Other Financial Reports

University of Pennsylvania Annual Report 1986–87

Higher Education: Spirals of Change
We at the University are in the business of “remembering the past,” so that the path we trace is a spiral rather than a closed circle. History does not merely repeat itself, for we actively shape our course by responding to recurring pressures, adjusting our goals for the future with the benefit of lessons learned from the recent past.

The cover design represents this analogy with the superimposition of the analytical drawing from the Renaissance upon a simplified photographic spiral. The spiral is an appropriate abstraction of progress informed by reflection on the past. It stands in contrast to the closed circle, symbol of those who, in Santayana’s aphorism, because they “cannot remember the past, are condemned to repeat it.”

**Statutory Officers**

- **President**
  Sheldon Hackney

- **Provost**
  Thomas Ehrlich

- **Senior Vice President**
  Helen B. O’Bannon

- **Executive Vice President for the Medical Center**
  Edward J. Stemmler

- **Vice Presidents**
  Frederick C. Nahm
  Marna C. Whittington

- **Secretary**
  Mary Ann Meyers

- **Treasurer**
  Frank E. Claus

- **Comptroller**
  Alfred F. Beers

- **General Counsel**
  Shelley Z. Green
By any number of standards, the 1986–87 academic year was a year of success for Penn:

- Our faculty continued to earn wide national and international acclaim for the teaching and research efforts of its members—including eight Guggenheim Fellowships, one MacArthur Fellowship, two Fulbright Scholarships, and three new Penn memberships in the National Academy of Science;
- We made an unprecedented leap in strengthening our position as an undergraduate school of first choice;
- We demonstrated new vigor in our ability to attract alumni, government, and corporate support to meet the University's needs;
- We moved forward with the strategic planning necessary to continue building our momentum; and,
- We broadened, in many creative ways, the involvement of our students, faculty and staff in the community in which we learn, live, and work.

Yet, however we measure our success in the past year, we know that even greater challenges and greater opportunities lie ahead. The need to recruit top-quality faculty, to keep pace with rapidly changing technology, and to improve the quality of the undergraduate experience at Penn—to cite just a few of our priorities—remains clear.

With this in mind, I am pleased to submit this report on the University, and to pledge my continuing efforts to strengthening Penn’s position in the front rank of internationally recognized institutions of higher learning.

Sheldon Hackney
President
Preamble

Since the Second World War, American higher education has passed through three phases of rapid change. We are currently poised on the brink of another.

As one looks back over the entire period, a certain cyclical pattern can be detected: curriculum requirements become more stringent, only to loosen and then tighten again; government support for research grows and then slackens; educational opportunity expands, then contracts; social activism grows and then recedes. One is tempted to think that, like a race horse, no matter how fast we run we return to the place where we began.

It is not, however, a question of retreading old ground. We at the University are in the business of "remembering the past," so that the path we trace is a spiral rather than a closed circle. History does not merely repeat itself, for we actively shape our course by responding to recurring pressures, adjusting our goals for the future with the benefit of lessons learned from the recent past.

The 1950s and 1960s were a time of expansion. Educational limits were stretched and tested. With the growth of higher education came a democratization that has been good for America. The college-going rate increased as previously excluded groups found access even to the most elite institutions. Faculty talent was spread more broadly throughout the system than ever before.

The 1970s, however, saw a pulling back. Economic and social experimentation was constrained and democratizing forces began to stabilize. The 1980s have brought a new self-scrutiny to colleges and universities, and structures abandoned in earlier decades are being reconsidered. The 1990s—owing to an impending shortage of faculty and to the rising cost of excellence in every field—threaten to bring a reversal of higher education's democratization along with an increasing disparity in quality among colleges and universities nationwide.

The decade ahead will test the University's quality and resolve. By recognizing the significance of our past, we adapt to changing needs, building on our long history of innovation to strengthen Penn's position in the forefront of higher learning.
**Learning from the Past**

**The Post-War Period:**

**Lifting the Boundaries**

In the years immediately following World War II, federal support for research and the democratization of academia spurred the growth of today's great American research universities, including the University of Pennsylvania.

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Increases in federal funding to research universities came about as a direct consequence of the Second World War. During the national emergency, faculty researchers had been called upon to support both military and civilian enterprises. After the war, when professors returned to their university positions, the government—recognizing the invaluable contribution of university researchers not only to defense but also to the nation's general and economic health—continued its active funding of scientific research.

At the same time, the G.I. bill enabled returning servicemen to enroll in the best programs for which they qualified, regardless of tuition costs. Veterans could choose to attend selective residential colleges, as well as major public universities that imposed a surcharge on out-of-state residents. The bill made education an entitlement—an alternative occupation in the overcrowded post-war job market. It created the first great democratizing sweep of institutions of higher learning, and brought large numbers of non-conventional students—including those beyond traditional college age—to campus.

**The 1960s:**

**Testing the Limits**

With the Soviet launching of Sputnik in 1957, America realized that the future of the nation lay in the classroom and the laboratory. The federal government stepped up its investment in student aid, graduate education, and research. Throughout the sixties, federal appropriations for university-based research increased at a rate of eight percent, annually compounded.

As the post-war “baby-boom” generation came of college age in the early 1960s, institutions encountered huge increases in enrollment. With ever-expanding classes, more teachers were needed. Graduate programs flourished, producing more Ph.D.s than could be absorbed on the faculties of the small handful of elite colleges and universities. Eminently qualified faculty therefore dispersed around the country, and the disparity of quality among universities was narrowed in a healthy way. A growing share of graduate students attended public institutions, whose expansion resulted in the emergence of state systems of public higher education and in the growth of the community college system.

The sixties saw a massive influx of undergraduates from a wider diversity of backgrounds and age groups than ever before. For many, affluence brought with it the luxury of dissent. There was a new young president in the White House, and a general sense that if inequity and injustice ever were to be abolished, now was the time.
Protesting the Vietnam War:
Penn students, 1968

Students voiced their opinions on social, political, and educational issues alike. Ever-larger numbers lobbied for teaching over research, relevance over established disciplines, and political activism over apathy. Social responsibility jockeyed for a place alongside esoteric investigation and intellectual objectivity. The sixties brought student evaluation of professors and student involvement in the decision-making process.

Extra-curricular aspects of a university education also were affected. Until the sixties, limitations on individual liberties had been accepted without demur by generations of students who had never seriously questioned the right and the responsibility of an institution to serve in loco parentis. Suddenly, reforms and innovations challenged the structure of higher learning. Its systems and values—even the rationale for its continued existence—were called into question.

At a distance of 20 years and more, we have a tendency to look back at the sixties either with nostalgia or with horror. In many ways, it was a golden age in American higher education. Enrollments, which had doubled every 15 years throughout the previous century, rose from 2.5 million in 1957 to 5.5 million in 1967, while the number of faculty and graduate students doubled. Government support for education was generous: with inflation at one percent and unemployment at three to four percent, federal expenditures on higher education tripled between 1957 and 1967—from $5 to $15 billion. At first, federal funding increased to advance the government's own agenda on a quid pro quo basis; later, research became a national priority in its own right.

On the other hand, there was a dark side to the sixties. It was a time of turmoil and conflict on college campuses. There were noble causes such as civil rights and peace, but also there was self-indulgence and a sense of revolution as theater. The forces of personal liberation were triumphant, so structure and coherence disappeared from undergraduate curricula. Self-expression became more highly prized than intellectual discipline. Egalitarianism undermined academic standards.

Yet the student activism of the sixties initiated a cycle of progress that had some lasting effects on higher education. At many institutions, new programs and support systems were initiated for women and minorities. At Penn, the School of Arts and Sciences was reorganized in 1975 to bring together the historic College with the College for Women, created in 1933. Other efforts were taken here to shrink the psycho-
logical size of the University and to create a true sense of community, particularly among undergraduates. Today's students have many more options open to them—both in the formal curriculum and in campus life—than did their predecessors. Colleges and universities provide a richer and more compassionate environment for a greater diversity of students than ever before.

Nonetheless, the sixties left higher education unprepared for the realities of the decade to come.

The 1970s: Facing Constraints

In 1971, the Carnegie Commission reviewed the strides made by higher education in the sixties and predicted that the last decades of the twentieth century would be a time of dramatic innovation and change. Two years later, when that report was published in final form, the Commission was forced to note that higher education was moving from golden age to time of troubles. The expansion, democratization, and increased government support of the sixties had, in fact, contributed to a battery of new problems.

Short-sightedness and lack of planning in the 1960s led to retrenchment and hard times in the 1970s, as the nation woke up to the unpleasant truth that the economic problems of the country and the world had hardly been rectified. College and university enrollment rates were no longer increasing at the dizzying pace of the sixties, federal financial support was leveling off, and a new set of initiatives was in the works to respond to totally unfamiliar student demands. Predictable though the downswing may have been, administrators were not prepared for the straitened circumstances that replaced the optimistic challenges associated with the promise of growth.

Colleges and universities had over-extended themselves. Even before the onset of inflation occasioned by political manipulations of the economy and the oil embargo, the great cost of expensive new programs and enlarged graduate student bodies had landed some institutions in trouble. In 1971, the president of the American Association of State Colleges and Universities announced that fiscal bankruptcy had replaced student unrest as the top worry of state college presidents that year. Carnegie president Alan Pifer reported that year that the financial problems of private institutions were severe enough to precipitate the first stage in their demise.

As the soaring sixties gave way to the sober seventies, institutions made radical changes in the way they did business. Although large-scale bankruptcy did not occur—according to the Carnegie Foundation for the Advancement of Teaching the number of institutions of higher education jumped from 3,072 to 3,389 between 1976 and 1986—cost controls were instituted, and budgets pared and ultimately balanced. At Penn, responsibility center budgeting was instituted as a creative alternative to centralized control.

Across the nation, the sense of impending crisis in higher education led to a curtailment of expansion and innovation. Faculty, in particular, were hard hit by the new austerity: between 1973 and 1981 their real income dropped by 22 percent. The academic profession was among those most seriously affected by inflation.
Financial constraints: facing economic realities in the 1970s

While faculty salaries failed to keep pace with the cost of living, tuition—one of the few remaining sources of income in labor-intensive universities—also lagged behind inflation indices. Heating costs increased as a result of the oil embargo, book prices soared, other costs escalated, and universities instituted new cost-cutting measures of dubious long-range merit by deferring maintenance, cutting book budgets, and not keeping up with technological progress in the laboratory.

In a complete turn-about from the days when small private colleges and newly established community colleges called on graduate students to fill their teaching needs, newly minted Ph.D.s now struggled to find jobs. Large numbers of junior faculty were forced to change their careers, as institutions of higher education economized by reducing the number of tenured positions and not replacing retiring professors. The collapse of many graduate programs, the rootless underemployment of "gypsy scholars," and the departure in droves of Ph.D. recipients for a variety of alternative professions would have predictable repercussions in later years. The 1970s became known as the time of the disappearing student as the "baby boom" gave way to the "baby bust."

The economic realities of the seventies created growing skepticism about the possibility of continued expansion and democratization in higher education. A publication of the American Council on Education ominously asked, Higher Education for Everyone? Education could no longer be assumed an entitlement. Now, universities such as Penn had to make conscious—and costly—efforts to uphold their policy of need-blind admissions for educationally qualified students. The government did take measures to increase educational access by helping students cover tuition costs through grants and loans. Still, there would be no federal bail-out of higher education.

Economic pressures and social change went hand-in-hand. During the sixties, a coalition had formed between students from families for whom college was an accepted step in a standard education, and students who were the first in their families to go to college. By the mid seventies, the tie between these groups had weakened. Middle-class students became increasingly concerned about their own economic futures. Business courses replaced offerings in the arts and sciences even at some of the best colleges and universities. The humanities were
put on the defensive—many students turned away from these “impractical” pursuits. Now, campus protests were directed against tuition hikes, faculty lay-offs, and reductions in financial aid. A 1975 report in the *Chronicle of Higher Education* characterized student lobbies in Washington and several state capitals as primarily concerned with holding tuition down, pushing financial aid up, and securing economic benefits for their constituents.

**The 1980s:**

**Looking Inward**

The strains of the seventies left colleges and universities with a clear sense of the need for careful self-examination. Higher education could not again afford to be caught unprepared for future constraints. The continual rise in educational costs focused new attention on the need to achieve productivity and improve both efficiency and quality.

Today, self-examination is also being called for by critics of the means and ends of undergraduate education. Both the general public and the principal benefactors of higher education have questioned the effectiveness of the unstructured curriculum that grew from the reforms of the sixties. Schools are being challenged to strike a careful balance between rigor and flexibility—to continue to offer diversity while re-establishing reliable standards of educational quality. The tide is shifting back towards the arts and sciences, as students and educational leaders alike recognize the irreplaceable value of a broad liberal education.

The 1980s have brought the long-promised information revolution, which is accelerating technology-driven research and altering the way that scholars communicate their results and teach their students. New technologies offer innumerable benefits—from state-of-the-art research environments, to information networks that link classrooms, libraries, and residences, to automated office systems. They also involve unprecedented expense. The cost of research in some areas of scientific inquiry—robotics, medical imaging, bio-technology, and particle physics, for example—has
Another major challenge facing higher education will be to replace the retiring members of the extraordinary generation of scholars who came of age during and just after World War II.

The problem of escalating costs is compounded by recent shifts in federal funding policy. Changes in the way that federal funds are distributed—particularly in the rules for calculating indirect costs—have taken their toll on the research enterprise. At the same time, federal support for scientific equipment and laboratory renovation and construction has continued to decrease: the government provided less than $50 million in 1985, compared to $200 million in constant dollars in 1966. Federal obligations for Research and Development facilities dropped by 90 percent in constant dollars between 1966 and 1983.

Other fiscal problems confront higher education as well. Campuses nationwide now face the consequences of earlier decisions to balance budgets through deferred maintenance. Aging buildings must be rehabilitated and preserved; neglected facilities must be refurbished before they are physically beyond repair.

The struggle to preserve need-blind admissions also has become more difficult. Between 1981-82 and 1983-84, the amount of direct aid provided by colleges and universities to their students rose from $904 million to $3 billion. Conversely, the federal contribution to student aid in real dollars fell drastically during the same period. Between 1979-80 and 1984-85, for example, Pell grants were cut by 41.6 percent in constant dollars, and Guaranteed Student Loans were limited to only the most needy students. Options were dramatically reduced for middle-income students—a group we had traditionally supported through modest grants and substantial work-study and loan opportunities.

As institutions such as Penn cope with ongoing financial constraints, they must also adjust to changing demographics. In 1971, the National Commission on the Financing of Post-Secondary Education concluded from demographic studies that there would be a considerable decline in the number of college-goers over the following two decades. In 1972, much was made of the fact that the number of children born in the United States was at a 27-year low—only about 15 per 1,000 adults. In 1975, the rate fell lower still, just 14 per 1,000. Predictably, between 1975 and 1985 there was a 13 percent drop in the number of children of school age, which led to many school closings and amalgamations, and to cuts in teaching positions.

The number of high school graduates has been declining for the past five years, so colleges and universities are feeling the effects of the "baby bust," and the number of 18 to 24 year olds will continue to decline until the mid-1990s. Though Penn has experienced a steady increase in the numbers of applicants and the strength of their credentials, the challenge has been real.

Another major challenge facing higher education will be to replace the retiring members of the extraordinary generation of scholars who came of age during and just after World War II. Between now and the end of the century, large numbers of faculty will take their leave of the colleges and universities they helped build: 368 senior professors will turn 70 by the year 2000 at Penn alone. This year, only seven reached the age of mandatory retirement; that number will double in 1988 and triple in 1990. The peak will occur in 1992-93, when 65 pro-
Computers: linking the campus through a fibre-optic network

Professors will retire and at least 26 will retire annually thereafter. The millennium will be marked by the retirement of 43 professors, 17 from the School of Arts and Sciences alone.

The unfortunate legacy of cutbacks in graduate education in the 1970s and early 1980s is a current shortage of new faculty to replace those now beginning to retire. The lost generation cannot be recalled, and it is already apparent that only the most attractive institutions will be able to retain and appoint the best candidates from the reduced cohort.

Not only will colleges and universities compete with each other for qualified candidates, but they will also compete with employers outside academia. Faculty salaries must be able to attract qualified graduates who might otherwise opt for other careers. Competition for the best and the brightest replacement faculty will only intensify and is likely to produce increasing disparity in institutional quality in the years ahead.

Investing in the Future

The lessons of recent decades make clear that institutions must take hold of their own destinies—through the pursuit of a wide range of funding sources, through careful use of existing resources, through imaginative investment in carefully identified academic priorities, and through contingency planning.

More than most of its peers, Penn has made a sustained commitment to planning. The University's development of responsibility center budgeting in the 1970s helped to foster strong school-based economies, which, in turn, made possible the recruitment of strong deans. Decentralized planning and management increased the Schools' incentive to develop new sources of income and to invest in their own academic futures.

More recently, Penn's planning has balanced School...
Renovating the Quad: improving Penn's physical plant

have beautified the campus—establishing ours among the most attractive urban campuses in the nation. We have undertaken major renovations of the undergraduate Quadrangle, the Furness Building, and Chemistry facilities. We also have begun to develop a Campus Master Plan to coordinate future improvements to our physical plant.

Finally, we have dramatically enlarged our undergraduate applicant pool and increased the geographic range of our matriculants, attracting more students from the western United States and abroad than ever before. This year's precedent-setting yield for the Class of 1991 is the most recent demonstration of success in our drive to strengthen Penn's position as a school of first choice. The Penn Plan, created to provide students with a flexible alternative to traditional funding options, has earned recognition—and imitation—nationwide.

Now we must continue these investments while finding ways to control costs in order to limit future tuition increases. Most importantly, we must make a concerted effort to attract and retain outstanding faculty to ensure the intellectual vitality of the University.

The University of Pennsylvania is prepared to face these challenges. More than ever, Penn is being talked about in terms that convey a sense of selectivity and excellence. We are being told that ours is a school "whose time has come," that the University's competitive advantage lies in its ability to link the liberal arts and the professions and to bring together disparate fields for the creation of new knowledge. Penn offers unmatched scholarly breadth on a single unified campus.
encouraging scholars to venture across the usual disciplinary lines for fruitful interaction with those in other fields.

Our standing as the principal research university at a critical junction in the Boston-Washington corridor is itself a strategic advantage of increasing importance. The requisite supply of skilled labor, the rebuilding of center city Philadelphia, a new growth in information sciences, and a commitment to research on the part of the Delaware Valley's dominant chemical, medical, and pharmaceutical industries are important indicators that the region to which we belong is primed for economic restructuring and accelerated growth. As an important economic institution in our region, we believe that the decade ahead will be one of special opportunity for the University of Pennsylvania.

Higher education has changed in the recent past. Although problems tend to recur, as a result of the lessons of the past today's campuses are very different from those of the sixties and seventies. The current emphasis on planning at Penn and elsewhere indicates that we have learned the cost of the alternative: there is no place for "adhocracy" at the best institutions.

External events will continue to provoke action and reaction. Constant adjustments must be made in response to present circumstances and in preparation for change. As we invest in the future, we will retain our sense of history. At Penn, we are ready to confront the future, combining our skills and resources in such a way as to prosper in the stimulating times ahead.
Development

One of the important measures of Penn's standing in higher education and the community is its capacity to attract philanthropic support. Such support can make the vital difference in the realization of Penn's major goals: to recruit and retain a faculty of distinction, to attract a talented and diverse student body, and to enhance academic programs and physical facilities in which teaching and research can flourish. Gifts also represent an endorsement of the University's mission, accomplishments, and aspirations from its extended community—alumni, friends, corporations, foundations, and associations.

Penn ranks among the country's top ten private universities in the level of philanthropic support. In fiscal 1987 it established new records in dollars and donors.

Fund-Raising Performance

New gift commitments to Penn in fiscal 1987 exceeded $90 million for the first time. The total of $92.7 million was 7 percent above the previous year's record of $86.7 million. Gifts from alumni rose 22 percent to $22 million, and from non-alumni friends, 19 percent to $20.8 million. Institutional donors (corporations, foundations, and associations) contributed $49.9 million, over half the total.

The 1987 philanthropic giving to Penn represented an increase of 92 percent over the $48.2 million raised five years earlier in fiscal 1982.

Fund-raising performance is measured by the new gift commitments made by donors during the fiscal year which may be payable over one or more years. Therefore, the new gift commitments reported here will differ year to year from actual gifts and private grants received and reported on a cash basis in the University's financial statements (pages 18 to 36).

Highlights

The year was marked by a dramatic increase in gifts from individuals. Combined gifts from alumni and friends came to $42.8 million, a 20.5 percent increase over the previous year and the largest total ever contributed to Penn by these two key constituencies.

The response of Penn alumni was particularly encouraging. Annual Giving, a key measure of the breadth and depth of alumni support, raised a record $14 million from a record 60,623 donors. This was a gain of 13.9 percent in dollars and 7.8 percent in number of donors over the previous year. The Class of 1962 created a new benchmark in reunion giving by exceeding $3 million for its 25th reunion gift.
The Benjamin Franklin Society, Penn's honor roll of its most generous donors to Annual Giving, continued to grow in both members and in dollars contributed. In fiscal 1987, donors increased by 13 percent over the previous year, and gifts rose 27 percent. The two-year gain in dollars contributed was even more impressive, up 47 percent since 1985.

Over the past few years, more and more Penn donors have availed themselves of the diverse and creative opportunities presented by Planned Giving, including gift annuities, pooled income funds, charitable remainder trusts and charitable lead trusts. Planned gifts to the University have tripled in two years from $5.1 million in fiscal 1985 to $16.1 million in 1987. Fifty-five irrevocable arrangements, which provide a lifetime of income or other tax benefits to donors, were completed by alumni and friends in 1987. This trust income represents a tenfold increase since 1985.

Penn's well-established relationships with leading corporate and foundation donors bore fruit in fiscal 1987 in commitments totaling $45.4 million. This performance, 5 percent above the previous year, came at a time when many major corporations are being restructured and foundation support for private higher education has declined. Continuing success in attracting institutional support will depend on nurturing productive partnerships and on reinforcing those interests and goals—educational, research, and community—that Penn and its donors share.

Endowment, the bedrock of the University's fiscal strength, continued to grow in 1987 through gifts, capital growth, and retained income. As of June 30, 1987, total endowment at market value stood at $648.5 million, compared to $314.7 million at June 30, 1983. (See the report of the Vice President for Finance.) An especially valuable and visible form of endowment is the named professorship, a true investment in academic excellence. In fiscal 1987 these new endowed chairs were established at Penn:

• The Margaret Bond Simon Deanship of Nursing, given by Cornelius Bond

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<tr>
<th>Constituency</th>
<th>Subscriptions FY 87</th>
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<tbody>
<tr>
<td>Alumni</td>
<td>$22.0 million</td>
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<tr>
<td>Friends</td>
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<tr>
<td>Corporations</td>
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<tr>
<td>Foundations</td>
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<tr>
<td>Associations</td>
<td>4.5 million</td>
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<tr>
<td>TOTAL</td>
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The Edmund J. Kahn Professorship in Arts and Sciences, given by Mrs. Louise W. Kahn
The Leon Meltzer Professorship of Law, given by Mrs. Ruth Meltzer
The Caroline Zelaznik Gruss and Joseph S. Gruss Chair in Talmudic Civil Law, endowed by the estate of Mrs. Gruss
The Universal Furniture Professorship in the Wharton School, given by Laurence Za Yu Moh, his associates, and Universal Furniture Limited
The Marion Dilley and David George Jones Professorship in the School of Veterinary Medicine, given by the late Mr. Jones
The William Stewart Woodside Professorship at Wharton, given by Primerica Corporation

Excellent facilities do not make a great university, but a university can hardly achieve greatness without them. In the year under review, Penn made significant progress on four facilities projects of particular interest. Major gift support has helped fund these projects.

UNDERGRADUATE CHEMISTRY LABORATORIES are a high-priority item as Penn's Chemistry Department continues to move toward the first rank. Chemistry, one of the most fundamental scientific disciplines, is increasingly in demand by students bound for the health and engineering professions as well as for scientific careers. The present six laboratories, nearly thirty years old and serving some 4,000 students, are slated for complete renovation and re-equipping to accommodate rising enrollments and modern teaching techniques. Work on the $5.2 million project began in May of 1987.

THE STEINBERG CONFERENCE CENTER will enable the Wharton School to broaden the scope and enhance the quality of its Lifelong Education and Career Development program for senior and middle-level managers. Executives seeking advanced mid-career preparation for today's rapidly changing business world will find a modern, self-contained environment of living, dining, and social areas convenient to fully equipped instructional areas of appropriate sizes. The Center also will serve as a new resource for the entire University. This $27.3 million state of the art facility was recently dedicated.

THE FURNES BUILDING, Penn's certified national historic landmark, is undergoing a full restoration and renovation to prepare it for its second century of service. Original architectural features such as the soaring glass skylight over the Main Reading Room will be restored; the priceless collections of the Fine Arts Library and the Architectural Archives will be protected; teaching, working, and study space will be expanded; and new accommodations for public use will be added. The estimated total cost of the restoration and renovation of Furness is $15 million. Work on Phase One, mainly exterior preservation and modernizing internal systems, began in the summer of 1987.
THE WALNUT WEST FUND is Penn's innovative way of financing a multimillion-dollar office/retail complex scheduled for completion in the spring of 1988 at 3401 Walnut Street. The building, a new gateway to the campus, will house the University's major academic and administrative computing facilities as well as the campus information center and University administrative offices. Retail stores and an international food court will occupy the ground level. Through Walnut West, a real estate-based pooled income fund, the University is pioneering a new form of planned giving. An investor earns lifetime income from space rentals, plus a charitable deduction for a portion of the gift, which passes to the University on the death of the donor or beneficiary. Of the estimated $20 million total project cost, 25 percent is expected to be financed by donor contributions.

In addition to seven endowed chairs, the University in fiscal 1987 was honored to receive the following gifts of $1 million or more:

IBM
- for completion of the Threshold program on new uses of computers in teaching and research
- for research in materials science in the Laboratory for Research on the Structure of Matter

ARTHUR FISCHER
- for a building to house the Fischer Real Estate Center of the Wharton School

HEWLETT PACKARD CORPORATION
- for research on artificial intelligence in the School of Engineering and Applied Science

AT&T
- for research computing in the School of Medicine

THE ROBERT WOOD JOHNSON FOUNDATION
- for postdoctoral fellowships for physicians and nurses for advanced clinical training and research

UNISYS
- for information management and telecommunications

JAMES S. MCDONNELL FOUNDATION
- for research on magnetic resonance spectroscopy of humans in the School of Medicine

ANDREW W. MELLON FOUNDATION
- for term chairs in the School of Arts and Sciences
The Ingredients of Success

Penn owes its record of progress in fund raising to many factors, the first of which must be the generous spirit of its alumni and friends. As we ask more of them, their response has been heartening; moreover, the number of them actively involved with Penn continues to grow.

This response is evidence of a growing confidence in Penn—in its rising national and international academic reputation buttressed by sound fiscal management.

The University has demonstrated that it can set meaningful goals and achieve them. It has shown that funds entrusted to it will be applied and managed to produce results consonant with donors' intentions. Gifts invested in endowment at Penn have yielded a rate of return which ranked among the top 5 percent for all university endowments in the most recent NACUBO (National Association of College and University Business Officers) five-year comparative studies.

To all these reasons for success must be added the selfless efforts of the University's Trustees and its growing network of volunteer fundraisers including the President's Council. The Council, functioning under the aegis of the Trustee Committee on Development, joins together Penn's regional development committees in major population areas of the country. It helps to increase awareness of the University and to promote outreach to alumni and friends nationwide. These advocates can take Penn's message to regular and potential donors in a uniquely effective way. The entire University of Pennsylvania is in their debt.

A Greater Future

Penn looks to the future with confidence. Its record demonstrates the positive results of philanthropic investment. The energy and commitment of the Penn family are invaluable assets. Given these many advantages, the University of Pennsylvania looks forward to a future even greater than its illustrious past.
Financial Report

for the year ended June 30, 1987
University of Pennsylvania

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The effective management of our University resources requires careful attention to our past, present and future. We must continually adjust our plans in response to changing external pressures and opportunities and the dynamic internal demands of an extraordinary university community.

From a historical perspective, we have continued our commitment to responsible management by ending this fiscal year with a surplus in unrestricted operations for the twelfth consecutive year. During FY 87, the fund balances of the University increased by $188.6 million, the largest increase in its history (easily surpassing last year's record increase of $149 million). The total fund balances of the University as of June 30, 1987 are approximately $1.3 billion.

We have continued to build upon the long-range planning process instituted six years ago. This planning process has resulted in the definition of priorities for each of the schools as well as the University as a whole. The plans have been shared widely in our University community and provide the benchmark upon which long term financial commitments, developed and embraced by the entire University community, have been made.

Nowhere is our commitment of resources more visible than in our capital program. Major renovation and restoration projects not only maintain the heritage of the University for the present but also provide an important legacy which we leave for future generations of Penn students. Our commitment to preservation is exemplified through the restoration of the historic Furness Building, a $15 million commitment that was initiated this year. Our commitment to preserving our past investments is also reflected in our deferred maintenance program to which we allocated over $6 million in additional resources this year. FY 87 was the first year of a comprehensive five-year program to address deferred maintenance needs on our campus. Renovations not only recognize our considerable investments in our existing facilities, but also allow for better utilization of scarce space in ways that will provide for the needs of the present and the future. University renovations in FY 87 exceeded $44 million and have impacted all areas of University life including classrooms, offices, laboratories, residences, and dining facilities. FY 87 also marked our continued commitment to the future as evidenced by several major initiatives, i.e., the $53 million Clinical Research Building, the $27 million Wharton Executive Education Center, and the $20 million Walnut West complex. In order to better serve our students, faculty, staff, and guests, a new $7.5 million parking garage was begun in FY 87.

Constant vigilance is required in managing sources as well as uses of our funds. FY 87 offered us the opportunity to restructure our debt obligations in order to take advantage of lower interest rates and changes in the debt markets. For example, the 1984 HHEFA (Hospital and Higher Education Facilities Authority of Philadelphia) Revenue Bonds previously structured at interest rates ranging from 6.75 to 10% have been refinanced at rates ranging from 4.25% to 7.00%. The refinancing of these issues through the advanced refunding of debt has resulted in considerable annual savings in future debt service payments.

CURRENT OPERATIONS

Total current funds revenue generated by the University of Pennsylvania from all sources totalled $907.2 million during FY 87. This represents a 6.9% growth over FY 86 revenues. Tuition and fee revenues increased 9.1% over FY 86 and continued to provide over 22% of the current funds revenue of the University. Despite the diminishing pool of college-age individuals nationally, the University has continued to experience an increase in the quantity and quality of applicants at both the undergraduate and graduate levels and anticipates this trend will continue for the foreseeable future.

Health Services continue to provide a significant portion of the total operating revenues of the University. These revenues which are generated by the activities of the Hospital of the University of Pennsylvania and the Clinical Practices at the University of Pennsylvania collectively accounted for over 39% of the operating revenues of the University.

Despite nationwide cutbacks in federal support for research and development over the last twenty years in real dollars, Federal Government grant support at the University of Pennsylvania has continued to increase through the
aggressive efforts on the part of our faculty. The dollar value of grant and contract awards received by the University for FY 87 increased by 6.3% over the previous fiscal year. The excellent research faculty of the University has consistently been ranked among the top 20 institutions in the nation in federal support for research and development. It is the University's ability to attract governmental funding for its research efforts that has enabled it to maintain this important funding source. Governmental grants and contracts have continued to provide over 15% of the operating revenues for FY 87.

As external factors dramatically influence our previous assumptions and cause us to reevaluate and redirect our efforts for the future, we have managed to effectively utilize our present resources. Tuition and fees, Health Services and government grants and contracts have continued to grow despite external pressures and collectively account for over 77% of the operating revenue of the University.

INVESTMENTS AND ENDOWMENT

The University's Endowment and Similar Funds consist of true, term, and quasi-endowment funds along with life income, annuity, and unitrust funds. During the past fiscal year, the balances of these funds increased from $447.7 million to $562.2 million. This $114.5 million increase consists of realized gains of $78.2 million and other additions to endowment of $36.3 million (principally new gifts and reinvestment of income into endowment principal).

As indicated in the Five-Year Review of Investments on pages 22 and 23, the market value of the University's total endowment has increased from approximately $315 million as of June 30, 1983 to over $648 million at June 30, 1987. According to the most recent study by the National Association of College and University Business Officers (NACUBO), the University's endowment is ranked as the 16th largest in the country.

The largest portion of the University's true, term and quasi-endowment is invested in the University's Associated Investments Fund (AIF), a pooled investment fund, which as of June 30, 1987 was valued at approximately $559 million. The AIF is managed, together with all other University investments, by the Investment Board of the Trustees of the University of Pennsylvania. In FY 81, the Trustees implemented a spending rule for the AIF in order to protect the endowment against the effects of inflation. In FY 87, $11.2 million or 35% of total AIF income earned was reinvested. Since the inception of the spending rule policy, $56.8 million has been reinvested which represents over 10% of the AIF's market value at June 30, 1987.

SUMMARY

Fiscal Year 1987 has been another very productive year for the University of Pennsylvania. Effective resource management must not only provide for balanced budgets and increases in fund balances, but must also provide the flexibility for current and future investments in faculty, facilities and programs. The internal and external dynamic forces that have shaped our past are being redefined. We will continue to meet the challenges of the present while preparing for the challenges of the future ever mindful of the lessons we have learned from the past.

Marna C. Whittington
Vice President for Finance

Five-Year Growth in Fund Balances

Year ended June 30
millions of dollars
# Five Years of Financial Performance

University of Pennsylvania

**thousands of dollars**

## UNRESTRICTED:

### Change in unrestricted fund balance:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational and general</td>
<td>$104</td>
<td>$54</td>
<td>$278</td>
<td>$298</td>
<td>$278</td>
</tr>
<tr>
<td>Health services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td>(748)</td>
<td>15,826</td>
<td>9,790</td>
<td>4,406</td>
<td>(2,191)</td>
</tr>
<tr>
<td>Clinical practices</td>
<td>14,571</td>
<td>1,246</td>
<td>6,530</td>
<td>11,024</td>
<td>11,252</td>
</tr>
<tr>
<td>Graduate Hospital</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13,920</td>
<td>17,169</td>
<td>16,417</td>
<td>15,527</td>
<td>9,158</td>
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### Unrestricted fund balance:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Educational and general</td>
<td>$492</td>
<td>$388</td>
<td>$334</td>
<td>$56</td>
<td>(242)</td>
</tr>
<tr>
<td>Health services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td>34,334</td>
<td>35,082</td>
<td>19,256</td>
<td>9,466</td>
<td>5,060</td>
</tr>
<tr>
<td>Clinical practices</td>
<td>76,230</td>
<td>61,659</td>
<td>60,413</td>
<td>53,883</td>
<td>42,859</td>
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<tr>
<td>Graduate Hospital</td>
<td>(2,691)</td>
<td>(2,788)</td>
<td>(2,885)</td>
<td>(2,982)</td>
<td>(3,079)</td>
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<tr>
<td><strong>Total</strong></td>
<td>107,873</td>
<td>93,953</td>
<td>76,784</td>
<td>60,367</td>
<td>44,840</td>
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</table>

## RESTRICTED:

### Net change in restricted fund balance

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>$8,123</td>
<td>$2,504</td>
<td>$4,142</td>
<td>$6,178</td>
<td>(875)</td>
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</table>

### Net current restricted fund balance

<table>
<thead>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$56,264</td>
<td>$48,141</td>
<td>$45,637</td>
<td>$41,495</td>
<td>$35,317</td>
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</table>

## How it was Provided

<table>
<thead>
<tr>
<th>Health services</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>22%</td>
</tr>
<tr>
<td>Government contracts and grants</td>
<td>15%</td>
</tr>
<tr>
<td>Gifts and private grants</td>
<td>8%</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>6%</td>
</tr>
<tr>
<td>Investment income</td>
<td>4%</td>
</tr>
<tr>
<td>Commonwealth appropriations</td>
<td>3%</td>
</tr>
<tr>
<td>Other educational activities</td>
<td>3%</td>
</tr>
<tr>
<td>Other sources</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

## How it was Spent

<table>
<thead>
<tr>
<th>Health services</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>21%</td>
</tr>
<tr>
<td>Research</td>
<td>13%</td>
</tr>
<tr>
<td>Student aid</td>
<td>6%</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>6%</td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>4%</td>
</tr>
<tr>
<td>Other educational activities</td>
<td>4%</td>
</tr>
<tr>
<td>General institutional expense</td>
<td>3%</td>
</tr>
<tr>
<td>General administration</td>
<td>2%</td>
</tr>
<tr>
<td>Libraries</td>
<td>2%</td>
</tr>
<tr>
<td>Student services</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>
## A Five-Year Review of Current Funds

University of Pennsylvania

**thousands of dollars**

### REVENUES:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Student tuition and fees</td>
<td>$208,604</td>
<td>$191,268</td>
<td>$174,566</td>
<td>$162,711</td>
<td>$145,067</td>
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<tr>
<td>Commonwealth appropriations</td>
<td>32,119</td>
<td>29,667</td>
<td>26,776</td>
<td>23,914</td>
<td>23,102</td>
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<tr>
<td>Government contracts and grants</td>
<td>138,807</td>
<td>130,574</td>
<td>116,795</td>
<td>112,290</td>
<td>99,342</td>
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<tr>
<td>Investment income</td>
<td>43,113</td>
<td>40,514</td>
<td>41,296</td>
<td>31,875</td>
<td>25,980</td>
</tr>
<tr>
<td>Gifts and private grants</td>
<td>73,499</td>
<td>67,023</td>
<td>55,069</td>
<td>54,403</td>
<td>44,626</td>
</tr>
<tr>
<td>University Hospital</td>
<td>236,179</td>
<td>224,628</td>
<td>207,033</td>
<td>180,258</td>
<td>170,114</td>
</tr>
<tr>
<td>Clinical practices</td>
<td>120,064</td>
<td>104,967</td>
<td>92,101</td>
<td>86,979</td>
<td>77,329</td>
</tr>
<tr>
<td>Other educational activities</td>
<td>24,373</td>
<td>21,964</td>
<td>20,298</td>
<td>20,241</td>
<td>19,337</td>
</tr>
<tr>
<td>Other sources</td>
<td>12,252</td>
<td>17,829</td>
<td>14,306</td>
<td>10,318</td>
<td>11,671</td>
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<tr>
<td>Auxiliary enterprises</td>
<td>52,807</td>
<td>48,657</td>
<td>46,317</td>
<td>38,312</td>
<td>34,746</td>
</tr>
</tbody>
</table>

**Total revenue:** $941,817

### EXPENDITURES:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>181,686</td>
<td>170,265</td>
<td>153,904</td>
<td>139,887</td>
<td>126,513</td>
</tr>
<tr>
<td>Research</td>
<td>109,022</td>
<td>105,461</td>
<td>88,385</td>
<td>84,464</td>
<td>71,681</td>
</tr>
<tr>
<td>Libraries</td>
<td>14,356</td>
<td>13,451</td>
<td>11,806</td>
<td>11,069</td>
<td>9,950</td>
</tr>
<tr>
<td>Other educational activities</td>
<td>32,243</td>
<td>29,832</td>
<td>26,646</td>
<td>22,875</td>
<td>23,477</td>
</tr>
<tr>
<td>Student aid</td>
<td>53,259</td>
<td>48,151</td>
<td>43,771</td>
<td>40,449</td>
<td>36,571</td>
</tr>
<tr>
<td>Student services</td>
<td>13,748</td>
<td>12,865</td>
<td>11,882</td>
<td>10,663</td>
<td>9,658</td>
</tr>
<tr>
<td>University Hospital</td>
<td>230,600</td>
<td>201,304</td>
<td>189,902</td>
<td>169,882</td>
<td>168,500</td>
</tr>
<tr>
<td>Clinical practices</td>
<td>103,191</td>
<td>99,156</td>
<td>84,515</td>
<td>75,030</td>
<td>66,077</td>
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<tr>
<td>Operations and maintenance</td>
<td>38,029</td>
<td>32,950</td>
<td>31,006</td>
<td>29,053</td>
<td>25,446</td>
</tr>
<tr>
<td>General institutional expense</td>
<td>21,491</td>
<td>19,981</td>
<td>20,519</td>
<td>16,328</td>
<td>20,589</td>
</tr>
<tr>
<td>General administration</td>
<td>18,764</td>
<td>17,504</td>
<td>14,841</td>
<td>15,061</td>
<td>12,963</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>49,029</td>
<td>45,700</td>
<td>44,892</td>
<td>35,200</td>
<td>33,045</td>
</tr>
</tbody>
</table>

**Total expenditures:** $865,418

### TRANSFERS (TO) OTHER FUNDS:

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory transfers</td>
<td>(21,243)</td>
<td>(24,156)</td>
<td>(15,565)</td>
<td>(13,836)</td>
<td>(11,904)</td>
</tr>
<tr>
<td>Other transfers, net</td>
<td>(33,009)</td>
<td>(36,588)</td>
<td>(36,086)</td>
<td>(35,501)</td>
<td>(26,579)</td>
</tr>
</tbody>
</table>

**Net increase in current fund balances:**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>$22,147</td>
<td>$19,727</td>
<td>$20,837</td>
<td>$22,003</td>
<td>$8,561</td>
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</table>

### EXPENDITURES:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages: University</td>
<td>241,812</td>
<td>222,447</td>
<td>203,897</td>
<td>187,293</td>
<td>178,337</td>
</tr>
<tr>
<td>Salaries and wages: Health Services: University Hospital</td>
<td>105,530</td>
<td>95,599</td>
<td>88,011</td>
<td>80,347</td>
<td>78,480</td>
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<tr>
<td>Salaries and wages: Clinical practices</td>
<td>56,283</td>
<td>55,437</td>
<td>44,392</td>
<td>40,897</td>
<td>38,905</td>
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<tr>
<td>Current expense</td>
<td>403,625</td>
<td>371,483</td>
<td>336,300</td>
<td>308,537</td>
<td>295,722</td>
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<tr>
<td>Current expense</td>
<td>398,517</td>
<td>381,811</td>
<td>352,041</td>
<td>305,930</td>
<td>269,618</td>
</tr>
<tr>
<td>Plant additions</td>
<td>63,276</td>
<td>43,326</td>
<td>33,728</td>
<td>35,494</td>
<td>38,930</td>
</tr>
</tbody>
</table>

**Total expenditures:** $865,418
### Table: A Five-Year Review of Investments

#### University of Pennsylvania

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$250,990</td>
<td>$358,439</td>
</tr>
<tr>
<td>1986</td>
<td>$174,349</td>
<td>$272,821</td>
</tr>
<tr>
<td>1985</td>
<td>$158,203</td>
<td>$273,281</td>
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<tr>
<td>1984</td>
<td>$172,586</td>
<td>$273,281</td>
</tr>
<tr>
<td>1983</td>
<td>$129,487</td>
<td>$273,281</td>
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</tbody>
</table>

### Table: Stocks

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$282,827</td>
<td>$283,189</td>
</tr>
<tr>
<td>1986</td>
<td>$260,486</td>
<td>$273,281</td>
</tr>
<tr>
<td>1985</td>
<td>$226,912</td>
<td>$273,281</td>
</tr>
<tr>
<td>1984</td>
<td>$281,420</td>
<td>$273,281</td>
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<tr>
<td>1983</td>
<td>$215,010</td>
<td>$273,281</td>
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</table>

### Table: Bonds

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$282,827</td>
<td>$283,189</td>
</tr>
<tr>
<td>1986</td>
<td>$260,486</td>
<td>$273,281</td>
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<tr>
<td>1985</td>
<td>$226,912</td>
<td>$273,281</td>
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<tr>
<td>1984</td>
<td>$281,420</td>
<td>$273,281</td>
</tr>
<tr>
<td>1983</td>
<td>$215,010</td>
<td>$273,281</td>
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</table>

### Table: Short-term

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$19,194</td>
<td>$19,813</td>
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<tr>
<td>1986</td>
<td>$21,335</td>
<td>$21,813</td>
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<tr>
<td>1985</td>
<td>$16,213</td>
<td>$16,372</td>
</tr>
<tr>
<td>1984</td>
<td>$19,237</td>
<td>$19,372</td>
</tr>
<tr>
<td>1983</td>
<td>$16,282</td>
<td>$15,203</td>
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</tbody>
</table>

### Table: Other

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
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</thead>
<tbody>
<tr>
<td>1987</td>
<td>$22,586</td>
<td>$22,776</td>
</tr>
<tr>
<td>1986</td>
<td>$21,806</td>
<td>$21,943</td>
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<tr>
<td>1985</td>
<td>$17,237</td>
<td>$17,372</td>
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<tr>
<td>1984</td>
<td>$19,237</td>
<td>$19,372</td>
</tr>
<tr>
<td>1983</td>
<td>$17,282</td>
<td>$15,203</td>
</tr>
</tbody>
</table>

### Table: Endowment

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
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</thead>
<tbody>
<tr>
<td>1987</td>
<td>$544,125</td>
<td>$648,528</td>
</tr>
<tr>
<td>1986</td>
<td>$434,165</td>
<td>$540,084</td>
</tr>
<tr>
<td>1985</td>
<td>$414,165</td>
<td>$522,568</td>
</tr>
<tr>
<td>1984</td>
<td>$359,121</td>
<td>$461,806</td>
</tr>
<tr>
<td>1983</td>
<td>$314,654</td>
<td>$419,251</td>
</tr>
</tbody>
</table>

### Table: Associated Investments Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost (thousands)</th>
<th>Market (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>$458,757</td>
<td>$558,793</td>
</tr>
<tr>
<td>1986</td>
<td>$358,357</td>
<td>$461,806</td>
</tr>
<tr>
<td>1985</td>
<td>$358,357</td>
<td>$461,806</td>
</tr>
<tr>
<td>1984</td>
<td>$359,121</td>
<td>$461,806</td>
</tr>
<tr>
<td>1983</td>
<td>$314,654</td>
<td>$419,251</td>
</tr>
</tbody>
</table>

*Note: True, term and quasi-endowment only, does not include life income, annuity, and unitrust funds reported in the Financial Statements with Endowment and Similar Funds.
### Associated Investments Fund Balance Sheet

University of Pennsylvania  
June 30, 1987

**thousands of dollars**

<table>
<thead>
<tr>
<th>INVESTMENTS:</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td>Short-term Fund</td>
<td>$ 7</td>
</tr>
<tr>
<td>Equity Fund</td>
<td>307,375</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>147,082</td>
</tr>
<tr>
<td>Real estate</td>
<td>1,000</td>
</tr>
<tr>
<td>Venture capital</td>
<td>2,650</td>
</tr>
<tr>
<td>Other</td>
<td>643</td>
</tr>
<tr>
<td>Investments end of year</td>
<td>$ 458,757</td>
</tr>
<tr>
<td>Investments beginning of year</td>
<td>$ 358,357</td>
</tr>
</tbody>
</table>

**FUND:**

- Invested by participating funds: 273,540
- Undistributed accretions:
  - Net undistributed gains realized on sales, etc. of investments and withdrawals of participating funds and gains availed of: 185,217
- Excess of market value of investments over cost: $ 100,036

| Number of participating units | 1,256,869 |
| Per share value end of year   | $ 444.59  |
| Per share value beginning of year | $ 389.40  |

### AIF Total Return Performance Comparison

**Annual Total Return Compounded Quarterly**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AIF</td>
<td>50.0</td>
<td>4.0</td>
<td>38.0</td>
<td>26.4</td>
<td>21.5</td>
</tr>
<tr>
<td>Composite Index</td>
<td>49.4</td>
<td>(2.4)</td>
<td>30.2</td>
<td>30.7</td>
<td>19.0</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>60.9</td>
<td>(4.7)</td>
<td>30.8</td>
<td>35.7</td>
<td>25.1</td>
</tr>
<tr>
<td>Shearson Lehman</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gov't./Corporate</td>
<td>29.1</td>
<td>1.8</td>
<td>28.7</td>
<td>20.6</td>
<td>4.7</td>
</tr>
</tbody>
</table>

**Compounded total return is used commonly for evaluating investment performance. This convention measures both capital appreciation and income, and assumes the reinvestment of income on a periodic basis.**

**The Composite Index is constructed to show what the AIF return would have been if the AIF had been invested in the S&P 500 Composite Stock Index and the Shearson Lehman Government/Corporate Bond Index on a weighted basis equal to its actual equity and fixed income allocations during the five year period.**
Associated Investments Fund Statement of Income
University of Pennsylvania
For the year ended June 30, 1987
thousands of dollars

| Interest received on bonds, net of | $12,854 |
| accrued interest on bonds purchased | |
| Dividends received on common stocks | 19,125 |
| Other income | 123 |
| **Total income** | **$32,102** |

| Less: |
| Salaries, fees, postage, etc. allocable to fund | 1,626 |
| Indirect expenses recovered on yield | 3,557 |
| **Total expenses** | **5,183** |
| **Total income distributed to participating units** | 26,919 |
| Less: Income reinvested in principal | 11,222 |
| **Net income distributed to participating units** | **$15,697** |

Fiscal year 1987:
| Total net income per share | $25.79 |
| Distributed net income per share | $12.61 |

AIF Performance
Cumulative Returns Compounded Quarterly
Year Ended June 30

AIF Income Per Share
Year Ended June 30
Management Responsibility for Financial Statements

The financial statements displayed on pages 28 to 36 have been prepared to conform with generally accepted accounting principles governing colleges and universities. The management of the University of Pennsylvania is responsible for the objectivity and integrity of these financial statements.

The University maintains a system of internal accounting controls which are utilized in accumulating and controlling its financial transactions. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify weaknesses in internal control in order to permit management to take appropriate corrective action on a timely basis.

The financial statements have been examined by Coopers & Lybrand, Certified Public Accountants. Their audit opinion, as shown on the opposite page, expresses an informed judgment as to whether the University's financial statements, as prepared by management, considered in their entirety, present fairly its financial position, changes in fund balances, and current funds revenues, expenditures, and other changes in conformity with generally accepted accounting principles.

The auditor's opinion is based on audit procedures described in the first paragraph of their report, which include obtaining an understanding of University systems, procedures and internal accounting controls, and performing tests and other auditing procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors. While the auditors make extensive tests of University procedures and controls, it is neither practical nor necessary for them to scrutinize a large portion of the University's transactions.

The Trustees of the University of Pennsylvania, through its Committee on Audit comprised of five trustees not employed by the University, is responsible for engaging the independent certified public accountants and meeting with management, internal auditors, and the independent auditors to ensure that each is carrying out their responsibilities and to discuss auditing, internal control, and financial reporting issues. Both the internal auditors and the independent auditors have full and free access to the Committee on Audit.

Marna C. Whittington
Vice President for Finance

Alfred F. Beers
Comptroller
Report of Independent Certified Public Accountants

To: The Trustees of the
University of Pennsylvania
Philadelphia, Pennsylvania

We have examined the balance sheet of the University of Pennsylvania as of June 30, 1987, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the University for the year ended June 30, 1986, totals of which are included for comparative purposes only.

In our opinion, the financial statements referred to above (pages 28 to 36 inclusive) present fairly the financial position of the University of Pennsylvania as of June 30, 1987, and the changes in fund balances and current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
September 10, 1987
Balance Sheet
University of Pennsylvania
June 30, 1987 with comparative 1986 Totals
Thousands of dollars

<table>
<thead>
<tr>
<th>Total 1986</th>
<th>Total 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 11,625</td>
<td>$ 11,022</td>
</tr>
<tr>
<td>109,313</td>
<td>127,960</td>
</tr>
<tr>
<td>71,754</td>
<td>69,666</td>
</tr>
<tr>
<td>10,393</td>
<td>8,496</td>
</tr>
<tr>
<td>813,477</td>
<td>920,646</td>
</tr>
<tr>
<td>606,907</td>
<td>718,524</td>
</tr>
</tbody>
</table>

$ 1,623,469 $ 1,856,325

### Assets

**Cash**
120,757

**Accounts receivable, net of allowances**
$53,429 (1987) and $52,192 (1986)

**Loans receivable, net of allowances**
$4,349 (1987) and $4,556 (1986)

**Inventories and prepaid expenses**
10,343

**Investments**
35,732

**Plant, net of depreciation**
606,907

Interfund balances:
- **Advances for plant**
- **Other**

$ 73,520 $ 177,034 $ 69,810 $ 64,819 $ 562,736 $ 194,695 $ 711,700

### Liabilities and Fund Balances

**Accounts payable and accrued expenses**
120,757

**Deposits, advances and agency funds**
13,222

**Deferred income**
25,423

**Debt obligations**
10,393

**Fund balances**
357,158

$ 1,623,469 $ 1,856,325

The nature of specific fund balance is as follows:
- Externally restricted
- Internally designated
- Unexpended endowment income
- U.S. Government grants
- Life income, annuity and unitrust funds

See accompanying notes to financial statements.
Statement of Changes in Fund Balances
University of Pennsylvania for the year ended June 30, 1987 with comparative 1986 Totals thousands of dollars

<table>
<thead>
<tr>
<th></th>
<th>Total 1986</th>
<th>Total 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REVENUES AND OTHER ADDITIONS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted current funds revenues</td>
<td>700,289</td>
<td>749,780</td>
</tr>
<tr>
<td>Government grants</td>
<td>93,142</td>
<td>99,199</td>
</tr>
<tr>
<td>Gifts and private grants</td>
<td>84,451</td>
<td>89,294</td>
</tr>
<tr>
<td>Investment income</td>
<td>35,974</td>
<td>37,953</td>
</tr>
<tr>
<td>Additions to plant (including $63,276 charged to current expenditures)</td>
<td>54,673</td>
<td>70,077</td>
</tr>
<tr>
<td>Net gain on sale of investments</td>
<td>59,782</td>
<td>80,009</td>
</tr>
<tr>
<td>Other additions, net</td>
<td>1,089</td>
<td>1,447</td>
</tr>
<tr>
<td></td>
<td>1,099,380</td>
<td>1,133,759</td>
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<tr>
<td>EXPENDITURES AND OTHER DEDUCTIONS:</td>
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<td></td>
</tr>
<tr>
<td>Current funds expenditure</td>
<td>799,200</td>
<td>865,418</td>
</tr>
<tr>
<td>Expended for plant</td>
<td>11,347</td>
<td>6,801</td>
</tr>
<tr>
<td>Interest on debt</td>
<td>17,229</td>
<td>18,012</td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td>26,943</td>
<td>31,894</td>
</tr>
<tr>
<td>Other deductions, net</td>
<td>5,594</td>
<td>4,309</td>
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<tr>
<td></td>
<td>860,313</td>
<td>926,434</td>
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<td>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS):</td>
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<td></td>
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<tr>
<td>Mandatory:</td>
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<td></td>
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<tr>
<td>Principal on debt</td>
<td>2,865</td>
<td>2,736</td>
</tr>
<tr>
<td>Interest on debt</td>
<td>11,972</td>
<td>5,593</td>
</tr>
<tr>
<td>Loan fund matching grant</td>
<td>(79)</td>
<td>79</td>
</tr>
<tr>
<td>Other transfers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect costs recovered on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>2,859</td>
<td>2,786</td>
</tr>
<tr>
<td>Restricted gifts</td>
<td>1,940</td>
<td>1,940</td>
</tr>
<tr>
<td>Funds functioning as endowment</td>
<td>(760)</td>
<td>(21,175)</td>
</tr>
<tr>
<td>Physical plant development</td>
<td>(11,017)</td>
<td>(1,708)</td>
</tr>
<tr>
<td>Other, net</td>
<td>2,732</td>
<td>2,020</td>
</tr>
<tr>
<td></td>
<td>149,067</td>
<td>207,325</td>
</tr>
<tr>
<td></td>
<td>(18,744)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>149,067</td>
<td>188,581</td>
</tr>
<tr>
<td></td>
<td>$ 1,106,909</td>
<td>$ 1,295,490</td>
</tr>
</tbody>
</table>

Current Funds
<table>
<thead>
<tr>
<th></th>
<th>Unrestricted and General</th>
<th>Health Services</th>
<th>Restricted</th>
<th>Loan Funds and Similar Funds</th>
<th>Endowment and Similar Funds</th>
<th>Unexpended</th>
<th>Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 388</td>
<td>$ 93,953</td>
<td>$ 48,141</td>
<td>$ 62,414</td>
<td>$ 447,686</td>
<td>$ 88,867</td>
<td>$ 365,460</td>
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<td>393,440</td>
<td>356,340</td>
<td>97,636</td>
<td>1,107</td>
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<td>5,439</td>
</tr>
<tr>
<td></td>
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<td>86</td>
<td>15,338</td>
<td>10,064</td>
<td>2,892</td>
<td>5,027</td>
<td>70,077</td>
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<tr>
<td></td>
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<tr>
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<td>78,182</td>
<td></td>
<td>844</td>
<td></td>
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<tr>
<td></td>
<td>149,067</td>
<td>356,340</td>
<td>192,037</td>
<td>2,037</td>
<td>96,412</td>
<td>17,977</td>
<td>75,516</td>
</tr>
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<td></td>
<td>374,174</td>
<td>333,791</td>
<td>157,453</td>
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<td>6,801</td>
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<tr>
<td></td>
<td>(2,865)</td>
<td>(2,736)</td>
<td></td>
<td>(2,519)</td>
<td>(352)</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>(11,972)</td>
<td>(5,593)</td>
<td></td>
<td>(3,591)</td>
<td>(332)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>(79)</td>
<td></td>
<td></td>
<td>15,915</td>
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</tr>
<tr>
<td></td>
<td>2,859</td>
<td>(2,786)</td>
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<td>(73)</td>
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<tr>
<td></td>
<td>1,940</td>
<td>(1,940)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(760)</td>
<td>(21,175)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(11,017)</td>
<td>(1,708)</td>
<td></td>
<td>(212)</td>
<td>12,625</td>
<td>1,412</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2,732)</td>
<td>(2,020)</td>
<td></td>
<td>289</td>
<td>(3,388)</td>
<td>(6,081)</td>
<td>6,702</td>
</tr>
<tr>
<td></td>
<td>104</td>
<td>13,920</td>
<td>8,123</td>
<td>2,405</td>
<td>114,474</td>
<td>14,849</td>
<td>53,450</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(18,744)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>104</td>
<td>13,920</td>
<td>8,123</td>
<td>2,405</td>
<td>114,474</td>
<td>14,849</td>
<td>34,706</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 492</td>
<td>$ 107,873</td>
<td>$ 56,264</td>
<td>$ 64,819</td>
<td>$ 562,160</td>
<td>$ 103,716</td>
<td>$ 400,166</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Statement of Current Funds, Revenues, Expenditures and Other Changes
University of Pennsylvania
for the year ended June 30, 1987 with comparative 1986 Totals

<table>
<thead>
<tr>
<th>Total 1986</th>
<th>Total 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>$191,268</td>
<td>$208,604</td>
</tr>
<tr>
<td>29,667</td>
<td>32,119</td>
</tr>
<tr>
<td>92,428</td>
<td>96,847</td>
</tr>
<tr>
<td>38,146</td>
<td>41,171</td>
</tr>
<tr>
<td>25,688</td>
<td>28,207</td>
</tr>
<tr>
<td>53,347</td>
<td>54,610</td>
</tr>
<tr>
<td>224,628</td>
<td>236,179</td>
</tr>
<tr>
<td>104,967</td>
<td>120,064</td>
</tr>
<tr>
<td>48,657</td>
<td>52,807</td>
</tr>
<tr>
<td>21,964</td>
<td>24,373</td>
</tr>
<tr>
<td>17,829</td>
<td>12,252</td>
</tr>
<tr>
<td>848,589</td>
<td>907,233</td>
</tr>
</tbody>
</table>

REVENUES:

- Tuition and fees: $208,604
- Commonwealth appropriations: 32,119
- Government grants:
  - Direct costs: 41,171
  - Indirect costs: 13,079
  - Investment income: 10,308
- Gifts and private grants: 23,617
- University Hospital: 120,064
- Clinical practices: 101,138
- Sales and services:
  - Auxiliary enterprises: 52,807
  - Other educational activities: 23,197
  - Other sources: 12,155

EXPENDITURES:

- Instruction: 150,327
- Research: 109,022
- University Hospital: 214,583
- Clinical practices: 101,138
- Operation and maintenance of plant: 32,314
- Student aid: 30,450
- General institutional expense: 18,149
- General administration: 18,316
- Libraries: 13,539
- Student services: 13,553
- Auxiliary enterprises: 46,867
- Other educational activities: 27,784

OTHER CHANGES:

- Provision for depreciation (Note I): (17,055)
- Excess of restricted receipts over transfers to revenues: 34,584
- Transfers among funds:
  - Mandatory: (14,916)
  - Other, net: (4,246)
- Net increase in fund balances before adjustment: 5,924
- Adjustment to convert basis of presentation (Note I): (5,820)
- Net increase in fund balances: $104

Unrestricted

<table>
<thead>
<tr>
<th>Educational and General</th>
<th>Health Services</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>$208,604</td>
<td>32,119</td>
<td>$96,847</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Notes to Financial Statements  
University of Pennsylvania

I. SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation:
The accompanying financial statements are presented in accordance with principles of "fund accounting" for educational institutions in order to observe limitations and restrictions placed on the use of available resources. These resources and related expenditures are recorded in separate funds and summarized for accounting and reporting purposes into fund groups in accordance with specified activities or objectives.

As discussed under "Plant" below, depreciation is recognized in the invested plant fund. The current provision for depreciation has also been reported in the statement of current funds revenues, expenditures and other changes in order to show the effect of the use of plant resources for current operating purposes; additions to plant funds funded from current unrestricted funds have therefore not been included in current funds expenditures. The University recognizes, however, that under its present basis of fund accounting, depreciation is not an expenditure of, and the related depreciable plant assets are not included in, current unrestricted funds. Accordingly, an "adjustment to convert basis of presentation" to generally accepted fund accounting principles for educational institutions is made, comprised of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Educational and General</th>
<th>Health Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$ 17,055</td>
<td>$ 14,839</td>
<td>$ 31,894</td>
</tr>
<tr>
<td>Plant additions</td>
<td>(22,875)</td>
<td>(18,070)</td>
<td>(40,945)</td>
</tr>
<tr>
<td></td>
<td>$ (5,820)</td>
<td>$ (3,231)</td>
<td>$ (9,051)</td>
</tr>
</tbody>
</table>

Investments:
Investments are stated at cost. Cost for donated securities is fair value as determined upon receipt. The cost of investments sold is determined by using an average cost for those investments acquired prior to July 1, 1985 and first-in, first-out basis for those investments acquired thereafter.

The majority of the endowment funds of the University have been pooled in the University's Associated Investments Fund (A.I.F.) which is invested primarily in two investment pools, an Equity Fund and a Fixed Income Fund. Each participating fund earns investment income on the basis of subscribed units, which are acquired or disposed of at market value determined on a quarterly basis. A spending limitation is in effect on this income, and unexpended A.I.F. income ($11,222,000 in 1987) is reinvested in internally designated funds functioning as endowment.

Plant:
Plant is generally stated at cost, less accumulated depreciation (computed on the straight-line basis), except that museum and library contents are not depreciated.

Interfund Transactions:
Interfund balances represent advances which will be eliminated through collection of gift pledges, appropriations of other receipts, refinancing through external borrowings, or charges to current unrestricted expenditures and unexpended plant funds. Interest is charged internally on the majority of plant fund advances. The majority of plant fund advances will be amortized by 1993. Additionally, for financial reporting purposes, the University treats all cash as unrestricted and each fund's share of cash is recognized in the interfund balances.

The current unrestricted fund recovers certain indirect costs incurred to carry out projects funded by investment income and current restricted gifts.

Debt Obligations—Authority Bond Issues:
Certain University facilities are financed in part by bonds issued periodically on its behalf by various Authorities. Typically, the Authority receives a leasehold interest in the facilities for a single lump-sum rental equal to the net proceeds from the sale of the bonds and concurrently subleases them back to the University for rentals sufficient to pay bond principal and interest. For financial reporting purposes, the lease-sublease transactions are treated as though the facilities are owned by the University and the bonds outstanding are an obligation of the University.

Health Services Revenues and Allowances:
Revenues of the Hospital of the University of Pennsylvania and Clinical Practices at the University of Pennsylvania are derived primarily from patient services and are accounted for at established rates on the accrual basis in the period the service is provided. Appropriate allowances to give recognition to third-party arrangements and uncompensated care are also
accounted for on the accrual basis. Adjustments to the estimated allowances are reflected in the current period.

Gifts:
The University does not report gifts in the financial statements until they are received. The University's gift records indicated that approximately $64,700,000 in pledges were outstanding at June 30, 1987. Since pledges are often payable at either the discretion of the donors or through their estates, neither the realizable value nor the period of collection can be determined.

II. INVESTMENTS:

A summary of investments at June 30, 1987 is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td>Short-term</td>
<td>$367,660</td>
</tr>
<tr>
<td>Stocks</td>
<td>250,990</td>
</tr>
<tr>
<td>Bonds</td>
<td>282,827</td>
</tr>
<tr>
<td>Other</td>
<td>19,169</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td><strong>$920,646</strong></td>
</tr>
<tr>
<td><strong>Beginning of year</strong></td>
<td><strong>$813,477</strong></td>
</tr>
</tbody>
</table>

In connection with a University sponsored loan program, the University is required to invest in certificates of deposit of the lending institution. At June 30, 1987, short-term investments restricted under this arrangement aggregated $11,728,000. Certain bonds with a carrying value of $34,558,000 have been pledged as collateral for debt obligations.

III. PLANT:

The components of plant at June 30, 1987 are as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Educational and General</th>
<th>Health Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$17,267</td>
<td>$104</td>
<td>$17,371</td>
</tr>
<tr>
<td>Buildings</td>
<td>485,177</td>
<td>130,768</td>
<td>615,945(a)</td>
</tr>
<tr>
<td>Contents</td>
<td>250,267(a)</td>
<td>140,905</td>
<td>391,172</td>
</tr>
<tr>
<td><strong>Less accumulated depreciation</strong></td>
<td><strong>752,711</strong></td>
<td><strong>271,777</strong></td>
<td><strong>1,024,488</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$545,941</strong></td>
<td><strong>$172,583</strong></td>
<td><strong>$718,524</strong></td>
</tr>
</tbody>
</table>

(a) Library and museum contents not subject to depreciation aggregate $40,251,000 at June 30, 1987.

(b) Includes $135,300,000 of construction in progress and $135,500,000 of completed facilities which serve as collateral for debt obligations.

IV. DEBT OBLIGATIONS:

Debt obligations at June 30, 1987 are as follows (in thousands):

PENNSYLVANIA HIGHER EDUCATION FACILITIES AUTHORITY (PHEFA) Revenue Bonds, Series A of 1987, (3.75%–6.62%) net of unamortized bond discount of $1,038 (a) $127,522

Bereks County Municipal Authority Higher Education Revenue Bonds, Series A of 1985 (4.25%–7.0%) (b) 120,000

PHEFA Series of 1968 Revenue Bonds (4.2%–7.0%) (c) 44,958

The Hospitals and Higher Education Facilities Authority of Philadelphia Hospital Revenue Bonds, Series of 1978 (5.3%–6.0%) net of assets of the restricted funded depreciation subaccount of $13,495 (d) 26,155

PHEFA Floating/Fixed Rate Bonds (4.45% at June 30, 1987) (e) 24,285

PHEFA Series B of 1987 Revenue Bonds, (variable interest rate, 4.58% at June 30, 1987) (f) 16,700

Department of Education of the Commonwealth of Pennsylvania Revenue Bonds (6.5%) (g) 13,081

PHEFA Second Series of 1985 Revenue Bonds (variable interest rate, 4.58% at June 30, 1987) (h) 10,610

Pennsylvania Department of General Service Bonds (7.5%) (i) 7,976

Mortgages payable and other 4,648

(a) The Series A of 1987 Bonds mature in varying annual amounts ranging from $1,720,000 in 1988 to $3,550,000 in 2002 with two final maturities of
$21,420,000 in 2007 and $70,215,000 in 2017. The bonds are subject to optional redemption by the Authority on or after January 1, 1997 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2017 range from approximately $9,510,000 to $9,825,000. The proceeds from these bonds were used for the advance refunding of the Series of 1984 Revenue Bonds issued by The Hospitals and Higher Education Facilities Authority of Philadelphia. The Series of 1984 Revenue Bonds were issued to finance construction of a fifteen level clinical services building as well as other renovations.

(b) The Series of 1985 Bonds mature in varying annual amounts ranging from $1,880,000 in 1989 to $3,810,000 in 2002 with two final maturities of $23,360,000 in 2007 and $58,980,000 in 2015. The bonds are subject to optional redemption by the Authority on or after September 1, 1997 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2015 range from approximately $7,400,000 to $9,625,000. The proceeds from these bonds were principally used for the advance refunding of the 1985 PHEFA Series A Revenue Bonds and refinancing of other outstanding indebtedness of the University.

(c) Annual debt service payments to the Authority extending through 2013 are approximately $3,500,000. The proceeds of this obligation were principally used to finance the renovation of a student housing facility.

(d) The Series of 1978 Bonds mature in varying amounts ranging from $1,405,000 in 1989 to $1,300,000 in 1997 with two final maturities of $11,970,000 in 2007 and $16,050,000 in 2008. Annual debt service payments to the Authority extending through 2008 range from $307,000 to $3,698,000. The proceeds from these bonds were used to finance the construction of new hospital facilities.

The University has pledged and granted to the Authority a security interest in the Hospital of the University of Pennsylvania (the "Hospital") gross revenues and certain property and equipment. The indenture and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness of the Hospital and, among other things, require the Hospital to maintain "net revenues" (excess of revenues over expenses plus depreciation, interest and amortized finance costs relating to the bonds) at an amount equal to 110% of the average annual debt service requirements of the Hospital.

(e) The Floating/Fixed Rate Bonds bear a floating interest rate up to a maximum of 14%, and may be converted at the University’s option to a fixed rate not to exceed 15%.

The Series B of 1987 Bonds mature on April 1, 1997 and are subject to advance payments and optional prepayments as stipulated in the Loan Agreement. The bonds have a variable interest rate which is based on the discount rate of short-term United States government securities. The proceeds from these bonds were principally used for providing funds for the advance refunding of the 1985 PHEFA Series B Revenue Bonds.

(g) Aggregate annual payments under four building leases extending through 2004 are approximately $1,473,000.

(h) The Second Series of 1985 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the University’s option. The bonds mature in 2015, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the University. The proceeds from the bonds were used to refinance a first lien mortgage on certain University facilities.

(i) Annual debt service payments extending through 2017 are approximately $690,000. The proceeds from these bonds were used to finance the construction of new University facilities.

Maturities of debt obligations, including sinking fund deposits for each of the next five years are as follows (in thousands):

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$ 5,337</td>
</tr>
<tr>
<td>1989</td>
<td>5,588</td>
</tr>
<tr>
<td>1990</td>
<td>7,662</td>
</tr>
<tr>
<td>1991</td>
<td>7,966</td>
</tr>
<tr>
<td>1992</td>
<td>8,269</td>
</tr>
</tbody>
</table>

V. ADVANCE REFUNDING OF DEBT:

The proceeds of new debt obligations issued by the University during 1987 were used for the advance refunding of the Series of 1984 Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia.
Authority of Philadelphia and the Series A and B of 1985 Revenue Bonds issued by the Pennsylvania Higher Education Facilities Authority.

The advance refunding of these bonds was accomplished by depositing sufficient funds in irrevocable escrow accounts maintained by trustees. The escrowed amounts will be used to satisfy all principal and interest requirements relating to the refunded bonds. The University has accounted for these bonds as though defeased through redemption. Accordingly, at June 30, 1987, $202,316,000 of these bonds are considered defeased. These transactions, including write-off of unamortized debt discount and related issue costs of $4,066,000, resulted in an accounting loss of $20,859,000, net of estimated third-party reimbursement of $11,124,000.

The University also extinguished (through prepayment) mortgage bonds and notes. These transactions resulted in an accounting gain of $2,115,000. This gain has been netted against the loss discussed in the preceding paragraph, and the aggregate net loss of $18,744,000 is reflected as an extraordinary loss in the statement of changes in fund balances.

VI. RETIREMENT BENEFIT PLANS:

Retirement benefits are provided for academic employees and certain administrative personnel through direct payments to various annuity funds. The University's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries. The University's contributions to these funds amounted to $11,790,000 in 1987.

The University has noncontributory defined benefit pension plans for substantially all other full-time employees. Contributions to the plans are accrued and funded based on current service costs and amortization of prior service costs over periods of 25 to 40 years. The provision for pension expense related to the noncontributory plans aggregated $5,889,000 in 1987.

The actuarially determined present value of accumulated plan benefits and plan net assets determined as of the most recent valuation date (July 1, 1986) is as follows (in thousands):

<table>
<thead>
<tr>
<th>Accumulated plan benefits:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vested employees</td>
<td>$53,317</td>
</tr>
<tr>
<td>Nonvested employees</td>
<td>5,864</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$59,181</td>
</tr>
</tbody>
</table>

Net assets available for plan benefits $84,614

The assumed rates of return used in the actuarial computations ranged from 6 1/2% to 8 1/2%.

In addition to providing pension benefits, the University provides certain health care and life insurance benefits for retired employees. Substantially all of the University's employees may become eligible for such benefits if they reach normal retirement age while working for the University. These and similar benefits for active employees are provided through insurance contracts.

The University recognizes the cost of providing the benefits by expensing the annual premiums, which were approximately $24,700,000 for 1987. The cost of providing benefits for approximately 1,400 retirees is not separable from the cost of providing benefits for more than 11,900 active employees.

VII. ASSETS HELD IN TRUST BY OTHERS:

Assets held in trust and managed by outside fiscal agents are not included in the University's balance sheet. Income earned on all such assets was $2,288,000 in 1987. The University is sole or primary income beneficiary of assets with a reported cost of $19,870,000 at June 30, 1987 ($30,110,000 market value).

VIII. CONTINGENCIES:

The University has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling approximately $13,300,000 at June 30, 1987. The University is also contingently liable at June 30, 1987 under $19,000,000 of irrevocable letters of credit relating to certain insurance programs.

The University accrues for estimated uninsured losses arising from asserted malpractice claims and for estimated losses arising from incidents reported to management for which it is likely that claims will be asserted. Due to the lack of statistically significant historical claims experience, the University is not able to reasonably estimate losses for unasserted claims arising from unreported incidents.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the University's education and health care activities. While the ultimate disposition of the aforementioned contingencies is not determinable at this time, management believes that any liability resulting therefrom will not materially affect the financial position of the University.
Trustees of the University of Pennsylvania

as of June, 1987

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Retired Judge
Third Circuit Court of Appeals
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Lawyer
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The Philadelphia National Bank
Philadelphia, Pennsylvania

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