Minutes of the Meeting of the Executive Committee of the Trustees of the University of Pennsylvania
May 9, 2002

A meeting of the Executive Committee of the Trustees of the University of Pennsylvania was convened at 3:05 p.m. on Thursday, May 9, 2002, in the Regent/St. Marks Room, Inn at Penn, 3600 Sansom Street.

Trustees present were: Madlyn Abramson, Judith Roth Berkowitz, Christopher Browne, L. John Clark, David Cohen, Paul Kelly, Natalie Koether, William Mack, James Riepe (chair), Judith Rodin (ex officio), Leonard Shapiro, Alvin Shoemaker, and Michael Tarnopol. Others present were: Robert Barchi, John Fry, Kimberly Hoover, Leslie Laird Kruhly, Robert Martin, Marguerite Miller, Pedro Ramos, and Wendy White.

I. Call to Order—Mr. James Riepe

A. The minutes of the meeting of March 21, 2002, were approved as previously distributed.

II. President’s Report—Dr. Judith Rodin

A. Comments

Dr. Rodin noted that preparations were almost complete for Commencement and Alumni Weekend, with ever-increasing numbers of alumni expected to return to campus. Dr. Rodin described Alumni Weekend as being "bittersweet" for Virginia Clark, Vice President for Development and Alumni Relations who, as Director of External Affairs at the Smithsonian Institution, will assume great new challenges. She will always be a valued member of the Penn community, which is indebted to her for her tremendous accomplishments. Ms. Clark has done much to energize alumni, as Dr. Rodin and the Provost have witnessed in their travels around the country, to share the successes of the Agenda for Excellence and to encourage alumni to stay engaged as the University builds on excellence. With hundreds of alumni attending each event, they found the alumni in Los Angeles, San Francisco, Washington, Boston, and Atlanta enthusiastic, engaged, and prouder than ever of their alma mater. Chairman Riepe and Dr. Rodin were scheduled to meet with alumni in London in two weeks. Following that, the President and the Provost will continue their tour with alumni events in New York, Philadelphia, and Chicago.

Dr. Rodin then reported on faculty matters. The recent meeting of the Provost’s Staff Conference confirmed the appointment of Michael Eric Dyson to the Religious Studies Department in the School of Arts and Sciences (SAS). Professor Dyson is a renowned and respected African-American author and minister, currently a professor at DePaul University, who is a widely-sought commentator and speaker on contemporary
culture. Penn is fortunate to have him as a faculty member, especially because he was in conversations with Harvard University. A public announcement of his appointment will be made soon. Dr. Rodin also noted that Vice President for Information Systems and Computing Robin Beck will succeed outgoing Vice Provost James O'Donnell as the senior information officer for the University. Ms. Beck is a terrific manager with a broad and deep understanding of both information systems and Penn’s unique technical needs and will continue to be a leader in a field that is more demanding every day.

B. Academic Report—Dr. Robert Barchi

1. Comments

Dr. Barchi reported on highlights at the Graduate School of Education (GSE). GSE’s national ranking has moved up to five in the *U.S. News and World Report* Graduate Book, denoting much-deserved recognition of the School’s recent efforts to build its applicant pool, improve student selectivity, and raise an already impressive level of faculty research. This was also a benchmark year for GSE in terms of enrollments: the volume and quality of applications to its academic programs increased significantly, with master’s enrollment up 33 percent and minority applications up 22 percent.

The Graduate Student Center (GSC) opened in September 2001 and has accomplished much in its first year of operation, providing graduate and professional students with a centrally-located home on Locust Walk. One of the GSC’s first tasks was to recruit an advisory board of graduate and professional students to create a mission statement, set policy, and develop program ideas. Eleven graduate and professional student fellows were hired to plan programs during the Center’s first academic year. The board continues to advise GSC staff and fellows on issues affecting the Center. The GSC organized almost 200 programs this year, including recreational outings, cultural trips, lectures, art openings, film screenings, community service projects, workshops, and presentations by the administration.

Dr. Barchi then presented the following resolutions for approval by the Trustees.

*Action*........1. A Resolution on Repatriation Claim from Hoonah Indian Association/Huna Heritage Foundation, Alaska for Objects in the Collections of the University of Pennsylvania Museum of Archaeology and Anthropology was approved as follows:

The Native American Graves Protection and Repatriation Act (“NAGPRA”), which was enacted by Congress in 1990, requires museums that hold certain types of Native American artifacts to repatriate such objects upon request of the known lineal descendant or culturally affiliated Indian tribe or Native Hawaiian organization if all statutory requirements are met. “Sacred objects” and “objects of cultural patrimony” are types of objects subject to repatriation under NAGPRA. The University of Pennsylvania Museum of Archaeology and Anthropology holds in its American Section collections a grouping of 44 objects
associated with the T’a kdeintaan Clan of Alaska. Louis Shotridge purchased these objects, known as the “Snail House collection,” for the Museum in 1924. Two federally recognized organizations, the Hoonah Indian Association (HIA) and the Huna Heritage Foundation (HHF), have submitted a joint repatriation claim for the entire collection. In addition, the two organizations have requested a Marmot frontlet, which Louis Shotridge purchased for the Museum in 1918. The groups contend that the claimed objects fit the definition of "objects of cultural patrimony."

Based on a careful evaluation of information provided by the claimants and other available information, including anthropological research, the University Museum’s Committee on Repatriation concluded that the claim does not meet the criteria for repatriation under NAGPRA. More specifically, the Committee concluded that the preponderance of the evidence regarding the sale and acquisition of the objects rebut the claimant’s assertion of ownership. The Museum meets the conditions of lawful possession specified by NAGPRA and has the right of possession to the objects. Moreover, the Committee determined that none of the objects fits the statutory definition of objects of cultural patrimony.

In the process of evaluating whether the claim met the legal requirements, the Committee examined the significance of each individual object. The Committee concluded that some of the objects are of particular historical significance to the Snail House and the T’akdeintaan Clan. In recognition of this finding, out of respect for the Clan and its culture, and in the spirit of NAGPRA, the University Museum, upon the recommendation of the Committee and having conferred with the Executive Committee of its Board of Overseers, wishes to work cooperatively with the claimants to make the objects accessible to the Clan.

RESOLVED, that the Director of the University of Pennsylvania Museum of Archaeology and Anthropology, or his designees, be and are hereby authorized, in consultation with and subject to the approval of the Provost, to take appropriate action to explore a mutually acceptable resolution of this claim in a manner consistent with the spirit of NAGPRA. Specifically, the Director may explore mediation or other dispute resolution processes approved by the General Counsel of the University. In addition, the Director may pursue other options to make the objects accessible to the Clan, including loan arrangements with the claimants for some or all of the claimed objects, and/or the return of certain objects of particular historical significance to the claimants.
C. Financial Report—Mr. John Fry

Mr. Fry gave the Financial Report for the period of July 1, 2001, to March 31, 2002, for the University and the Health Services Component.

During the first three quarters of 2002, the consolidated University academic component saw an increase in assets of $137.5 million to a total of over $4.7 billion. This increase was the result of an increase in net assets from operating activities of $38.7 million, along with a net increase in non-operating revenue of approximately $100 million. Plant assets, net of depreciation, increased $65.6 million since June 30. This increase was primarily the result of capital costs incurred for Huntsman Hall, the Quadrangle, the University Museum, and the Pottruck Fitness Center. Fair value of the University's endowment, excluding the Health Services Component, was $2.909 billion at March 31, an increase of approximately $68 million since June 30. The endowment achieved a 4.1 percent return for its first nine months, compared to a 1.1 percent loss for its benchmark. For Fiscal Year (FY) 02, operating revenue increased 10.9 percent over the comparable period in FY01. Revenue from sponsored programs increased 13.7 percent over the same period in FY01. Operating expenditures increased 10.2 percent, resulting from an increase in sponsored program costs and in other salaries and benefits, reflecting an increase in the number of employees and a general wage increase for FY02. While the University recorded an increase of 10.8 percent in its operating contributions from FY01 to FY02, it did see a decline in non-operating contributions from $139 million in FY01 to $70.7 million in FY02. This is principally due to several large one-time gifts for endowment capital that were received in the first nine months of FY01. Net cash provided by operating activities totaled $194.5 million for the first three quarters. This compares to $195 million received during the same period of FY01. The principle uses of cash were purchases of property plant equipment of $148.3 million, a $39 million decrease in capital investment activity recorded through March of the last fiscal year.

The Health Services Component of the Health System had an overall increase of unrestricted net assets of $27.7 million for the period ending March 31. The net operating gain was $11.3 million for the year, which was favorable to budget by almost $1.9 million. After accounting for non-operating revenue and an unrealized loss on investments, the Health Services Component had an overall excess of revenue over expenses of $49.1 million before transfers. While cash and cash equivalents decreased by $7.9 million for the first nine months, this was still better than budget by $9.1 million. Health Services management continued efforts to improve accounts receivable collections. Days in accounts receivable fell to 79.4 days compared to 86 at June 30.
D. Penn Medicine Report—Dr. Robert Martin

Dr. Martin gave the Penn Medicine Report in place of Dr. Arthur Rubenstein.

Dr. Martin noted that the Penn Medicine Board is spending a great deal of time on strategic planning.

Dr. Martin then reported on Commencement activities. This year, 126 students are expected to graduate from the School of Medicine and 24 will receive joint degrees. One hundred nineteen of the graduating students will begin residency programs (30 of the best students will remain at the Hospital of the University of Pennsylvania). The incoming class is a highly competitive group of students.

Dr. Martin noted recent rankings for the Health System. The School of Medicine was recently ranked fourth by *U.S. News and World Report*. Penn Medicine has the most clinicians of any medical center in this area selected as best doctors by *Philadelphia Magazine*. The selections were made by peer physicians in the area.

Dr. Martin then reported that the Health System recently completed a self-assessment of the quality of care it provides and shared a preliminary report of the findings with the Executive Committee of Penn Medicine. This initiative, led by Dr. P.J. Brennan, will continue for several months.

Lastly, Dr. Martin noted that the Pennsylvania Healthcare Cost Containment Council data on cost and profitability were just released. These data indicate that the financial situation for most Pennsylvania hospitals is fluctuating, with margins under two percent on average for all hospitals statewide. Deterioration is expected in FY02 because of medical malpractice cost inflation and unit labor cost inflation. The Health System continues to struggle, but was modestly profitable in the third quarter.

IV. Trustee Committee Reports—Mr. James Riepe

A. Audit & Compliance—Mr. Paul Kelly

Mr. Kelly reported that the Audit & Compliance Committee met that day and reviewed the financial statements for the University and the Health System for both the three-month and nine-month periods ending March 31, 2002. Mr. Kelly noted that the financial operating results had already been reported by Mr. Fry. The University's external auditors, Pricewaterhouse Coopers (PwC), reviewed the presentation format of the interim financial statements and found them to be in conformity with generally accepted accounting principles. PwC also presented the committee with a quality of earnings analysis of the interim financial statements. Additionally, the committee received presentations from the financial officers for both the University and the Health System focused on analyzing the accounts receivable aging practices and the methodology for determining allowances reserves. Mr. Kelly described both
presentations as excellent and greatly helpful to the committee members in better understanding this very important balance sheet asset classification.

B. Budget & Finance—Mr. L. John Clark

Mr. Clark reported that the Budget & Finance Committee met that day to review the University financial report and the University of Pennsylvania Health Services financial report through the nine-month period ending on March 31, 2002, as well as to conduct financial reviews of the School of Graduate Education and the School Veterinary Medicine. After review, these reports were accepted by the Committee.

Mr. Clark then presented the following resolutions, which were reviewed and accepted by the Committee.

Action...........1. A Resolution Authorizing a Lease Space and Relocation of the Office of International Programs from Bennett Hall to International House was approved as follows:

The Office of International Programs (OIP) proposes to relocate from Bennett Hall to lease approximately 8,000 square feet of space (the “Premises”) in International House located at -3701 Chestnut Street, Philadelphia, Pennsylvania (the “Lease”). The reasons for the relocation are twofold: (1) the programmatic requirements of OIP are currently not met in the Bennett Hall space and (2) SAS plans to undertake a full renovation of Bennett Hall that will require OIP to vacate its current space. The relocation to International House, an independent organization whose mission is closely-aligned with OIP, meets both the physical and programmatic needs of International Programs. OIP and International House will be able to collaborate on programs and OIP will have a clear presence in a facility that houses and/or services many of its international students and scholars. The 10-year Lease includes $275,000 for renovation and furnishing costs, a base rent of $15.92 per square foot, additional maintenance and utility charges estimated at $5.97 per square foot, with an NPV based on a 6% discount rate of $1,811,210. The Lease will be funded by OIP reserves.

RESOLVED, that the Executive Vice President or any other appropriate officer of the University be and they hereby are authorized to proceed with the 10-year Lease of the Premises for an NPV of $1,811,210 and to execute and deliver a Lease Agreement as well as any necessary affidavits and other documents required in connection with the contemplated transaction, all on such terms as he/she or any of them deem appropriate, provided that the total cost of the Lease shall not exceed the amount specified herein by more than 10 percent. Any actions heretofore taken by such officers in furtherance of the purposes of this resolution are hereby ratified and affirmed.
A Resolution Authorizing Renewals of the University’s Guaranty of Loans to University City Associates, Inc. with Principal Balance not to Exceed $9.0 Million was approved as follows:

In June 1992, the Trustees approved the University's guarantee of certain loans to its subsidiary University City Associates, Inc ("UCA"), including a loan in the amount of $9,000,000 from Morgan Guaranty Trust Company. Loan proceeds were used to finance renovations to UCA’s facilities, including Chestnut Hall. The loan will mature on July 1, 2002. UCA intends to refinance the 1992 loan with a new loan (the “Loan”) to be provided by J.P. Morgan Chase Bank (“Morgan”). The Loan will mature in ten years and will bear interest based upon short-term interest rates. Part of this loan may be classified as tax-exempt, providing a lower cost of funds. UCA has requested and the administration recommends that the University execute a guarantee with respect to this Loan in order to reduce UCA's borrowing costs.

**RESOLVED**, that the Trustees of the University hereby approve the University's guaranty (the "Guaranty") of the Loan to UCA, as well as any renewals and/or refinancings of the Loan provided that the total amount guaranteed shall not exceed $9,000,000 plus interest and other charges payable thereon and that the term of the Loan or of any renewals and/or refinancings of the Loan shall not exceed 10 years.

**FURTHER RESOLVED**, that the Executive Vice President and Vice President for Finance and Treasurer be and either of them is hereby authorized and empowered to approve the form, conditions and terms of one or more instruments constituting the Guaranty and to execute and deliver on behalf of the University such Guaranty or Guaranties, as the case may be, and other documents required to be executed and delivered in connection therewith, the execution and delivery of the Guaranty or Guaranties, as the case may be, and any other documents to be conclusive evidence of approval thereof by the executing officer.

**FURTHER RESOLVED**, that the Secretary or his or her designee be and any one of them is hereby authorized and empowered to attest the corporate seal to any such Guaranty or Guaranties and any document executed and delivered in connection with any such Guaranty on behalf of the University.

**FURTHER RESOLVED**, that the Executive Vice President and Vice President for Finance and Treasurer be and either of them is hereby authorized and empowered to take any action or to do anything that shall be necessary to carry out the intent and purposes of this resolution.
C. Facilities & Campus Planning—Mr. William Mack

Mr. Mack first reported on the meeting of March 21, 2002, during which the committee was presented with the progress on the Life Sciences building design by Ellenzweig & Associates of Cambridge, Massachusetts. Harry Ellenzweig, the principle, gave a detailed analysis of the proposed site, its constraints, the surrounding buildings, and common architectural vocabulary of that part of the campus. Mr. Ellenzweig then elaborated on the proposed façade treatment for the building: predominantly brick on University Avenue and a fenestrated curtain wall system on the garden side. The building is designed to accommodate a modular lab configuration for maximum flexibility. The design respects the garden and allows for a major entrance off University Avenue. The Committee members were satisfied with the design intent and commented on the excellent progress that had been made since they saw it in the fall. The design guidelines for the various structures-in-progress were discussed, and some changes were subsequently made to reflect this project.

Mr. Mack then gave updates on current capital projects. The lease for National Amusements for theaters at the Hamilton Walk/40th Street complex was signed just a few weeks ago, and a November 2002 opening is anticipated. The Wharton School's new Huntsman Hall is slated to open in August 2002 and, even under construction, looks fantastic.

D. Investment Board—Mr. Christopher Browne

Mr. Browne reported that the investment climate is more favorable for the University now than in recent months.

For the first nine months of the fiscal year, the Associated Investments Fund (AIF) gained 4.1%, versus a loss of 1.1%, for its composite benchmark. To put this in context the Standard & Poor's (S&P) 500 index lost 5.3% over the same period. The University's domestic and international public equity portfolios are primarily responsible for this relative out performance, beating the market by over 9% for the first nine-months of the fiscal year. Other components of the AIF, including its Absolute Return portfolio, real estate portfolio and bonds, have also performed well in an extremely negative equity market. Penn's high yield bond portfolio under-performed its benchmark and, as a result, the Board terminated one of two high yield bond managers. Private equity assets posted negative returns as a result of management fees and mark-downs of previously recorded gains.

Otherwise, the University's portfolio is faring well and the Investment Board continues to pursue other investments and assets.
There being no further business before the Executive Committee, Mr. Riepe adjourned the meeting at 3:25 p.m.

Submitted by,

Leslie Laird Kruhly
Secretary of the University