective default reserve rates of 32.8% and 25.9% at June 30, 2013 and 2012, respectively.

The Other category principally includes guarantees of indebtedness for certain businesses in the University's geographic area whose activities benefit employees, students and the community. Of the amount guaranteed, $2,606,000 at June 30, 2013 and $3,158,000 at June 30, 2012, was estimated to be recoverable from subsequent sale of underlying assets the University would acquire if it performed under the guarantees and from other partners in the businesses. The University does not anticipate that any significant net payments will result from these guarantees. The recognized liability reflects the fair value of guarantees issued after December 31, 2002.

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

The University is currently involved in various projects that have resulted in capital and property acquisition commitments from the University. As of June 30, 2013, approximately $169,779,000 has been committed by the University.

13. Pension and Other Postretirement Benefit Costs

Retirement benefits are principally provided to employees through contributory defined contribution plans. The Academic Component's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries, while the UPHS contribution can be up to 6.5%. The University's contributions to these plans amounted to $110,692,000 and $103,947,000 as of June 30, 2013 and 2012, respectively.

Clinical Care Associates also has a non-qualified supplemental retirement plan to provide retirement benefits to a select group of physician employees. Contributions to this plan are based upon the annual compensation of the eligible employees. Retirement plan expense for this plan was $600,000 and $565,000 as of June 30, 2013 and 2012, respectively.

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

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

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

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

Net Periodic Cost

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

	Pension Benefits		Other Postretirement Benefits	
Net Periodic Cost	**2013**	**2012**	**2013**	**2012**
Service cost	$ 60,989	$ 48,232	$ 29,070	$ 20,674
Interest cost	73,728	72,581	30,215	31,113
Expected return on plan assets	(83,550)	(85,051)	(18,874)	(19,539)
Amortization of:				
Net prior service cost	1,326	1,406	269	343
Net losses	48,457	20,257	12,623	6,174
Net periodic benefit cost	$ 100,950	$ 57,425	$ 53,303	$ 38,765

Obligation and Funded Status

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

	Pension Benefits		Other Postretirement Benefits	
Change in Benefit Obligation	**2013**	**2012**	**2013**	**2012**
Benefit obligation at beginning of year	$ 1,672,828	$ 1,339,128	$ 723,718	$ 583,996
Service cost	60,989	48,232	29,070	20,674
Interest cost	73,728	72,581	30,215	31,113
Plan participants' contributions	149	143	4,619	4,401
Retiree drug subsidy			299	303
Net actuarial (gain) loss due to plan experience	(125,523)	245,141	(58,979)	107,132
Benefits paid from fund	(36,051)	(32,397)	(14,648)	(15,754)
Benefits paid outside of fund			(8,644)	(8,147)
Plan amendments			(511)	
Benefit obligation at end of year	$ 1,646,120	$ 1,672,828	$ 705,139	$ 723,718
Accumulated benefit obligation	$ 1,405,144	$ 1,452,997	$ 705,139	$ 723,718

	Pension Benefits		Other Postretirement Benefits	
Change in Plan Assets	**2013**	**2012**	**2013**	**2012**
Fair value of plan assets at beginning of year	$ 1,040,939	$ 1,012,721	$ 248,783	$ 229,519
University contributions	97,433	58,490	22,800	22,810
Benefits paid by University			542	7,530
Plan participants' contributions	149	143	4,619	4,401
Benefits paid from fund	(36,051)	(32,397)	(14,648)	(15,754)
Benefits paid outside of fund			(8,644)	(8,147)
Retiree drug subsidy			299	303
Actual return on assets	135,384	1,982	36,947	8,121
Fair value of plan assets at end of year	$ 1,237,854	$ 1,040,939	$ 290,698	$ 248,783

	Pension Benefits		Other Postretirement Benefits	
Funded Status	**2013**	**2012**	**2013**	**2012**
Projected benefit obligation / accumulated postretirement benefit obligation	$ (1,646,120)	$ (1,672,828)	$ (705,139)	$ (723,718)
Plan assets at fair value	1,237,854	1,040,939	290,698	248,783
Funded status at end of year	$ (408,266)	$ (631,889)	$ (414,441)	$ (474,935)

Net Amounts Recognized in the Consolidated Statements of Financial Position

	Pension Benefits		Other Postretirement Benefits	
Unrestricted Net Assets	**2013**	**2012**	**2013**	**2012**
Net actuarial loss	$ 414,154	$ 639,966	$ 177,837	$ 260,067
Net prior service cost	209	1,536	(92)	689
Total	$ 414,363	$ 641,502	$ 177,745	$ 260,756
Adjustment to unrestricted net assets	$ (227,139)	$ 306,546	$ (83,011)	$ 112,445

The estimated amount that will be amortized from Unrestricted Net Assets into net periodic benefit cost in 2014 is as follows:

	Pension Benefits	Other Postretirement Benefits
Amortization of prior service cost	$ 210	$ 27
Amortization of net losses	21,479	7,246

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

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Accrued retirement benefits	$ (408,266)	$ (631,889)	$ (414,441)	$ (474,935)
Funded status at end of year	$ (408,266)	$ (631,889)	$ (414,441)	$ (474,935)

Reported Accrued retirement benefits includes $8,289,000 and $7,332,000 for faculty early retirement programs at June 30, 2013 and 2012, respectively.

	Pension Benefits		Other Postretirement Benefits	
Information for Plans with PBO/APBO in Excess of Plan Assets	**2013**	**2012**	**2013**	**2012**
Projected benefit obligation / accumulated postretirement benefit obligation	$ 1,646,120	$ 1,672,828	$ 705,139	$ 723,718
Accumulated benefit obligation / accumulated postretirement benefit obligation	1,405,144	1,452,997	705,139	723,718
Fair value of plan assets	1,237,854	1,040,939	290,698	248,783

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	**2013**	**2012**	**2013**	**2012**
Discount rate	5.00%	4.48%	4.90%	4.25%
Salary increase	4.000%	4.000%	N/A	N/A
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost				
Discount rate	4.48%	5.50%	4.25%	5.42%
Expected long-term return on plan assets	7.920%	8.375%	7.500%	8.375%
Salary increase	4.000%	4.000%	N/A	N/A
Assumed Health Care Cost Trend Rates				
Initial trend rate	N/A	N/A	6.70%	7.00%
Ultimate trend rate	N/A	N/A	4.85%	4.84%
Fiscal year end that ultimate trend rate is reached	N/A	N/A	2021	2021

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

1-Percentage Point Increase		1-Percentage Point Decrease	
2013	2012	2013	2012
11,318	12,590	(8,749)	(9,633)
115,695	125,968	(92,554)	(99,876)

Plan Assets

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

Short-Term

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

Equity

Equity investments in the plan assets consist of direct holdings of securities in managed accounts, mutual funds, exchange traded funds, commingled funds and limited partnerships. The securities held in managed accounts, mutual funds and exchange traded funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1. Commingled funds are valued at NAV and are categorized as Level 2. Limited partnership interests are valued at NAV. If the University has the ability to redeem from the limited partnership up to 180 days beyond the measurement date, June 30, at NAV, the investment is classified as Level 2. If the redemption period extends beyond 180 days, the investment is categorized as Level 3.

Debt

Debt investments consist of direct holdings of securities in managed accounts and commingled funds. Securities such as US Treasuries, which are 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 high yield 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 they trade infrequently as Level 3. Commingled funds are valued at NAV and are categorized as Level 2.

Absolute Return

Absolute return investments are made up of investments in partnerships. The fund managers invest in a variety of securities, based on the strategy of the fund, which may or may not be quoted in an active market. Illiquid investments, if any, are generally designated as a side pocket by hedge fund managers and may be valued based on an appraised value, discounted cash flow, industry comparables or some other method. Limited partnership interests are valued at NAV. A limited partnership interest may be categorized as Level 2 or Level 3 based on the University's ability to redeem up to 180 days beyond the measurement date as previously described. Side pocket investments would be classified as Level 3. As of June 30, 2013, the University has an unfunded commitment to one limited partnership which is expected to be called over the next 1 to 2 years.

Real Estate

Real estate investments include an open-ended real estate investment trust which is categorized as a Level 2 investment given the University's ability to redeem from the limited partnership up to 180 days beyond the measurement date at NAV.

Derivatives

The University enters into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge or cross hedge against either specific non-US dollar denominated transactions or portfolio positions. The University purchases or sells futures contracts to manage changes in interest rates, securities prices, currency exchange rates, or to seek to increase total return. Forward foreign currency contracts are categorized as Level 2. Futures contracts are categorized as Level 1.

As of June 30, 2013, the University had twenty-three forward currency contracts in the plan assets with a notional exposure of $16,495,000. As of June 30, 2012, the University had twenty-two forward currency contracts in the plan assets with a notional exposure of $20,255,000. The University had futures contracts outstanding as of June 30, 2012 with a notional exposure of ($3,602,000). There were no futures contracts outstanding as of June 30, 2013. The number of futures and forward currency contracts outstanding is generally indicative of the volume of trading activity during the year ending June 30, 2013 and 2012, respectively.

Investment Risk

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

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

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

A summary of plan assets, measured at fair value in accordance with the *Employers' Disclosures about Pensions and Other Postretirement Benefits* standard, on a recurring basis, as of June 30, 2013 and 2012 is as follows (in thousands):

Pension Benefits:

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 99,077			$ 99,077
Equity:				
US equities	325,103		$ 20,215	345,318
International equities	105,295	$ 127,757		233,052
Emerging market equities	27,817	44,430		72,247
Debt:				
US treasuries	137,398			137,398
Corporate bonds		47,398		47,398
High yield		10,417		10,417
Absolute return		130,798	149,827	280,625
Real estate		12,278		12,278
Derivative instruments:				
Forward currency contracts		45		45
Total	$ 694,690	$ 373,123	$ 170,042	$ 1,237,855

Liabilities	Level 1	Level 2	Level 3	2013
Derivative instruments:				
Forward currency contracts		$ 1		$ 1
Total	$ -	$ 1	$ -	$ 1

Assets	Level 1	Level 2	Level 3	2012
Short-term	$ 62,590			$ 62,590
Equity:				
US equities	392,020			392,020
International equities	45,896	$ 134,011		179,907
Emerging market equities	13,211	24,552		37,763
Debt:				
US treasuries	174,956			174,956
Corporate bonds		7,951		7,951
Absolute return		117,885	$ 67,927	185,812
Derivative instruments:				
Forward currency contracts		105		105
Total	$ 688,673	$ 284,504	$ 67,927	$ 1,041,104

Liabilities	Level 1	Level 2	Level 3	2012
Derivative instruments:				
Forward currency contracts		$ 155		$ 155
Futures contracts	$ 10			10
Total	$ 10	$ 155	$ -	$ 165

Other Postretirement Benefits:

Assets	Level 1	Level 2	Level 3	2013
Short-term	$ 25,583			$ 25,583
Equity:				
US equities	110,523			110,523
International equities	37,361	$ 38,202		75,563
Emerging market equities	3,662	11,664		15,326
Debt:				
US treasuries	47,853			47,853
Corporate bonds		13,228		13,228
High yield bonds		2,607		2,607
Derivative instruments:				
Forward currency contracts		15		15
Total	$ 224,982	$ 65,716	$ -	$ 290,698

Assets	Level 1	Level 2	Level 3	2012
Short-term	$ 22,491			$ 22,491
Equity:				
US equities	109,276			109,276
International equities	14,252	$ 37,560		51,812
Emerging market equities	3,720	5,269		8,989
Debt:				
US treasuries	53,605			53,605
Corporate bonds		2,628		2,628
Derivative instruments:				
Forward currency contracts		34		34
Total	$ 203,344	$ 45,491	$ -	$ 248,835

Liabilities	Level 1	Level 2	Level 3	2012
Derivative instruments:				
Forward currency contracts		$ 52		$ 52
Total	$ -	$ 52	$ -	$ 52

Changes to the reported amounts of plan assets measured at fair value on a recurring basis using unobservable (Level 3) inputs as of June 30, 2013 and 2012 are as follows (in thousands):

Pension Benefits:

	June 30, 2012	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2013
Domestic equity			$ 215	$ 20,000				$ 20,215
Absolute return	$ 67,927	$ 1,033	14,998	51,539	$ (8,852)	$ 43,493	$ (20,311)	149,827
Total	$ 67,927	$ 1,033	$ 15,213	$ 71,539	$ (8,852)	$ 43,493	$ (20,311)	$ 170,042

	June 30, 2011	Net realized gains/(losses)	Net unrealized gains/(losses)	Purchases	Sales	Transfers in	Transfers out	June 30, 2012
Absolute return	$ 55,677		$ 1,428	$ 5,288	$ (3,772)	$ 10,276	$ (970)	$ 67,927
Total	$ 55,677		$ 1,428	$ 5,288	$ (3,772)	$ 10,276	$ (970)	$ 67,927

Transfers between leveled assets are based on the actual date of the event which caused the transfer. As of June 30, 2013 and 2012 there were no transfers between Level 1 and 2. Transfers between Level 3 and Level 2 as of June 30, 2013 and 2012 were due to redemption period changes at the underlying commingled funds or partnerships as well as side pocket activity in Absolute Return investments.

	Pension Benefits			Other Postretirement Benefits		
Allocation of Plan Assets	**Target**	**2013**	**2012**	**Target**	**2013**	**2012**
Short-term		8.0%	6.0%		8.8%	9.0%
Equity:						
US equities	33.8%	27.9%	37.7%	45.0%	38.0%	43.9%
International equities	18.8%	18.8%	17.3%	27.0%	26.0%	20.8%
Emerging markets equities	5.0%	5.9%	3.6%	3.0%	5.3%	3.6%
Debt:						
US treasuries	21.5%	11.1%	16.8%	25.0%	16.5%	21.6%
Corporate bonds		3.8%	0.8%		4.5%	1.1%
High yield		0.8%			0.9%	
Absolute return	20.0%	22.7%	17.8%			
Real estate	0.9%	1.0%				
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The average quality of debt investments at June 30, 2013 was Aa1/AA with an effective duration of 2.56 years.

Cash Flows & Estimated Future Benefit Payments

University contributions for the year ending:	Pension Benefits	Other Postretirement Benefits
June 30, 2012	$ 58,490	$ 22,810
June 30, 2013	97,433	22,800
June 30, 2014	64,680	22,800
Benefits paid from outside of the fund for the year ending:		
June 30, 2012	N/A	$ 8,147
June 30, 2013	N/A	8,644
June 30, 2014	N/A	9,750
Plan participants' contributions for the year ending:		
June 30, 2012	$ 143	$ 4,401
June 30, 2013	149	4,619
June 30, 2014	151	4,877

Benefits Payments in Total

Actual benefit payments for the year ending:	Pension Benefits	Other Postretirement Benefits before Medicare Part D Subsidy	Impact of Medicare Part D Subsidy
June 30, 2012	$ 32,397	$ 23,901	$ 303
June 30, 2013	36,051	23,292	299
Expected benefit payments for the year ending:			
June 30, 2014	44,490	27,421	350
June 30, 2015	48,232	28,980	369
June 30, 2016	52,663	30,775	389
June 30, 2017	57,347	32,653	407
June 30, 2018	62,908	34,468	424
June 30, 2019 to June 30, 2023	414,318	202,997	2,325

14. Debt Obligations

Debt obligations at June 30, 2013 and 2012 are as follows (in thousands):

	Final Maturity	Interest Rate at June 30, 2013	2013	2012
Academic Component:				
Fixed rate debt obligations:				
The Trustees of the University of Pennsylvania				
Series of 2012 Taxable Bonds	09/2112	4.674%	$ 300,000	$ 300,000
Pennsylvania Higher Educational				
Facilities Authority (PHEFA)				
Series A of 2011 revenue bonds	09/2041	4.00% - 5.00%	150,000	150,000
Unamortized premium			896	940
Series of 2010 revenue bonds	09/2033	4.00% - 5.00%	71,410	71,410
Unamortized premium			4,946	5,244
Series B of 2009 revenue bonds	09/2032	3.00% - 5.00%	37,765	39,500
Unamortized premium			914	1,012
Series C of 2009 revenue bonds	09/2022	4.00% - 5.00%	28,754	28,755
Unamortized premium			1,371	1,586
Series A of 2009 revenue bonds	09/2019	5.000%	204,750	204,750
Unamortized premium			14,232	16,508
Series C of 2005 revenue bonds	07/2038	4.00% - 5.00%	124,380	128,940
Unamortized premium			2,892	3,076
Series A of 2005 revenue bonds	09/2025	4.25% - 5.00%	16,350	19,715
Unamortized premium			455	557
Series B of 2005 revenue bonds	09/2015	5.250%	24,200	31,440
Unamortized premium			260	640
Other loans	05/2031	3.000%	849	884
Total Fixed rate debt obligations:			984,424	1,004,957
Variable rate debt obligations:				
PHEFA				
Series of 1990 revenue bonds	12/2020	0.30%	6,500	6,500
Series of 1985 revenue bonds	12/2015	0.43%		10,610
Washington County Authority				
Series of 2004	07/2034	0.04%	57,500	59,500
Other loans	04/2014	0.63%	9,300	18,300
Total Variable rate debt obligations			73,300	94,910
Total Academic Component debt obligations			$ 1,057,724	$ 1,099,867

	Final Maturity	Interest Rate at June 30, 2013	2013	2012
UPHS:				
Fixed rate debt obligations:				
PHEFA				
Series A of 2012 revenue bonds	08/2032	3.00%-5.00%	$ 136,950	$ 136,950
Unamortized premium			12,202	12,858
Series A of 2011 revenue bonds	08/2042	4.75%-5.875%	150,000	150,000
Unamortized discount			(1,029)	(1,085)
Series A of 2009 revenue bonds	08/2024	3.00%-5.25%	80,370	83,290
Unamortized premium			1,166	1,331
Series B of 2008 revenue bonds	08/2027	5.00%-6.00%	201,230	201,230
Unamortized discount			(1,795)	(2,057)
Series A of 2005 revenue bonds	08/2023	4.25%-5.00%	170,375	187,305
Unamortized premium			4,036	5,343
Series B of 2005 revenue bonds	08/2018	3.00%-5.00%	40,600	47,910
Unamortized premium			472	633
Total Fixed rate debt obligations:			794,577	823,708
Variable rate debt obligations:				
Series A of 2008 revenue bonds	03/2038	0.05%	86,510	91,610
Pennsylvania economic development financing authority				
Series C of 1994 revenue bonds	09/2014	0.20%	2,300	3,300
Total Variable rate debt obligations			88,810	94,910
Total UPHS debt obligations			883,387	918,618
Total University debt obligations			$ 1,941,111	$ 2,018,485

The fair value of the University's existing debt obligations was $2,016,350,000 and $2,215,688,000 at June 30, 2013 and 2012, respectively. The University determines the fair value of its existing fixed rate debt obligations based on trade data, broker/dealer quotes and other observable market data. The carrying amounts of its variable rate debt obligations approximate fair value because the obligations are currently callable at a price equal to the carrying amounts. The University considers this to be a Level 2 measurement.

The University has letters of credit with various financial institutions to secure certain self insured liabilities in the amounts of $3,907,000 and $4,607,000 at June 30, 2013 and 2012, respectively. These letters of credit have evergreen provisions for automatic renewal. There have been no draws under these letters of credit.

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

Fiscal Year	Amount
2014	$ 113,581
2015	56,207
2016	54,578
2017	44,750
2018	95,551
Thereafter	1,535,426
Total Principal	1,900,093
Unamortized net premium/(discount)	41,018
Total Debt	$1,941,111

Academic Component

On April 5, 2012, the University issued Series of 2012 Taxable Bonds (Taxable 2012 Bonds) with an aggregate principal amount of $300,000,000. The proceeds of the Taxable 2012 Bonds will be used by the University for general purposes. Interest on the Taxable 2012 Bonds is fixed with coupon of 4.674%. The Taxable 2012 Bonds have a single maturity in 2112 and are subject to optional redemption by the University prior to maturity at a price equal to the greater of 100% of the principal of the redeemed bonds or the present value of the remaining scheduled payments of the principal amount plus accrued interest discounted at the Treasury Rate plus 25 basis points.

The University has variable rate debt in the amount of $64,000,000 which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. In the event that the University receives notice of any optional tender on its variable rate demand bonds, the purchase price will be repaid from the remarketing of the bonds. However, in the event that the entire remarketing effort were to fail, the University would have the general obligation to purchase the bonds and the 2014 principal payments in the debt obligations maturity table on page 39 would increase from $27,081,000 to $91,081,000. On June 10, 2011, the University entered into a five year agreement with a financial institution, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement the University's liquidity relating to its variable rate demand bonds and for other general purposes of the University. The University pays a fee annually on the unused amount of the line of credit. As of June 30, 2013, there have been no draws under the agreement.

UPHS

Pennsylvania Higher Educational Facilities Authority Revenue Bonds

On May 2, 2012, UPHS issued the Series A of 2012 Bonds for the purpose of funding various UPHS capital expenditures. The bonds mature in varying amounts from $525,000 to $9,750,000 with a final maturity of $3,970,000 in 2032. The bonds have coupons that range from 3.00% to 5.00%. The bonds are subject to optional redemption by the University on or after August 15, 2022, at a redemption price of 100% plus accrued interest.

The PHEFA Revenue Bonds are secured by master notes issued under the UPHS Master Trust Indenture (MTI). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness, and among other things, require UPHS to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met, within six months of the close of that fiscal year UPHS must retain the services of a consultant to make recommendations to improve the coverage requirement. UPHS must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. UPHS will not be considered to be in default of the provisions of the MTI so long as UPHS has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. In both 2013 and 2012, UPHS met its debt service coverage requirement under the MTI. Additionally, UPHS has pledged its gross revenues to secure its obligation under the MTI.

UPHS entered into a three year agreement with a financial institution on April 30, 2013, subsequently amended on July 12, 2013, whereby the institution has agreed to provide a line of credit in the amount of $100,000,000 in order to supplement liquidity for general purposes of the health system. UPHS paid an upfront facility fee and a fee on the unused amount of the line of credit. As of June 30, 2013, there have been no draws under the agreement.

UPHS has variable rate debt in the amount of $86,510,000 (PHEFA 2008A Revenue Bonds) which is subject to optional tender by the holders upon seven days notice. These bonds are reflected in the table above based on original scheduled maturities. These bonds are secured by a letter of credit, which expires April 2018, in the amount of $88,145,000 as of June 30, 2013. As of June 30, 2013, there have been no draws under this agreement.

PHEFA 1994C Revenue Bonds are secured by a letter of credit, which expires September 2014, in the amount of $2,367,000 as of June 30, 2013. As of June 30, 2013, there have been no draws under this agreement.

Interest Rate Swap Agreements

The following tables summarize the fair value of the University's interest rate swap agreements, not designated as hedging instruments, as of June 30, 2013 and 2012, and the effect of the interest rate swap agreements on the Consolidated Statements of Activities, both realized and unrealized, for the years ended June 30, 2013 and 2012 (in thousands):

Statements of Position

	Line Item	2013	2012
Liability interest rate swaps			
Academic Component	Accrued expenses and other liabilities	$ 20,082	$ 31,044
UPHS	Accrued expenses and other liabilities	8,235	12,093
Total Liability interest rate swaps		$ 28,317	$ 43,137
Asset interest rate swaps			
UPHS	Other assets	$ 4,777	$ 7,080
Total Asset interest rate swaps		$ 4,777	$ 7,080

Statements of Activities

	Line Item	2013	2012
Academic Component	Gains or losses on investments	$ 7,464	$ (19,974)
UPHS	Gains or losses on investments	(116)	(1,878)
Total		$ 7,348	$ (21,852)

Academic Component

To protect against the risk of future interest rate changes in its debt portfolio, the Academic Component of the University entered into an interest swap agreement with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) on November 6, 2007. Under the agreement, commencing on November 3, 2008, GSMMDP began paying the University interest on the notional amount of $101,950,000 based on 67% of London Inter-Bank Offered Rate (LIBOR) and the University began paying GSMMDP interest at a fixed rate of 3.573% on a monthly basis. The swap agreement matures July 1, 2034. The University has the right to terminate, cancel and cash settle this agreement, in whole or in part, at current fair value, on any business day. The University determines the fair value of this agreement by obtaining a quote from GSMMDP which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers this to be a Level 2 measurement. The quote provided by GSMMDP also represents the amount the University would accept or be required to pay to transfer the agreement to GSMMDP, or exit price as defined by the Fair Value Measurements standard. The University also takes into account the risk of nonperformance. The agreement also contains a provision that requires the University to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on the University's credit rating. At June 30, 2013, the threshold was $20,000,000 and therefore no collateral required to be posted.

UPHS

On January 7, 2010, UPHS entered into an interest rate exchange agreement (the Agreement) with Merrill Lynch Capital Services. The notional amount of the agreement was $27,080,000 and $28,065,000 as of June 30, 2013 and 2012, respectively. Under the terms of the Agreement, which became effective on January 7, 2010, UPHS pays a floating rate based on a Securities Industry and Financial Markets Association (SIFMA) index and receives a fixed rate of 2.902%. The Agreement was not entered into for trading or speculative purposes but rather to synthetically convert a portion of the UPHS Series A of 2009 Bonds to a variable interest rate. The Agreement will terminate on August 15, 2023.

On July 15, 2009, UPHS entered into an interest rate exchange agreement with Merrill Lynch Capital Services. The notional amount of the agreement was $27,080,000 and $28,065,000 as of June 30, 2013 and 2012, respectively. Under the terms of the Agreement, which became effective on January 1, 2010, UPHS pays a floating rate based on a SIFMA index and receives a fixed rate of 3.184%. The Agreement was not entered into for trading or speculative purposes but rather to synthetically convert a portion of the UPHS Series A of 2009 Bonds to a variable interest rate. The Agreement will terminate on August 15, 2023.

On October 24, 2007, UPHS entered into an interest rate exchange agreement with Merrill Lynch Capital Services to effectively fix the interest rate associated with UPHS Series A of 2008 Bonds (which legally defeased Series 2002 Pennsylvania Hospital Revenue Bonds). The notional amount of the agreement was $88,145,000 and $91,610,000 as of June 30, 2013 and 2012, respectively. Under the terms of the Agreement, which became effective on December 11, 2007, UPHS pays a fixed rate of 3.755% and receives a floating rate based on 67% of the one-month LIBOR. The Agreement was not entered into for trading or speculative purposes. UPHS has the option under the Agreement to terminate the Agreement at zero on January 1, 2018 and every 6 months thereafter.

UPHS determines the fair value of its three interest rate swap agreements by obtaining a quote from Merrill Lynch which is based on the income approach, using observable market data to discount future net payment streams and accordingly considers the agreements to be Level 2 measurements. The quote provided by Merrill Lynch also represents the amount UPHS would accept or be required to pay to transfer the Agreement to Merrill Lynch, or exit price as defined by the Fair Value Measurements standard. UPHS verifies the reasonableness of the quote provided by Merrill Lynch by comparing it to a similar quote from a swap adviser and the results of similar observable inputs used in a pricing model. UPHS also assesses the risk of nonperformance by reviewing bond ratings. The Agreements also contain provisions that require UPHS to post collateral in the amount by which the fair value of the interest rate swap liability exceeds certain thresholds, which are based on UPHS's credit rating. At June 30, 2013, the threshold was $40,000,000 and therefore no collateral was required to be posted.

15. Energy Hedges

The University has entered into several International Swaps and Derivatives Association agreements (ISDA agreements) to stabilize expected electricity costs over the long term. Under the agreements, the University has outstanding hedges with a notional amount of $39,983,000 for specific time periods and 892,090 Megawatt hours (MWhs) as of June 30, 2013. When the hedges settle at various maturities, there will be a cash transaction based on the number of MWhs that month for all of the hedges.

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

These agreements are subject to credit risk in excess of the amount recorded on the University's Statement of Position in accordance with generally accepted accounting principles. Credit risk represents the potential loss that may occur because a counterparty fails to perform according to the terms of the agreement. The University considers counterparty credit risk and its own credit risk, which did not have a material impact on its determination of fair values. The agreements also contain provisions that would require the University to post collateral in the amount by which the fair value of the agreement liability exceeds certain thresholds, which are based on the University's credit rating. At June

30, 2013, the minimum thresholds range from $20,000,000 to $25,000,000. The University evaluated its position as of June 30, 2013 and determined no collateral was required to be posted.

The following tables summarize the fair value of the University's ISDA agreements as of June 30, 2013 and 2012, and the effect of these agreements on the Consolidated Statements of Activities for the years ended June 30, 2013 and 2012 (in thousands):

	Statements of Position Line Item	2013	2012
Liability position	Accrued expenses and other liabilities	$ 3,933	$ 8,121

	Statements of Activities Line Item	2013	2012
Unrealized Gain (Loss)	Gains or losses on investment	$ 4,188	$ (10,251)
Realized Loss	Other operating expenses	$ (5,146)	$ (4,813)

16. Net Assets

The major components of net assets at June 30, 2013 and 2012 are as follows (in thousands):

2013	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,869,137	$ 210,603		$ 3,079,740
Sponsored programs	28,730			28,730
Capital		215,863		215,863
Student loans	10,073		$ 15,372	25,445
Planned giving agreements		190,814	12,138	202,952
Endowment	3,025,186	1,816,718	2,899,492	7,741,396
Total	$ 5,933,126	$ 2,433,998	$ 2,927,002	$ 11,294,126

2012	Unrestricted	Temporarily restricted	Permanently restricted	Total
General operating	$ 2,335,280	$ 153,577		$ 2,488,857
Sponsored programs	31,452			31,452
Capital		178,919		178,919
Student loans	10,317		$ 16,911	27,228
Planned giving agreements		199,809	12,703	212,512
Endowment	2,536,862	1,485,239	2,732,557	6,754,658
Total	$ 4,913,911	$ 2,017,544	$ 2,762,171	$ 9,693,626

17. Operating Leases

The University leases research labs, office space and equipment under operating leases expiring through March 2027. Rental expense for the years ended June 30, 2013 and 2012 totaling $65,600,000 and $65,488,000, respectively, is included in the accompanying Consolidated Statements of Activities.

At June 30, 2013, future minimum lease payments under existing operating leases were as follows (in thousands):

2014	$ 58,314
2015	50,799
2016	41,242
2017	36,429
2018	29,749
Thereafter	143,350
Total Minimum lease payments	$ 359,883

18. Functional Classification of Expenditures

Expenses incurred were for (in thousands):

	Compensation and benefits	Depreciation and amortization	Interest on indebtedness	Other operating expense	June 30, 2013	June 30, 2012
Instruction	$ 697,248	$ 51,975	$ 5,816	$ 373,354	$ 1,128,393	$ 1,085,138
Research	380,808	40,759	26,029	270,544	718,140	704,411
Hospital and physician practices	1,940,553	139,551	37,621	1,183,483	3,301,208	3,158,801
Auxiliary enterprises	28,998	24,881	6,164	65,178	125,221	126,386
Other educational activities	117,936	10,648	276	62,228	191,088	191,639
Student services	43,861		30	26,208	70,099	67,917
Academic support	34,056	27,833	344	13,015	75,248	71,101
Management and general	198,428	15,227	443	10,213	224,311	211,663
Independent operations	7,893	4,106	632	50,092	62,723	65,947
Total	$ 3,449,781	$ 314,980	$ 77,355	$ 2,054,315	$ 5,896,431	$ 5,683,003

19. Subsequent Events

Effective September 1, 2013, UPHS has agreed to become the corporate member of Chester County Hospital and Health System (CCH) under the terms of a membership substitution transaction. CCH is a non-profit health system located in West Chester, PA. This transaction has been recorded in Fiscal Year 2014 and did not have a material impact on the consolidated financial statements.

Trustees of the University of Pennsylvania

as of June 30, 2013

Statutory Officers

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Dr. Amy Gutmann

Provost
Dr. Vincent Price

Executive Vice President
Mr. Craig R. Carnaroli

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

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

Vice President for Budget and Management Analysis
Ms. Bonnie Gibson

Vice President for Business Services
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Vice President and Chief of Staff
Mr. Gregory Rost

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

Vice President for Finance and Treasurer
Mr. Stephen D. Golding

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Vice President for Institutional Affairs
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Ms. Maureen Rush

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

Secretary of the University
Ms. Leslie Laird Kruhly

Comptroller
Mr. John Horn

University of Pennsylvania
Nondiscrimination Statement

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

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