Temple University Health System

Consolidated Financial Statements as of and for the Years Ended June 30, 2008 and 2007, Supplemental Schedules as of and for the Year Ended June 30, 2008, and Independent Auditors’ Report

TEMPLE UNIVERSITY HEALTH SYSTEM

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Temple University Health System, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Temple University Health System (the "Health System")(a wholly owned subsidiary of Temple University – Of the Commonwealth of Higher Education) as of June 30, 2008 and 2007, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health System'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 Health System'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 Temple University Health System as of June 30, 2008 and 2007, and the results of its operations, 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 11 to the consolidated financial statements, the Health System adopted the provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)," as of June 30, 2007.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules of consolidating information as of and for the year ended June 30, 2008, are presented for the purpose of additional analysis of the basic 2008 consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual organizations, and are not a required part of the basic 2008 consolidated financial statements. These schedules are the responsibility of the Health System's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2008 consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic 2008 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 20, 2008

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007
(In thousands)

ASSETS	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 78,636	$ 85,517
Patient accounts receivable, net of allowance for doubtful accounts of $24,562 in 2008 and $25,579 in 2007	124,864	123,528
Other receivables	62,746	46,255
Inventories and other current assets	18,516	24,577
Current portion of assets limited as to use	29,149	15,851
Current portion of workers' compensation fund	7,058	8,121
Investments	247,037	244,270
Total current assets	568,006	548,119
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	22,364	14,905
Buildings	389,457	391,054
Fixed and movable equipment	282,124	359,281
Construction-in-progress	14,542	6,896
	708,487	772,136
Less accumulated depreciation	433,861	490,715
Net property, plant and equipment	274,626	281,421
Assets limited as to use	120,534	110,811
Investments	40,268	47,783
Workers' compensation fund	7,241	5,592
Estimated settlement with third-party payor	6,653	6,018
Beneficial interest in perpetual trusts	22,635	25,014
Beneficial interest in the assets held by Episcopal Foundation	19,039	20,276
Other assets	20,517	19,467
TOTAL ASSETS	$1,079,519	$1,064,501

(Continued)

See notes to consolidated financial statements.

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007
(In thousands)

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 7,749	$ 58,334
Accounts payable	66,879	55,720
Accrued expenses	55,479	50,332
Current portion of estimated settlements with third-party payors	4,455	4,674
Current portion of self-insurance program liabilities	25,886	24,159
Other current liabilities	18,878	36,269
Total current liabilities	179,326	229,488
LONG-TERM DEBT	355,912	344,260
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS	296	
SELF-INSURANCE PROGRAM LIABILITIES	110,906	106,488
ACCRUED POSTRETIREMENT BENEFITS	25,288	25,160
OTHER LONG-TERM LIABILITIES	22,503	27,711
Total liabilities	694,231	733,107
NET ASSETS:		
Unrestricted	335,174	277,721
Temporarily restricted	7,056	6,999
Permanently restricted	43,058	46,674
Total net assets	385,288	331,394
TOTAL LIABILITIES AND NET ASSETS	$1,079,519	$1,064,501

(Concluded)

See notes to consolidated financial statements.

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
UNRESTRICTED NET ASSETS:		
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Net patient service revenue (Notes 2 and 16)	$ 937,146	$ 899,196
Other revenue	23,562	20,960
Investment income	2,438	1,237
Net assets released from restrictions used for operations	698	410
Unrestricted revenues and other support	963,844	921,803
EXPENSES:		
Salaries	402,790	385,290
Employee benefits	115,033	111,739
Professional fees	110,156	84,601
Supplies and pharmaceuticals	148,259	137,100
Purchased services and other	59,803	59,931
Maintenance	10,482	9,742
Utilities	18,914	17,899
Leases	15,568	10,158
Insurance	52,005	6,359
Depreciation and amortization	38,770	42,613
Interest	21,112	20,121
Provision for bad debts	13,956	13,055
Restructuring charges (Note 13)	207	3,060
Loss on disposal of fixed assets	1,344	307
Expenses	1,008,399	901,975
OPERATING (LOSS) INCOME	(44,555)	19,828
OTHER INCOME, NET		
Investment income	28,499	20,912
Other, net	39,675	-
Other income,net	68,174	20,912
EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS	23,619	40,740
NET GAIN (LOSS) FROM DISCONTINUED OPERATIONS (Note 14)	53,303	(6,067)
EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES	76,922	34,673
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Transfers to the University	(16,091)	(17,964)
Net assets released from restrictions used for purchase of property and equipment	1,718	475
Net change in fair value of investments	1,658	14,886
Fair value adjustment of interest rate swap	(1,883)	(64)
Cumulative effect of change in accounting principle - unfunded pension and postretirement liability (Note 11)	-	(27,972)
Adjustment to funded status of pension and postretirement liabilities	(4,871)	17,879
INCREASE IN UNRESTRICTED NET ASSETS	57,453	21,913
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution income	2,488	1,810
Net assets released from restrictions	(2,436)	(1,034)
Investment income	5	1
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	57	777
PERMANENTLY RESTRICTED NET ASSETS:		
Change in beneficial interest in assets held by Episcopal Foundation	(1,237)	1,643
Change in beneficial interest in perpetual trusts	(2,379)	1,775
(DECREASE) INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	(3,616)	3,418
INCREASE IN NET ASSETS	53,894	26,108
NET ASSETS, BEGINNING OF YEAR	331,394	305,286
NET ASSETS, END OF YEAR	$ 385,288	$ 331,394

See notes to consolidated financial statements.

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007
(In thousands)

	2008	2007
OPERATING ACTIVITIES:		
Increase in net assets	$ 53,894	$ 26,108
(Gain) loss from discontinued operations	(53,303)	6,067
Increase in net assets from continuing operations	591	32,175
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(9,277)	(11,707)
Gain on sale of Health Partners		
Depreciation and amortization	38,770	42,613
Amortization of deferred financing costs		268
Provision for bad debts	13,956	13,055
Adjustment to funded status of pension and postretirement liabilities	4,871	(17,879)
Application of FAS 158		
Fair value adjustment of interest rate swap	1,883	64
Cumulative Effect of Change in Accounting Principle		27,972
Estimated asset impairment		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(2,546)	(1,719)
Loss on disposal of fixed assets	1,428	307
Transfers to the University	16,091	17,964
Changes in operating assets and liabilities:		
Patient accounts receivable	(21,247)	(8,596)
Other receivables	(20,854)	(12,025)
Pledges receivable, net	(160)	
Inventories and other current assets	4,433	(1,664)
Other assets	(1,398)	7,931
Accounts payable	25,050	11,122
Accrued expenses	7,781	(2,602)
Estimated retroactive adjustments, third-party payors	(558)	(424)
Self-insurance program liability	12,460	(10,651)
Other liabilities	(17,097)	1,244
Net cash provided by operating activities—continuing operations	54,177	87,448
Net cash used in operating activities—discontinued operations	(12,404)	(9,805)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(45,462)	(49,512)
Purchases of investments	(317,324)	(266,562)
Sales of investments	307,399	293,234
Gain on sale of Health Partners		
Proceeds from sale of fixed assets	39	1,080
Net cash used in investing activities-continuing operations	(55,348)	(21,760)
Net cash provided by investing activities—discontinued operations	15,334	1
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	2,546	1,719
Repayment of long-term debt	(185,501)	(9,251)
Proceeds from issuance of long-term debt	220,213	8,738
Deferred finance costs	(1,867)	
Transfers to the University	(18,468)	(17,767)
Net cash provided by (used in) financing activities	16,923	(16,561)
Net cash used in financing activities-discontinued operations	(25,563)	(457)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,881)	38,866
CASH AND CASH EQUIVALENTS—Beginning of year	85,517	46,651
CASH AND CASH EQUIVALENTS—End of year	$ 78,636	$ 85,517
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: CASH PAID FOR INTEREST	$ 14,497	$ 22,737

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:
Amounts accrued for purchases of property and equipment in excess of amounts paid were $2,893,000 and $2,520,000 in 2008 and 2007, respectively.

See notes to consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Temple University Health System, Inc. ("TUHS") is a Pennsylvania nonprofit corporation of which Temple University — Of The Commonwealth System of Higher Education (the "University") is the sole member. TUHS was incorporated in August 1995 and serves principally to coordinate the activities and plans of its health care subsidiaries in Philadelphia and the surrounding area. TUHS is the sole member of these subsidiaries. At June 30, 2008, the subsidiaries and affiliates (herein referred to as "corporate members") of TUHS (collectively, with TUHS, referred to as the "Health System"), all of which operate in Philadelphia and the surrounding area, include the following:

- Temple University Hospital, Inc. ("TUH"), a nonprofit, 746-bed acute care teaching hospital;
- Temple University Health System Foundation ("TUHSF"), a nonprofit corporation, is a wholly owned subsidiary of TUH formed to support the health-care-related activities of TUHS;
- Temple University Children's Medical Center ("TUCMC"), a nonprofit, 68-bed pediatric hospital, ceased operations in November 2007 and was merged into TUH on May 31, 2008 (see Note 14);
- Temple East, Inc. ("TE"), a nonprofit, 189-bed acute care hospital doing business as Northeastern Hospital ("NEH");
- Temple East Real Estate Inc. ("TERE"), a nonprofit corporation and wholly owned subsidiary of Temple East, Inc., is a title holding, supporting organization that facilitates the provision of health care services by NEH;
- Jeanes Hospital and affiliate ("JH"), a nonprofit, 186-bed acute care hospital located in the Fox Chase section of Philadelphia;
- Episcopal Hospital ("Episcopal"), a nonprofit corporation, providing clinical outpatient health care services;
- Temple Health System Transport Team, Inc. ("T3"), a nonprofit critical care ambulance company;
- Greater Philadelphia Health Services Corporation ("GPHSC"), a nonprofit corporation, which did business as Elmira Jeffries Memorial Home ("EJ"), ceased operations in September 2002 and was dissolved on June 9, 2008 (see Note 14);
- Greater Philadelphia Health Services II Corporation ("GPHSC II"), a nonprofit corporation, which did business as Northwood Nursing and Convalescent Center ("NW"), and ceased operations in June 2002 (see Note 14);
- Greater Philadelphia Health Services III Corporation ("GPHSC III"), a nonprofit corporation, which did business as Temple Continuing Care Center ("TCCC"), and ceased operations in February 2003 (see Note 14);

- Temple Physicians, Inc. (“TPI”), a nonprofit corporation formed to develop and acquire community-based primary care practices located in the service area of TUHS;

- Temple Professional Associates (“TPA”), a nonprofit corporation, which is a wholly owned subsidiary of TPI formed to acquire primary care physician networks located in the service area of TUHS; and

- TUHS Insurance Company, Ltd. (“TUHIC”), a captive insurance company established to reinsure the professional liability claims of certain subsidiaries of TUHS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Health System. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents — Cash equivalents consist primarily of highly liquid investments, such as money market funds and debt instruments with original maturities of three months or less at the time of purchase.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices. Investment income or loss (including realized gains and losses, interest, and dividends) is included in other income unless the income is restricted by donor or law, except for investment income on borrowed funds held by trustees as collateral on outstanding debt. This investment income is included in unrestricted revenue and other support. Unrealized gains and losses on equity securities with readily determinable fair values and all investments in debt securities are excluded from the excess of revenues over expenses.

The Health System 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. Investment gains and losses on these funds are included in other income.

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. Subsequent to June 30, 2008, conditions in the worldwide debt and equity markets have deteriorated significantly. These conditions have had a negative effect on the fair value of the Health System's investments since June 30, 2008.

The Health System reviews its investments to identify those for which market value is below cost. The Health System then makes a determination as to whether investments are other-than-temporarily impaired based on guidelines established in FASB Staff Position (“FSP”) 115-1 and FSP 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.”

Assets Limited as to Use — Assets limited as to use primarily include assets held by trustees under indenture and insurance agreements and designated assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Health System have been classified as current assets in the consolidated balance sheets.

Inventories — Inventories are stated at the lower of average cost or market.

Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Depreciation expense, excluding discontinued operations, was $38,770,000 and $42,613,000 for the years ended June 30, 2008 and 2007, respectively. Expenditures for maintenance and repairs necessary to maintain property, plant and equipment in efficient operating condition are charged to operations. Costs of renewals and betterments are capitalized. The cost of assets acquired through capitalized leases is $5,520,000 and $6,398,000, at June 30, 2008 and 2007, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2008 and 2007, the accumulated depreciation balance included $4,602,000 and $4,997,000, respectively, of accumulated amortization of capital leased assets. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of interest earned on the unexpended proceeds of tax-exempt borrowings specifically incurred for construction, are capitalized as a component of the cost of acquiring those assets. No interest costs were capitalized during fiscal years ended June 30, 2008 and 2007.

Long-Lived Assets Review — The Health System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of a long-lived asset is considered impaired, a loss is recognized by which the carrying value exceeds the fair value (less any costs related to disposal or abandonment, if applicable). There were no loss adjustments recognized by which the carrying value exceeded the fair value for the fiscal years ended June 30, 2008 and 2007.

Deferred Financing Costs — Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs as of June 30, 2008 and 2007 were $2,317,000 and $4,667,000, respectively. Accumulated amortization of deferred financing costs was $565,000 and $1,257,000 as of June 30, 2008 and 2007, respectively. Deferred financing costs are reported as other assets.

Net Assets — Net assets are categorized according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets — are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily Restricted Net Assets — are those assets whose use by the Health System has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets — include gifts, trusts and pledges that require by donor restrictions that the corpus be invested in perpetuity, with only the income available for operations or in accordance with donor restrictions.

Beneficial Interest in Perpetual Trusts — The Health System is the irrevocable beneficiary of the income from certain perpetual trusts administered by third parties. The Health System's beneficial interest is reported at the fair value of the underlying trust assets. Because the trusts are perpetual and the original corpus cannot be used, these funds are reported as permanently restricted net assets.

Contributions — The Health System records unconditional promises to give (pledges) as receivables and revenues, and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Upon expiration of donor restrictions, amounts are reclassified as unrestricted and reported as net assets released from restriction.

Net Patient Service Revenue and Estimated Settlements with Third-Party Payors — The Health System has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include primarily prospectively determined rates per discharge, per visit and per-diem payments and, to a lesser extent, reimbursed costs and discounted charges. In addition, the Health System receives medical assistance payments for the reimbursement of services for charity and uncompensated care services. The federal funding of such costs is subject to an upper payment limit and retrospective settlement.

Net patient service 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 by the Health System and adjusted in future periods as final settlements or changes in estimates 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. Net patient service revenue for 2008 increased by $6,255,000 and for 2007, decreased by $1,212,000, as a result of settlements related to prior years or changes in estimates related thereto.

At June 30, 2008 and 2007, a receivable of $6,000,000 is reported as an estimated settlement with a third-party payor. This settlement relates to depreciation expense recapture which was claimed on a terminating cost report filed with Medicare as a result of the statutory merger of JH into the Health System in 1996.

Other Revenue – Other revenue includes amounts earned from cafeteria operations, parking garage operations, transport services provided by T3, and other non-patient care services.

Charity Care — The Health System provides care without charge or at a standard rate discounted for uninsured patients that is not related to published charges to patients who meet certain criteria under the Health System'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. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Other Income – Other income includes a gain of $1,883,000 on the termination of an interest rate swap arrangement and a loss of $3,307,000 on the defeasance of various outstanding debt issues related to continuing operations (see Note 7) and a gain of $41,099,000 related to the distribution from Health Partners (see Note 9).

Income Taxes — Substantially all of the individual members of the Health System are nonprofit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. A wholly owned subsidiary, which is currently inactive, in which the Health System exercises control is a for-profit corporation that is subject to federal and state income tax. Such taxes are immaterial and have been reported with other expenses in the accompanying consolidated financial statements.

The Health System adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on July 1, 2007. FIN 48 sets forth a recognition threshold and measurement attribute for financial statement recognition of positions taken or expected to be taken in income tax returns. Only tax positions meeting a "more-likely-than-not" threshold of being sustained should be recognized under FIN 48. FIN 48 also provides guidance on derecognizing, classification of interest and penalties and accounting and disclosures for annual and interim financial statements. The impact of adoption was not material to the Health System's financial position, results of operations, or cash flows.

The Health System's federal Exempt Organization Business Income Tax Returns for 2008, 2007, 2006 and 2005 remain subject to examination by the Internal Revenue Service.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates comprise the allowances for doubtful accounts, contractual allowances, estimated settlements with third-party payors, self insurance program liabilities, accrued postretirement benefits, estimated asset retirement obligations, and the value of alternative investments.

Recently Issued Accounting Pronouncements — In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 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 No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within that year. In February 2008, the FASB issued Staff Position No. FAS 157-2 "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"). FSP No. 157-2 delays the application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Health System is currently assessing the impact that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 ("SFAS No. 159"). SFAS No. 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 No. 159 is effective no later than fiscal years beginning after November 15, 2007. The Health System determined that the adoption of SFAS No. 159 will not have any impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), which will be effective for fiscal years beginning after November 15, 2008. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedging items are accounted for under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Health System is currently assessing the impact the adoption of SFAS No. 161 will have on its consolidated financial statements.

In August 2008, the FASB issued Staff Position FAS No. 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds."("FSP No. 117-1"), which will be effective for fiscal years beginning after December 15, 2008. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds and expands the disclosures about an organizations endowment funds. The Health System is currently assessing the impact the adoption of this pronouncement will have on its consolidated financial statements.

3. ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"). This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FASB Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") requires the fair value of a liability for the legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The Health System adopted FIN 47 effective June 30, 2006, and recorded an initial liability of $2,798,000. The future undiscounted value of the asset retirement obligation was $7,440,000. Because SFAS 143 required retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 6.75%. The initial estimated value of the related asset established was $324,000. At June 30, 2008 and 2007, the recorded asset retirement obligation liability is $3,599,000 and $3,304,000, respectively.

Substantially all of the impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos that is contained within the Health System's facilities. Depreciation and accretion costs for 2008 and 2007 were $297,000 and $504,000, respectively.

4. BUSINESS AND CREDIT CONCENTRATION

The Health System provides diversified 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 Health System serves a disproportionately high number of poor or indigent patients; consequently, the Health System derives a substantial portion of its revenue from the Medicare (federal government) and the Medical Assistance (Commonwealth of Pennsylvania, Department of Public Welfare ["DPW"]) programs.

The distribution of inpatient services provided from continuing operations (TUH, JH, and TE) and discontinued operations (TUCMC) based upon patient discharges (excluding newborns) by class of payor for the years ended June 30, 2008 and 2007, is as follows (unaudited):

	2008		2007	
	Discharges	**%**	**Discharges**	**%**
Continuing operations -				
Medical Assistance:				
Fee for service	5,220	10.4 %	5,563	10.6 %
Managed care	15,915	31.6	16,696	31.6
Total Medical Assistance	21,135	42.0	22,259	42.2
Medicare				
Fee for service	8,919	17.7 %	9,086	17.2 %
Managed care	9,713	19.3	9,782	18.6
Total Medicare	18,632	37.0	18,868	35.8
Independence Blue Cross *	6,423	12.7 %	6,898	13.0 %
All other	4,239	8.3	4,771	9.0
	50,429	100.0 %	52,796	100.0 %
Discontinued operations -				
Medical Assistance:				
Fee for service	72	7.9 %	273	7.1 %
Managed care	545	59.4	2,469	64.1
Total Medical Assistance	617	67.3	2,742	71.2
Independence Blue Cross *	152	16.6 %	685	17.8 %
All other	148	16.1	424	11.0
	917	100.0 %	3,851	100.0 %

* Includes Traditional, Personal Choice and Keystone Health Plan East insurance plans.

Health Choices is a DPW program that requires all Medical Assistance recipients in the Philadelphia five-county area to join a Medicaid HMO. Under Health Choices, DPW has entered into capitation arrangements with four Medicaid HMOs, which in turn negotiate separate payment rates with health care providers. The Medical Assistance-managed care category above includes the four Medicaid HMOs under the Health Choices program.

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from third-party payors and patients at June 30, 2008 and 2007, is as follows:

	2008	**2007**
Medical Assistance:		
Fee for service ("FFS")	7.9 %	9.6 %
Managed care	22.4	17.5
Medicare (FFS only)	10.8	15.6
Independence Blue Cross *	25.4	18.5
Aetna U.S. Healthcare	7.2	7.1
Commercial	12.3	11.8
Managed care/HMOs (including Medicare)	9.5	11.6
Other	4.5	8.3
	100.0 %	100.0 %

* Includes Traditional, Personal Choice and Keystone Health Plan East insurance plans.

5. CHARITY CARE

The Health System maintains detailed records to identify and monitor the level of charity care it provides to its patients. The estimated costs and expenses incurred to provide charity care, including the estimated unreimbursed cost of services in excess of payments from Medical Assistance programs, were $132,366,000 and $101,050,000 for the fiscal years ended June 30, 2008 and 2007, respectively (see Note 16).

6. INVESTMENTS

Assets Limited as to Use

The composition of assets limited as to use at June 30, 2008 and 2007, is set forth in the following table (in thousands):

	2008	2007
Under indenture agreements-held by trustee:		
Construction/improvement funds	$ -	$ 6,879
Debt service funds	18,613	3,359
Working capital/capitalized and funded interest funds	-	1,210
Debt service reserve funds	34,673	18,727
	53,286	30,175
Under debt agreements	361	11,921
Under insurance arrangements (primarily TUHIC)	45,232	42,631
Board designated	40,357	39,776
Other	10,447	2,159
	149,683	126,662
Less: amounts required for current liabilities	29,149	15,851
	$ 120,534	$ 110,811

By security classification (in thousands):

	2008	2007
U.S. government securities	$ 37,528	$ 19,778
Corporate bonds, notes, and other debt securities	23,113	53,328
Cash and money market funds	52,135	32,629
Guaranteed investment contracts	34,673	18,449
Other (mainly commercial paper)	2,234	2,478
	$ 149,683	$ 126,662

Workers' Compensation Fund

Workers' compensation fund at June 30, 2008 and 2007, consisted of (in thousands):

	2008	2007
U.S. government securities	$ 4,220	$ 2,878
Corporate bonds, notes, and other debt securities	9,972	10,727
Cash and cash equivalents	107	108
	$ 14,299	$ 13,713

Investments

Investments at June 30, 2008 and 2007 consisted of (in thousands):

Investments	2008	2007
U.S. government securities	$ 203,018	$ 192,934
Corporate bonds, notes, and other debt securities	11,945	9,278
Cash and money market funds	1,982	6,023
Equity funds and securities	44,633	59,187
Limited Liability Partnerships	24,370	24,187
Other	1,357	444
	$ 287,305	$ 292,053

Investment Income

Investment income and gains (losses) from investments, including assets limited as to use and cash and cash equivalents, are comprised of the following for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Continuing operations —		
Income:		
Interest and dividend income	$ 23,481	$ 25,329
Realized gains (losses) on sales of investments and recognition of other-than-temporary impairment	7,461	(3,179)
	$ 30,942	$ 22,150
Continuing operations -		
Other changes in unrestricted net assets —		
Unrealized gains	$ 1,658	$ 14,886
Discontinued operations —		
Income:		
Interest and dividend income	$ 508	$ 320

Interest, dividends and realized gains are reported as follows:

	2008	2007
Continuing operations - Consolidated Statements of Operations and Changes in Net Assets		
Unrestricted revenues - investment income	$ 2,438	$ 1,237
Unrestricted other income — investment income	28,499	20,912
Temporarily restricted net assets - investment income	5	1
	$ 30,942	$ 22,150
Discontinued operations (see Note 14)		
Unrestricted revenues and other support	$ 11	$ 164
Unrestricted other income - investment income	497	156
	$ 508	$ 320

Unrealized gains (losses) are reported as a component of other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

During fiscal years 2008 and 2007, the Health System recorded "other-than-temporarily impairment" charges of $1,977,000 and $3,604,000, respectively, on certain investments in debt and equity securities.

7. LONG-TERM DEBT

Long-term debt at June 30, 2008 and 2007, was as follows (in thousands):

	2008	2007
2007 TUHS Series A and B Hospital Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia (the "Authority") at fixed interest rates of 5.0% and 5.5%, due in installments through 2035, (net of unamortized bond premium of $875 and bond discount of $1,807 at June 30, 2008)	$ 220,038	$ -
Note payable to the Pennsylvania Industrial Development Corporation due in April 2011 at a fixed interest rate of 2.5%	13,000	13,000
1993 TUH Hospital Revenue Bonds, issued by the Authority at varying fixed interest rates from 6.50% to 6.625%, due in installments through 2023 (net of unamortized bond discount of $975 and $1,089 at June 30, 2008 and 2007, respectively)	122,436	126,612
Loan payable to Episcopal Healthcare Foundation due in November 2011 at a fixed interest rate of 5.0%	6,500	6,500
GE Tax-exempt Conduit Financing through the Authority, due in 60 monthly installments of principal and interest at 3.85%, from 2006 through 2009	276	3,231
Various other notes, bonds, mortgages and capital lease obligations due in installments through 2013 ranging from 3.5% to 9.12%	1,411	2,109
1999 GPHSC III Bonds, issued by the Montgomery County Authority at varying fixed interest rates from 5.38% to 6.88% through July 2029, settled in 2008		48,135
1997 TUH Hospital Revenue Bonds, issued by the Authority, at varying fixed interest rates from 5.1% to 5.875%, due in installments through 2027 (net of unamortized bond discount of $617 at June 30, 2007) defeased in 2008		32,838
1999 TUCMC Series A Revenue Bonds issued by the Authority due in varying semiannual amounts through June 15, 2029, at varying fixed interest rates ranging from 4.65% to 5.75% (net of unamortized bond discount of $280 at June 30, 2007), defeased in 2008		25,510
2003 TUH Series A Hospital Revenue Bonds, issued by the Authority, variable rate (3.75 % at June 30, 2007) due in installments from 2011 through 2033, defeased in 2008		33,750
2005 TUHS Series A, B and C Hospital Revenue Bonds issued by the Authority at a variable rate (3.75% at June 30, 2007) due through July 1, 2028, (net of unamortized bond discount of $312 at June 30, 2007) defeased in 2008		109,688
Notes payable to the University due in installments through 2011 at 7.4%		1,221
	363,661	402,594
Less current portion of long-term debt	7,749	58,334
	$ 355,912	$ 344,260

In August 2007, the Health System issued, through the Authority, $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, resulting in a loss of approximately $4,670,000, of which $3,307,000 has been reported in other income, net and $1,363,000 has been reported in loss from discontinued operations for 2008.

With the issuance of the 2007 Bonds the Health System defeased the 2005 Bonds which allowed the Health System to terminate its letters of credit agreements with participating banks aggregating $110,000,000 that it had entered into when it issued the 2005 Bonds. A requirement under one of these agreements was to maintain $11,000,000 in cash on deposit with the related bank which was released at termination. Additionally, the Health System terminated an interest rate swap arrangement it had entered into with a third party, concurrent with the 2005 bond issuance. The Health System recognized a gain of $1,883,000 from the termination of the swap, which is reflected as a component of other income. Under this agreement, the Health System would swap a variable rate based on a percent of LIBOR for a fixed rate of 3.268%, based on a notional value of $25,000,000 for a term matching that of the Series 2005C Bonds. The swap was classified as a cash flow hedge at June 30, 2007 and was determined to represent an effective hedge of the Health System's cash flows related to interest on the Series 2005C Bonds. The hedge effectiveness, as well as the fair value of the swap, was determined quarterly. At June 30, 2007, the fair value of the swap was $1,883,000 and was reported in other noncurrent assets. The fair value adjustment had been reported within other changes in unrestricted net assets.

In January 2008, the Health System entered into a total return swap agreement with a swap counter party with respect to the TUH 1993 Bonds. Under this agreement, the Health System 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 the Health System determined that there was a concern that the SWAP counter party and the guarantor to the SWAP counter party were at risk for staying in business. Therefore, at June 30, 2008 the Health System fully reserved the value of the SWAP, $579,000, which is recorded as a component of other assets and interest receivable of $664,000.

Throughout the year ending June 30, 2008, the above swap was determined to be an ineffective hedge for accounting purposes and as a result did not qualify for hedge accounting treatment under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” Consequently, changes in swap fair value were reported as a component of excess of revenues and other support over expenses as interest expense.

In October 2007, the Health System reached a settlement with the plaintiffs in its litigation which resulted in the reversal of the Series 1999 TCCC bonds payable liability (See Note 14).

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group and are subject to various financial covenants. The Health System is not aware of any instances of non-compliance with its debt covenants for fiscal years 2008 and 2007.

At June 30, 2008, total aggregate principal payments under long-term debt and capital lease obligations for the next five years and thereafter are (in thousands):

2009	$ 7,749
2010	6,790
2011	26,461
2012	7,259
2013	8,498
Thereafter	308,811

8. LEASE COMMITMENTS

The Health System leases certain property and equipment under operating lease agreements with remaining terms expiring at various dates through 2022. There are various financial covenants as part of these leases that are calculated based on the individual results of each member.

At June 30, 2008, future minimum payments by year and in the aggregate under non-cancelable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

2009	$ 5,197
2010	4,852
2011	3,914
2012	3,775
2013	3,523
Thereafter	32,117
	$ 53,378

9. RELATED PARTY TRANSACTIONS

Temple University

The Health System has made various transfers of unrestricted net assets to the University to be used for health-related programs and initiatives. In fiscal years 2008 and 2007, $16,091,000 and $17,964,000, respectively, in net assets transfers were recognized. All of the 2008 transfers were disbursed by June 30, 2008. Of the $17,964,000 transfers made in fiscal year 2007, $2,377,000 were included in accounts payable at June 30, 2007. The accrued payments pertaining to the 2007 transfer was made in 2008.

The Health System and University allocate certain costs for services provided to each other. Costs billed to the Health System by the University in 2008 and 2007 include (in thousands):

	Health System Expense	
	2008	**2007**
Continuing operations -		
Medical school clinical physicians	$ 62,919	$ 45,827
Maintenance	6,870	7,938
Telecommunications	4,626	3,382
Institutional support	2,984	3,435
Security	2,407	3,247
Employee tuition	3,833	3,720
Other administrative support	10,537	7,292
Total expenses billed	$ 94,176	$ 74,841

	Health System Expense	
	2008	**2007**
Discontinued operations -		
Medical school clinical physicians	$ 4,621	$ 13,966
Maintenance		218
Telecommunications	116	226
Security		425
Other administrative support	360	412
Total expenses billed	$ 5,097	$ 15,247

TUH is the teaching hospital for Temple University's Medical School and its clinical practice plan physicians (collectively, "TUP"). TUH purchases administrative, supervisory and teaching physician services from TUP. TUH also provides other support to TUP to further the missions of TUH and the medical school.

The University also billed TUHS for capital projects in the amount of $2,016,000 and $1,967,000 for the years ended June 30, 2008 and 2007, respectively.

TUHS charges the University for the cost of services provided to the University. Amounts billed to the University in 2008 and 2007 include (in thousands):

	2008	**2007**
Continuing operations -		
Salaries and fringe benefits, primarily for residents	$ 2,832	$ 1,892
Rent	2,018	2,549
Other	7,634	3,385
Total expenses billed to the University	$ 12,484	$ 7,826
Discontinued operations — TUCMC —		
Rent	$ 287	$ 704

Such amounts which are related to continuing operations are included as other revenue or a reduction of expenses reported in the consolidated financial statements.

At June 30, 2008 and 2007, $15,946,000 and $18,326,000 (including $2,377,000 in net asset transfers in FY 2007), respectively, are due to the University for transactions during those years and are included in accounts payable.

Health Partners

TUH and Episcopal are participants in a Medicaid and Medicare HMO known as Health Partners ("HP"). In August 2007, Health Partners sold its Senior Partners Medicare line of business to Elder Health (see below) therefore any profits and losses on the Medicare line business after that date were borne by the acquirer. Under certain of its contracts with HP, the Health System is the beneficiary of, or is responsible for, allocated HP gains and losses, respectively, based primarily on the number of HP members enrolled in the Health System's primary care physicians' network and other factors as approved by the HP board. The Health System's percentage allocation of HP profits and losses for Medicare and Medicaid was approximately 39% (up until the date of the sale) and 40%, respectively, for the fiscal year ended June 30, 2008, and approximately 37%, and 41%, respectively, for the fiscal year ended June 30, 2007.

For fiscal years 2008 and 2007, HP's annual premium revenues were approximately $727,000,000 and $966,000,000, respectively. For fiscal years 2008 and 2007, the Health System's estimated share of HP's net distribution was approximately $21,000,000 and $19,000,000, respectively. The Health System's estimated gains are included in the accompanying consolidated statements of operations and changes in net assets as a component of net patient service 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. The Health System's share of the net proceeds was approximately $41,099,000 and is included in other income.

10. MEDICAL PROFESSIONAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

The Health System members participate in the Health System's insurance programs for medical professional liability claims. Primary coverage is provided by an insurance company and reinsured to TUHIC.

Because primary losses are reinsured through TUHIC, primary losses are essentially self-insured up to certain limits, which are coordinated with statutory excess coverage provided through the Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCare Fund"). Also, additional excess liability coverage has been obtained through a commercial insurance carrier.

The Health System accrues liabilities for the estimated losses on asserted and unasserted claims. The discount rate used in determining the liability at June 30, 2008 and 2007 was 4.50% and 5.25%, respectively. The liabilities are comprised of asserted claims for self-insured components of the program and accruals for unasserted claims. Asserted claims are specifically identified, with actuarial determination of the ultimate liability on asserted and unasserted claims based on claims settlement history. The estimated discounted liability accrued for asserted and unasserted claims was $120,286,000 and $114,691,000 at June 30, 2008 and 2007, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was $24,030,000 and $28,362,000 at June 30, 2008 and 2007, respectively. For continuing operations the Health System incurred net medical professional liability insurance expense of $49,576,000 and $4,424,000 in 2008 and 2007, respectively. For discontinued operations, medical professional liability expense was ($2,969,000) and $1,260,000 for fiscal years 2008 and 2007 respectively.

The activity in the liability for claims reported and claims incurred but not reported for TUHIC for the years ended June 30, 2008 and 2007 is summarized as follows (in thousands):

	2008	2007
Outstanding	$ 11,322	$ 14,341
Incurred but not reported	12,708	14,021
	$ 24,030	$ 28,362
Balance at July 1,	$ 28,362	$ 27,316
Incurred related to current year	10,114	13,702
Incurred related to prior year	(2,243)	(1,669)
	7,871	12,033
Paid related to current year	374	184
Paid related to prior year	11,829	10,803
	12,203	10,987
Net balance at June 30,	$ 24,030	$ 28,362

TUHIC is registered under the Bermuda Insurance Act of 1978, amendments thereto and the Related Regulations (the "Insurance Act") and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus at June 30, 2008 and 2007, was $2,403,000 and $3,355,000, respectively, and the actual statutory capital and surplus was $25,133,000 and $17,890,000, respectively. The minimum required level of liquid assets was $23,439,000 and $21,775,000 and actual liquid assets were $55,566,107 and $46,923,000 at June 30, 2008 and 2007, respectively.

The Health System is primarily self-insured for workers' compensation. Program assets at June 30, 2008 and 2007, were $14,299,000 and $13,713,000, respectively. Program liabilities were determined using a discount rate of 4.5% and 5.0% for fiscal years 2008 and 2007, respectively. The estimated discounted liability accrued at June 30, 2008 and 2007, was $16,506,000 and $15,956,000, respectively. For continuing operations, workers' compensation expense was $7,585,000 and $8,054,000 for fiscal years 2008 and 2007, respectively. For discontinued operations, workers' compensation expense was $374,000 and $835,000 for fiscal years 2008 and 2007 respectively.

11. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Health System sponsors various defined benefit plans at the individual affiliate level based on prescribed eligibility requirements. In addition, certain Health System members participate in the University's defined contribution retirement plans and defined benefit retirement plans for eligible employees that provide benefits through contributions made by the Health System and its employees. Beginning January 1, 2007, the Health System established new defined contribution plans for its employees and no longer actively participated in the University's defined contribution plans. Also, on November 1, 2007, the last of the TUHS defined benefit retirement plans was closed to new participants; only certain grandfathered employees are eligible to participate in the defined benefit pension plans. These employees are not eligible to participate in the Health System's defined contribution plans. Assets held in trust for the plans are comprised primarily of marketable equity and fixed income securities.

The Health System makes contributions to participants' accounts under the Health System's and University's defined contribution plans based on a defined percentage of the employee's base wages and length of service. The Health System contributions to the plans (Health System and University) for fiscal years 2008 and 2007 were $14,490,000 and $13,611,000, respectively. Contributions to the Health System plans for fiscal year 2009 are expected to be $16,374,000.

Also, certain Health System employees participate in multiemployer pension plans based on union-negotiated agreements. The Health System funds these plans through employer contributions. 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 multiemployer 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 Health System's share, if any, of the unfunded vested liabilities cannot be determined. At present, the Health System has no plans to withdraw from the union multi-employer pension plans.

Certain Health System employees participate in the University's postretirement health and life insurance plan. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years service. Assets held in trust for the plan are comprised primarily of marketable equity and fixed income securities.

***Postretirement Healthcare Plan Trends* —** For measurement purposes, an 11.0% and 11.5% annual rate of increase in the per-capita cost of postretirement benefits was assumed for 2008 and 2007, respectively. For 2008, this rate is assumed to decrease gradually to 5.00% in 2018 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the year ended June 30, 2008 (in thousands) for all Health System and University participants:

	1% Increase	1% (Decrease)
Incremental effect on total of service and interest cost components	$ 3,731	$ (3,104)
Incremental effect on postretirement benefit obligation	$ 34,079	$ (28,922)

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This statement required the Health System to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its consolidated balance sheet. The Statement also required the Health System to recognize changes in the funded status of the plans in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenues and other support over expenses in its consolidated statement of operations and changes in net assets. This statement also required the Health System to measure the funded status of all its defined benefit postretirement plans as of the balance sheet date. Effective June 30, 2007, the Health System adopted the aforementioned provisions of SFAS No. 158.

Total pension and other postretirement benefit plans expense under all Health System programs from continuing operations amounted to $16,905,000 and $17,068,000 for the fiscal years ended June 30, 2008 and 2007, respectively. Total pension and other postretirement benefit plans expense from discontinued operations amounted to $298,000 and $1,172,000 for the fiscal years ended June 30, 2008 and 2007, respectively.

The following table sets forth the activity of the pension and other postretirement benefit plans (which includes the joint Health System and University plans) as of and for the years ended June 30, 2008 and 2007 (in thousands). A measurement date of June 30 is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2008	2007	2008	2007
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation, beginning of year	$ 118,853	$ 117,562	$ 274,288	$ 254,685
Service cost	650	1,260	11,574	10,576
Interest cost	7,203	7,154	17,243	15,682
Plan participant contributions	159	134	2,766	2,546
Actuarial (gain) loss	(9,968)	1,786	(3,429)	2,938
Benefits paid	(4,291)	(4,134)	(14,470)	(12,139)
Curtailment gain		(4,909)		
Benefit obligation, end of year	112,606	118,853	287,972	274,288
CHANGE IN PLAN ASSETS:				
Fair value of plan assets, beginning of year	129,323	108,997	158,018	127,834
Actual return on plan assets	(3,364)	15,968	471	18,150
Employer contributions	5,853	8,820	22,481	21,627
Plan participant contributions	159	134	2,766	2,546
Plan expenses	(430)	(462)	-	-
Benefits paid	(4,291)	(4,134)	(14,470)	(12,139)
Fair value of plan assets—end of year	127,250	129,323	169,266	158,018
Funded status	14,644	10,470	(118,706)	(116,270)
Less University prepaid (accrued) cost	650	640	(93,937)	(92,103)
Net amount recognized - TUHS Only	$ 13,994	$ 9,830	$ (24,769)	$ (24,167)
Amount recognized in the balance sheets, include:				
Other noncurrent assets	$ 14,535	$ 10,848		
Other current liabilities			$ (22)	$ (26)
Accrued postretirement benefits, noncurrent	(541)	(1,018)	(24,747)	(24,141)
Net amount recognized - TUHS Only	$ 13,994	$ 9,830	$ (24,769)	$ (24,167)

	Pensions		Other Postretirement Benefit Plan	
	2008	2007	2008	2007
Amounts recognized in unrestricted net assets:				
Transition obligations	$	$ (1)		
Prior service costs	10	78		
Net actuarial loss	22,259	18,080	$ 13,949	$ 13,190
Net amount recognized in unrestricted net assets	$ 22,269	$ 18,157	$ 13,949	$ 13,190
Weighted-average assumptions to determine benefit obligation:				
Discount rate	6.65 - 6.90%	6.0 - 6.25%	6.25 - 6.85%	6.0 - 6.25%
Rate of compensation increase	3.25 - 4.50%	3.25% - 5.0%	N/A	N/A
Weighted-average assumptions to determine net periodic cost:				
Discount rate	6.0 - 6.25%	6.0 - 6.25%	6.0 - 6.25%	6.25%
Rate of compensation increase	3.25 - 4.50%	3.25 - 5.0%	N/A	N/A
Expected return on plan assets	8.5%	8.5%	8.0%	8.0%
Components of net periodic cost (benefit):				
Service cost	$ 650	$ 1,260	$ 11,574	$ 10,576
Interest cost	7,203	7,154	17,243	15,682
Expected return on plan assets	(10,935)	(9,789)	(12,987)	(10,715)
Amortization	4	5	5,146	6,118
Recognized net actuarial loss	574	1,092		
Net periodic cost (benefit)	(2,504)	(278)	20,976	21,661
Less University net periodic cost	18	15	(16,039)	(16,739)
TUHS net periodic cost (benefit)	$ (2,522)	$ (293)	$ 4,937	$ 4,922

The estimated net actuarial loss and net prior service costs for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2009 is $341,000 and $2,000, respectively. The estimated net actuarial loss for the postretirement health and life insurance plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2009 is $4,327,000.

Assets Allocations

The following details the Health System's defined benefit plans asset allocations:

Pension Plans Assets	**Target Allocation Fiscal Year Ending June 30, 2009**	**Percentage of Plan Assets at June 30, 2008**	**Percentage of Plan Assets at June 30, 2007**
Equity securities	40% - 60%	43%	62%
Cash and fixed income	40% - 60%	57%	38%
Total	100%	100%	100%

The following details the University-sponsored other postretirement defined benefit plan asset allocations:

Other Postretirement Benefit Plan Assets	Target Allocation Fiscal Year Ending June 30, 2009	Percentage of Plan Assets at June 30, 2008	Percentage of Plan Assets at June 30, 2007
Equity securities	40% - 60%	46%	53%
Cash and fixed income	40% - 60%	54%	47%
Total	100%	100%	100%

***Investment Strategy* —** The long-term investment strategy for pension and other postretirement benefit 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.

***Expected Return on Plan Assets* —** The expected long-term rate of return for the plans' total assets is based on the expected return of each of the above investment categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long-term, while cash and fixed income is expected to return between 4% and 6%. Based on historical experience, the Health System expects that the plans' asset managers will provide a modest (.5% to 1.0% per annum) premium to their respective market benchmark indices.

The following table shows expected cash flows related to the defined benefit pension and other postretirement benefit plans (in thousands):

	Pension Plans	Other Postretirement Benefit Plan (TU/TUHS)
Expected Health System Contributions for Fiscal Year Ending June 30, 2009:		
Expected employer contributions	$ 3,866	$ 21,921
Expected employee contributions	160	2,921
Estimated Future Benefit Payments From Plan Assets Reflecting Expected Future Service for the Fiscal Year Ending:		
June 30, 2009	$ 4,968	$ 16,221
June 30, 2010	5,192	17,602
June 30, 2011	5,447	18,852
June 30, 2012	5,832	19,806
June 30, 2013	6,384	20,837
June 30, 2014 to June 30, 2018	39,279	122,246

Under the provisions of SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, employee benefit freezes in certain Health System defined benefit pension plans resulted in the recognition of curtailment gains of $4,909,000 in 2007, which have been reflected as a reduction of the related pension benefit obligation. The benefit freezes resulted from a restructuring of employee benefits and moving personnel from a defined benefit plan to a defined contribution plan.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2008 and 2007 (in thousands):

	2008	2007
Property and equipment additions	$ 3,120	$ 3,477
Specific health care programs	3,936	3,522
	$ 7,056	$ 6,999

Permanently restricted net assets consist of the following at June 30, 2008 and 2007 (in thousands):

	2008	2007
Endowment funds, income from which is expendable for specific health care programs (income is temporarily restricted)	$ 1,384	$ 1,384
Beneficial interest in perpetual trusts, income from which is expendable to support health care services (income reported as unrestricted)	22,635	25,014
Beneficial interest in assets held by Episcopal Foundation	19,039	20,276
	$ 43,058	$ 46,674

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 (beneficial interest in the assets held by Episcopal Foundation) and permanently restricted net assets of $19,039,000 and $20,276,000 at June 30, 2008 and 2007, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 73% and 71% marketable equity securities and 27% and 29% fixed income securities at June 30, 2008 and 2007, respectively.

13. RESTRUCTURING CHARGES

In 2007, the Health System initiated a restructuring program related to downsizing its employee base, including the elimination of the obstetrics program by JH and other actions designed to reduce the cost structure and improve patient care for the health care providers of the Obligated Group. Management continues to evaluate the business and therefore, there may be supplemental provisions for new plan initiatives as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed. For fiscal years 2008 and 2007, the Health System recorded restructuring charges of $207,000 and $3,060,000, respectively, for severance and related costs.

As of June 30, 2008 and 2007, the remaining liability related to restructuring totals $533,000 and $2,407,000, respectively.

14. DISCONTINUED OPERATIONS

***Nursing Homes* —** Pursuant to actions of the Board of NW, the corporation ceased operations on June 28, 2002 because it was not financially feasible to continue operations. NW was financially unable to make its scheduled debt service payment on its Federal Housing Administration insured bonds. As such, the Federal Housing Administration insured mortgage on the NW facility was assigned to the U.S. Department of Housing and Urban Development ("HUD") and the bondholders were paid in full. HUD foreclosed on the property on June 2, 2003. Notification was received from HUD's counsel that the NW obligation on the HUD debt was satisfied.

Pursuant to actions of the Board of EJ, the corporation ceased operations on September 6, 2002 because it was not financially feasible to continue operations. EJ continued to make the required debt service payments after the close of the facility. EJ sold the facility in 2003 and deposited the proceeds into an escrow account to pay interest and redeem the remaining bonds.

At June 30, 2002 and September 30, 2002, TCCC was in violation of its debt service and liquidity covenants. During this time frame, there was an active but unsuccessful search to find a buyer of the TCCC facility. In December 2002, the Board of TCCC approved a plan to proceed with an orderly closure of the facility because it was not financially feasible to continue operations. On February 4, 2003, TCCC ceased operations. The TCCC debt recorded at $48,135,000 was reclassified as a current liability in fiscal year 2003.

In October 2007, the parties reached a settlement on litigation involving the TCCC debt, which resulted in the reversal, in 2008, of the Series 1999 bonds payable liability and accrued interest.

The assets of NW and TCCC are included in the consolidated financial statements for both 2008 and 2007 at their estimated net realizable value, and the assets of EJ are included in the consolidated financial statements for 2007 at their estimated net realizable value. The liquidation of NW and EJ was substantially complete by June 2005. EJ was dissolved on June 9, 2008. The expected date to complete the liquidation of the assets and liabilities of TCCC cannot be determined at this time.

***Temple University Children's Medical Center* —** The Health System and the University entered into an agreement on October 19, 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, the Health System agreed to the discontinuation of inpatient and outpatient pediatric services at TUCMC. After sustaining several years of net operating losses, management decided on November 13, 2007 to cease operations of TUCMC. In 2008, in connection with the cessation of its operations and close down activities, TUCMC incurred costs of $1,960,000 related to collection of accounts receivable and the preparation of required financial, tax, and other reports in addition to severance and related costs. These costs which were substantially paid out by June 30, 2008, are recorded in the gain from discontinued operations.

Losses attributable to the operations of TUCMC are classified as discontinued operations in the statements of operations and changes in net assets for the years ended June 30, 2008 and 2007.

During 2008 all of the existing assets and liabilities of TUCMC were merged into TUH. The assets, liabilities, and net deficit of TUCMC at June 30, 2007 (in thousands) are as follows:

	June 30, 2007
Current assets	$ 15,158
Noncurrent assets	16,523
Total assets	$ 31,681
Current liabilities	$ 10,909
Noncurrent liabilities	28,444
Total liabilities	$ 39,353
Unrestricted net deficit	$ (7,745)
Temporarily restricted	73
Total net deficit	$ (7,672)

Net gain/(loss) from discontinued operations (TUCMC, TCCC, NW and EJ) includes the following:

	2008	2007
Unrestricted Net Assets-		
Unrestricted revenues and other support:		
Net patient service revenue	$ 14,593	$ 50,021
Other revenue	2,141	2,607
Investment income	11	164
Net assets released from restrictions used for operations	-	149
	16,745	52,941
Expenses:		
Salaries and benefit costs	9,335	27,615
Professional fees	5,290	15,907
Supplies and pharmaceuticals	2,748	6,841
Purchased services	2,352	8,369
Other expenses	2,575	4,782
	22,300	63,514
Operating loss	(5,555)	(10,573)
Other income - investment income	497	156
Loss on extinguishment of debt	(1,363)	
Gain on settlement of debt outstanding	64,535	
less: consolidation elimination entries	(4,811)	4,350
Net gain/(loss) from discontinued operations	$ 53,303	$ (6,067)

The assets, liabilities and net deficit of NW, EJ, and TCCC at June 30, 2007 and NW and TCCC at June 30, 2008 are as follows (in thousands):

	2008	2007
Current assets	$ 52	$ 58
Current liabilities	$ 5,367	$ 70,891
Total net deficit	$ (5,315)	$ (70,833)

15. COMMITMENTS AND CONTINGENCIES

The Commonwealth of Pennsylvania owns the land on which certain TUH facilities are located. The land is leased to the University for a term ending December 31, 2043 for a nominal rent. The University subleases these facilities to TUH.

JH has guaranteed the repayment of approximately $680,000 of debt associated with the Jeanes Physicians' Office Building Partnership and pledged $221,000 of investments as collateral for the guarantee.

At June 30, 2008, JH has committed to making $2,203,000 in additional investments into private equity and real estate funds, as requested through capital calls from the fund.

In addition, the Health System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's financial position or results of operations.

16. COMMONWEALTH OF PENNSYLVANIA, DEPARTMENT OF PUBLIC WELFARE GRANTS AND OTHER SUPPORT

The following grants and support relate mainly to providing access to health care services including care for the uninsured and indigent population (See Note 5 – "Charity Care"). For the fiscal years ended June 30, 2008 and 2007, the Health System received grants from the Commonwealth of Pennsylvania's, Department of Public Welfare in the amounts of $29,528,000 and $28,190,000, respectively. Also, the Health System received Commonwealth funding for inpatient and outpatient disproportionate share and other funding, primarily from the proceeds from the tobacco settlement. In fiscal years 2008 and 2007, the disproportionate share payments received by the Health System amounted to $50,258,000 and $41,553,000, respectively, and other funding received amounted to $11,812,000 and $11,738,000, respectively. These amounts are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. Under certain circumstances, the Health System could be required to repay certain of the grants received from the Commonwealth. Management believes that the likelihood of such repayment is remote.

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Health System in estimating fair value for disclosures in the consolidated financial statements:

Investments — Investments in equity and debt securities are reported at fair value or at amounts which approximate fair value. Limited liability partnerships are accounted for on the equity basis which approximates their fair value.

Long-Term Debt — The fair value of long-term debt is based on quoted market prices or is estimated using discounted cash flow analyses for similar types of borrowing arrangements based on incremental borrowing rates. The carrying and fair values of long-term debt at June 30, 2008 are $363,661,000 and $349,903,000, respectively. The carrying and fair values of long-term debt at June 30, 2007, excluding the now-settled GPHSC III Bonds, were $354,459,000 and $348,288,000, respectively.

Other — Cash and cash equivalents, patient and other accounts receivable, and all other current assets and liabilities are reported at amounts that approximate fair value due to the relatively short period to maturity.

18. FUNCTIONAL EXPENSES

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2008	2007
Continuing operations-		
Health care services	$ 787,381	$ 705,042
General and administrative	221,018	196,933
	$ 1,008,399	$ 901,975
Discontinued operations-		
Health care services	$ 18,289	$ 51,880
General and administrativeq	4,011	11,634
	$ 22,300	$ 63,514

* * * * * *

SUPPLEMENTAL SCHEDULES

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2008
(In Thousands)

ASSETS	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	Temple East, Inc	Episcopal Hospital	TUHS Parent Company	TUHS Insurance Company, Ltd.	TUHS Foundation	GPHSC Entities (1)	TPI/TPA	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Consolidated
CURRENT ASSETS:												
Cash and cash equivalents	$ 40,747	$ 3,400	$ 4,333	$12,619	$ 12,371	$ 1,286	$ 2,327	$ 52	$ 1,273	$ 228	$	$ 78,636
Patient accounts receivable - net of allowance for doubtful accounts	93,898	16,118	11,857						2,991			124,864
Other receivables	50,122	2,291	4,796	510	2,701	1,449	96		395	386		62,746
Inventories and other current assets	10,787	4,526	2,262		1,057	5			296	406	(823)	18,516
Current portion of assets limited as to use	2,788	54	1,683		17,381	7,243						29,149
Current portion of workers' compensation fund	5,556	388	940		22				63	89		7,058
Due from affiliates - current portion	18,827	1,186	61	358	13,826	6,250			3,853	4	(44,365)	
Investments	218,264	18,599					10,174					247,037
Total current assets	440,989	46,562	25,932	13,487	47,358	16,233	12,597	52	8,871	1,113	(45,188)	568,006
PROPERY, PLANT, AND EQUIPMENT:												
Land and land improvements	3,822	3,216	15,086	231	9							22,364
Buildings	245,000	86,562	30,092	11,154	15,473				1,176			389,457
Fixed and movable equipment	177,230	44,330	34,184	4	23,900				2,026	450		282,124
Construction-in-progress	4,029	262	1,313		8,938							14,542
	430,081	134,370	80,675	11,389	48,320				3,202	450		708,487
Less accumulated depreciation	268,564	99,221	45,106	5,741	12,298				2,692	239		433,861
Net property, plant and equipment	161,517	35,149	35,569	5,648	36,022				510	211		274,626
Assets limited as to use	19,316	581	87		60,397	40,153						120,534
Investments		39,446			822							40,268
Workers' compensation fund	17,217	5,294	7,571						2,286		(25,127)	7,241
Estimated settlement with third party payor		6,653										6,653
Investment in TUHIC					24,840						(24,840)	
Beneficial interest in perpetual trusts	5,345	16,577	713									22,635
Due from affiliates					160,157						(160,157)	
Beneficial interest in the assets held by Episcopal Foundation	19,039			19,039							(19,039)	19,039
Other Assets	15,376	3,192	1,473		1,241				324		(1,089)	20,517
TOTAL ASSETS	$ 678,799	$153,454	$ 71,345	$38,174	$330,837	$56,386	$ 12,597	$ 52	$11,991	$ 1,324	$ (275,440)	$ 1,079,519

(1) Consists of the accounts of NW and TCCC.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION

AS OF JUNE 30, 2008
(In Thousands)

LIABILITIES AND NET ASSETS	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	Temple East, Inc	Episcopal Hospital	TUHS Parent Company	TUHS Insurance Company, Ltd.	TUHS Foundation	GPHSC Entities (1)	TPI/TPA	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Consolidated
CURRENT LIABILITIES:												
Current portion of long-term debt:	$ 4,888	$ 457	$ 664	$	$ 1,740	$	$	$	$	$	$	$ 7,749
Short-term notes payable and lines of credit												
Accounts payable	42,241	7,394	3,708	307	1,696	6,942		4,288	282	21		66,879
Accrued expenses	21,803	7,039	6,574		41,222	44		3	3,877	145	(25,228)	55,479
Current portion of estimated settlements with third-party payors	4,036		405							14		4,455
Current portion of self-insurance program liabilities	11,404	1,532	1,399		520	7,671			3,270	90		25,886
Due to affiliates - current portion	12,691	3,229	3,779	374	21,677			611	2,238	275	(44,874)	
Other current liabilities	8,640	6,757	1,975	135	1,298	135		465		25	(552)	18,878
Total current liabilities	105,703	26,408	18,504	816	68,153	14,792		5,367	9,667	570	(70,654)	179,326
LONG-TERM DEBT	117,997	117		6,500	231,298							355,912
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS		296										296
SELF-INSURANCE PROGRAM LIABILITIES	55,241	9,353	6,828	991	5,221	16,359			16,834	79		110,906
ACCRUED POSTRETIREMENT BENEFITS	25,099			189								25,288
DUE TO AFFILIATES	86,694	40,819	32,644								(160,157)	
OTHER LONG-TERM LIABILITIES	15,275	1,448	2,211	20,453	3,142	102					(20,128)	22,503
Total liabilities	406,009	78,441	60,187	28,949	307,814	31,253		5,367	26,501	649	(250,939)	694,231
NET ASSETS (DEFICIT):												
Unrestricted	243,836	58,147	8,793	8,957	21,362	25,133	12,597	(5,315)	(14,510)	675	(24,501)	335,174
Temporarily restricted	3,261	214	1,652	268	1,661							7,056
Permanently restricted	25,693	16,652	713									43,058
Total net assets (deficit)	272,790	75,013	11,158	9,225	23,023	25,133	12,597	(5,315)	(14,510)	675	(24,501)	385,288
TOTAL LIABILITIES AND NET ASSETS	$ 678,799	$153,454	$71,345	$38,174	$330,837	$56,386	$ 12,597	$ 52	$11,991	$ 1,324	$ (275,440)	$ 1,079,519

(1) Consists of the accounts of NW and TCCC.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008
(In Thousands)

	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	Temple East, Inc	Temple University Children's Medical Center	Episcopal Hospital	TUHS Parent Company	TUHS Insurance Company, Ltd.	TUHS Foundation	GPHSC Entities (1)	TPI/TPA	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Consolidated
UNRESTRICTED NET ASSETS:													
UNRESTRICTED REVENUE AND OTHER SUPPORT:													
Net patient service revenue	$ 669,395	$ 126,349	$ 109,573	$	$ 2,416	$	$	$	$	$ 29,413	$	$	$ 937,146
Other revenue	14,318	4,566	1,942		2,936	53,432	10,774			14,375	2,675	(81,456)	23,562
Investment income	1,168					1,270							2,438
Net assets released from restrictions used for operations	167	78	130			323							698
Unrestricted revenues and other support	685,048	130,993	111,645		5,352	55,025	10,774			43,788	2,675	(81,456)	963,844
EXPENSES:													
Salaries	251,047	52,665	47,891		710	21,202				26,995	2,280		402,790
Employee benefits	77,841	11,834	12,621		(137)	6,938				5,243	693		115,033
Professional fees	86,838	9,160	10,934		152	8,247				629		(5,804)	110,156
Supplies and pharmaceuticals	103,028	23,064	17,825		162	2,388				1,676	116		148,259
Purchased services and others	75,603	14,278	16,335		335	5,993	83			3,058	534	(56,416)	59,803
Maintenance	8,613	804	405		285	201				162	12		10,482
Utilities	12,452	1,989	1,682		579	1,551				665	(4)		18,914
Leases	12,067	1,623	772			5,675				1,913	879	(7,361)	15,568
Insurance	25,633	2,320	3,751		999	5,009	7,989			14,216	77	(7,989)	52,005
Depreciation and amortization	21,331	7,848	3,905		882	4,432				298	74		38,770
Interest	11,736	2,510	1,742		325	12,159				75		(7,435)	21,112
Provision for bad debts	9,350	2,408	1,380							619	199		13,956
Restructuring charges	207												207
Loss (gain) on disposal of fixed assets	1,269	(2)	78							(1)			1,344
Expenses	697,015	130,501	119,321		4,292	73,795	8,072			55,548	4,860	(85,005)	1,008,399
OPERATING (LOSS) INCOME	(11,967)	492	(7,676)		1,060	(18,770)	2,702			(11,760)	(2,185)	3,549	(44,555)
OTHER INCOME, NET													
Investment income	16,738	5,778	1,056		353	11,568	3,285	635		890	19	(11,823)	28,499
Other, net	31,017				8,107	551							39,675
Other income, net	47,755	5,778	1,056		8,460	12,119	3,285	635		890	19	(11,823)	68,174
EXCESS (DEFICIT) OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS	$ 35,788	$ 6,270	$ (6,620)		$ 9,520	$ (6,651)	$ 5,987	$ 635		$ (10,870)	$ (2,166)	$ (8,274)	$ 23,619

(1) Consists of the accounts of EJ, NW, TCCC.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008
(In Thousands)

	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	Temple East, Inc	Temple University Children's Medical Center	Episcopal Hospital	TUHS Parent Company	TUHS Insurance Company, Ltd.	TUHS Foundation	GPHSC Entities (1)	TPI/TPA	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Consolidated
EXCESS (DEFICIT) OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS	$ 35,788	$ 6,270	($6,620)	$	$ 9,520	($6,651)	$ 5,987	$ 635	$	($10,870)	($2,166)	($8,274)	$ 23,619
NET (LOSS) GAIN FROM DISCONTINUED OPERATIONS				(7,404)					65,518			(4,811)	53,303
EXCESS (DEFICIT) OF REVENUES AND OTHER SUPPORT OVER EXPENSES	35,788	6,270	(6,620)	(7,404)	9,520	(6,651)	5,987	635	65,518	(10,870)	(2,166)	(13,085)	76,922
OTHER CHANGES IN UNRESTRICTED NET ASSETS:													
Transfer (to) from affiliates/ the University	(46,190)	(7,000)	(82)	15,149		14,050				5,882	2,100		(16,091)
Net assets released from restrictions used for purchase of property and equipment	1,492	98	128										1,718
Net change in fair value of investments	4,883	(4,592)	39			1,259	1,253	59		8	2	(1,253)	1,658
Fair value adjustment of interest rate swap						(1,883)							(1,883)
Adjustment to funded status of pension and postretirement liabilities	(2,060)	(149)	(627)		(2,035)								(4,871)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(6,087)	(5,373)	(7,162)	7,745	7,485	6,775	7,240	694	65,518	(4,980)	(64)	(14,338)	57,453
TEMPORARILY RESTRICTED NET ASSETS:													
Contribution income	1,270	143	172	3		900							2,488
Net assets released from restrictions	(1,659)	(176)	(258)	(20)		(323)							(2,436)
Investment income	56	5		(56)									5
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(333)	(28)	(86)	(73)		577							57
PERMANENTLY RESTRICTED NET ASSETS:													
Contribution income													
Change in beneficial interest in assets held by Episcopal Foundation	(1,237)												(1,237)
Change in value of perpetual trusts	(96)	(2,198)	(85)										(2,379)
DECREASE IN PERMANENTLY RESTRICTED NET ASSETS	(1,333)	(2,198)	(85)										(3,616)
(DECREASE) INCREASE IN NET ASSETS	(7,753)	(7,599)	(7,333)	7,672	7,485	7,352	7,240	694	65,518	(4,980)	(64)	(14,338)	53,894
NET ASSETS (DEFICIT), BEGINNING OF YEAR	280,543	82,612	18,491	(7,672)	1,740	15,671	17,893	11,903	(70,833)	(9,530)	739	(10,163)	331,394
NET ASSETS (DEFICIT), END OF YEAR	$ 272,790	$ 75,013	$ 11,158		$ 9,225	$ 23,023	$ 25,133	$ 12,597	$ (5,315)	$ (14,510)	$ 675	$ (24,501)	$ 385,288

(1) Consists of the accounts of EJ, NW, TCCC.

(Concluded)