

***Temple University - Of the
Commonwealth System of
Higher Education***

*Consolidated Financial Statements
as of and for the years ended
June 30, 2008 and 2007, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

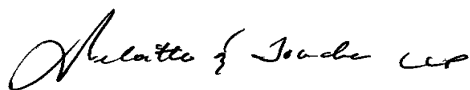
To the Board of Trustees
Temple University—Of The Commonwealth
System of Higher Education
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Temple University—Of The Commonwealth System of Higher Education and its subsidiaries (the "University") as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the consolidated financial statements, in 2007 the University changed its method of accounting for postretirement obligations.



October 20, 2008

Temple University
Of the Commonwealth System of Higher Education
Consolidated Balance Sheets
(thousands of dollars)

	June 30, 2008	June 30, 2007
Current assets:		
Cash and cash equivalents	\$256,700	\$240,085
Investments and self-insurance trust funds	712,208	657,819
Accounts, loans and contributions receivable, net	312,159	275,289
Inventories and other assets	25,566	32,332
Deposits with trustees	6,902	5,411
Total current assets	1,313,535	1,210,936
Non-current assets:		
Accounts, loans and contributions receivable, net	81,864	72,023
Other assets	32,034	29,799
Investments and self-insurance trust funds	440,232	452,556
Deposits with trustees	103,630	131,764
Property, plant and equipment, net	1,136,809	980,420
Funds held in trust by others	67,625	73,605
Total non-current assets	1,862,194	1,740,167
Total assets	\$3,175,729	\$2,951,103
Current liabilities:		
Accounts payable and accrued expenses	\$284,371	\$259,447
Deferred revenue	51,110	47,917
Short-term debt	125,246	123,819
Current portion of long-term debt	16,441	66,614
Current portion of accrued pensions and postretirement benefits	18,274	16,371
Total current liabilities	495,442	514,168
Non-current liabilities:		
Accrued expenses and other liabilities	218,427	212,873
Long-term debt	740,342	730,894
Refundable federal student loans	50,303	49,921
Accrued pensions and postretirement benefits	101,286	101,654
Total non-current liabilities	1,110,358	1,095,342
Total liabilities	1,605,800	1,609,510
Net assets:		
Unrestricted	1,242,661	1,015,209
Temporarily restricted	106,143	119,306
Permanently restricted	221,125	207,078
Total net assets	1,569,929	1,341,593
Total liabilities and net assets	\$3,175,729	\$2,951,103

See notes to consolidated financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated Statement of Activities
For the Year Ended June 30, 2008
(thousands of dollars)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Revenues:				
Tuition and fees (net of discounts of \$64,068)	\$456,415			\$456,415
Commonwealth of Pennsylvania appropriation	172,917			172,917
Federal grants and contracts	65,531			65,531
Commonwealth of Pennsylvania grants and contracts	22,250			22,250
Local grants and contracts	4,979			4,979
Private grants and contracts	21,687			21,687
Contributions for operations and endowments	17,500	\$14,841	\$19,809	52,150
Investment return	70,271	858	2	71,131
Sales of educational activities	5,092			5,092
Auxiliary enterprises	72,329			72,329
Patient care activities	1,057,980			1,057,980
Other sources	31,524	17		31,541
Net assets released from restrictions	8,877	(8,870)	(7)	
Total revenues	<u>2,007,352</u>	<u>6,846</u>	<u>19,804</u>	<u>2,034,002</u>
Expenses:				
Educational and general:				
Instruction	352,344			352,344
Research	84,465			84,465
Public service	25,482			25,482
Academic support	136,294			136,294
Student services	62,509			62,509
Institutional support	96,211			96,211
Student aid	10,021			10,021
Total educational and general	<u>767,326</u>	<u>0</u>	<u>0</u>	<u>767,326</u>
Auxiliary enterprises	84,692			84,692
Patient care activities	1,132,778			1,132,778
Total expenses	<u>1,984,796</u>	<u>0</u>	<u>0</u>	<u>1,984,796</u>
Excess of revenues over expenses	<u>22,556</u>	<u>6,846</u>	<u>19,804</u>	<u>49,206</u>
Other changes in net assets:				
Investment return	26,892	(8,378)	(5,757)	12,757
Commonwealth grants for property, plant and equipment (PP&E)	78,052			78,052
Contributions for PP&E	3,036	5,943		8,979
Loss on disposal of PP&E	(2,597)			(2,597)
Other comprehensive loss	(7,506)			(7,506)
TUHS loss on early extinguishment of debt	(3,307)			(3,307)
TUHS gain on distribution from Health Partners	41,099			41,099
TUHS gain from discontinued operations, net	53,303			53,303
Other	(1,650)			(1,650)
Net assets released from restrictions for PP&E	17,574	(17,574)		
Total other changes in net assets	<u>204,896</u>	<u>(20,009)</u>	<u>(5,757)</u>	<u>179,130</u>
Increase/(decrease) in net assets	<u>227,452</u>	<u>(13,163)</u>	<u>14,047</u>	<u>228,336</u>
Net assets July 1, 2007	<u>1,015,209</u>	<u>119,306</u>	<u>207,078</u>	<u>1,341,593</u>
Net assets June 30, 2008	<u>\$1,242,661</u>	<u>\$106,143</u>	<u>\$221,125</u>	<u>\$1,569,929</u>

See notes to consolidated financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated Statement of Activities
For the Year Ended June 30, 2007
(thousands of dollars)

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
Revenues:				
Tuition and fees (net of discounts of \$57,733)	\$416,130			\$416,130
Commonwealth of Pennsylvania appropriation	169,535			169,535
Federal grants and contracts	64,385			64,385
Commonwealth of Pennsylvania grants and contracts	16,444			16,444
Local grants and contracts	5,235			5,235
Private grants and contracts	21,233			21,233
Contributions for operations and endowments	13,501	\$9,050	\$20,407	42,958
Investment return	63,969	1,041	163	65,173
Sales of educational activities	4,999			4,999
Auxiliary enterprises	68,022			68,022
Patient care activities	984,227			984,227
Other sources	44,604	16		44,620
Net assets released from restrictions	8,444	(8,158)	(286)	
Total revenues	<u>1,880,728</u>	<u>1,949</u>	<u>20,284</u>	<u>1,902,961</u>
Expenses:				
Educational and general:				
Instruction	343,966			343,966
Research	80,220			80,220
Public service	25,699			25,699
Academic support	125,666			125,666
Student services	57,786			57,786
Institutional support	83,633			83,633
Student aid	9,179			9,179
Total educational and general	<u>726,149</u>	<u>0</u>	<u>0</u>	<u>726,149</u>
Auxiliary enterprises	81,214			81,214
Patient care activities	997,158			997,158
Total expenses	<u>1,804,521</u>	<u>0</u>	<u>0</u>	<u>1,804,521</u>
Excess of revenues over expenses	<u>76,207</u>	<u>1,949</u>	<u>20,284</u>	<u>98,440</u>
Other changes in net assets:				
Investment return	24,697	12,399	6,248	43,344
Commonwealth grants for property, plant and equipment (PP&E)	28,188			28,188
Contributions for PP&E	687	8,863		9,550
Cumulative effect of accounting change (SFAS 158)	(69,880)			(69,880)
Loss on disposal of PP&E	(1,219)			(1,219)
Other comprehensive gain	16,434			16,434
TUHS loss from discontinued operations, net	(6,067)			(6,067)
Other	20			20
Net assets released from restrictions for PP&E	606	(564)	(42)	
Total other changes in net assets	<u>(6,534)</u>	<u>20,698</u>	<u>6,206</u>	<u>20,370</u>
Increase in net assets	<u>69,673</u>	<u>22,647</u>	<u>26,490</u>	<u>118,810</u>
Net assets July 1, 2006	<u>945,536</u>	<u>96,659</u>	<u>180,588</u>	<u>1,222,783</u>
Net assets June 30, 2007	<u>\$1,015,209</u>	<u>\$119,306</u>	<u>\$207,078</u>	<u>\$1,341,593</u>

See notes to consolidated financial statements

Temple University
Of the Commonwealth System of Higher Education
Consolidated Statements of Cash Flows
For the Years Ended June 30
(thousands of dollars)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$228,336	\$118,810
(Gain)/Loss from discontinued operations, net	(53,303)	6,067
Change in net assets from continuing operations	<u>175,033</u>	<u>124,877</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Currency translation adjustment	(233)	(84)
Provision for bad debts	35,371	26,501
Depreciation and amortization	88,506	89,915
Amortization of deferred financing costs	(5)	(779)
Realized and unrealized gain on investments	(26,588)	(38,235)
Other comprehensive loss/(gain)	7,506	(16,434)
Loss on disposal of property, plant and equipment	2,597	1,219
Gain on settlement of SWAP	(1,883)	64
Loss on extinguishment of debt	3,307	
Cumulative effect of accounting changes (SFAS 158)		69,880
Contributions, grants and investment income of and for property, plant and equipment and for long-term investment	(107,743)	(62,846)
Changes in operating assets and liabilities:		
Accounts and contributions receivable	(64,273)	(44,415)
Inventories and other assets	411	6,905
Accounts payable and accrued expenses	34,435	5,482
Deferred revenue	3,192	4,826
Accrued pensions and postretirement benefits	(1,224)	(1,942)
Net cash provided by operating activities	<u>148,409</u>	<u>164,934</u>
Net cash used by operating activities - discontinued operations	(12,546)	(9,805)
Cash flows from investing activities:		
Purchases of investments, deposits with trustees and self-insurance trusts	(607,448)	(474,943)
Sales and maturities of investments, deposits with trustees and self-insurance trusts	620,793	459,389
Purchases of property, plant and equipment	(233,192)	(137,445)
Proceeds from sale of property, plant and equipment	39	1,080
Loans to students	(9,157)	(7,808)
Proceeds from collections on student loans	6,785	7,446
Net cash used by investing activities	<u>(222,180)</u>	<u>(152,281)</u>
Net cash provided by investing activities - discontinued operations	15,334	1
Cash flows from financing activities:		
Proceeds from contributions, Commonwealth grants and investment income restricted to property, plant and equipment and long-term investment	79,935	36,365
Refundable federal student loans	382	869
Change in split interest agreements	(992)	2,118
Proceeds from long-term debt, net	227,386	8,775
Increase/(decrease) in short-term borrowings, net	565	(304)
Payments to retire long-term debt	(194,614)	(19,224)
Payment of deferred financing costs	(1,010)	
Proceeds from sale of SWAP	1,883	
Payments related to debt refinancing, net	(703)	
Net cash provided by financing activities	<u>112,832</u>	<u>28,599</u>
Net cash used by financing activities - discontinued operations	(25,562)	(457)
Exchange rate adjustments	328	40
Net increase in cash and cash equivalents	<u>16,615</u>	<u>31,031</u>
Cash and cash equivalents at beginning of the year	<u>240,085</u>	<u>209,054</u>
Cash and cash equivalents at end of the year	<u>\$256,700</u>	<u>\$240,085</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$38,942	\$45,330
Property, plant and equipment acquired through capital leases	\$12,768	\$6,555
Accrued property, plant and equipment	\$40,709	\$15,453

See notes to consolidated financial statements

- TEMPLE UNIVERSITY -
Of the Commonwealth System of Higher Education
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008 and 2007

Note A. Summary of Significant Accounting Policies

Organization and Basis of Financial Statements: Temple University – Of the Commonwealth System of Higher Education (the University) is comprised of Temple University (TU), the academic division of the University, which is a state-related comprehensive research university with its headquarters and largest campus located in Philadelphia, Pennsylvania, and Temple University Health System, Inc. (TUHS), a Pennsylvania not-for-profit corporation of which the University is the sole member. TUHS is the parent of many health care subsidiaries in the Philadelphia area and serves principally to coordinate the activities of these subsidiaries. The financial statements have been prepared on the accrual basis of accounting and include TU, TUHS and the University's other subsidiaries, whose abbreviations used throughout these notes, are listed at the end of this report.

Basis of Accounting: The University's financial statements are presented in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." The statement requires that net assets, revenues, gains, expenses and losses be classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted: net assets not subject to donor-imposed restrictions. These net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Expenses are shown as decreases in unrestricted net assets.

Temporarily restricted: net assets subject to donor-imposed restrictions that can be fulfilled by actions of the University in accordance with those stipulations, or by the passage of time. Contributions and income from endowments for which restrictions have been met in the same fiscal year as their receipt are combined and reported with unrestricted revenues. The University classifies contributions to acquire long-lived assets as temporarily restricted net assets. The release of restrictions occurs when the asset is placed in service.

Permanently restricted: net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, donors of these assets permit the use of all or part of the income earned on these assets.

Temple University Physicians (TUP): Effective July 1, 1986, the Board of Trustees established the School of Medicine Designated Fund to account for unrestricted net assets generated by the excess of TUP revenues over expenditures and transfers. TUP activity is included in Clinical Faculty Practice Plans in the supplemental information on unrestricted net assets presented at the end of these statements.

Note A. Summary of Significant Accounting Policies (continued)

Patient Care Activity: Included are patient service revenues of TUHS as well as TU revenues from the clinical activities of TUP, the School of Dentistry and the School of Podiatric Medicine. The University has agreements with third-party payors that provide for payments to the University at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge and per-diem payments, and to a lesser extent reimbursed costs and discounted charges. In addition, the University receives Medical Assistance payments for the reimbursement of services for charity and uncompensated care services (Disproportionate Share Payments). The federal funding of such costs is subject to an upper payment limit and retrospective settlement. Patient care activity revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered or when known, and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient care activity revenue increased by \$6,255,000 and decreased by \$1,212,000 for 2008 and 2007, respectively, related to the final settlement of prior years' TUHS cost reports.

Charity Care: The University provides care without charge, or for amounts less than its established rates, to patients who meet certain criteria under the University's charity care policy. Some patients qualify for charity care based on federal poverty guidelines or their financial condition being such that requiring payment would impose a hardship on the patient. The University maintains detailed records to identify and monitor the level of charity care it provides to its patients. The estimated costs incurred to provide charity care, including the estimated unreimbursed cost of services in excess of payments from Medical Assistance programs were \$160,827,000 and \$125,560,000, for 2008 and 2007, respectively. The University received Commonwealth of Pennsylvania grants and other support of \$91,598,000 and \$81,481,000 resulting in net costs of \$69,229,000 and \$44,079,000, for 2008 and 2007, respectively. Because the University does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient care activities revenue.

Cash and Cash Equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less from the date of purchase.

Investments: Investments are comprised of the assets of the University's endowment, certain temporarily restricted funds, funds designated by the Board of Trustees to be invested as endowments, certain funds set aside to retire long-term debt, other plant-related funds and other unrestricted funds held for operating purposes. The University reports investments, including debt and equity securities, at fair value based upon quoted market values. Investments established for endowments, and certain investments set aside to retire long-term debt are classified as non-current assets. All other investments are classified as current assets.

The University also invests in various limited partnerships which are private equity funds. Such investments are accounted for on the equity basis of accounting, which approximates fair value as determined by the fund managers. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from values determined based on a ready market. These investments vary as to their level of liquidity, with differing requirements for notice prior to redemption or withdrawal.

Note A. Summary of Significant Accounting Policies (continued)

TU has adopted, for endowments and funds designated by the Board of Trustees to be invested as endowments, a spending rule based on 4.5% of the market value of the investments, computed as a moving average over the past twelve quarters. For these investments the spending rule amount is reported as investment return in revenues, and the excess or shortfall of total return over the spending rule amount is reported as investment return in other changes in net assets in the statement of activities. For all other TU investments, interest and dividend income is reported as investment return in revenues, and realized and unrealized gains or losses are reported as investment return in other changes in net assets in the statement of activities. TUHS interest, dividends and realized gains or losses are reported in revenues. TUHS unrealized gains or losses are reported as other changes in net assets in the statement of activities.

Investment return is reported as increases to unrestricted, temporarily restricted or permanently restricted net assets based upon the existence or absence of donor imposed restrictions. For endowments, the excess or deficit of total return over the spending amount is reported as increases or decreases in temporarily restricted net assets.

Self-Insurance: The University self-insures or maintains deductibles under its various insurance policies for property, casualty, automobile, general liability, medical malpractice, worker's compensation, certain health and welfare and other claims. Provisions are made for estimated losses (claims made and claims incurred but not reported) generally based on actuarial methods, which include discounting of loss provisions where required.

Fair Value of Financial Instruments: The fair value of financial instruments is determined by reference to various market data and other valuation considerations. A reasonable estimate of the fair value of loans receivable from students under government loan programs and refundable federal student loans could not be made because the loans are not readily saleable. These loans are recorded at cost, less an allowance for doubtful accounts.

Inventories: Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out or average cost method.

Asset Impairment: The University reviews long-lived assets for impairment whenever events or changes indicate that the carrying value of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to their expected future cash flows. If such assets are considered to be impaired, the impairment is measured by the amount the carrying value exceeds the fair value of the assets. Based on management's review, there were no adjustments required for impairment of long-lived assets for the fiscal years ended June 30, 2008 and 2007.

Asset Retirement Obligations: The University reviews facilities on all campuses for conditional asset retirement obligations. As a result of this process, the University concluded that a conditional asset retirement obligation existed for the cost of asbestos remediation in several of the University's buildings. The expense associated with this obligation was \$734,000 and \$1,003,000 in 2008 and 2007, respectively. The recorded asset retirement obligation liability was \$16,019,000 and \$15,285,000 at June 30, 2008 and 2007, respectively.

Funds Held In Trusts By Others: These are investments that, by direction of the donor, the University has neither possession nor control, but is a beneficiary of their income.

Note A. Summary of Significant Accounting Policies (continued)

Defined Benefit Pension and Other Postretirement Plans: Effective June 30, 2007, the University adopted SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans”. SFAS No. 158 requires the University to recognize the over funded or under funded status of its defined benefit and postretirement plans as an asset or liability in its balance sheets. SFAS No. 158 also requires the University to recognize changes in the funded status of the plans that arise during the period but are not recognized as components of net periodic benefit cost, as a component of other changes in net assets in its statements of activities. The resulting impact of adopting this standard is shown in Note D.

Adoption of New Accounting Pronouncement: For the year ended June 30, 2008, the University implemented Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, before being measured and recognized in the financial statements. The University has evaluated the application of FIN 48 and has determined that the adoption of FIN 48 does not have a material impact on the University’s financial statements. The University files U.S. federal information returns. No returns are currently under examination. The statute of limitations on the University’s U.S. federal information returns remain open for three years following the year they are filed.

Recently Issued Accounting Pronouncements: In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The University is still determining the impact, if any, of the adoption of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115,” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that currently are not required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The University is still determining the impact, if any, of the adoption of SFAS 159 on its consolidated financial statements.

In August 2008, the FASB issued Staff Position (“FSP”) No. 117-1, Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and Enhanced Disclosures for All Endowment Funds. FSP117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA act of 2006. This FSP is also expected to improve disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. The University is currently evaluating the affect of FSP 117-1 on the financial statements for fiscal year 2009.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B. Investments and Self-Insurance Trust Funds

The market values of investments and self-insurance trust funds are as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Investments:		
Bonds and notes	\$ 64,380,000	\$ 95,518,000
U.S. government securities	807,900,000	780,624,000
Money market funds	56,009,000	39,114,000
Equity funds and securities	155,516,000	144,878,000
Limited liability partnerships	44,370,000	24,187,000
Other	5,590,000	7,610,000
	<u>\$1,133,765,000</u>	<u>\$1,091,931,000</u>
Self-insurance trust funds:		
Bonds and notes	\$ 11,036,000	\$ 1,966,000
U.S. government securities	6,071,000	15,590,000
Money market funds	1,568,000	888,000
	<u>\$ 18,675,000</u>	<u>\$ 18,444,000</u>

The following summarizes investment return reported in the statements of activities:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 57,142,000	\$ 70,282,000
Realized and unrealized gains, net	<u>26,746,000</u>	<u>38,235,000</u>
	<u>\$ 83,888,000</u>	<u>\$ 108,517,000</u>

Note C. Accounts, Loans and Contributions Receivable

Accounts and loans receivable are shown net of allowances as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Gross accounts receivable:		
Student	\$ 15,447,000	\$ 14,078,000
Health care programs and patients	166,952,000	165,974,000
Grants and contracts	22,861,000	23,377,000
Commonwealth construction funds	46,108,000	22,533,000
Other	74,103,000	61,769,000
	325,471,000	287,731,000
Less: Allowance for doubtful accounts	<u>(35,309,000)</u>	<u>(35,179,000)</u>
Net accounts receivable	<u>\$ 290,162,000</u>	<u>\$ 252,552,000</u>
Loans to students:		
Less: Allowance for doubtful accounts	<u>(7,382,000)</u>	<u>(7,185,000)</u>
Net loans receivable	<u>\$ 50,367,000</u>	<u>\$ 48,192,000</u>

The University provides health care services primarily to area residents through its inpatient and outpatient care facilities in the Greater Philadelphia Metropolitan Area. As a function of its mission and location, the University serves a disproportionately high number of poor or indigent patients. This results in the University deriving a substantial portion of its patient care revenues from the Federal Government (Medicare) and the Commonwealth of Pennsylvania (Medical Assistance) programs. At June 30, 2008 and 2007, the University had net accounts receivable from Medicare of \$15,701,000 and \$21,110,000 respectively, and from Medical Assistance of \$40,818,000 and \$36,673,000, respectively.

Note C. Accounts, Loans and Contributions Receivable (continued)

Contributions receivable are unconditional promises to give, restricted by donors for scholarships, capital acquisitions and other operating purposes. They are expected to be realized in the following periods:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Less than one year	\$ 16,798,000	\$ 15,814,000
One to five years	19,705,000	18,296,000
More than five years	<u>36,297,000</u>	<u>27,400,000</u>
	72,800,000	61,510,000
Less:		
Allowance for uncollectible contributions	(1,711,000)	(1,097,000)
Present value discount	<u>(17,595,000)</u>	<u>(13,845,000)</u>
Net contributions receivable	<u>\$ 53,494,000</u>	<u>\$ 46,568,000</u>

The rates used to calculate the present value discount are tied to U.S. Government treasury notes and were between 1.59% and 5.21% for 2008 and 2007.

Note D. Pensions and Postretirement Benefits

Faculty, administration and certain clerical employees are offered pension benefits through the University's participation in the Teacher's Insurance and Annuity Association, the College Retirement Equities Fund, Fidelity Investments and other defined contribution pension plans. The policy of the University is to contribute its share of the annual amount accrued in connection with these plans; there are no unfunded benefits. Pension expense for these plans was \$42,156,000 and \$39,582,000 in 2008 and 2007, respectively.

Certain union employees are covered by multi-employer pension plans to which the University contributes. Under the Employee Retirement Income Security Act of 1974, as amended by the Multi-employer Pension Plan Amendments Act of 1980, a contributor to a multi-employer plan is liable, upon termination of the plan or its withdrawal from the plan, for its share of the plan's unfunded vested liabilities. Until either event occurs, the University's share, if any, of the unfunded vested liabilities cannot be determined. At present, the University has no plans to withdraw from the union multi-employer pension plans. Pension expense for these plans was \$3,333,000 and \$3,240,000 in 2008 and 2007, respectively.

The University maintains defined benefit pension plans covering certain TU and TUHS employees and makes contributions to the plans that comply with the funding provisions of the Internal Revenue Code. The University provides for health and life insurance cost for retirees postretirement benefit plans. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years of service. The following table sets forth the activity of the pension and postretirement benefits plans for the years ended June 30, 2008 and 2007. Measurement dates were March 31, 2008 and 2007 (June 30, in the case of certain TUHS affiliates) for the pension plans and June 30, 2008 and 2007 for the postretirement benefits plan.

Note D. Pensions and Postretirement Benefits (continued)

Benefit Obligations and Funded Status

	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 137,323,000	\$ 135,811,000	\$ 274,288,000	\$ 254,685,000
Service cost	650,000	1,260,000	11,574,000	10,576,000
Interest cost	8,286,000	8,216,000	17,243,000	15,682,000
Plan participant contributions	159,000	134,000	2,766,000	2,546,000
Actuarial (gain)/loss	(11,361,000)	1,585,000	(3,429,000)	2,938,000
Benefits paid	(4,996,000)	(4,774,000)	(14,470,000)	(12,139,000)
Curtailement gain		<u>(4,909,000)</u>		
Benefit obligation, end of year	<u>130,061,000</u>	<u>137,323,000</u>	<u>287,972,000</u>	<u>274,288,000</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	147,686,000	126,463,000	158,018,000	127,834,000
Actual return on plan assets	(2,753,000)	17,559,000	471,000	18,150,000
Employer contributions	5,853,000	8,820,000	22,481,000	21,627,000
Plan participant contributions	159,000	134,000	2,766,000	2,546,000
Plan expenses	(457,000)	(516,000)		
Benefits paid	<u>(4,996,000)</u>	<u>(4,774,000)</u>	<u>(14,470,000)</u>	<u>(12,139,000)</u>
Fair value of plan assets, end of year	<u>145,492,000</u>	<u>147,686,000</u>	<u>169,266,000</u>	<u>158,018,000</u>
Funded status at end of year	<u>\$ 15,431,000</u>	<u>\$ 10,363,000</u>	<u>\$(118,706,000)</u>	<u>\$(116,270,000)</u>
Amounts recognized in the balance sheets consist of:				
Noncurrent assets	\$ 16,285,000	\$ 12,118,000		
Noncurrent (liabilities)	<u>(854,000)</u>	<u>(1,755,000)</u>	<u>\$(118,706,000)</u>	<u>\$(116,270,000)</u>
Net amount recognized	<u>\$ 15,431,000</u>	<u>\$ 10,363,000</u>	<u>\$(118,706,000)</u>	<u>\$(116,270,000)</u>
Accumulated amounts recognized in other changes in net assets consist of:				
Prior service cost	\$ 83,000	\$ 162,000		
Net loss	<u>25,345,000</u>	<u>21,821,000</u>	<u>\$ 59,038,000</u>	<u>\$ 55,098,000</u>
Net amount recognized	<u>\$ 25,428,000</u>	<u>\$ 21,983,000</u>	<u>\$ 59,038,000</u>	<u>\$ 55,098,000</u>
Weighted-average assumptions used to determine the benefit obligations:				
Discount rate	6.60%-6.90%	6.00%-6.25%	6.85%	6.25%
Rate of compensation increase	3.25%-4.50%	3.25%-5.00%	N/A	N/A
Health care cost trend rate			11.00%	10.15%
Ultimate rate			5.00%	4.75%
Year that ultimate rate is reached			2018	2011

Note D. Pensions and Postretirement Benefits (continued)

Net Periodic Cost

	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Components of net periodic cost:				
Service cost	\$ 650,000	\$ 1,260,000	\$ 11,574,000	\$ 10,576,000
Interest cost	8,286,000	8,216,000	17,243,000	15,682,000
Expected return on plan assets	(12,486,000)	(11,289,000)	(12,987,000)	(10,715,000)
Amortization	16,000	18,000	5,146,000	6,118,000
Recognized net actuarial loss	<u>691,000</u>	<u>1,207,000</u>		
Net periodic cost	<u>\$ (2,843,000)</u>	<u>\$ (588,000)</u>	<u>\$ 20,976,000</u>	<u>\$ 21,661,000</u>
Weighted-average assumptions used to determine net periodic cost:				
Discount rate	6.00%-6.25%	6.00%-6.25%	6.25%	6.25%
Expected return on plan assets	8.50%	8.50%	8.00%	8.00%
Rate of compensation increase	3.25%-4.50%	3.25%-5.00%	N/A	N/A
Health care cost trend rate assumed for current year			10.15%	11.50%
Ultimate rate			4.75%	4.75%
Year that ultimate rate is reached			2011	2011

Assumed health care cost trend rates have a significant effect on amounts reported for the postretirement benefits plan. A one-percentage point change in the assumed healthcare trend rate would have the following effects for the year ended or as of June 30, 2008:

	<u>Increase</u>	<u>Decrease</u>
Effect on service cost and interest cost components of net periodic postretirement benefits cost	\$ 3,731,000 12.95%	\$ (3,104,000) (10.77)%
Effect on benefit obligation, end of year	\$34,079,000 11.84%	\$(28,922,000) (10.05)%

Plan Assets

The long-term investment strategy for pension and postretirement benefits plans assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk. The expected return on plan assets equals a weighted average of the individual expected returns for each asset category in the plans' portfolio. The target ranges for the pension plans investment portfolios are stocks 40% to 60% and fixed income and cash 40% to 60%. The target ranges for the postretirement benefits plan investment portfolios are stocks 40% to 60% and fixed income and cash 40% to 60%. The actual asset allocation as of June 30 is as follows:

<u>Asset class</u>	<u>Pensions</u>		<u>Postretirement Benefits</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Stocks	43%	52%	46%	53%
Fixed income and cash	57%	48%	54%	47%

Note D. Pensions and Postretirement Benefits (continued)

Cash Flows

The following table shows expected cash flows of the pension and postretirement benefits plans.

	<u>Pensions</u>	<u>Postretirement Benefits</u>
Expected contributions for next fiscal year:		
Employer	\$ 3,866,000	\$ 21,921,000
Employee	160,000	2,921,000
Estimated future benefit payments reflecting expected future service for fiscal years ending:		
June 30, 2009	\$ 5,879,000	\$ 16,221,000
June 30, 2010	6,161,000	17,602,000
June 30, 2011	6,504,000	18,852,000
June 30, 2012	6,893,000	19,806,000
June 30, 2013	7,488,000	20,837,000
June 30, 2014 – June 30, 2018	45,517,000	122,246,000

The actuarial present value of accumulated plan benefits related to a non-active group annuity pension plan has neither been determined nor included above because a guarantee of payment to the plan's beneficiaries has been made by The Equitable Life Assurance Society of America. This plan had total net assets available for benefits of \$3,282,000 and \$3,487,000 at June 30, 2008 and 2007, respectively. The University authorized participants in a non-active Equitable pension plan to transfer their employee contributions, plus interest, to a separate pension plan. This plan had total net assets available for benefits of \$354,000 and \$340,000 at June 30, 2008 and 2007, respectively. These assets are 100% non-forfeitable to the plan participants. The University is not obligated to make additional contributions to this plan and acts solely as plan administrator.

Note E. Deposits with Trustees

The University has on deposit with trustees amounts established for construction and debt repayment. These deposits are primarily invested in U.S. Government securities and money market funds. See Note G for abbreviations.

A summary of these deposits stated at market value and the related debt is as follows:

	<u>Construction Funds</u>	<u>Debt Repayment Funds</u>	<u>Debt Escrow Funds</u>
<u>June 30, 2008</u>			
PHEFA, First Series of 2006	\$ 57,238,000	\$ 8,000	
THHEFAP, First Series of 2007 (TUHS)		37,110,000	
THHEFAP, First Series of 1993 (TUH)		<u>16,176,000</u>	
	<u>\$ 57,238,000</u>	<u>\$ 53,294,000</u>	
<u>June 30, 2007</u>			
PHEFA, First Series of 2006	\$106,986,000	\$ 14,000	
THHEFAP, First Series of 1993 (TUH)		16,067,000	
THHEFAP, First Series of 1997 (TUH)		3,445,000	
THHEFAP, First Series of 2004 (TUH)	1,216,000		\$ 46,000
THHEFAP, First Series of 2005 (TUHS)	6,879,000		
THHEFAP Series 1999A (TUCMC)		<u>2,522,000</u>	
	<u>\$115,081,000</u>	<u>\$ 22,048,000</u>	<u>\$ 46,000</u>

Note F. Property, Plant and Equipment

Property, plant and equipment is summarized as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Land and land improvements	\$ 69,924,000	\$ 61,145,000
Land - Commonwealth of Pennsylvania	12,445,000	12,445,000
Buildings and leasehold improvements	930,771,000	916,887,000
Buildings - Commonwealth of Pennsylvania	234,378,000	234,378,000
Equipment and library books	650,970,000	714,596,000
Equipment - Commonwealth of Pennsylvania	36,163,000	36,401,000
Construction in progress	<u>248,307,000</u>	<u>76,463,000</u>
	2,182,958,000	2,052,315,000
Less accumulated depreciation	<u>(1,046,149,000)</u>	<u>(1,071,895,000)</u>
Property, plant and equipment, net	<u>\$ 1,136,809,000</u>	<u>\$ 980,420,000</u>

Property, plant and equipment owned by the University are stated at cost or, if acquired by gift, at the fair market value at the date of acquisition. Property, plant and equipment owned by the Commonwealth of Pennsylvania, which has been constructed, purchased or acquired for use by the University, are stated at the Commonwealth's cost. Buildings and equipment are depreciated primarily by the straight-line method over their estimated useful lives. Estimated useful lives are as follows: land improvements, 15 years; buildings, between 20 and 40 years; leasehold improvements, the lesser of the asset life or term of the lease; and equipment and library books, between 5 and 20 years. Depreciation expense was \$88,506,000 and \$89,915,000 in 2008 and 2007, respectively. Construction in progress includes \$105,201,000 and \$24,709,000 at June 30, 2008 and 2007, respectively, related to expenditures made by the Commonwealth on behalf of the University. Formal title to property passes to the University upon completion of the project.

Note G. Debt

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Short-term debt:		
University Funding Obligation, Series of 2008, due April 2009, at an effective interest rate of 1.56%	\$120,913,000	
University Funding Obligation, Series of 2007, paid April 2008		\$120,594,000
Temple Educational Support Services (TESS) line of credit, at an effective interest rate of 1.42%	<u>4,333,000</u>	<u>3,225,000</u>
Total short-term debt	<u>\$125,246,000</u>	<u>\$123,819,000</u>
Long-term debt:		
TU Mortgage payable, paid in 2008		\$ 204,000
JH variable rate note, paid in 2008		13,000
EH Episcopal Hospital Foundation loan due November 2011 at a fixed rate of 5.00%	\$ 6,500,000	6,500,000
GE Tax-exempt Conduit Financing through The Hospitals and Higher Education Facilities Authority of Philadelphia (THHEFAP), due in 60 monthly installments of principal and interest at 3.85%, from 2006 through 2009 at an effective rate for 2008 of 3.82%	276,000	3,231,000
TPI Practice Acquisition note, paid in 2008		78,000
PHEFA Temple University Revenue Bonds, First Series of 1998, net of unamortized discount – 2008, \$64,000; 2007, \$74,000, with varying amounts due between 2009 and 2021 with stated rates between 5.00% and 5.25% at an effective rate for 2008 of 5.08% *	32,851,000	33,016,000
PHEFA Temple University Revenue Bonds, First Series of 2006, net of unamortized premium – 2008, \$7,440,000; 2007, \$7,924,000, with varying amounts due between 2009 and 2036 with stated rates between 4.50% and 5.00% at an effective rate for 2008 of 4.71% *	354,121,000	362,729,000
THHEFAP TUHS Hospital Revenue Bonds, Series A and B of 2007, net of unamortized discount –2008, \$932,000, with varying amounts due between 2009 and 2035 with stated rates of 5.00% and 5.50% at an effective rate for 2008 of 5.25%**	220,038,000	
THHEFAP TUHS Hospital Revenue Bonds, Series A, B and C of 2005, net of unamortized discount –2007, \$312,000, defeased in 2008**		109,688,000
THHEFAP Temple Hospital Revenue Bonds, Series of 1993, net of unamortized discount –2008, \$975,000; 2007, \$1,089,000, with varying amounts due between 2008 and 2023 with stated rates between 6.50% and 6.63% at an effective rate for 2008 of 5.97%**	122,436,000	126,612,000
THHEFAP Temple Hospital Revenue Bonds, Series of 1997, net of unamortized discount –2007, \$617,000, defeased in 2008**		32,838,000
THHEFAP Hospital Revenue Bonds (Temple University Hospital), Series A of 2003, defeased in 2008**		33,750,000
THHEFAP Revenue Bonds, Series A of 1999 (TUCMC), net of unamortized discount – 2007, \$280,000, defeased in 2008**		25,510,000
Montgomery County Higher Education and Health Authority (MCHEHA) Revenue Bonds, Series 1999 (GPHSC III), settled in 2008**		48,135,000
TUHS note payable to the Pennsylvania Industrial Development Corporation due in April 2011 at an effective rate for 2008 of 2.50%**	13,000,000	13,000,000
Capital leases	<u>7,561,000</u>	<u>2,204,000</u>
Total long-term debt	<u>\$756,783,000</u>	<u>\$797,508,000</u>
Total debt	<u>\$882,029,000</u>	<u>\$921,327,000</u>

Note G. Debt (continued)

Bond Issues

*** University Bond Issues**

The University has previously defeased bonds by placing U.S. Government securities in irrevocable trusts to be used solely for satisfying both principal and interest of the indebtedness. The outstanding balances were \$1,868,000 and \$2,153,000 at June 30, 2008 and 2007, respectively. In accordance with generally accepted accounting principles, these debts along with related trust funds do not appear on the balance sheets of the University.

The Pennsylvania Higher Educational Facilities Authority, Temple University Revenue Bonds, First Series of 1998, and First Series of 2006, are secured by a pledge of gross revenues of the University, excluding all revenues of TUHS, and an insurance policy issued by MBIA Insurance Corporation (MBIA).

**** TUHS Bond Issues**

In August 2007, TUHS issued, through THHEFAP, \$220,970,000 of Revenue Bonds consisting of \$150,830,000 Series 2007A and \$70,140,000 Series 2007B. The proceeds were used to defease the Authority's outstanding TUH 1997 and Series 2003A bonds, TUCMC Series 1999A bonds, and TUHS Series 2005A, 2005B and 2005C bonds. The aggregate amount of the bonds defeased was \$202,995,000, resulting in a loss of approximately \$4,670,000, of which \$3,307,000 has been reported in non-operating losses and \$1,363,000 has been reported in loss from discontinued operations for 2008.

In January 2008, TUHS entered into a total return swap agreement with a swap counter party with respect to the TUH 1993 Bonds. Under this agreement, TUHS swaps a fixed rate equal to the rate on the TUH 1993 Bonds based on the notional value of the 1993 Bonds for a floating rate based on the SIFMA Municipal Swap Index plus 50 basis points. At inception of the agreement, the notional amount was \$118,835,000. The fair value of the swap is determined monthly with changes to its fair value recorded as an adjustment to interest expense. Subsequent to June 30, 2008 TUHS determined that there was a concern that the guarantor to the SWAP counter party was at risk for staying in business. Therefore, at June 30, 2008 TUHS fully reserved the value of the SWAP and interest receivable valued at \$579,000 and \$664,000, respectively.

In October 2007, TUHS reached a settlement with the plaintiffs in its litigation which resulted in the settlement of the Series 1999 GPSHC III bonds payable liability and accrued interest (see Note K).

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group, consisting of TUHS (parent), TUH, TUCMC, JH, TE, T3 and TPI as members, and are subject to various financial covenants. TUHS has complied with all debt covenants for fiscal years 2008 and 2007.

The THHEFAP bonds are non-recourse to TU.

Note G. Debt (continued)

Leases

Property, plant and equipment with respect to capital leases had a net book value of \$6,971,000 and \$1,585,000 as of June 30, 2008 and 2007, respectively. Total expense for operating leases was \$23,765,000 and \$17,321,000 for the years ended June 30, 2008 and 2007, respectively.

Future minimum payments by year and in the aggregate, under capital and non-cancelable operating leases, with initial or remaining terms of one year or more are as follows:

	Capital <u>Leases</u>	Non-cancelable <u>Operating Leases</u>
2009	\$ 2,867,000	\$ 19,910,000
2010	1,797,000	14,484,000
2011	1,640,000	12,525,000
2012	1,618,000	12,487,000
2013	159,000	8,535,000
Thereafter.....	-	<u>100,539,000</u>
Total minimum lease payments	8,081,000	<u>\$168,480,000</u>
Amounts representing interest on capital leases	<u>(520,000)</u>	
Present value of net minimum capital lease payments	<u>\$ 7,561,000</u>	

Interest

Total interest cost was \$43,788,000 and \$43,650,000 for 2008 and 2007, respectively. In accordance with generally accepted accounting principles, the University capitalizes interest cost on qualifying assets. The University increased the basis of its plant assets by \$1,942,000 and \$545,000 in 2008 and 2007, respectively, for interest expense capitalized. In the accompanying statements of activities, TU offsets certain interest income prior to its allocation to the functional expense categories. Such offsets amounted to \$3,767,000 and \$5,056,000 for 2008 and 2007, respectively.

Fair Value and Maturity

The fair value of long-term debt at June 30, 2008 is approximately \$737,116,000. Long-term debt matures in varying amounts through 2036. The aggregate amount of principal payments, excluding capital leases, required through June 30, 2013 is as follows: June 30, 2009, \$15,029,000; June 30, 2010, \$15,412,000; June 30, 2011, \$36,040,000; and June 30, 2012, \$17,242,000; and June 30, 2013, \$18,918,000.

Note H. Net Assets

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Unrestricted net assets	<u>\$ 1,242,661,000</u>	<u>\$ 1,015,209,000</u>
Temporarily restricted net assets		
Contributions and endowment income for instruction, research and support	\$ 57,666,000	\$ 57,000,000
Term endowments and life income funds	13,419,000	17,177,000
Contributions for property, plant and equipment	<u>35,058,000</u>	<u>45,129,000</u>
	<u>\$ 106,143,000</u>	<u>\$ 119,306,000</u>
Permanently restricted net assets		
Corpus of contributions for endowments	\$ 201,886,000	\$ 186,604,000
Corpus of contributions for student loans	200,000	198,000
Beneficial interest in Episcopal Healthcare Foundation	<u>19,039,000</u>	<u>20,276,000</u>
	<u>\$ 221,125,000</u>	<u>\$ 207,078,000</u>
Total net assets	<u>\$1,569,929,000</u>	<u>\$1,341,593,000</u>

The Episcopal Healthcare Foundation (“the Foundation”) controls certain investments that, according to its organizational structure, are held for the benefit of TUH’s Episcopal campus operations. TUH has recognized the present value of future cash flows from the Foundation as an asset, (funds held in trust by others) and permanently restricted net assets of \$19,039,000 and \$20,276,000 at June 30, 2008 and 2007, respectively.

Note I. Professional Liability Insurance

The University purchases primary, commercial claims-made insurance coverage for professional liability claims from a commercial insurer, which in turn reinsures all of the risk with GSIC and TUHIC, wholly owned captive insurance companies domiciled in Bermuda. The carrying amount of the accrued asserted and unasserted actuarially determined professional liability claims included in accounts payable and accrued expenses was \$191,653,000 and \$175,680,000 as of June 30, 2008 and 2007, respectively. The discount rate used to determine the actuarially determined liability claims was 4.50% and 5.25% in 2008 and 2007, respectively. The University also participates in the Commonwealth of Pennsylvania Medical Care Availability and Reduction of Error Fund (“MCare Fund”) established under Act 111 and subsequently modified under Act 135, and maintains excess liability coverage through a commercial insurance carrier.

Note J. Commitments and Contingencies

The nature of the educational and health care industry is such that, from time to time, claims will be presented against the University on account of alleged negligence, acts of discrimination, medical malpractice, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational and health care services at a large institution.

Note J. Commitments and Contingencies (continued)

Health Partners

TUH and Episcopal are participants in a Medicaid and Medicare HMO known as Health Partners (HP). Under these contracts, TUHS is responsible for allocated HP gains and losses based primarily on the number of HP members enrolled in the TUHS primary care physicians' network and other factors as approved by the HP board. During fiscal 2008 and 2007, TUHS recorded gains of \$21,000,000, and \$19,000,000, respectively, related to the HP contracts. The HP gains are included in the accompanying consolidated statements of activities as a component of patient care activities revenue.

On December 22, 2006, the owners of Health Partners and Elder Health Inc., executed an Asset Purchase Agreement (the "APA") under which Elder Health would acquire Health Partners' Senior Partners Medicare line of business. Under the APA, Elder Health of Pennsylvania, Inc. a subsidiary of Elder Health Inc., acquired approximately 22,600 Senior Partners Medicare members, the name "Senior Partners" and related intellectual property. Health Partners and Elder Health Inc., closed the transaction in August 2007 and subsequently in fiscal 2008 disbursed the net proceeds to its members. TUHS's share of the net proceeds was approximately \$41,099,000 and is included in other changes in net assets.

Note K. Discontinued Operations

Nursing Home Facilities

GPHSC and GPHSC II ceased operations in 2002. GPHSC III ceased operations in 2003. In October 2007 a settlement relating to the Series 1999 bonds payable (see Note G) and accrued interest resulted in a gain from discontinued operations. The assets of these discontinued operations are included in the consolidated financial statements for both 2008 and 2007 at their estimated net realizable value. The assets and liabilities of these discontinued operations are as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets	<u>\$ 52,000</u>	<u>\$ 58,000</u>
Current liabilities	<u>\$ 5,367,000</u>	<u>\$ 70,891,000</u>

Note K. Discontinued Operations (continued)

Temple University Children's Medical Center (TUCMC)

The University and TUHS entered into an agreement in October 2007 with a local health care provider for a long-term academic affiliation to provide pediatric training to the University's medical school students and TUH's residents. Under the arrangement, TUHS agreed to the discontinuation of inpatient and outpatient pediatric services at TUCMC. On November 13, 2007 TUCMC ceased operations. The assets, liabilities and net deficit of TUCMC were merged into TUH on May 31, 2008. All costs associated with the cessation of TUCMC operations and close down activities were substantially paid out by June 30, 2008 and are recorded as a loss from discontinued operations. The assets and liabilities of TUCMC are as follows:

	<u>May 31, 2008</u>	<u>June 30, 2007</u>
Current assets	\$ 4,827,000	\$ 15,158,000
Noncurrent assets	<u>13,863,000</u>	<u>16,523,000</u>
Total assets	<u>\$ 18,690,000</u>	<u>\$ 31,681,000</u>
Current liabilities	\$ 2,176,000	\$ 10,909,000
Noncurrent liabilities	<u>24,506,000</u>	<u>28,444,000</u>
Total liabilities	<u>\$ 26,682,000</u>	<u>\$ 39,353,000</u>
Unrestricted net assets	\$ (8,049,000)	\$ (7,745,000)
Temporarily restricted net assets	<u>57,000</u>	<u>73,000</u>
Net deficit	<u>\$ (7,992,000)</u>	<u>\$ (7,672,000)</u>

Note L. Supplementary Information on Unrestricted Net Assets

The following schedules reflect the changes in unrestricted net assets for TU and its subsidiaries. The columnar classification reflects the various budgetary categories and operations of the University. Clinical Faculty Practice Plans include TUP and certain School of Dentistry clinical activities. Other long-term net assets include the net book value of property, plant and equipment, net assets set aside to retire debt and University matching of federal student loan programs, net of the effect of the unfunded liability for pensions and postretirement benefits.

Note L. Supplementary information on unrestricted net assets

Temple University
Of the Commonwealth System of Higher Education
Consolidated Unrestricted Statement of Activities
For the Year Ended June 30, 2008
(thousands of dollars)

	Unrestricted Net Assets										
	Temple University Health System Inc. (1)	Temple Educational Support Services (2)	Clinical Faculty Practice Plans (3)	Educational and General (4)	Quasi - Endowment (5)	Externally Sponsored Activities (6)	Unexpended Capital (7)	Other Long-term (8)	Total University (9)	Consolidating Eliminations (10)	Total Unrestricted Net Assets (11)
Revenues:											
Tuition and fees (net of discounts of \$64,068)		\$21,758		\$435,657				\$435,657		(\$1,000)	\$456,415
Commonwealth of Pennsylvania appropriation				172,917				172,917			172,917
Grants and contracts				22,926		\$91,521		114,447			114,447
Contributions for operations and endowments				2,350	\$1,477	13,673		17,500			17,500
Investment return	\$30,937		\$868	22,484		9,720	\$4,838	\$1,424			70,271
Sales of educational activities				5,092				5,092			5,092
Auxiliary enterprises				72,329				72,329			72,329
Patient care activities	937,146		118,339	2,495				120,834			1,057,980
Other sources	25,425			6,888		1,837		8,726	(2,627)		31,524
Net assets released from restrictions	718			38		8,030		91			8,877
Total revenues	994,226	21,758	119,207	743,176	1,477	124,781	4,838	1,516	994,995	(3,627)	2,007,352
Expenses:											
Educational and general		22,532		588,714		104,865	6,149	46,066		(1,000)	767,326
Auxiliary enterprises				65,960		448	808	17,476			84,692
Patient care activities	1,007,055		125,113	4,683		3		139	(4,215)		1,132,778
Total expenses	1,007,055	22,532	125,113	659,357	0	105,316	6,957	63,681	960,424	(5,215)	1,984,796
Transfers:											
Property, plant and equipment (PP&E) acquisitions			(259)	(9,606)		(2,706)	(147,707)	160,278			
Retirement of indebtedness				(21,956)			(1,081)	23,037			
Capital replacement and expansion				(60,217)		(29)	60,246				
Other transfers			3,657	5,699	2,100	(11,955)	(1,146)	1,645			
Total transfers	0	0	3,398	(86,080)	2,100	(14,690)	(89,688)	184,960	0	0	0
Excess/(deficit) of revenues over expenses	(12,829)	(774)	(2,508)	(2,261)	3,577	4,775	(91,807)	122,795	34,571	1,588	22,556
Other changes in net assets:											
Investment return	1,658			23,843	(3,745)	26	459	4,651	25,234		26,892
Commonwealth grants for PP&E							78,052	78,052			78,052
Contributions for PP&E							2,419	3,036			3,036
Other comprehensive loss	(4,871)							(2,635)	(2,635)		(7,506)
Loss on disposal of PP&E	(1,344)	(3)						(1,250)	(1,250)		(2,597)
Transfer from TUHS	(16,091)		2,950	14,335				17,285	(1,194)		(3,307)
TUHS loss on early extinguishment of debt	(3,307)										(3,307)
TUHS gain on distribution from Health Partners	41,099										41,099
TUHS gain from discontinued operations, net	53,303										53,303
Other	(1,883)	233									(1,650)
Net assets released from restrictions for PP&E	1,718						15,856	15,856			17,574
Total other changes in net assets	70,282	230	2,950	38,178	(3,745)	26	96,786	1,383	135,578	(1,194)	204,896
Increase (decrease) in net assets	57,453	(544)	442	35,917	(168)	4,801	4,979	124,178	170,149	394	227,452
Net assets July 1, 2007	277,721	(3,852)	21,019	137,785	49,672	44,843	114,882	374,319	742,520	(1,180)	1,015,209
Net assets June 30, 2008	\$335,174	(\$4,396)	\$21,461	\$173,702	\$49,504	\$49,644	\$119,861	\$498,497	\$912,669	(\$786)	\$1,242,661

Note L. Supplementary information on unrestricted net assets

Temple University
Of the Commonwealth System of Higher Education
Consolidated Unrestricted Statement of Activities
For the Year Ended June 30, 2007
(thousands of dollars)

	Unrestricted Net Assets										
	Temple University Health System Inc. (1)	Temple Educational Support Services (2)	University							Consolidating Eliminations (10)	Total Unrestricted Net Assets (11)
			Clinical Faculty Practice Plans (3)	Education and General (4)	Quasi - Endowment (5)	Externally Sponsored Activities (6)	Unexpended Capital (7)	Other Long-term (8)	Total University (9)		
Revenues:											
Tuition and fees (net of discounts of \$57,733)		\$18,691		\$398,439					\$398,439	(\$1,000)	\$416,130
Commonwealth of Pennsylvania appropriation				169,535					169,535		169,535
Grants and contracts				22,498			\$84,799		107,297		107,297
Contributions for operations and endowments				2,283	\$199		11,019		13,501		13,501
Investment return	\$22,149		\$699	24,375			9,025	\$6,873	\$848		41,820
Sales of educational activities				4,999							4,999
Auxiliary enterprises				68,022							68,022
Patient care activities	880,194		101,405	2,628							104,033
Other sources	39,813			4,954			1,631	10	43	(1,847)	6,638
Net assets released from restrictions	559			35	3		7,847				7,885
Total revenues	942,715	18,691		102,104	697,768	202	114,321	6,883	891	(2,847)	922,169
Expenses:											
Educational and general		19,112		557,963			96,349	10,318	43,407	(1,000)	708,037
Auxiliary enterprises				62,229			527	1,291	17,167		81,214
Patient care activities	901,668		93,843	3,760					129	(2,242)	97,732
Total expenses	901,668	19,112		93,843	623,952	0	96,876	11,609	60,703	(3,242)	886,983
Transfers:											
Property, plant and equipment (PP&E) acquisitions			(1,209)	(9,775)			(1,713)	(51,522)	64,219		
Retirement of indebtedness				(22,145)				447	21,698		
Capital replacement and expansion				(34,674)			(128)	34,802			
Other transfers			2,394	(7,297)	(3)		(10,862)	13,778	1,990		
Total transfers	0	0		1,185	(73,891)	(3)	(12,703)	(2,495)	87,907	0	0
Excess/(deficit) of revenues over expenses	41,047	(421)		9,446	(75)	199	4,742	(7,221)	28,095	395	35,186
Other changes in net assets:											
Investment return	14,886			5,725		4,519		118	(551)		9,811
Commonwealth grants for PP&E								27,293	895		28,188
Contributions for PP&E								642	45		687
Cumulative effect of accounting change (SFAS 158)	(27,972)								(41,908)		(41,908)
Loss on disposal of PP&E	(307)	(19)							(893)		(893)
Other comprehensive gain/(loss)	17,879								(1,445)		(1,445)
Transfer from TUHS	(17,964)		3,700	14,264							17,964
TUHS loss from discontinued operations, net	(6,067)										(6,067)
Other	(64)	84									20
Net assets released from restrictions for PP&E	475							131			131
Total other changes in net assets	(19,134)	65		3,700	19,989	4,519	0	28,184	(43,857)	0	12,535
Increase (decrease) in net assets	21,913	(356)		13,146	19,914	4,718	4,742	20,963	(15,762)	395	47,721
Net assets July 1, 2006	255,808	(3,496)		7,873	117,871	44,954	40,101	93,919	390,081	(1,575)	694,799
Net assets June 30, 2007	\$277,721	(\$3,852)		\$21,019	\$137,785	\$49,672	\$44,843	\$114,882	\$374,319	(\$1,180)	\$1,015,209

**Temple University and
Subsidiary Organizations
As of June 30, 2008**

The following lists the University and its subsidiary organizations included in the consolidated financial statements and their tax-exempt status. Unless otherwise indicated, all exempt organizations are such under the Internal Revenue Code Section 501(c)(3).

Temple University-Of the Commonwealth System of Higher Education (TU), exempt
 Good Samaritan Insurance Co., Ltd. (GSIC), non-exempt (Bermuda)
 Temple Educational Support Services, Ltd. (TESS), non-exempt (Japan)
 Temple University School of Podiatric Medicine, Inc. (TUSPMI), exempt
 Temple University Physicians and Surgeons, Inc., exempt (inactive)
 TUMP Offices, Inc., exempt 501(c)(2)
 Temple Corporation, non-exempt (inactive)
 VT Holdings, Inc., non-exempt (inactive)
 Virtual Temple, Inc., non-exempt (inactive)
 Global Technology Management Corp., non-exempt (inactive)

Temple University Health System, Inc. (TUHS), exempt
 Temple University Hospital, Inc. (TUH), exempt
 Temple University Health System Foundation (TUHSF), exempt
 Temple Physicians, Inc. (TPI), exempt
 Temple Professional Associates - BuxMont Region, exempt (merged into TPI
 7/1/05)
 Temple University Children's Medical Center (TUCMC), exempt, (ceased operations in
 November 2007 and was merged into TUH on May 31, 2008)
 Temple East, Inc. (TE), exempt (doing business as Northeastern Hospital)
 Temple East Real Estate, Inc. (TERE), exempt
 Jeanes Hospital (JH), exempt
 Temple Healthcare Services, Inc., exempt
 Episcopal Hospital (EH), exempt
 Episcopal Long Term Care, exempt
 Greater Philadelphia Health Services Corporation (GPHSC), exempt, (discontinued,
 ceased operations in September 2002 and was dissolved June 2008)
 Greater Philadelphia Health Services II Corporation (GPHSC II), exempt, (discontinued,
 ceased operations in June 2002)
 Greater Philadelphia Health Services III Corporation (GPHSC III), exempt,
 (discontinued, ceased operations in February 2003)
 TUHS Insurance Co., Ltd. (TUHIC), non-exempt (Bermuda)
 Temple Health System Transport Team, Inc. (T3), exempt