# Temple University Health System

Consolidated Financial Statements as of and for the Years Ended June 30, 2011 and 2010, Supplemental Schedules for the Temple University Health System Obligated Group as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

# TEMPLE UNIVERSITY HEALTH SYSTEM

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## 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, 2011 and 2010, 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, 2011 and 2010, 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.

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, 2011, are presented for the purpose of additional analysis of the basic 2011 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 2011 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 2011 consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic 2011 consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 20, 2011

## TEMPLE UNIVERSITY HEALTH SYSTEM

**CONSOLIDATED BALANCE SHEETS**
**AS OF JUNE 30, 2011 AND 2010**
**(In thousands)**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 140,241 | $ 170,497 |
| Patient accounts receivable — net of allowance for doubtful accounts of $21,719 in 2011 and $22,783 in 2010 | 123,682 | 123,766 |
| Other receivables — net of allowance for doubtful accounts of $549 in 2011 and $1,333 in 2010 | 29,076 | 81,906 |
| Inventories and other current assets | 19,901 | 23,343 |
| Current portion of assets limited as to use | 27,285 | 32,134 |
| Current portion of workers' compensation fund | 5,720 | 5,663 |
| Investments | 138,986 | 88,155 |
| Total current assets | 484,891 | 525,464 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land and land improvements | 9,052 | 12,899 |
| Buildings | 396,911 | 383,025 |
| Fixed and movable equipment | 342,082 | 315,836 |
| Construction-in-progress | 5,592 | 15,686 |
| | 753,637 | 727,446 |
| Less accumulated depreciation | 490,470 | 460,946 |
| Net property, plant and equipment | 263,167 | 266,500 |
| ASSETS LIMITED AS TO USE | 91,292 | 91,307 |
| INVESTMENTS | 38,410 | 34,927 |
| WORKERS' COMPENSATION FUND | 6,676 | 7,484 |
| ESTIMATED SETTLEMENT WITH THIRD-PARTY PAYOR | | 6,000 |
| BENEFICIAL INTEREST IN PERPETUAL TRUSTS | 21,483 | 18,587 |
| BENEFICIAL INTEREST IN THE ASSETS HELD BY EPISCOPAL FOUNDATION | 19,170 | 16,310 |
| OTHER ASSETS | 24,901 | 6,461 |
| TOTAL ASSETS | $ 949,990 | $ 973,040 |

See notes to consolidated financial statements. (Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED BALANCE SHEETS
## AS OF JUNE 30, 2011 AND 2010
## (In thousands)

| LIABILITIES AND NET ASSETS | 2011 | 2010 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 9,094 | $ 22,381 |
| Accounts payable | 47,135 | 46,605 |
| Accrued expenses | 52,689 | 58,695 |
| Current portion of estimated settlements with third-party payors | 4,055 | 5,338 |
| Current portion of self-insurance program liabilities | 34,586 | 26,898 |
| Other current liabilities | 23,166 | 45,106 |
| Total current liabilities | 170,725 | 205,023 |
| LONG-TERM DEBT | 323,879 | 327,724 |
| ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS | 1,230 | 1,168 |
| SELF-INSURANCE PROGRAM LIABILITIES | 122,563 | 114,810 |
| ACCRUED POSTRETIREMENT BENEFITS | 33,995 | 73,790 |
| OTHER LONG-TERM LIABILITIES | 26,824 | 25,134 |
| Total liabilities | 679,216 | 747,649 |
| NET ASSETS: | | |
| Unrestricted | 223,490 | 182,532 |
| Temporarily restricted | 5,111 | 6,442 |
| Permanently restricted | 42,173 | 36,417 |
| Total net assets | 270,774 | 225,391 |
| TOTAL LIABILITIES AND NET ASSETS | $ 949,990 | $ 973,040 |

See notes to consolidated financial statements. (Concluded)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010 (In thousands)

| | 2011 | 2010 |
|---|---|---|
| UNRESTRICTED NET ASSETS: | | |
| Unrestricted revenues and other support: | | |
| Net patient service revenue | $967,083 | $928,900 |
| Other revenue | 24,744 | 23,503 |
| Investment income | 539 | 582 |
| Net assets released from restrictions used for operations | 1,823 | 822 |
| Unrestricted revenues and other support | 994,189 | 953,807 |
| EXPENSES: | | |
| Salaries | 390,028 | 400,271 |
| Employee benefits | 115,927 | 110,967 |
| Professional fees | 74,104 | 71,940 |
| Supplies and pharmaceuticals | 152,087 | 153,753 |
| Purchased services and other | 95,434 | 75,907 |
| Maintenance | 13,458 | 12,259 |
| Utilities | 16,976 | 17,105 |
| Leases | 13,345 | 13,160 |
| Insurance | 49,515 | 54,379 |
| Depreciation and amortization | 37,275 | 39,440 |
| Interest | 19,851 | 20,137 |
| Provision for bad debts | 15,968 | 17,714 |
| Restructuring and estimated asset impairment charges | | 2,281 |
| Gain on disposal of fixed assets | (252) | (760) |
| Expenses | 993,716 | 988,553 |
| OPERATING GAIN (LOSS) | 473 | (34,746) |
| OTHER INCOME — Net: | | |
| Investment income | 11,862 | 19,990 |
| Other — net | 72 | |
| Other income — net | 11,934 | 19,990 |
| EXCESS/(DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS | 12,407 | (14,756) |
| NET GAIN FROM DISCONTINUED OPERATIONS | 4,684 | |
| EXCESS/(DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES | 17,091 | (14,756) |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | |
| Transfers to the University | (14,589) | (14,275) |
| Net assets released from restrictions used for purchase of property and equipment | 2,069 | 249 |
| Net change in fair value of investments | 7,848 | (4,561) |
| Adjustment to funded status of pension and postretirement liabilities | 28,539 | (26,536) |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | 40,958 | (59,879) |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contribution income | 2,342 | 1,782 |
| Net assets released from restrictions | (3,986) | (1,071) |
| Net unrealized gains on investments | 284 | 104 |
| Investment income | 29 | 33 |
| (Decrease) increase in temporarily restricted net assets | (1,331) | 848 |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Contribution income | | 135 |
| Change in beneficial interest in assets held by Episcopal Foundation | 2,861 | 772 |
| Change in beneficial interest in perpetual trusts | 2,895 | 1,085 |
| Increase in permanently restricted net assets | 5,756 | 1,992 |
| INCREASE (DECREASE) IN NET ASSETS | 45,383 | (57,039) |
| NET ASSETS — Beginning of year | 225,391 | 282,430 |
| NET ASSETS — End of year | $270,774 | $225,391 |

See notes to consolidated financial statements.

# TEMPLE UNIVERSITY HEALTH SYSTEM

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED JUNE 30, 2011 AND 2010
## (In thousands)

| | 2011 | 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Change in net assets | $ 45,383 | $ (57,039) |
| Gain from discontinued operations | (4,684) | |
| Increase (decrease) in net assets from continuing operations | 40,699 | (57,039) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized gains on investments | (8,064) | (3,209) |
| Net realized and unrealized gains on beneficial interests in perpetual trusts | (5,756) | (1,856) |
| Depreciation and amortization | 37,275 | 39,440 |
| Amortization of bond premium and discount | 165 | 177 |
| Provision for bad debts | 15,968 | 17,714 |
| Estimated asset impairment | | 4,384 |
| Adjustment to funded status of pension and postretirement liabilities | (28,539) | 26,536 |
| Proceeds from contributions and investments restricted to property, plant and equipment and endowments | (2,561) | (1,927) |
| (Gain) on disposal of fixed assets | (252) | (760) |
| Asset impairment | | |
| Transfers to the University | 14,589 | 14,275 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (15,884) | (20,136) |
| Other receivables | 42,030 | (34,710) |
| Pledges receivable — net | 200 | (452) |
| Inventories and other current assets | 5,458 | 129 |
| Other assets | (7,839) | 10,060 |
| Accounts payable | 1,932 | (9,984) |
| Accrued expenses | (6,006) | 1,925 |
| Estimated settlements with third-party payors | 4,779 | (614) |
| Self-insurance program liabilities | 15,441 | 13,895 |
| Other liabilities | (30,822) | 2,276 |
| Net cash provided by operating activities | 72,813 | 124 |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (38,008) | (33,164) |
| Purchases of investments | (407,617) | (400,513) |
| Proceeds from sales of investments | 366,982 | 480,127 |
| Proceeds from sale of fixed assets | 4,899 | 1,186 |
| Net cash (used in) provided by investing activities | (73,744) | 47,636 |
| FINANCING ACTIVITIES: | | |
| Proceeds from contributions and investments restricted to property, plant and equipment and endowments | 2,561 | 1,927 |
| Repayment of long-term debt | (22,797) | (3,175) |
| Proceeds from issuance of long-term debt | 5,500 | |
| Transfers to the University | (14,589) | (14,275) |
| Net cash used in financing activities | (29,325) | (15,523) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (30,256) | 32,237 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 170,497 | 138,260 |
| CASH AND CASH EQUIVALENTS — End of year | $ 140,241 | $ 170,497 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest | $ 19,686 | $ 19,377 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:
Amounts recorded for purchases of property and equipment in excess of amounts paid were $3,282,000 and $1,610,000 in 2011 and 2010, respectively.

The cost of assets acquired through capitalized leases in 2011 and 2010 was $0 and $5,219,000, 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" or "TU") 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, 2011 and 2010, 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 corporation, 740-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 East, Inc. ("TE"), a nonprofit corporation, operated a 189-bed acute care hospital doing business as Northeastern Hospital ("NEH") and ceased operations on June 29, 2009. On the same date, TUH began operations on the TE Campus doing business as the Northeastern Ambulatory Care Center ("NACC") providing outpatient health care services;
- Temple East Real Estate Inc. ("TERE"), a nonprofit corporation, is a title holding, supporting organization that facilitates the provision of health care services by NACC;
- Jeanes Hospital and affiliate ("JH"), a nonprofit corporation, 176-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 corporation, is a critical care ambulance company;
- 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). On June 29, 2011, the Corporation was dissolved;
- 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. TUHS is the sole owner of TUHIC which is domiciled in Bermuda and is not required to pay taxes in Bermuda on either income or capital gains.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America 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. At June 30, 2011 and 2010, the Health System had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes that credit risks related to these deposits is minimal. Cash and cash equivalents are carried at cost, which approximates market value.

**Investments** — Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. 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 unless the amount was recorded as part of the other-than-temporary impairment adjustment as disclosed in Note 5.

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 and financial information provided by the limited partnership. This financial information includes assumptions and methods that were reviewed by the Health System. The Health System believes that the estimated fair value is reasonable as of June 30, 2011 and 2010. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. 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.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320.

**Assets Limited as to Use** — Assets limited as to use primarily include assets held by trustees under indenture and insurance agreements, 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 and donor restricted assets. 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 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, was $37,275,000 and $39,440,000 for the years ended June 30, 2011 and 2010, respectively. Expenditures for maintenance and repairs necessary to maintain property, plant and equipment are charged to operations. Costs of renewals and betterments are capitalized. The cost of assets acquired through capitalized leases is $8,617,000 and $8,692,000, at June 30, 2011 and 2010, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2011 and 2010, the accumulated depreciation balance included $4,326,000 and $2,936,000, 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, 2011 and 2010.

**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). During fiscal year ended June 30, 2010, based on offers to purchase the TE and TERE property, plant and equipment related to the closure of Northeastern Hospital as an acute care facility, the Health System recognized a non-cash impairment charge of $4,384,000. The amount is included in restructuring and estimated asset impairment charges on the Statement of Operations and Changes in Net Assets. On December 15, 2010, TE and TERE sold the property known as the Northeastern Hospital and the adjacent parking lot for $7,500,000 which resulted in a gain on sale in the amount of $131,000.

**Asset Retirement Obligations** — The Health System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with FASB ASC Topic 410, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Health System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The value of the asset, when established in 2006, was $324,000. Over time, the liability is accreted to its present value each period using a discount rate of 6.75%, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations and changes in net assets. At June 30, 2011 and 2010, the recorded asset retirement obligation liability is $3,021,000 and $3,813,000, respectively. Accretion costs for 2011 and 2010 were $258,000 and $244,000, respectively.

**Deferred Financing Costs** — Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs as of June 30, 2011 and 2010, were $2,281,000 and $2,281,000, respectively. Accumulated amortization of deferred financing costs was $973,000 and $869,000 as of June 30, 2011 and 2010, 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.

**Performance Indicator** — In the accompanying consolidated statements of operations and changes in net assets, the primary indicator of the Health System's results is "Excess (deficiency) of revenues and other support over expenses". Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long lived assets, certain adjustments to pension and postretirement liabilities, and gains and losses related to discontinued operations.

**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 could change by a material amount in the near term. For the fiscal years ended June 30, 2011 and 2010, net patient service revenue increased by $6,465,000 and $5,486,000, respectively, as a result of settlements related to prior years or changes in estimates related thereto.

**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** — For the year ended June 30, 2011, other income included a gain on the sale of a swap agreement to a third party of $6,072,000.

At June 30, 2010, 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. On October 18, 2011 the Health System received the opinion of the Third Circuit, affirming the district court's decision denying Jeanes Hospital's claim for reimbursement. As a result of this decision, management has reduced this receivable to $-0- and reported a $6,000,000 non operating loss for fiscal year June 30, 2011.

**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's federal Exempt Organization Business Income Tax Returns for 2011, 2010, 2009, and 2008 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, asset impairments and the value of alternative investments.

**Recovery of FICA Taxes Paid in Prior Years -** During 2010, the Health System recognized a $10,800,000 recovery of the employer portion of Federal Insurance Contributions Act ("FICA") taxes paid by the Health System during the years 1995 through 2005 on the compensation of its medical residents. The recovery was credited to employee benefits expense.

**Recently Issued Accounting Pronouncements** — In April 2009, the FASB issued guidance on mergers and acquisitions regarding not-for-profit entities that is now incorporated into FASB ASC Topic 958, was effective for fiscal years beginning after December 15, 2009. FASB ASC Topic 958 changes the accounting for (1) combinations involving two or more not-for-profit entities and (2) combinations in which a not-for-profit entity acquires a for-profit business or a nonprofit activity. The impact of adopting FASB ASC Topic 958 will be dependent on any future mergers and acquisitions that the Heath System may pursue after its effective date.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 which is guidance regarding improved disclosures about fair value measures and amends FASB ASC Topic 820 and FASB ASC Topic 715. Specifically, the ASU requires entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfers in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify certain existing disclosure requirements. The ASU amends ASC 820 to clarify that reporting entities are required to provide fair value disclosures for each class of assets or liabilities and information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The Health

System adopted ASU No. 2010-06 in 2011 and it did not have a material impact on the Health System's financial statements. The additional required disclosures regarding fair value measures are found in footnote 17.

In August 2010, the FASB issued ASU No. 2010-23 which is guidance regarding measuring charity care for disclosure and is incorporated into FASB ASC Topic 954-605. The ASU requires that management's policy for providing charity care, as well as the level of charity care provided, is disclosed in the financial statements. Such disclosures shall be measured based on the provider's direct and indirect costs of providing charity care services. The ASU is effective for fiscal years beginning after December 15, 2010. The Health System is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24 which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The ASU requires that the ultimate costs of malpractice claims or similar contingent liabilities shall be accrued when the incidents that give rise to the claims occur. In addition, a health care entity shall evaluate its exposure to losses arising from claims and recognize a liability, if appropriate. Also, a health care entity with a retrospectively rated insurance policy whose ultimate premium is based primarily on the health care entity's loss experience shall account for the minimum premium as an expense over the period of coverage under the policy. Insurance recoveries shall not be recognized until the estimated losses exceed the stipulated maximum premium. The ASU is effective for fiscal years beginning after December 15, 2010. The Health System is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 which is guidance that results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The ASU is effective for fiscal years beginning after December 15, 2011. The Health System is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07 which requires health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations and changes in net assets rather than as an operating expense. The guidance provided in this ASU will be effective for fiscal years ending after December 15, 2012. Additional disclosures relating to the Health System's sources of patient revenue and its allowance for doubtful accounts related to patient accounts receivable will also be required. The adoption of the ASU is not expected to have any impact on the Health System's financial condition, overall results of operations or cash flows. Upon adoption of this ASU, the Health System will reclassify the provision for bad debts related to prior period patient service revenue as a deduction from patient service revenue as required by this ASU.

**Reclassifications** — The Health System has reclassified certain amounts in the statement of cash flows for 2010 to conform to the 2011 presentation. Both the change in the value of beneficial interests in perpetual trusts and the amortization of bond premiums and discounts have now been separately disclosed.

The Health System has reclassified certain amounts in the balance sheet for 2011 to appropriately classify other receivables as long term.

The Health System has reclassified certain amounts in footnote 17 for 2010 to conform to the 2011 presentation.

## 3. 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) based upon patient discharges (excluding newborns) by class of payor for the years ended June 30, 2011 and 2010, is as follows (unaudited):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Discharges** | **%** | **Discharges** | **%** |
| Continuing operations: | | | | |
| Medical assistance: | | | | |
| Fee for service | 3,564 | 9.8 % | 3,779 | 9.7 % |
| Managed care | 11,617 | 32.0 | 13,265 | 33.9 |
| Total Medical Assistance | 15,181 | 41.8 | 17,044 | 43.6 |
| Medicare: | | | | |
| Fee for service | 7,243 | 19.9 | 7,014 | 17.9 |
| Managed care | 6,718 | 18.5 | 7,106 | 18.2 |
| Total Medicare | 13,961 | 38.4 | 14,120 | 36.1 |
| * Independence Blue Cross | 4,162 | 11.4 | 4,725 | 12.1 |
| All other | 3,056 | 8.4 | 3,201 | 8.2 |
| | 36,360 | 100.0 % | 39,090 | 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, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|---|---|---|
| Medical assistance: | | |
| Fee for service (FFS) | 13.7 % | 8.9 % |
| Managed care | 20.9 | 22.9 |
| Medicare (FFS only) | 12.7 | 12.4 |
| * Independence Blue Cross | 23.0 | 23.3 |
| Aetna U.S. Healthcare | 6.8 | 8.3 |
| Commercial | 5.3 | 14.2 |
| Managed care/HMOs (including Medicare) | 15.6 | 6.6 |
| Other | 2.0 | 3.4 |
| | 100.0 % | 100.0 % |

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

## 4. 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 $142,329,000 and $149,252,000 for the fiscal years ended June 30, 2011 and 2010, respectively (see Note 16).

## 5. INVESTMENTS

**Assets Limited as to Use** — The composition of assets limited as to use at June 30, 2011 and 2010, is set forth in the following table (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Under indenture agreements-held by trustee: | | |
| Debt service funds | $ 15,626 | $ 17,867 |
| Debt service reserve funds | 35,097 | 34,869 |
| | 50,723 | 52,736 |
| Under debt agreements | 163 | 399 |
| Under insurance arrangements (primarily TUHIC) | 46,290 | 48,119 |
| Board designated | 14,913 | 15,033 |
| Donor restricted | 6,149 | 6,798 |
| Workers' compensation | 339 | 356 |
| | 118,577 | 123,441 |
| Less amounts required for current liabilities | 27,285 | 32,134 |
| | $ 91,292 | $ 91,307 |

By security classification (in thousands):

| | 2011 | 2010 |
|---|---|---|
| U.S. government securities | $ 75,074 | $ 63,961 |
| Corporate bonds, notes, and other debt securities | 4,841 | 7,635 |
| Cash and money market funds | 36,956 | 50,473 |
| Equity securities and mutual funds | 1,706 | 1,372 |
| | $ 118,577 | $ 123,441 |

**Workers' Compensation Fund** — Workers' compensation fund at June 30, 2011 and 2010, consisted of (in thousands):

| | 2011 | 2010 |
|---|---|---|
| U.S. government securities | $ 6,941 | $ 8,520 |
| Corporate bonds, notes, and other debt securities | 4,989 | 4,127 |
| Cash and money market funds | 466 | 500 |
| | $ 12,396 | $ 13,147 |

**Investments** — Investments at June 30, 2011 and 2010, consisted of (in thousands):

| | 2011 | 2010 |
|---|---|---|
| U.S. government securities | $ - | $ 40,197 |
| Corporate bonds, notes, and other debt securities | | 12,784 |
| Fixed income mutual funds | 97,989 | |
| Cash and money market funds | 2,907 | 5,370 |
| Equity securities and mutual funds | 54,769 | 44,363 |
| Limited liability partnerships | 21,531 | 19,546 |
| Other | 200 | 822 |
| | $ 177,396 | $ 123,082 |

**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, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Interest and dividend income | $ 13,367 | $ 12,834 |
| Net realized gains on sales of investments | 2,636 | 7,956 |
| Recognition of other-than-temporary impairment | (3,573) | (185) |
| Net unrealized gains/(losses) | 7,900 | (4,457) |
| | $ 20,330 | $ 16,148 |

Interest, dividends, realized and unrealized gains are reported as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Consolidated statements of operations and changes in net assets: | | |
| Unrestricted revenues — investment income | $ 539 | $ 582 |
| Unrestricted other income — investment income | 11,862 | 19,990 |
| Other changes in unrestricted net assets — net change in fair value | 7,848 | (4,561) |
| Temporarily restricted net assets — net unrealized gains | 52 | 104 |
| Temporarily restricted net assets — investment income | 29 | 33 |
| | $ 20,330 | $ 16,148 |

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 unless their use is restricted by donor.

The Health System has determined it is more likely than not that the Health System may be required to sell its available-for-sale securities before their anticipated recoveries. In assessing whether it is more likely than not that the Health System will be required to sell a security before its anticipated recovery, the Health System considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors.

In evaluating credit losses, the Health System considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

During fiscal years 2011 and 2010, the Health System recorded other-than-temporarily impairment charges of $3,573,000 and $185,000, respectively, on certain investments in debt and equity securities.

**TUHIC Debt Securities** — At June 30, 2011 and 2010, TUHIC held investments in debt securities. These securities are included as assets limited as to use in the Health System's consolidated balance sheets. The amortized cost and estimated fair value of debt securities at June 30, 2011 and 2010 by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Gross unrealized holding gains on these securities aggregated $794,000 and $1,568,000 at June 30, 2011 and 2010, respectively. Gross unrealized holding losses on these securities aggregated $66,000 and $3,000 at June 30, 2011 and 2010, respectively.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due within one year | $ 805 | $ 818 | $ 1,867 | $ 1,887 |
| Due after one year through five years | 18,435 | 18,704 | 22,981 | 23,413 |
| Due after five years through ten years | 18,345 | 18,655 | 6,461 | 6,917 |
| | | | 4,017 | 4,323 |
| | 37,585 | 38,177 | 35,326 | 36,540 |
| Mortgage and asset-backed securities | 6,773 | 6,909 | 8,377 | 8,728 |
| | $ 44,358 | $ 45,086 | $ 43,703 | $ 45,268 |

## 6. LONG-TERM DEBT

Long-term debt at June 30, 2011 and 2010, was as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| 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 $745 and $788 and bond discount of $1,533 and $1,621 at June 30, 2011 and 2010, respectively) | $214,932 | $216,622 |
| Note payable to the Pennsylvania Industrial Development Corporation due in April 2011 at a fixed interest rate of 2.5% | | 12,500 |
| 1993 TUH Hospital Revenue Bonds, issued by the Authority at a fixed interest rate of 6.625%, due in installments through 2023 (net of unamortized bond discount of $615 and $704 at June 30, 2011 and 2010, respectively) | 108,120 | 108,031 |
| Loan payable to Episcopal Healthcare Foundation due in December 2020 at a fixed interest rate of 4.0% | 5,273 | 6,500 |
| Various capital lease obligations due in installments through 2015 at a fixed interest rate of 6% | 4,648 | 6,452 |
| | 332,973 | 350,105 |
| Less current portion of long-term debt | 9,094 | 22,381 |
| | $323,879 | $327,724 |

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 TUHS Obligated Group includes TUHS, TUH, JH, TPI and T3. The Health System is not aware of any instances of non-compliance with its debt covenants for fiscal years 2011 and 2010.

At June 30, 2011, total aggregate principal payments under long-term debt and capital lease obligations for the next five years and thereafter are (in thousands):

| | |
|---|---|
| 2012 | $ 9,094 |
| 2013 | 10,488 |
| 2014 | 10,684 |
| 2015 | 10,041 |
| 2016 | 10,146 |
| Thereafter | 283,923 |

## 7. LEASE COMMITMENTS

The Health System leases certain property and equipment under operating lease agreements with remaining terms expiring at various dates through 2043. There are various financial covenants as part of these leases that are calculated based on the individual results of each member.

At June 30, 2011, 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):

| | |
|---|---|
| 2012 | $ 7,388 |
| 2013 | 6,959 |
| 2014 | 6,714 |
| 2015 | 6,614 |
| 2016 | 6,309 |
| Thereafter | 30,565 |
| | $ 64,549 |

## 8. 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 2011 and 2010, $14,589,000 and $14,275,000, respectively, in net asset transfers were recognized. All of the 2011 and 2010 transfers were disbursed by June 30, 2011 and 2010, respectively.

The Health System and University allocate certain costs for services provided to each other. Costs billed to the Health System by the University in 2011 and 2010 include (in thousands):

| | Health System Expense | |
|---|---|---|
| | 2011 | 2010 |
| Medical school clinical physicians | $ 45,142 | $ 40,181 |
| Maintenance | 7,541 | 7,010 |
| Telecommunications | 5,520 | 4,684 |
| Institutional support | 2,879 | 2,879 |
| Security | 1,950 | 3,095 |
| Employee tuition | 1,009 | 1,928 |
| Other administrative support | 11,171 | 2,770 |
| Total expenses billed | $ 75,212 | $ 62,547 |

The University also billed the Health System for capital projects in the amount of $1,115,000 and $7,183,000 for the years ended June 30, 2011 and 2010, respectively.

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. These charges are recorded on the consolidated statements of operations and changes in net assets as a professional fee expense.

The Health System charges the University for the cost of services provided to the University. Amounts billed to the University in 2011 and 2010 include (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Salaries and fringe benefits, primarily for residents | $ 6,229 | $ 5,221 |
| Rent | 2,959 | 2,617 |
| Other | 3,097 | 2,115 |
| Total expenses billed to the University | $ 12,285 | $ 9,953 |

Such amounts are included as other revenue or a reduction of expenses reported in the consolidated financial statements.

At June 30, 2011 and 2010, $14,841,000 and $3,364,000, respectively, are due to the University for transactions during those years and are included in accounts payable.

**Health Partners** — TUH and Episcopal are participants and governing members in a Medicaid HMO known as Health Partners ("HP"). 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 for fiscal year ended June 30, 2011 and 2010 was 33% and 31%, respectively.

For fiscal years 2011 and 2010, HP's annual premium revenues were approximately $973,263,000 and $818,871,000, respectively. For fiscal years 2011 and 2010, the Health System's estimated share of HP's net distribution was approximately $7,055,000 and $2,615,000, 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.

## 9. 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, 2011 and 2010, was 1.50% and 2.00%, 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 for the Health System was $138,626,000 and $123,680,000 at June 30, 2011 and 2010, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC only was $25,498,000 and $24,194,000 at June 30, 2011 and 2010, respectively. The Health System incurred net medical professional liability insurance expense of $48,056,000 and $52,367,000 in 2011 and 2010, respectively. These costs are recorded in the consolidated statement of operations and changes in net assets as insurance expense.

The activity in the liability for claims reported and claims incurred but not reported for TUHIC for the years ended June 30, 2011 and 2010, is summarized as follows (in thousands):

| | **2011** | **2010** |
|---|---|---|
| Outstanding | $ 12,805 | $ 13,485 |
| Incurred but not reported | 12,693 | 10,709 |
| | $ 25,498 | $ 24,194 |
| Balance — July 1 | $ 24,194 | $ 30,549 |
| Incurred related to current year | 10,171 | 9,089 |
| Incurred related to prior year | 2,898 | (3,170) |
| | 13,069 | 5,919 |
| Paid related to current year | 260 | 189 |
| Paid related to prior year | 11,505 | 12,085 |
| | 11,765 | 12,274 |
| Net balance — June 30 | $ 25,498 | $ 24,194 |

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, 2011 and 2010, was $2,550,000 and $2,419,000, respectively, and the actual statutory capital and surplus was $20,752,000 and $22,932,000, respectively. The minimum required level of liquid assets was $21,055,000 and $23,616,000 and actual liquid assets were $48,825,000 and $54,420,000 at June 30, 2011 and 2010, respectively.

The Health System is primarily self-insured for workers' compensation. Program assets at June 30, 2011 and 2010, were $12,396,000 and $13,147,000, respectively. Program liabilities were determined using a discount rate of 1.50% and 2.75% for fiscal years 2011 and 2010, respectively. The estimated discounted liability accrued at June 30, 2011 and 2010, was $18,523,000 and $18,028,000, respectively. Workers' compensation expense was $5,985,000 and $7,362,000 for fiscal years 2011 and 2010, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as employee benefit expense.

## 10. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Health System sponsors various defined benefit plans at the individual affiliate level based on prescribed eligibility requirements and certain Health System employees participate in the University's defined benefit plan. In addition, certain Health System members participate in the 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.

The Health System makes contributions to participants' accounts under the Health System'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 for fiscal years 2011 and 2010 were $14,703,000 and $13,745,000, respectively. Contributions to the plans for fiscal year 2012 are expected to be $16,709,000.

Also, certain Health System employees participate in multiemployer pension plans based on union-negotiated agreements. The Health System funds these plans through employer contributions. The Health System contributions to the plans for fiscal years 2011 and 2010 were $3,193,000 and $2,803,000, respectively. 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.

**Postretirement Health Care Plan Trends** — For measurement purposes, a 9.8% annual rate of increase in the per-capita cost of postretirement benefits was assumed for both 2011 and 2010. For 2011, this rate is assumed to decrease gradually to 5.0% 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, 2011 (in thousands) for all Health System and University participants:

| | 1% Increase | 1% (Decrease) |
|---|---|---|
| Incremental effect on total of service and interest cost components | $ 3,404 | $ (2,999) |
| Incremental effect on postretirement benefit obligation | 31,183 | (33,216) |

**Defined Benefit Pension, Defined Contribution and Postretirement Benefit Plans** — Total defined benefit pension, defined contribution, and other postretirement benefit plans expense under all Health System programs amounted to $23,657,000 and $20,806,000 for the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010 (dollars in thousands). A measurement date of June 30 is used for the plans.

| | Pensions | | Other Postretirement Benefit Plan | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Change in benefit obligation: | | | | |
| Benefit obligation — beginning of year | $146,309 | $121,327 | $345,570 | $ 298,414 |
| Service cost | 1,614 | 612 | 14,697 | 14,864 |
| Interest cost | 7,742 | 7,849 | 14,789 | 17,732 |
| Plan participant contributions | 244 | 96 | 2,722 | 2,781 |
| Actuarial (gain) loss | (1,283) | 21,973 | (46,069) | 27,855 |
| Benefits paid | (5,200) | (4,721) | (18,406) | (16,076) |
| Administrative expenses paid | (1,290) | | | |
| Settlement | (1,330) | (827) | | |
| Benefit obligation — end of year | 146,806 | 146,309 | 313,303 | 345,570 |
| Change in plan assets: | | | | |
| Fair value of plan assets — beginning of year | 116,657 | 109,258 | 191,996 | 162,313 |
| Actual return on plan assets | 19,987 | 11,267 | 26,773 | 22,234 |
| Employer contributions | 7,119 | 2,668 | 25,573 | 20,744 |
| Plan participant contributions | 244 | 96 | 2,722 | 2,781 |
| Plan expenses | (1,290) | (1,084) | | |
| Benefits paid | (5,200) | (4,721) | (18,406) | (16,076) |
| Settlement | (1,330) | (827) | | |
| Fair value of plan assets — end of year | 136,187 | 116,657 | 228,658 | 191,996 |
| Funded status | (10,619) | (29,652) | (84,645) | (153,574) |
| Less University prepaid (accrued) cost | 3,466 | 616 | (68,703) | (111,905) |
| Net amount recognized — TUHS Only | $ (14,085) | $ (30,268) | $ (15,942) | $ (41,669) |
| Amount recognized in the balance sheets, include: | | | | |
| Other noncurrent assets | $ 3,990 | $ 1,872 | $ - | $ - |
| Other current liabilities | | | (21) | (19) |
| Accrued postretirement benefits, noncurrent | (18,075) | (32,140) | (15,921) | (41,650) |
| Net amount recognized — TUHS Only | $ (14,085) | $ (30,268) | $ (15,942) | $ (41,669) |

| | Pensions | | Other Postretirement Benefit Plan | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Amounts recognized in unrestricted net assets: | | | | |
| Prior service costs | $ 6 | $ 7 | $ | $ |
| Net actuarial loss | 65,396 | 77,204 | 5,998 | 22,720 |
| Net amount recognized in unrestricted net assets | $ 65,402 | $ 77,211 | $ 5,998 | $ 22,720 |
| Weighted-average assumptions to determine benefit obligation: | | | | |
| Discount rate | 5.45%-5.70% | 5.35%–5.55% | 3.70%-5.35% | 5.50%-6.35% |
| Rate of compensation increase | 3.25%-4.50% | 3.25%–4.50% | N/A | N/A |
| Weighted-average assumptions to determine net periodic cost: | | | | |
| Discount rate | 5.35%-5.55% | 6.65%–6.90% | 3.90%-5.20% | 5.50%-6.35% |
| Rate of compensation increase | 3.25%-4.50% | 3.25%–4.50% | N/A | N/A |
| Expected return on plan assets | 7.50 % | 7.50% | 7.50 % | 8.00 % |
| Components of net periodic cost (benefit): | | | | |
| Service cost | $ 1,614 | $ 612 | $ 14,697 | $ 14,864 |
| Interest cost | 7,742 | 7,849 | 14,789 | 17,732 |
| Expected return on plan assets | (10,059) | (10,768) | (14,472) | (13,428) |
| Amortization | 2 | 2 | 1,152 | 5,237 |
| Recognized net actuarial loss | 2,803 | 1,022 | | |
| Net periodic cost (benefit) | 2,102 | (1,283) | 16,166 | 24,405 |
| Less University net periodic benefit (cost) | 293 | 113 | (12,213) | (18,751) |
| TUHS net periodic cost (benefit) | $ 1,809 | $ (1,396) | $ 3,953 | $ 5,654 |

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 2012 is $2,478,000 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 2012 is $3,162,000.

After the closure of NEH on June 29, 2009, some participants requested lump-sum cash payments. As of June 30, 2011 and 2010, the amount of the settlements paid totaled $1,330,000 and $827,000, respectively, which resulted in an actuarial loss of $27,000 and $111,000, respectively.

**Assets Allocations** — The following details the Health System's defined benefit plans asset allocations:

| Pension Plans Assets | Target Allocation Fiscal Year Ending June 30, 2012 | Percentage of Plan Assets at June 30, 2011 | Percentage of Plan Assets at June 30, 2010 |
|---|---|---|---|
| Equity securities | 55%-95% | 72 % | 72 % |
| Cash and fixed income | 5%-45% | 28 | 28 |
| Total | | 100 % | 100 % |

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

| **Pension and Other Postretirment Benefit Plan Assets** | **Target Allocation Fiscal Year Ending June 30, 2012** | **Percentage of Plan Assets at June 30, 2011** | **Percentage of Plan Assets at June 30, 2010** |
|---|---|---|---|
| Equity funds and securities | 40%-60% | 54 % | 55 % |
| Cash and fixed income | 40%-60% | 46 | 45 |
| Total | | 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.

The pension plans assets of the joint Health System and Temple University plans were $136,187,000 and $116,657,000 at June 30, 2011 and 2010, respectively. The fair values of the pension plan assets at June 30, 2011, by asset category are as follows (in thousands):

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 2,944 | $ - | $ - | $ 2,944 |
| Equity funds and securities | 71,626 | 24,337 | 1,770 | 97,733 |
| Fixed income mutual funds | 16,276 | | | 16,276 |
| US government securities | | 19,234 | | 19,234 |
| Total market value | $ 90,846 | $ 43,571 | $ 1,770 | $ 136,187 |

The fair values of the pension plan assets at June 30, 2010, by asset category are as follows (in thousands):

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 2,044 | $ - | $ - | $ 2,044 |
| Equity funds and securities | 57,549 | 25,957 | | 83,506 |
| Fixed income mutual funds | 10,610 | | | 10,610 |
| US government securities | 56 | 20,441 | | 20,497 |
| Total market value | $ 70,259 | $ 46,398 | $ - | $ 116,657 |

*Transfers between Levels 1 and 2:*

During the year ended June 30, 2011, there were no transfers between Levels 1 and 2.

*Transfers into or out of Level 3:*

Transfers into or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable/unobservable, or when the Health System determines it has the ability, or no longer has the ability, to redeem in the near term certain investments that the Health System values using a NAV (or a capital account)

The following is a reconciliation of investments in securities for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2011:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | |
|---|---|---|---|---|---|---|
| | | Total Realized/Unrealized Gains(Losses) included in: | | | | |
| | Balance, July 1, | Net Income | Net Assets | Purchases, Sales, Issuances and Settlements | Transfers into Level 3 | Balance, June 30, |
| Year ended June 30, 2011: | | | | | | |
| Investments | | | | | | |
| Equity securities and mutual funds | $ - | $37 | $192 | $(339) | $ 1,880 | $ 1,770 |
| Total investments | $ - | $37 | $192 | $(339) | $ 1,880 | $ 1,770 |

Detailed information for Level 3 investments as of June 30, 2011 follows. The fair values of these investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

| | Fair Value (in thousands) | Unfunded Commitments (in thousands) | Redemption Frequency (if currently eligible) | Redemption Notice Period (if applicable) |
|---|---|---|---|---|
| Year ended June 30, 2011: | | | | |
| Multi-Strategy Hedge Funds (a) | $ 614 | $ - | Quarterly | 91 days |
| Real Estate Funds (b) | 1,156 | | Quarterly | 95 days |
| | $ 1,770 | $ - | | |

(a) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.

(b) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.

The postretirement plan assets of the joint Health System and Temple University were $228,658,000 and $191,996,000 at June 30, 2011 and 2010, respectively, of which only a portion of this pool of assets belongs to the Health System. The fair values of the postretirement plan assets at June 30, 2011, by asset category are as follows (in thousands):

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 6,861 | $ - | $ - | $ 6,861 |
| Equity funds and securities | 97,246 | 25,646 | | 122,892 |
| US government securities | 4,314 | 94,397 | | 98,711 |
| Contributions receivable | 194 | | | 194 |
| Total market value | $ 108,615 | $ 120,043 | $ - | $ 228,658 |

The fair values of the postretirement plan assets at June 30, 2010, by asset category are as follows (in thousands):

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 8,080 | $ - | $ - | $ 8,080 |
| Equity funds and securities | 104,922 | | | 104,922 |
| US government securities | | 76,084 | | 76,084 |
| Contributions receivable | 2,910 | | | 2,910 |
| Total market value | $ 115,912 | $ 76,084 | $ - | $ 191,996 |

**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 (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

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

| | Pension Plans TU/ Health System | Other Postretirement Benefit Plan TU/ Health System |
|---|---|---|
| Expected Health System contributions for fiscal year ending June 30, 2012: | | |
| Expected employer contributions | $ 2,890 | $ 19,421 |
| Expected employee contributions | 252 | 2,817 |
| Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending: | | |
| June 30, 2012 | 6,195 | 16,816 |
| June 30, 2013 | 6,647 | 17,472 |
| June 30, 2014 | 7,026 | 18,341 |
| June 30, 2015 | 7,420 | 19,340 |
| June 30, 2016 | 7,836 | 19,958 |
| June 30, 2017 to June 30, 2021 | 46,003 | 109,181 |

## 11. ENDOWMENT

The Health System's endowment consists of several funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** — The Health System classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund comprised of accumulated investment earnings not required to be maintained in perpetuity is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Health System in a manner consistent with the donor's stipulations. The Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Health System, and the investment policies of the Health System.

Endowment net asset composition by type of fund as of June 30, 2011 (in thousands):

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ 1,475 | $ 1,520 | $ 2,995 |

Endowment net asset composition by type of fund as of June 30, 2010 (in thousands):

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ 1,207 | $ 1,520 | $ 2,727 |

Changes in endowment net assets for the fiscal years ended June 30, 2010 and 2011 (in thousands):

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Endowment net assets — June 30, 2009 | $ 1,078 | $ 1,385 | $ 2,463 |
| Contributions | | 135 | 135 |
| Investment return — investment income | 136 | | 136 |
| Appropriations of endowment assets for expenditure | (7) | | (7) |
| Endowment net assets — June 30, 2010 | 1,207 | 1,520 | 2,727 |
| Contributions | | | |
| Investment return — investment income | 311 | | 311 |
| Appropriations of endowment assets for expenditure | (43) | | (43) |
| Endowment net assets — June 30, 2011 | $ 1,475 | $ 1,520 | $ 2,995 |

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2011 and 2010.

**Investment Return Objectives and Spending Policy** — The Health System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index plus 4.5%. To satisfy its long-term rate-of-return objectives, the Health System targets a diversified asset allocation that places a greater emphasis on equity based investments within prudent risk constraints.

The Health System has a policy of appropriating for distribution each year 2% to 7% of its endowment fund's average fair value over the prior three years. The Board of Directors approved an appropriation of 3% for each of the years ended June 30, 2011 and 2010, respectively.

## 12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Property and equipment additions | $ 2,686 | $ 2,362 |
| Specific health care programs | 2,425 | 4,080 |
| | $ 5,111 | $ 6,442 |

Permanently restricted net assets consist of the following at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Endowment funds, income from which is expendable for specific health care programs (income is temporarily restricted) | $ 1,520 | $ 1,520 |
| Beneficial interest in perpetual trusts, income from which is expendable to support health care services (income reported as unrestricted) | 21,483 | 18,587 |
| Beneficial interest in assets held by Episcopal Foundation | 19,170 | 16,310 |
| | $ 42,173 | $ 36,417 |

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 $19,170,000 and $16,310,000 at June 30, 2011 and 2010, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 68% and 71% marketable equity securities and 32% and 29% fixed income securities at June 30, 2011 and 2010, respectively.

## 13. RESTRUCTURING AND ESTIMATED ASSET IMPAIRMENT CHARGES

Management continues to evaluate the business and in 2009, the Health System developed a comprehensive restructuring plan that included the transition of Northeastern Hospital to a multi-specialty outpatient center, which is known as Northeastern Ambulatory Care Center (NACC). In fiscal year 2010, the Health System recorded asset impairment and adjusted restructuring charges of $2,281,000. The Health System recorded a $4,384,000 impairment charge for the write-down of long-lived assets of Northeastern Hospital to their estimated fair value based on offers to purchase the property. The remaining adjustment included reversing estimated restructuring charges of $2,103,000.

As of June 30, 2010, the remaining liability related to restructuring totaled $216,000, which was paid in 2011.

## 14. DISCONTINUED OPERATIONS

**Temple Continuing Care Center (GPHSCIII)** — On February 4, 2003, GPHSCIII ceased operations.

The liabilities of GPHSCIII were included in the consolidated balance sheet at June 30, 2010 at their estimated settlement amounts. During 2011, it was determined that such liabilities had been settled with no additional payments required. Accordingly, during 2011 the liability recorded at June 30, 2010 in the amount of $4,684,000 was reversed and reported as a gain from discontinued operations. On June 29, 2011, GPHSCIII was dissolved. GPHSCIII had no assets at June 30, 2010 or 2011.

The assets, liabilities and net deficit of GPHSC III at June 30, 2011 and June 30, 2010, are as follows (in thousands):

| | **2010** |
|---|---|
| Current assets | $ - |
| Current liabilities | 4,684 |
| Total net deficit | $ 4,684 |

## 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.

The Friends Fiduciary Corporation owns the land that JH facilities are located. The land is leased to JH for a term ending June 30, 2044 for a nominal rent.

JH has committed to making $781,000 in additional investments at June 30, 2011 into partnerships (a private equity fund and a real estate fund), which may be requested through capital calls from the partnerships. Detail regarding the unfunded commitments is disclosed in footnote 17.

TUHIC holds cash and investments in debt securities in the amount of $46,290,000 and $46,121,000 as of June 30, 2011 and 2010, respectively, which are being held in trust in order to secure the Company's liabilities under certain reinsurance contracts.

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 4 — "Charity Care"). For the fiscal years ended June 30, 2011 and 2010, the Health System received grants from the Commonwealth of Pennsylvania's Department of Public Welfare in the amounts of $3,946,000 and $20,442,000, 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 2011 and 2010, the disproportionate share payments received by the Health System amounted to $25,733,000 and

$24,900,000, respectively, funding for the Academic Health Center amounted to $12,886,000 and $13,542,000, respectively, funding for medical education amounted to $10,033,000 and $8,965,000, respectively, and other funding received amounted to $46,400,000 and $19,335,000, respectively. These amounts are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. There is no guarantee that this funding will continue in future years. 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 VALUE MEASUREMENTS

FASB ASC Topic 820, which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements.

FASB ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

FASB ASC Topic 820 classifies the inputs used to measure fair value into the following hierarchy:

*Level 1* — Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2* — Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

*Level 3* — Level 3 inputs are unobservable inputs for the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis and its equity method alternative investments as of June 30, 2011 (in thousands):

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total June 30, 2011** |
|---|---|---|---|---|
| Assets limited as to use: | | | | |
| U.S. government securities | $ 33,335 | $ 41,739 | $ - | $ 75,074 |
| Corporate bonds, notes, and other debt securities | | 4,841 | | 4,841 |
| Cash and money market funds | 36,956 | | | 36,956 |
| Equity securities and mutual funds | 1,706 | | | 1,706 |
| | 71,997 | 46,580 | - | 118,577 |
| Workers' compensation fund: | | | | |
| U.S. government securities | 4,219 | 2,722 | | 6,941 |
| Corporate bonds, notes, and other debt securities | | 4,989 | | 4,989 |
| Cash and money market funds | 466 | | | 466 |
| | 4,685 | 7,711 | - | 12,396 |
| Investments: | | | | |
| Fixed income mutual funds | 97,989 | | | 97,989 |
| Cash and money market funds | 2,907 | | | 2,907 |
| Equity securities and mutual funds | 46,838 | | 7,931 | 54,769 |
| Limited liability partnerships | | 7,620 | 12,974 | 20,594 |
| | 147,734 | 7,620 | 20,905 | 176,259 |
| Beneficial interest in perpetual trusts: | | | | |
| U.S. government securities | 642 | 3,636 | | 4,278 |
| Fixed income mutual funds | 2,123 | | | 2,123 |
| Corporate bonds, notes, and other debt securities | | 26 | | 26 |
| Cash and money market funds | 557 | | | 557 |
| Equity securities and mutual funds | 14,499 | | | 14,499 |
| | 17,821 | 3,662 | - | 21,483 |
| Beneficial interest in the assets held by Episcopal Foundation: | | | | |
| U.S. government securities | 1,584 | 1,426 | | 3,010 |
| Fixed income mutual funds | 524 | | | 524 |
| Corporate bonds, notes, and other debt securities | | 1,644 | | 1,644 |
| Cash and money market funds | 767 | | | 767 |
| Equity securities and mutual funds | 11,026 | | | 11,026 |
| Alternative investments | | | 2,199 | 2,199 |
| | 13,901 | 3,070 | 2,199 | 19,170 |
| Total | $256,138 | $ 68,643 | $ 23,104 | $347,885 |

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis and its equity method alternative investments as of June 30, 2010 (in thousands):

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total June 30, 2010** |
|---|---|---|---|---|
| Assets limited as to use: | | | | |
| U.S. government securities | $ 29,004 | $ 34,957 | $ - | $ 63,961 |
| Corporate bonds, notes, and other debt securities | | 7,635 | | 7,635 |
| Cash and money market funds | 50,473 | | | 50,473 |
| Equity securities and mutual funds | 1,372 | | | 1,372 |
| | 80,849 | 42,592 | - | 123,441 |
| Workers' Compensation Fund: | | | | |
| U.S. government securities | 5,686 | 2,834 | | 8,520 |
| Corporate bonds, notes, and other debt securities | | 4,127 | | 4,127 |
| Cash and money market funds | 500 | | | 500 |
| | 6,186 | 6,961 | - | 13,147 |
| Investments: | | | | |
| U.S. government securities | 33,203 | 6,994 | | 40,197 |
| Corporate bonds, notes, and other debt securities | | 12,784 | | 12,784 |
| Cash and money market funds | 5,370 | | | 5,370 |
| Equity securities and mutual funds | 37,199 | | 7,164 | 44,363 |
| Limited liability partnerships | | | 18,658 | 18,658 |
| | 75,772 | 19,778 | 25,822 | 121,372 |
| Beneficial interest in perpetual trusts: | | | | |
| U.S. government securities | | 3,931 | | 3,931 |
| Corporate bonds, notes, and other debt securities | | 232 | | 232 |
| Cash and money market funds | 693 | | | 693 |
| Equity securities and mutual funds | 13,731 | | | 13,731 |
| | 14,424 | 4,163 | - | 18,587 |
| Beneficial interest in the assets held by Episcopal Foundation: | | | | |
| U.S. government securities | 1,884 | 1,464 | | 3,348 |
| Corporate bonds, notes, and other debt securities | | 2,479 | | 2,479 |
| Cash and money market funds | 586 | | | 586 |
| Equity securities and mutual funds | 7,945 | | | 7,945 |
| Alternative investments | | | 1,952 | 1,952 |
| | 10,415 | 3,943 | 1,952 | 16,310 |
| Total | $187,646 | $ 77,437 | $ 27,774 | $292,857 |

The following table sets forth, by level within the fair value hierarchy, the long lived assets recorded at fair value on a non-recurring basis as of June 30, 2010 (in thousands):

| **Assets** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Temple East, Inc. | $ - | $ 7,000 | $ - |

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of ASC 360-10, the assets of Temple East, Inc. (the disposal group), which had a carrying amount of $11,384,000 were written down to their fair value of $7,000,000 resulting in an impairment charge of $4,384,000. The fair value was based on offers to purchase the property. In December 2010, the property was sold for approximately $7,500,000.

*Transfers between Levels 1 and 2:*

During the year ended June 30, 2011, there were no transfers between Levels 1 and 2.

*Transfers into or out of Level 3:*

Transfers in and/or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable/unobservable, or when the Health System determines it has the ability, or no longer has the ability, to redeem in the near term certain investments that the Health System values using a NAV (or a capital account).

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2011:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | |
|---|---|---|---|---|---|---|
| | | Total Realized/Unrealized Gains(Losses) included in: | | Purchases, Sales, Issuances and Settlements | Transfer out of Level 3 | |
| | July 1, 2010 | Net Income | Net Asset | | | June 30, 2011 |
| Year ended June 30, 2011: | | | | | | |
| Assets: | | | | | | |
| Investments | | | | | | |
| Equity securities and mutual funds | $ 7,164 | $ 767 | $ - | $ - | $ - | $ 7,931 |
| Limited liability partnerships | 18,658 | 1,969 | | (1,188) | (6,465) | 12,974 |
| Total investments | $25,822 | $2,736 | $ - | $(1,188) | $(6,465) | $20,905 |
| Beneficial interest in assets held | | | | | | |
| Alternative investments | $ 1,952 | $ - | $247 | $ - | $ - | $ 2,199 |
| Total beneficial interest in assets held | $ 1,952 | $ - | $247 | $ - | $ - | $ 2,199 |

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2010:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | |
|---|---|---|---|---|---|---|
| | | Total Realized/Unrealized Gains(Losses) included in: | | Purchases, Sales, Issuances and Settlements | Transfer out of Level 3 | |
| | July 1, 2009 | Net Income | Net Asset | | | June 30, 2010 |
| Year ended June 30, 2010: | | | | | | |
| Assets: | | | | | | |
| Investments | | | | | | |
| Equity securities and mutual funds | $ 6,848 | $ 798 | $ - | $ - | $ (482) | $ 7,164 |
| Limited liability partnerships | 19,169 | 1,517 | | | (2,028) | 18,658 |
| Total investments | $26,017 | $2,315 | $ - | $ - | $(2,510) | $25,822 |
| Beneficial interest in assets held | | | | | | |
| Alternative investments | $ 1,003 | $ - | $949 | $ - | $ - | $ 1,952 |
| Total beneficial interest in assets held | $ 1,003 | $ - | $949 | $ - | $ - | $ 1,952 |

U.S. government securities, money market funds, equity securities and mutual funds classified as Level 1 are measured using quoted market prices.

Marketable debt securities classified as Level 1 were classified as such due to the usage of observable market prices for identical securities that are traded in active markets. These debt securities primarily include US Treasury Bonds.

The marketable debt securities classified as Level 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available, marketable debt instruments are priced using: non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These debt securities primarily include government bonds, corporate bonds, notes and other debt securities.

The alternative investments classified as Level 3 were classified as such due to the lack of observable market data. These investments include equity funds, mutual funds and limited liability partnerships that are valued by the fund manager based on the pro-rata interest in the net assets of the underlying investments which approximates fair value and by financial information provided by the limited partnerships. In accordance with ASU 2009-12, however, those investments that are measured at net asset value per share and are redeemable at the measurement date are classified as Level 2.

The estimated fair values of the Health System's beneficial interests in perpetual trusts and in assets held by the Episcopal Foundation are determined based on information provided by the trustees. Such fair values are measured using the fair value of the assets contributed to the trusts.

Detailed information for Level 3 investments as of June 30, 2011 and 2010 follows. The fair values of these investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

| | Fair Value (in thousands) | Unfunded Commitments (in thousands) | Redemption Frequency (if currently eligible) | Redemption Notice Period (if applicable) |
|---|---|---|---|---|
| Year ended June 30, 2011: | | | | |
| Multi-Strategy Hedge Funds (a) | $ 13,703 | $ - | Tri-annual | 45–100 days |
| Distressed Debt Hedge Funds (b) | 658 | | | |
| Long/Short Hedge Funds (c) | 3,643 | | Annual | 95 days |
| Private Equity Funds (d) | 1,944 | 155 | | |
| Stock Funds (e) | 1,927 | | | |
| Real Estate Funds (g) | 1,229 | 626 | | |
| | $ 23,104 | $ 781 | | |
| Year ended June 30, 2010: | | | | |
| Multi-Strategy Hedge Funds (a) | $ 12,266 | $ - | Tri-annual | 45–100 days |
| Distressed Debt Hedge Funds (b) | 1,132 | | Annual | 90 days |
| Long/Short Hedge Funds (c) | 5,357 | | Tri-annual | 10 days |
| Private Equity Funds (d) | 1,707 | 1,793 | | |
| Stock Funds (e) | 4,764 | | Monthly | * |
| Global/Macro Hedge Funds (f) | 1,701 | | Monthly | * |
| Real Asset Funds (g) | 847 | 931 | | |
| | $ 27,774 | $ 2,724 | | |

* Redemption is at the discretion of the Fund Manager

(a) This category includes investments in hedge funds that use a variety of strategies. These may include long/short equity, event-driven, capital structure arbitrage, fixed income arbitrage, credit of distressed companies, and restructuring and underpriced companies. In 2011 and 2010, investments representing approximately 49% and 58%, respectively, of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first three years. The remaining restriction period for these investments ranged from three to twelve months.

(b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies. In September 2010, Private Advisors Distressed Opportunities Fund notified the Health System that the fund has begun liquidation. Investors are no longer eligible for voluntary redemptions.

(c) This category includes investments in hedge funds that invest with managers or private investment funds that take short positions and long positions in equity securities and use leverage to augment the effects of stock selection. Investments in this category can be redeemed annually.

(d) This category includes investments in private equity partnerships whose strategy is to add 5% in value comparable public investments and that will be in the top 25% of comparable private equity managers. Investments in this category cannot be redeemed until November 2020 subject to two one year extensions.

(e) This category includes investments (typically through traditional, long-only stock managers) that maintain (beta) exposure to stocks and achieve (alpha) value added of at least 2% per year over a passive portfolio. Investments in this category are not currently eligible for redemption.

(f) This category includes investments in a broad diversity of asset classes and geographic markets. They may invest in the equity, global fixed income, currency and commodity sectors.

(g) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation. Investments in this category cannot be redeemed until the termination of the funds. These termination dates range from January 2013 to December 2015.

The fair value of the Health System's Pension assets is disclosed in Footnote 10.

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

*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, excluding capital lease obligations and the Episcopal Healthcare Foundation debt, at June 30, 2011 are $323,052,000 and $272,730,000, respectively. The carrying and fair values of long-term debt, excluding capital lease obligations and the Episcopal Healthcare Foundation debt, at June 30, 2010 are $337,153,000 and $304,309,000, 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):

| | 2011 | 2010 |
|---|---|---|
| Health care services | $ 837,032 | $ 820,067 |
| General and administrative | 156,684 | 168,486 |
| | $ 993,716 | $ 988,553 |

## 19. SUBSEQUENT EVENTS

The Health System has evaluated subsequent events through October 25, 2011, the date the financial statements were issued. There were no subsequent events requiring recording or disclosure in the consolidated financial statements.

* * * * * *

# SUPPLEMENTAL SCHEDULES

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION — OBLIGATED GROUP
## AS OF JUNE 30, 2011
## (In thousands)

| ASSETS | Temple University Hospital, Inc. | Jeanes Hospital and Affiliate | TUHS Parent Company (1) | TPI/TPA | Temple Health System Transport Team, Inc. | Eliminations | Temple University Health System Obligated Group |
|---|---|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents | $ 62,404 | $ 2,626 | $ 52,532 | $ 995 | $ 412 | $ - | $118,969 |
| Patient accounts receivable — net of allowance for doubtful accounts | 103,867 | 17,029 | | 2,786 | | | 123,682 |
| Other receivables — net of allowance for doubtful accounts | 20,640 | 1,600 | 1,319 | 69 | 403 | (194) | 23,837 |
| Inventories and other current assets | 14,008 | 4,232 | 1,215 | 259 | 350 | (170) | 19,894 |
| Current portion of assets limited as to use | 2,778 | 163 | 22,261 | | | | 25,202 |
| Current portion of workers' compensation fund | 5,026 | 239 | | 15 | 170 | | 5,450 |
| Due from affiliates — current portion | 15,098 | 3,328 | 11,439 | 1,819 | 99 | (30,680) | 1,103 |
| Investments | 102,535 | 10,963 | | | | | 113,498 |
| Total current assets | 326,356 | 40,180 | 88,766 | 5,943 | 1,434 | (31,044) | 431,635 |
| PROPERTY, PLANT AND EQUIPMENT: | | | | | | | |
| Land and land improvements | 5,569 | 3,182 | 9 | | | | 8,760 |
| Buildings | 268,895 | 92,031 | 22,142 | 1,277 | | | 384,345 |
| Fixed and movable equipment | 235,764 | 50,776 | 50,661 | 4,381 | 485 | | 342,067 |
| Construction-in-progress | 3,152 | 2,387 | 53 | | | | 5,592 |
| | 513,380 | 148,376 | 72,865 | 5,658 | 485 | - | 740,764 |
| Less accumulated depreciation | 331,760 | 115,800 | 31,747 | 2,635 | 390 | | 482,332 |
| Net property, plant and equipment | 181,620 | 32,576 | 41,118 | 3,023 | 95 | - | 258,432 |
| ASSETS LIMITED AS TO USE | 30,636 | 2,042 | 27,065 | 5,566 | | | 65,309 |
| INVESTMENTS | | 38,210 | 200 | | | | 38,410 |
| WORKERS' COMPENSATION FUND | 3,470 | 1,756 | | 258 | 51 | | 5,535 |
| INVESTMENT IN TUHIC | | | 20,759 | | | | 20,759 |
| BENEFICIAL INTEREST IN PERPETUAL TRUSTS | 5,148 | 15,706 | | | | | 20,854 |
| DUE FROM AFFILIATES | | | 124,485 | | | (124,485) | - |
| BENEFICIAL INTEREST IN ASSETS HELD BY EPISCOPAL FOUNDATION | 19,170 | | | | | | 19,170 |
| OTHER ASSETS | 23,303 | 533 | 986 | 79 | | | 24,901 |
| TOTAL ASSETS | $589,703 | $131,003 | $303,379 | $14,869 | $1,580 | $(155,529) | $885,005 |

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION — OBLIGATED GROUP
## AS OF JUNE 30, 2011
## (In thousands)

| LIABILITIES AND NET ASSETS | Temple University Hospital, Inc. | Jeanes Hospital and Affiliate | TUHS Parent Company (1) | TPI/TPA | Temple Health System Transport Team, Inc. | Eliminations | Temple University Health System Obligated Group |
|---|---|---|---|---|---|---|---|
| CURRENT LIABILITIES: | | | | | | | |
| Current portion of long-term debt | $ 6,643 | $ 263 | $ 1,723 | $ - | $ - | $ - | $ 8,629 |
| Accounts payable | 36,039 | 8,313 | 1,485 | 134 | 9 | | 45,980 |
| Accrued expenses | 27,179 | 7,163 | 35,334 | 3,897 | 167 | (194) | 73,546 |
| Current portion of estimated settlements with third-party payors | 2,694 | 801 | | | | | 3,495 |
| Current portion of self-insurance program liabilities | 17,506 | 5,351 | 247 | 1,032 | 170 | | 24,306 |
| Due to affiliates — current portion | 9,279 | 3,805 | 12,160 | 5,385 | 336 | (30,680) | 285 |
| Other current liabilities | 11,088 | 1,278 | 9,774 | | | (170) | 21,970 |
| Total current liabilities | 110,428 | 26,974 | 60,723 | 10,448 | 682 | (31,044) | 178,211 |
| LONG-TERM DEBT | 105,314 | 433 | 213,324 | | | | 319,071 |
| ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS | | 1,230 | | | | | 1,230 |
| SELF-INSURANCE PROGRAM LIABILITIES | 73,165 | 16,486 | 330 | 11,309 | 63 | | 101,353 |
| ACCRUED POSTRETIREMENT BENEFITS | 18,852 | 5,795 | | | | | 24,647 |
| DUE TO AFFILIATES | 84,635 | 39,850 | | | | (124,485) | - |
| OTHER LONG-TERM LIABILITIES | 18,404 | 1,674 | 2,799 | | | | 22,877 |
| Total liabilities | 410,798 | 92,442 | 277,176 | 21,757 | 745 | (155,529) | 647,389 |
| NET ASSETS (DEFICIT): | | | | | | | |
| Unrestricted | 148,612 | 22,394 | 26,202 | (6,888) | 835 | | 191,155 |
| Temporarily restricted | 4,665 | 385 | 1 | | | | 5,051 |
| Permanently restricted | 25,628 | 15,782 | | | | | 41,410 |
| Total net assets (deficit) | 178,905 | 38,561 | 26,203 | (6,888) | 835 | - | 237,616 |
| TOTAL LIABILITIES AND NET ASSETS | $589,703 | $131,003 | $303,379 | $14,869 | $1,580 | $(155,529) | $885,005 |

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Concluded)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION — OBLIGATED GROUP
## FOR THE YEAR ENDED JUNE 30, 2011
## (In thousands)

| | Temple University Hospital, Inc. | Jeanes Hospital and Affiliate | TUHS Parent Company (1) | TPI/TPA | Temple Health System Transport Team, Inc. | Eliminations | Temple University Health System Obligated Group |
|---|---|---|---|---|---|---|---|
| UNRESTRICTED NET ASSETS: | | | | | | | |
| Unrestricted revenues and other support: | | | | | | | |
| Net patient service revenue | $785,030 | $147,621 | $ - | $30,612 | $ - | $ - | $963,263 |
| Other revenue | 16,222 | 5,017 | 68,808 | 3,941 | 2,946 | (72,687) | 24,247 |
| Investment income | 164 | | 375 | | | | 539 |
| Net assets released from restrictions used for operations | 1,412 | 65 | 346 | | | | 1,823 |
| Unrestricted revenues and other support | 802,828 | 152,703 | 69,529 | 34,553 | 2,946 | (72,687) | 989,872 |
| EXPENSES: | | | | | | | |
| Salaries | 282,663 | 59,831 | 17,040 | 26,426 | 2,539 | | 388,499 |
| Employee benefits | 86,018 | 15,214 | 5,593 | 5,552 | 743 | | 113,120 |
| Professional fees | 60,118 | 9,969 | 6,269 | 1,053 | (2) | (3,446) | 73,961 |
| Supplies and pharmaceuticals | 121,286 | 26,971 | 1,626 | 1,832 | 109 | | 151,824 |
| Purchased services and other | 119,570 | 21,386 | 7,778 | 3,825 | 544 | (58,156) | 94,947 |
| Maintenance | 11,185 | 1,174 | 495 | 120 | 31 | | 13,005 |
| Utilities | 12,189 | 1,545 | 1,321 | 905 | 47 | | 16,007 |
| Leases | 11,218 | 1,232 | 4,183 | 2,461 | 962 | (3,682) | 16,374 |
| Insurance | 37,591 | 15,799 | 7 | (1,843) | 48 | | 51,602 |
| Depreciation and amortization | 21,563 | 6,967 | 6,896 | 681 | 71 | | 36,178 |
| Interest | 11,882 | 2,437 | 12,700 | | | (7,403) | 19,616 |
| Provision for bad debts | 11,690 | 3,123 | | 919 | 236 | | 15,968 |
| Loss (gain) on disposal of fixed assets | | (124) | 3 | | | | (121) |
| Expenses | 786,973 | 165,524 | 63,911 | 41,931 | 5,328 | (72,687) | 990,980 |
| OPERATING GAIN (LOSS) | 15,855 | (12,821) | 5,618 | (7,378) | (2,382) | - | (1,108) |
| OTHER INCOME — Net: | | | | | | | |
| Investment income | 4,007 | 5,946 | 286 | 533 | 8 | | 10,780 |
| Other income | | (6,000) | 6,072 | | | | 72 |
| Other income — net | 4,007 | (54) | 6,358 | 533 | 8 | - | 10,852 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS | 19,862 | (12,875) | 11,976 | (6,845) | (2,374) | - | 9,744 |

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

# TEMPLE UNIVERSITY HEALTH SYSTEM

## SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION — OBLIGATED GROUP
## FOR THE YEAR ENDED JUNE 30, 2011
## (In thousands)

| | Temple University Hospital, Inc. | Jeanes Hospital and Affiliate | TUHS Parent Company (1) | TPI/TPA | Temple Health System Transport Team, Inc. | Eliminations | Temple University Health System Obligated Group |
|---|---|---|---|---|---|---|---|
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS | $ 19,862 | $ (12,875) | $11,976 | $ (6,845) | $(2,374) | $ - | $ 9,744 |
| NET (LOSS) GAIN FROM DISCONTINUED OPERATIONS | | | | | | | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES | 19,862 | (12,875) | 11,976 | (6,845) | (2,374) | - | 9,744 |
| OTHER CHANGES IN UNRESTRICTED NET ASSETS: | | | | | | | |
| Transfers (to) from affiliates/the University | (29,480) | (6,159) | 1,434 | 12,100 | 2,417 | | (19,688) |
| Net assets released from restrictions used for purchase of property and equipment | 1,384 | 50 | | | | | 1,434 |
| Net change in fair value of investments | 6,704 | 2,286 | (867) | (1) | | | 8,122 |
| Adjustment to funded status of pension and postretirement liabilities | 18,015 | 4,455 | | | | | 22,470 |
| Increase (decrease) in unrestricted net assets | 16,485 | (12,243) | 12,543 | 5,254 | 43 | - | 22,082 |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | | | | |
| Contribution income | 2,114 | 228 | | | | | 2,342 |
| Net assets released from restrictions | (2,658) | (115) | (578) | | | | (3,351) |
| Net unrealized gains on investments | 282 | | 2 | | | | 284 |
| Investment income | 29 | | | | | | 29 |
| (Decrease) increase in temporarily restricted net assets | (233) | 113 | (576) | - | - | - | (696) |
| PERMANENTLY RESTRICTED NET ASSETS: | | | | | | | |
| Change in beneficial interest in assets held by Episcopal Foundation | 2,861 | | | | | | 2,861 |
| Change in beneficial interest in perpetual trusts | 727 | 2,081 | | | | | 2,808 |
| Increase in permanently restricted net assets | 3,588 | 2,081 | - | - | - | - | 5,669 |
| INCREASE (DECREASE) IN NET ASSETS | 19,840 | (10,049) | 11,967 | 5,254 | 43 | - | 27,055 |
| NET ASSETS (DEFICIT) — Beginning of year | 159,065 | 48,610 | 14,236 | (12,142) | 792 | | 210,561 |
| NET ASSETS (DEFICIT) — End of year | $178,905 | $ 38,561 | $26,203 | $ (6,888) | $ 835 | $ - | $237,616 |

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Concluded)

## TEMPLE UNIVERSITY HEALTH SYSTEM OBLIGATED GROUP

For the year ended June 30, 2011, the Obligated Group included Temple University Hospital, Inc., Jeanes Hospital and affiliate, Temple University Health System (parent), Temple Physicians, Inc. ("TPI"), Temple Professional Associates ("TPA"), and Temple Health System Transport Team, Inc. These supplemental schedules have been prepared for the purpose of additional analysis of the basic consolidated financial statements of the Health System for the purpose of complying with certain requirements related to the Series 2007 A/B Revenue Bonds and are not intended to present the separate financial statements of the Obligated Group.