In FY07 the Consolidated University experienced a $324.2 million or 7.3% increase in total operating revenues to $4.76 billion. The Health System accounted for 77% of this growth. Hospital and physician practice revenue grew $135.6 million (+ 9.8%) from the prior year partially due to inpatient and outpatient activity growth and strong operating margins. From the Academic component, tuition and fees (net of student aid), investment income and other income grew by $39.0 million (+6.5%), $35.5 million (+15.0%), and $14.7 million (+8.8%), respectively.

Total operating expenses grew by $226.0 million or 5.4%. Operating expenses as a percentage of revenues declined to 93.0% from 94.7%. Hospital and Physician practice expenses increased 6.1%, driven by higher salaries, supplies and expenses. Instructional expenses grew 5.8% to $847.5 million.

Within the footnotes to the financial statements, the Consolidated University expenses are reported on a natural classification basis. Total compensation expenditures for UPHS and the University combined increased 4.9% due to increases in wages and benefit costs.

The consolidated University achieved significant growth in net assets during FY07. Net assets from operating activities increased 41.7% to $333.3 million from $235.1 million in FY06. Net assets from non-operating activities increased 50.8% compared to the prior year to $1.056 billion. At the close of FY07, the consolidated University’s net assets totaled $8.713 billion.

The endowment’s market value as of June 30, 2007 was $6.6 billion, a 24.9% increase from the prior year end. The Associated Investment Fund’s (AIF) strong FY07 performance (+20.2%) exceeded the composite benchmark of 18.7% as well as the FY06 performance of 12.5%. The success of the investment portfolio is a function of the strong returns realized in the international equity, domestic equity and absolute return segments of the portfolio.

Short term working capital, measured by operating cash, grew after adjusting for transfers to the AIF of $150 million by the Health System and $210 million by the Academic component. The total operating cash growth was $236.9 million, or 21.1%, compared to FY06.

Plant assets, net of depreciation, increased $158.7 million to $3.068 billion. Debt obligations decreased by $41.4 million. Cash flow from operating activities totaled $571.2 million.

The University received a rating upgrade from Moody’s Investment Services of Aa2 with a stable outlook from its previous standing at Aa3. Reasons cited for the upgrade include strong fundraising results, affordable future debt plans, enhanced selectivity in admissions, improved Health System performance, and sustained endowment growth.
CONSOLIDATED ACADEMIC COMPONENT
For the fiscal year ended June 30, 2007

The Academic component of the University achieved a positive financial performance during FY 07. Net assets grew $956.7 million primarily due to gains on investments and other non-operating activities which totaled $904.4 million.

Total operating revenue increased by $73.7 million, or 3.6%, to $2.115 billion. The majority of the revenue growth is attributable to tuition and fees (net of aid), which grew 6.5% year over year. Other drivers of the revenue augmentation include the increased allocation of AIF returns and growth in other income sources (e.g. animal care (SVM), patient care (SON) and executive education programs (Wharton)). The strong revenue growth in the academic component was tempered by a 2.6% reduction in sponsored programs (including indirect cost recovery), particularly in the School of Medicine as grants from the Department of Health and Human Services declined by $31.6 million year over year. Operating contributions increased slightly as compared to FY 06 to over $109 million. However, endowment and capital contributions declined $31.4 million (-12.1%). Large gifts for construction projects related to the Hill Pavilion and Skirkanich Hall were received during FY06 without a similarly sized capital project in FY07.

Total operating expenses increased by $90.5 million, or 4.6%, to $2.062 billion. The growth in expenses was driven by growth in salaries and wages, current expense and depreciation. Salaries increased by 4.0% on average and benefit costs rose by 2.4% together accounting for 46% of the expense growth. Current expenses grew 4.3% year over year. Depreciation increased by 18.3% due to the one-time useful life analysis adjustment which should improve indirect cost recovery. Excluding that adjustment, the total expense increase would have been 3.9%.

The financial markets remained relatively stable during the first half of FY 07, followed by turmoil and downward pressure during the 3rd quarter. The University’s endowment, however, achieved great success and maintained stability throughout the market fluctuations with a return which was 1.5% higher than its benchmark. Over the past two fiscal years the Academic component, in its commitment to strengthening the endowment fund and best utilizing its assets, invested $390 million in the AIF. The market value of the academic component’s portion of the University endowment was $5.55 billion on June 30, 2007, an increase of 25.8% since FY 06.

Plant assets, net of depreciation, decreased by $5.2 million to $2.25 billion. Total debt obligations decreased $8.1 million to $595.0 million. Cash flow from operating activities totaled $183.9 million.

Purchases of plant, property, and equipment totaled $134.0 million, a decrease of $92.6 million compared to the prior year activity. Significant Academic component capital expenditures include the School of Veterinary Medicine Hill Pavilion ($16.7 million), Harnwell House renovations ($9.1 million), and expansion of the University’s chilled water loop ($5.1 million).
Net assets of the Health System grew $432.5 million to a total of $1.403 billion. Unrestricted net assets increased by $351.5 million, a $79.5 million improvement over the FY06 results, driven by strong operating and investment performance.

Total operating revenue increased by $235.2 million, or 9.8%, during FY07 to $2.633 billion. Adjusted admissions grew 110,831 (+6.3%) due to inpatient and outpatient activity growth, service intensity, and rate enhancements in targeted service areas. Inpatient adult admissions continue their strong growth (+4.0%) across all UPHS hospitals. Adult admission growth was centered on high intensity services including Surgery, Cancer, Other Medicine and OB/GYN. Growth in Other Medicine is reflective of increased emergency room activity. Total emergency room visits increased by 4% in FY07. Outpatient activity represents 40% of overall activity and is expected to increase in FY08. Targeted high intensity outpatient services continue to expand in preparation for the occupation of Perelman Center for Advanced Medicine in Spring 2008.

Total expenses increased by 6.0% from $2.239 billion in FY06 to $2.374 billion in FY07 driven by higher wages and supplies and expenses. Despite these increases, excess of revenue over expenses from operations totaled $258.5 million (9.8% operating margin) at the close of FY07, 63.2% higher than FY06 levels. Non-operating gains grew $57.8 million to $122.2 million led by unrealized investment gains on alternative investments.

Cash and equivalents increased by $15.1 million to $394.9 million excluding transfers to the AIF of $150 million. Unrestricted cash, board designated funds, and investments increased by $255 million. The Health System’s days-cash-on-hand increased to 190 days in FY07 from 158 days in FY06. Net patient receivables increased by $11.0 million to $229.4 million, while net patient revenue grew by $222.8 million. Average cash receipts for the three months ended June 30, 2007 were $201 million, as compared to an average of $188 million over the same three month period in the prior year.

Capital project expenditures totaled $257.7 million in FY07, an increase of $116.1 million over FY06, but consistent with the Penn Medicine strategic plan. Significant Health System capital expenditures include the Perelman Center for Advanced Medicine ($83.8M); Roberts Proton Beam Therapy ($33.6M); and Graduate Hospital acquisition ($6.8M).

All financial indicators are tracking positively with the exception of two ratios. The CMI (case mix index) declined due to higher medicine volume through ER, which typically has a lower CMI than the surgical units. The FY07 increase in unrestricted financial assets of $255 million was lower than the prior year due to the increased investment in property, plant and equipment.

In FY07, due to continued strength in operations as well as decreasing debt levels, UPHS received ratings upgrades from both Moody’s and S&P to A1 stable and A+ positive, respectively, improving their ability to efficiently access capital markets.