The Physical Transformation of the University: Planning for the 21st Century

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Architectural Drafting Room
(Old Chapel Room), Second Floor,
College Hall, March 1915.
Photographer unknown.

Collections of the University Archives
and Records Center.

The University's Existing Base Map, 1992.
President's Message

Excellence in teaching, research, and service is the goal of any great university. At Penn, we have a tradition of engaging in thoughtful long-range planning as a means of attaining that goal. Last year's Annual Report outlined in detail the progress of Penn's academic planning through the 1980s, and it noted several challenges the University continues to face in meeting its objectives. One of the major lessons of the past decade is that continued academic excellence will entail careful attention to the physical development of our campus, to the facilities and spaces that support the work of Penn's faculty, students, and staff. Our campus environment must be as outstanding as our people and programs if we are to remain in the first rank of American higher education.
Through careful collective planning, Penn has made strategic choices that have enabled us to conserve the best of our past and to choose and shape our future. Looking back through recent decades, it is remarkable to observe how well — in both academic and physical terms — we have achieved the future we chose for ourselves:

• In the 1950s and 1960s, we established a truly residential university with a set of highly selective undergraduate colleges complementing our traditional strengths in graduate education and in professional training, and we created an urban campus that facilitates intellectual and social interaction.

• In the 1970s, we created a School and Faculty of Arts and Sciences that recognized the centrality of undergraduate education and undergraduate life, and we developed Penn as an urban park within the framework of a flexible but durable Landscape Architecture Master Plan.

• In the 1980s, we developed a national and increasingly international student body. We also made fundamental investments in Penn’s academic, research, and residential infrastructure — by quantifying and beginning to address our deferred maintenance needs; by establishing the Research Foundation and the Research Facilities Fund; by building new facilities such as the Clinical Research Building, the Steinberg Conference Center, and the Mudd Plant Sciences Building; and by making commitments to new facilities such as the Institute for Advanced Science and Technology, the Law School Library, and a new facility for basic biomedical research.

During the past decade especially, our iterative, highly successful process of academic and administrative planning has tended to focus primarily, and appropriately, on forging intellectual and scholarly connections among people and programs. The task now is to set equally clear goals for the next decade and beyond so that Penn may, as I described it to our Trustees last year, “grow against the grain” of generally diminished resources, a constraint that will continue to face American higher education for the foreseeable future. To accomplish this, Penn must become the research university that best establishes itself as the exemplar in undergraduate education; it must increase substantially its central investments in the infrastructure supporting research and graduate education; and it must help revitalize the City of Philadelphia, which is the essential environment that makes the University such a vital and vibrant institution.
To succeed in these goals, Penn faces a fundamental challenge in the coming decade: to extend and enhance the physical development of our campus in order to reinforce its sense of interconnectedness and organic cohesion. This annual report focuses on the fulfillment of this central challenge: the development of Penn’s campus with the aim of reinforcing Penn’s interconnected missions of teaching, research, and service, based on our continuing process of academic planning. Our campus development must reflect a focused vision, a set of goals for Penn’s future; it must be increasingly attentive not just to what transpires in the classroom but to the informal curriculum that, in a residential research university emphasizing undergraduate education, is an equally important part of the educational experience. In both our academic and our physical planning, we must enable faculty and students to benefit from the stimulation of disciplines in conversation with each other and from the new knowledge that flows from overlapping frontiers joining different fields and different individuals.

As we take the next critical steps toward Penn’s physical development, it may be useful to offer a brief view of three previous defining eras since the establishment of the College of Philadelphia’s first home in the mid-1700s: the migration of the University to West Philadelphia in the early 1870s; the creation of an urban campus in the 1950s and 1960s; and the implementation of the Landscape Architecture Master Plan in the 1970s, which fostered academic and personal connections in an urban park setting.

In the aftermath of the Civil War, Penn rapidly outgrew, both physically and psychologically, its small second home at 9th and Chestnut Streets that had easily accommodated 535 students only 30 years earlier. By the end of the 1860s, the student body numbered 736, still weighted heavily toward the Department of Medicine despite the attrition of medical students from the South. Provost Charles Stille, appointed in 1868, found the area surrounding the campus...
to be a "vile neighborhood, growing viler every day." He saw in a prospective move to a more bucolic setting two opportunities: first, it would establish a residential campus to attract more undergraduate students than what were once disparagingly described as the "100 men in Philadelphia who were disposed to avail themselves to the college (of arts)." Second, moving the campus offered the prospect of new facilities to house a college of science.

Penn's westward migration across the Schuylkill accomplished both objectives and removed the University to a "semi-rural region traversed by quiet streets and country roads ... ideally situated for a community requiring academic quiet and comparative isolation." The move to West Philadelphia, and the period of academic and physical expansion that followed, saw the construction of many of the structures that physically define the University we know today: College and Logan Halls, the Quadrangle, the Furness Library, the University Museum, and Franklin Field.

Yet after just 40 years of sustained development in and around Penn's new campus in West Philadelphia, which was accompanied by a quadrupling of the student body to more than 3600, the celebrated Dean of Architecture, Paul Philippe Cret, in a report commissioned by the Trustees, found that "the quiet and rural surroundings which once made its situation ideal are gone and can never be reclaimed; and the present environment of noise, dust and smoke, intrusion of distracting sights and sounds, congestion of pace and confusion of arrangement, have all grown upon us so unconsciously that we do not fully realize the resulting loss of efficiency." Much of the genius of Cret's report lay in his proposed rerouting of vehicular traffic along Woodland Avenue, which bifurcated and hindered the organic development of the campus. The cavalcade of trolleys and automobiles along the Avenue was, moreover, becoming positively hazardous to life and limb. Cret cited the need to acquire additional land "at strategic points" and to develop open space - a "campus mall," with university buildings along a north-south axis centered at College Hall, that would provide the "quiet and sense of retirement so essential to academic life."

The key elements of Cret's plan were achieved several decades later with the closing of Woodland Avenue and the transformation of its surface trolley line into a subway between Market and 38th Streets, and with the creation of College Hall Green and, eventually, Blanche Levy Park.
Woodland Avenue at the intersection of 37th and Spruce Streets, looking southwest towards the Memorial Tower of the Quads, c. 1952. The Dougherty’s billboard stands over the future site of Vance Hall and a Coca-Cola billboard appears where the Stonffer Triangle was constructed in 1972.

Collections of the University Archives and Records Center.

View of north side of 3400 block of Woodland Avenue, looking northeast towards 34th Street, c. 1956. This was the view opposite College Hall and the statue of Benjamin Franklin.

Collections of the University Archives and Records Center.
Some of Cret's ideas for the campus, such as transforming the Franklin Field site for academic expansion, never reached fruition. Nor did other major proposals for campus development. While Cret described the effect of an increasingly urbanized West Philadelphia on the University, so too did he recognize that: "the difficulties thus created are not without their compensation, for the geographical situation of the University constitutes a material advantage in one respect. Almost in the heart of one of the world's greatest cities and within practicable traveling distance of its entire population, it is in a position of the greatest strategic importance to its function as an instrument of public service."  

Through the 1920s and 1930s, however, the University hotly debated a proposal to relocate all or part of Penn to a 175-acre site near Valley Forge. Just prior to and after World War II, with faculty and students from Penn's professional and graduate schools leading the way, it became increasingly clear to administrators and Trustees alike that Penn's future was inextricably intertwined with that of Philadelphia. Accordingly, the University began to forge a partnership with Philadelphia's political and civic leadership that recognized the University as a major economic, as well as academic, actor in the city and that facilitated campus development.  

The postwar period saw other efforts to recreate the campus in the spirit of the Cret plan, that is, to create open spaces enclosed by academic buildings. The principal, and most enduring, of the recommendations of the 1948 report prepared by Sydney Martin, Chairman of the Trustees' Committee on the Physical Development of the University, involved the removal of busy thoroughfares through the campus, leading to the creation of the marvelous east-west axis we now know as Locust Walk and to the achievement of a true campus within the urban setting. Other proposals
of Chairman Martin's report thankfully were ignored: the demolition of the Furness Library (which in 1992 was designated by President Bush as one of ten award-winning historic preservation projects) and the replacement of Logan Hall (and perhaps College Hall) by a multi-story "administrative tower."

Fortunately, my predecessors chose to adopt the best parts of Cret's concept of open space, which is now exemplified in the core campus centered at College Hall and in the urban park that surrounds it.

We are now entering an era in which we again have the opportunity to refine and redefine the campus for generations to come, to facilitate the growth of the academic and personal interconnections that Cret envisioned as the "proper expansion of departments or of the introduction of new cognate departments in proper relation thereto."

Our objective in this next stage of Penn's development is ambitious but simple: to strengthen our position, through reinforced interconnections, as a research university of choice for undergraduates, graduate and professional students, and faculty. We are well on our way, but our integrated academic and campus planning must continue to develop:

- a School of Arts and Sciences that brings together in contiguous districts its major related disciplines and associated programs in Penn's other schools, and that is perceived as an organic whole, integrating undergraduate and graduate education;
- a state-of-the-art academic medical center that integrates teaching, research, and clinical services in a cohesive unit, enabling it to become among the top five such centers in the nation; and
- a cohesive, residential urban campus that is part of, and open to, the City of Philadelphia, yet retains a distinctive academic character.

Collections of the University Archives and Records Center.
To achieve this vision means that we must adhere to a framework of planning principles and goals for Penn's campus that has been developed over several years of fruitful collaboration among faculty, students, Trustees, and administrators. This framework dictates that we need to be ever-cognizant of important opportunities:

- to develop the space currently available on the perimeter of the campus to enhance our capacity to meet our academic, research, and service missions, particularly the critically important properties along the Schuylkill River for health services, research, and recreation;
- to reduce or eliminate traffic along the remaining major thoroughfares dividing the campus, and to continue our development of major new facilities along the north-south axis (the new Institute of Contemporary Art, the Law School Library, and the Revlon Center at the northern end; the Institute for Advanced Science and Technology near the center; and the Medical School's new Clinical Research Building and Biomedical Research Buildings One and Two at the southern end); and
- to create interfaces with our neighbors and partners in West Philadelphia and Center City.

The history of our physical evolution has taught us that clarity and expanse of vision are essential to the organic development of the campus and to the fulfillment of our academic mission. Penn is a complex, energetic, interconnected, residential, undergraduate, graduate, and professional community woven into the fabric of a great city. We are home to some of the most accomplished faculty and promising students in the nation and the world. Now and for the future, we need a campus that will provide them not only adequate facilities for the range of activities they pursue, but a strong, unifying sense of place and purpose. Notwithstanding the effect of technology on certain kinds of information retrieval and exchange, the essence of our university can never be reduced to abstraction; it cannot be called up on “e-mail” or withdrawn through the academic equivalent of a bank's automated teller machine. It is that strong sense of physical presence as a dynamic center of energy and exchange that helps define who we are as a University. The Penn campus enhances our sense of community and facilitates the interconnectedness of our people and programs. It is the geographic embodiment of a vision that has evolved from the earliest eras of the University's history. The continued vitality of Penn's campus deserves our most thoughtful attention as we set our academic priorities, make the tough fiscal and academic choices, and marshal our resources in planning for the future.

Notes

4 Cret et al. 7.
5 Cret et al. 14.
6 Cret et al. 7.
7 Cret et al. 7-8.

Reproduction of archival photography by Brian Peterson, Photographer.
FINANCIAL SECTION

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President Hackney has described the importance of Penn's physical environment in reinforcing the interconnection of the University's instruction, research, and public service missions. The physical transformation of the University during its first quarter-millennium has been accompanied by sustained financial growth, enabling Penn to make strategic investments in its people and programs, as well as in its physical infrastructure. These investments, in turn, have enhanced the University's position as an institution of choice for the best students and faculty.

The continuation of several favorable trends during Fiscal Year 1992 will enhance the University's ability to maintain financial equilibrium and flexibility in the future. These include the outstanding success of the Campaign for Penn, excellent endowment investment performance, impressive increases in sponsored research support, and highly positive financial results in our Health Services operations.

Uncertain economic conditions and the potential loss of the University's Commonwealth of Pennsylvania appropriation, however, present major challenges as we plan for the remainder of this decade and for the twenty-first century.

The University continued to demonstrate strong financial performance and growth during Fiscal Year 1992 as total fund balances surpassed $2 billion for the first time in the University's history. The $249 million increase in fund balances, largely reflected in Endowment and Similar Funds, Health Services, and Plant Funds, on top of an already strong financial foundation, should contribute significantly to the accomplishment of the University's future goals.

Fiscal Year 1992 marked the seventeenth consecutive year of positive financial performance in Penn's unrestricted educational and general operations — this despite the mid-year abatement of 3.5%, or $1.5 million, in our Commonwealth appropriation. Thanks to the collective efforts of Penn Trustees, faculty, staff, students, alumni, and friends, this amount was considerably less than the nearly $19 million reduction initially proposed.

The Commonwealth has recognized Penn's educational, cultural, and economic contributions to the state by supporting the University with budgetary appropriations.
for 89 consecutive years. This critical source of funding has enabled Penn to become one of the nation’s foremost research universities, despite the relatively small size of our endowment when compared with our peer institutions. The Commonwealth’s continuing financial difficulties, however, threaten this longstanding tradition of investing in Penn, as evidenced by the Commonwealth’s Fiscal Year 1993 budget, which does not include the $41.2 million requested by the University. The outcome of our concerted efforts to have the appropriation reinstated is still uncertain.

A permanent loss of the University’s appropriation would have significant financial implications. In preparing for this potential loss, we are developing a multi-year strategy designed to protect the academic core of the University while minimizing the overall impact on operations. This strategy will ensure that any short-term actions taken are compatible with the University’s long-term goal of academic excellence.

Overall, Fiscal Year 1992 was a positive one for the University’s research program. Sponsored research support from both the government and private sectors grew impressively. Much of this growth resulted from Penn’s continued investment in its research infrastructure, including facilities and faculty. Penn’s ongoing commitment to research is demonstrated by recent and planned investments in major facilities such as the Clinical Research Building, the Biomedical Research Buildings One and Two, and the Institute for Advanced Science and Technology. During the year, we settled our federal indirect cost audit, agreeing to repay the government for costs that had been inadvertently included in an earlier indirect cost proposal. The repayment represented less than one-half of one percent of the University’s indirect cost recoveries for the five-year period covered by the audit. Subsequent clarification of federal guidelines, along with internal control improvements implemented by the University, will preclude the inclusion of such costs in future indirect cost proposals. During Fiscal Year 1992, we also successfully negotiated research indirect cost rates through Fiscal Year 1995, thus establishing a large measure of stability in the level of indirect cost recoveries for the next several years.

As Philadelphia’s largest private employer and as a responsible member of the community, Penn again demonstrated its commitment to the financial well-being of the City. In November 1991, the University joined with other local businesses and institutions to provide Philadelphia with short-term financing, thereby enabling the City to meet its ongoing payment obligations for goods and services during a period of limited liquidity. More recently, a number of University senior administrators assisted Philadelphia’s new administration with technical expertise in reviewing its fiscal operating policies and procedures.

Despite the national recession, the Campaign for Penn remains ahead of schedule in reaching its $1 billion goal, with gifts and subscriptions exceeding $800 million through June 1992. Gifts received for endowment, coupled with excellent investment performance, resulted in an 18 percent annual increase in the market value of Penn’s endowment, which stood at $974 million as of June 30, 1992. Building Penn’s endowment is vital to the University’s long-term financial health because endowment earnings provide essential funding for academic program initiatives and supplement our unrestricted revenue base. This provides
the University with essential flexibility in its ability to respond to changes in economic and financial conditions.

In addition to bolstering our endowment and generating support for faculty and student initiatives, Campaign gifts have provided critical funding for a number of the University's building priorities. These include projects for both capital renewal, such as the restoration of the Furness Building, and new construction, including the Law School Library and the Institute for Advanced Science and Technology.

Health Services, consisting of the Hospital and the Clinical Practices of the University of Pennsylvania, experienced exceptional financial performance during the year as a result of a number of revenue enhancement initiatives and an aggressive cost containment program at the Hospital. This performance has enhanced the Medical Center's ability to make strategic investments in its facilities and management control systems. Such investments are vital to the long-term financial viability of Health Services operations.

Achieving the Medical Center's goal of becoming one of the top five academic medical centers in the United States will require substantial additional investment in patient care and research facilities, as well as the continued recruitment of distinguished faculty. Successful implementation of the Medical Center's strategic plan will depend heavily on its ongoing ability to generate the funds necessary to meet these critical capital and programmatic needs.

During Fiscal Year 1992, we continued our efforts to reengineer the University's administrative processes through the application of total quality management principles. This major initiative will ensure that administrative support activities, both centrally and in the schools, deliver customer-oriented services in an efficient and cost effective manner.

We also launched a major effort to improve the University's management information systems. This project is designed to develop a set of enduring principles, models, and standards to guide the deployment of information technology in support of our business reengineering efforts. Upon completion of this project, requirements for a new financial management information system will be defined as the first step in developing integrated administrative support systems designed to facilitate management decision-making.

As we chart the University's future course, we must continue to make strategic investments in people, programs, and facilities to ensure that Penn remains in the first rank of American universities. Achieving this objective, while maintaining financial stability, will require both successful competition for financial resources and effective control of operating costs. These challenges are particularly acute in an environment of economic uncertainty and generally diminishing financial support for higher education and health care. Penn's past financial performance and the underlying quality of the University's teaching, research, and service programs provide a solid foundation for meeting these and other challenges.

In the future, as in the past, we will embrace Penn's collaborative system of integrated academic, operational, and resource planning, thus ensuring that the University of the future lives within its means, while enabling the critical investments required for continued academic excellence.

Selimo C. Rael
Vice President for Finance
### FIVE YEARS OF FINANCIAL PERFORMANCE

*University of Pennsylvania*  
*(thousands of dollars)*

#### Unrestricted:

**Change in Unrestricted fund balances:**

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<td>Educational and General</td>
<td>$26</td>
<td>$25</td>
<td>$100</td>
<td>$275</td>
<td>$176</td>
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<tr>
<td>Health Services:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>University Hospital</td>
<td>95,218</td>
<td>45,204</td>
<td>20,062</td>
<td>(4,575)</td>
<td>(5,684)</td>
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<tr>
<td>Clinical Practices</td>
<td>1,124</td>
<td>(2,770)</td>
<td>5,115</td>
<td>8,384</td>
<td>12,144</td>
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<tr>
<td>Graduate Hospital</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
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<tr>
<td><strong>Total</strong></td>
<td>96,439</td>
<td>42,531</td>
<td>25,274</td>
<td>3,906</td>
<td>6,557</td>
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<td>$42,556</td>
<td>$25,374</td>
<td>$4,181</td>
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#### Unrestricted fund balances:

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<td>Educational and General</td>
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<td>$1,068</td>
<td>$1,043</td>
<td>$943</td>
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<td>Health Services:</td>
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<tr>
<td>University Hospital</td>
<td>181,961</td>
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<td>41,539</td>
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<td>Graduate Hospital</td>
<td>(2,206)</td>
<td>(2,303)</td>
<td>(2,400)</td>
<td>(2,497)</td>
<td>(2,594)</td>
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<td><strong>Total</strong></td>
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<td><strong>Unrestricted fund balances:</strong></td>
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<td>$176,814</td>
<td>$134,258</td>
<td>$108,884</td>
<td>$104,703</td>
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#### Restricted:

**Change in Restricted fund balances** | $6,700 | $1,162 | $4,635 | $10,012 | $500 |

**Restricted fund balances** | $79,273 | $72,573 | $71,411 | $66,776 | $56,764 |

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#### 1992

**How it was Provided (by source):**  
- Health Services: 44%  
- Tuition and fees: 21%  
- Government grants: 13%  
- Gifts and private grants: 6%  
- Auxiliary enterprises: 5%  
- Investment income: 5%  
- Commonwealth appropriations: 2%  
- Other educational activities: 2%  
- Other sources: 2%  
- TOTAL: 100%

#### 1992

**How it was Spent (by function):**  
- Health Services: 40%  
- Instruction: 20%  
- Research: 12%  
- Student aid: 6%  
- Auxiliary enterprises: 6%  
- Operations and maintenance: 4%  
- Other educational activities: 4%  
- General institutional expense: 3%  
- General administration: 2%  
- Libraries: 2%  
- Student services: 1%  
- TOTAL: 100%
A FIVE-YEAR REVIEW OF CURRENT FUNDS

University of Pennsylvania
(thousands of dollars)

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<td><strong>Revenue:</strong> by source</td>
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<td>Student tuition and fees</td>
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<td>$244,858</td>
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<td>36,627</td>
<td>37,639</td>
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<td>166,814</td>
<td>154,018</td>
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<td>65,757</td>
<td>63,800</td>
<td>59,874</td>
<td>48,883</td>
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<td>79,872</td>
<td>99,378</td>
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<td>275,708</td>
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<td>26,054</td>
<td>28,614</td>
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<td>Auxiliary enterprises</td>
<td>71,301</td>
<td>69,808</td>
<td>68,750</td>
<td>62,530</td>
<td>60,659</td>
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<td><strong>Total Revenue</strong></td>
<td>1,484,470</td>
<td>1,305,032</td>
<td>1,208,223</td>
<td>1,112,518</td>
<td>1,030,994</td>
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<td>230,357</td>
<td>215,329</td>
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<td>136,334</td>
<td>125,591</td>
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<td>18,196</td>
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<td>52,293</td>
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<td>Student aid</td>
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<td>16,780</td>
<td>15,768</td>
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<td>University Hospital</td>
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<td>315,635</td>
<td>262,421</td>
<td>259,022</td>
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<td>Clinical Practices</td>
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<td>146,407</td>
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<td>53,053</td>
<td>45,595</td>
<td>42,948</td>
</tr>
<tr>
<td>General institutional expense</td>
<td>43,878</td>
<td>39,713</td>
<td>35,215</td>
<td>39,929</td>
<td>28,761</td>
</tr>
<tr>
<td>General administration</td>
<td>28,790</td>
<td>27,128</td>
<td>25,986</td>
<td>21,860</td>
<td>20,627</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>68,874</td>
<td>66,772</td>
<td>65,650</td>
<td>56,675</td>
<td>56,205</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>1,314,901</td>
<td>1,203,551</td>
<td>1,092,419</td>
<td>1,029,077</td>
<td>953,700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Transfers to Other Funds:</strong></th>
<th>1992</th>
<th>1991</th>
<th>1990</th>
<th>1989</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory transfers</td>
<td>(32,501)</td>
<td>(33,908)</td>
<td>(36,961)</td>
<td>(32,412)</td>
<td>(28,524)</td>
</tr>
<tr>
<td>Other transfers, net</td>
<td>(33,903)</td>
<td>(23,855)</td>
<td>(48,834)</td>
<td>(36,836)</td>
<td>(41,537)</td>
</tr>
<tr>
<td><strong>Net increase in current fund balances</strong></td>
<td>$103,165</td>
<td>$43,718</td>
<td>$30,009</td>
<td>$14,193</td>
<td>$7,233</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>$351,046</td>
<td>$330,568</td>
<td>$307,397</td>
<td>$285,791</td>
<td>$262,176</td>
</tr>
<tr>
<td>Health Services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td>148,461</td>
<td>138,509</td>
<td>127,570</td>
<td>123,258</td>
<td>115,702</td>
</tr>
<tr>
<td>Clinical Practices</td>
<td>85,171</td>
<td>78,516</td>
<td>74,190</td>
<td>68,781</td>
<td>64,409</td>
</tr>
<tr>
<td>Current expense</td>
<td>584,678</td>
<td>547,593</td>
<td>509,157</td>
<td>477,830</td>
<td>442,287</td>
</tr>
<tr>
<td>Capital additions</td>
<td>651,836</td>
<td>580,056</td>
<td>523,580</td>
<td>470,088</td>
<td>451,245</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$1,314,901</td>
<td>$1,203,551</td>
<td>$1,092,419</td>
<td>$1,029,077</td>
<td>$953,700</td>
</tr>
</tbody>
</table>
"New Birds' Eye View of the University of Pennsylvania," by Richard Rummell (1848-1924). From the June 1910 issue of the campus magazine, Old Penn. This idealized rendering of the campus immediately became a popular depiction of the University's rapid growth under the provostships of William Pepper (1881-1894) and Charles Curtis Harrison (1894-1910). This view particularly emphasizes the north-south axis of 34th Street.

Collections of the University Archives and Records Center.
## A Five-Year Review of Investments

*University of Pennsylvania (thousands of dollars)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>$409,569</td>
<td>$368,239</td>
<td>$369,239</td>
<td>$356,496</td>
<td>$319,610</td>
</tr>
<tr>
<td>Bonds</td>
<td>663,330</td>
<td>567,395</td>
<td>363,558</td>
<td>264,439</td>
<td>224,040</td>
</tr>
<tr>
<td>Short-term</td>
<td>460,227</td>
<td>332,826</td>
<td>368,188</td>
<td>339,733</td>
<td>371,047</td>
</tr>
<tr>
<td>Other</td>
<td>36,467</td>
<td>40,978</td>
<td>28,251</td>
<td>17,349</td>
<td>15,095</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$1,569,593</td>
<td>$1,309,438</td>
<td>$1,129,236</td>
<td>$978,017</td>
<td>$929,792</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>$439,625</td>
<td>$357,316</td>
<td>$406,691</td>
<td>$444,897</td>
<td>$381,985</td>
</tr>
<tr>
<td>Bonds</td>
<td>697,737</td>
<td>577,019</td>
<td>363,290</td>
<td>268,726</td>
<td>223,836</td>
</tr>
<tr>
<td>Short-term</td>
<td>460,884</td>
<td>332,836</td>
<td>367,969</td>
<td>340,074</td>
<td>372,507</td>
</tr>
<tr>
<td>Other</td>
<td>40,889</td>
<td>43,330</td>
<td>30,074</td>
<td>17,761</td>
<td>14,477</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$1,639,135</td>
<td>$1,310,501</td>
<td>$1,168,024</td>
<td>$1,071,458</td>
<td>$992,805</td>
</tr>
<tr>
<td><strong>Endowment</strong>:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>$916,207</td>
<td>$827,362</td>
<td>$770,389</td>
<td>$669,993</td>
<td>$603,689</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>$974,399</td>
<td>$825,601</td>
<td>$808,409</td>
<td>$761,408</td>
<td>$664,637</td>
</tr>
<tr>
<td><strong>Associated Investments Fund:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>$826,025</td>
<td>$734,965</td>
<td>$667,273</td>
<td>$589,496</td>
<td>$519,676</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>$875,337</td>
<td>$731,232</td>
<td>$700,870</td>
<td>$684,531</td>
<td>$583,532</td>
</tr>
<tr>
<td><strong>Per Share Market</strong></td>
<td>$491.93</td>
<td>$439.35</td>
<td>$453.69</td>
<td>$474.65</td>
<td>$434.13</td>
</tr>
<tr>
<td><strong>Per Share Income</strong></td>
<td>$28.27</td>
<td>$29.73</td>
<td>$31.50</td>
<td>$29.76</td>
<td>$27.60</td>
</tr>
</tbody>
</table>

*Endowment includes 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, 1992*

*(thousands of dollars)*

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
</tr>
<tr>
<td><strong>Investments:</strong></td>
<td></td>
</tr>
<tr>
<td>Equity Fund</td>
<td>$612,230</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>199,723</td>
</tr>
<tr>
<td>Venture capital</td>
<td>8,734</td>
</tr>
<tr>
<td>Real estate</td>
<td>5,338</td>
</tr>
<tr>
<td>Investments, end of year</td>
<td>$826,025</td>
</tr>
<tr>
<td>Investments, beginning of year</td>
<td>$734,965</td>
</tr>
<tr>
<td><strong>Fund:</strong></td>
<td></td>
</tr>
<tr>
<td>Invested by participating funds</td>
<td>$512,205</td>
</tr>
<tr>
<td>Undistributed accretions:</td>
<td></td>
</tr>
<tr>
<td>Net undistributed gains realized on sales, etc. of investments and withdrawals of participating funds and gains availed of</td>
<td>313,820</td>
</tr>
<tr>
<td>Excess of market value of investments over cost</td>
<td>49,312</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$875,337</td>
</tr>
<tr>
<td>Number of participating units</td>
<td>1,779,393</td>
</tr>
<tr>
<td>Per share value, end of year</td>
<td>$491.93</td>
</tr>
<tr>
<td>Per share value, beginning of year</td>
<td>$439.35</td>
</tr>
</tbody>
</table>

### A.I.F. TOTAL RETURN PERFORMANCE COMPARISON

*Annual Total Return Compounded Quarterly*

*Periods Ended June 30*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A.I.F.</td>
<td>50.0</td>
<td>4.0</td>
<td>38.0</td>
<td>26.4</td>
<td>21.5</td>
<td>4.4</td>
<td>16.7</td>
<td>2.2</td>
<td>3.9</td>
<td>18.8</td>
<td>17.7</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>
<td>(2.7)</td>
<td>18.2</td>
<td>14.0</td>
<td>7.9</td>
<td>13.6</td>
<td>16.8</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>
<td>(6.9)</td>
<td>20.4</td>
<td>16.4</td>
<td>7.4</td>
<td>13.4</td>
<td>18.4</td>
</tr>
<tr>
<td>Lehman Bros. Gov't./Corporate</td>
<td>29.1</td>
<td>1.8</td>
<td>28.7</td>
<td>20.6</td>
<td>4.7</td>
<td>7.5</td>
<td>12.3</td>
<td>7.1</td>
<td>10.2</td>
<td>14.2</td>
<td>13.3</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 A.I.F. return would have been if the A.I.F. had been invested in the S&P 500 Composite Stock Index and the Lehman Bros. Gov't./Corporate Bond Index on a weighted basis equal to its actual equity and fixed income allocation during the ten year period.
**ASSOCIATED INVESTMENTS FUND STATEMENT OF INCOME**

*University of Pennsylvania*
*For the year ended June 30, 1992*
*(thousands of dollars)*

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received on bonds, net of accrued interest on bonds purchased</td>
<td>$15,649</td>
</tr>
<tr>
<td>Dividends received on common stocks</td>
<td>$33,227</td>
</tr>
<tr>
<td>Other income</td>
<td>$323</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$49,199</strong></td>
</tr>
</tbody>
</table>

Less:
- Salaries, fees, postage, etc. allocable to fund                      | $1,845       |
- Indirect expenses recovered on yield                                  | $7,955       |

**Total expenses**                                                      | **$9,800**   |

**Total income distributed to participating units**                      | **$39,399**  |

Less:
- Income reinvested in principal                                        | **$5,467**   |

**Net income distributed to participating units**                        | **$33,932**  |

**Total income per share**                                               | **$28.27**   |
**Distributed net income per share**                                     | **$19.37**   |

**A.I.F. TOTAL RETURN PERFORMANCE**
*Cumulative Returns Compounded Quarterly*
*Year ended June 30*

**A.I.F. INCOME PER SHARE**
*Year ended June 30*

- **Total Income**
- Income spent for funds subject to the Spending Rule
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements displayed on pages 24 to 35 have been prepared to conform with generally accepted accounting principles governing educational institutions. 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 internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis.

The financial statements have been examined by Coopers & Lybrand, Independent Accountants. Their audit opinion, to the right of this 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 revenue, expenditures, and other changes in conformity with generally accepted accounting principles.

The audit opinion is based on audit procedures described in the second 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 Independent Accountants conduct 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 trustees not employed by the University, is responsible for engaging the Independent Accountants and meeting with management, internal auditors, and the Independent Accountants 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 Accountants have full and free access to the Committee on Audit.

[Signatures]

Selimo C. Rael
Vice President for Finance

Alfred F. Beers
Comptroller
REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees of the University of Pennsylvania
Philadelphia, Pennsylvania

We have audited the accompanying balance sheet of the University of Pennsylvania as of June 30, 1992 and the related statements of changes in fund balances and current funds revenue, expenditures and other changes for the year then ended. We previously audited and reported upon the financial statements of the University for the year ended June 30, 1991, which condensed statements are presented for comparative purposes only. These financial statements are the responsibility of University management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (pages 24 to 35 inclusive) present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 1992, and the changes in fund balances and current funds revenue, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.


2400 Eleven Penn Center
Philadelphia, Pennsylvania
# BALANCE SHEET

**University of Pennsylvania**  
**June 30, 1992 with comparative 1991 Totals**  
*(thousands of dollars)*

<table>
<thead>
<tr>
<th>Current Funds</th>
<th>Plant Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
<td><strong>Endowment and Similar Funds</strong></td>
</tr>
<tr>
<td>Educational and General</td>
<td>Restricted</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Cash</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,718</td>
</tr>
<tr>
<td>199,466</td>
<td>159,474</td>
</tr>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$126,321</td>
</tr>
<tr>
<td><strong>Liabilities and Fund Balances</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Accounts payable and accrued expenses</strong></td>
<td>$78,807</td>
</tr>
<tr>
<td><strong>Deferred income</strong></td>
<td>1,255</td>
</tr>
<tr>
<td><strong>Debt obligations</strong></td>
<td>35,165</td>
</tr>
<tr>
<td><strong>Fund balances</strong></td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$126,321</td>
</tr>
</tbody>
</table>

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

See accompanying notes to financial statements.
STATEMENT OF CHANGES IN FUND BALANCE

University of Pennsylvania
for the year ended June 30, 1992 with comparative 1991 Totals
(thousands of dollars)

<table>
<thead>
<tr>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1992</td>
</tr>
<tr>
<td>$1,734,937</td>
<td>$1,887,486</td>
</tr>
</tbody>
</table>

Beginning balances

Revenue and other additions:

- Unrestricted current funds revenue
- Government grants
- Gifts and private grants
- Investment income
- Additions to plant (including $78,387 charged to current expenditures)

Net gain on sale of investments

Other additions, net

$1,065,414 $1,222,163

127,338 140,718

971 1006

86,905 88,831

17,657 22,262

1,474 1,173

1,455,542 1,665,577

Expenditures and other deductions:

- Current funds expenditures
- Expended for plant
- Interest on debt
- Provision for depreciation

$1,203,551 1,314,901

26,283 24,610

62,156 66,354

1,302,993 1,416,389

Transfers among funds-additions (deductions):

Mandatory:
- Principal on debt
- Interest on debt
- Loan fund matching grant

Other transfers:
- Indirect costs recovered on:
  - Investment income
  - Restricted gifts
  - Funds functioning as endowment
  - Physical plant development
  - Other, net

Net increase in fund balances

Ending balances

Current Funds

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Health Services</th>
<th>Restricted</th>
<th>Loan Funds</th>
<th>Endowment and Similar Funds</th>
<th>Unexpended</th>
<th>Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,068</td>
<td>$175,746</td>
<td>$72,573</td>
<td>$77,788</td>
<td>$843,925</td>
<td>118,270</td>
<td>598,116</td>
</tr>
<tr>
<td>568,827</td>
<td>653,336</td>
<td>139,328</td>
<td>1,188</td>
<td>262</td>
<td>3,236</td>
<td>90,368</td>
</tr>
<tr>
<td></td>
<td></td>
<td>79,954</td>
<td>582</td>
<td>39,902</td>
<td>4,743</td>
<td>4,113</td>
</tr>
<tr>
<td></td>
<td></td>
<td>43,025</td>
<td>1,409</td>
<td>1,681</td>
<td>88,831</td>
<td>1,173</td>
</tr>
<tr>
<td>568,827</td>
<td>653,336</td>
<td>262,307</td>
<td>2,943</td>
<td>78,394</td>
<td>6,626</td>
<td>92,944</td>
</tr>
<tr>
<td>553,934</td>
<td>524,884</td>
<td>236,085</td>
<td>10,444</td>
<td>24,610</td>
<td>10,444</td>
<td>90,964</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Educational and General</th>
<th>Plant Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4,341)</td>
<td>24,610</td>
</tr>
<tr>
<td>(12,281)</td>
<td>66,354</td>
</tr>
<tr>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td>(1,715)</td>
<td></td>
</tr>
<tr>
<td>(7,046)</td>
<td></td>
</tr>
<tr>
<td>945</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
</tr>
</tbody>
</table>

$1,094 $272,185 $79,273 $81,024 $934,293 $128,657 $640,228

See accompanying notes to financial statements.
# Statement of Current Funds Revenue, Expenditures and Other Changes

*University of Pennsylvania*

for the year ended June 30, 1992 with comparative 1991 Totals

*(thousands of dollars)*

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Educational</td>
<td>Health</td>
<td>Restricted</td>
</tr>
<tr>
<td></td>
<td>and General</td>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$307,514</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commonwealth</td>
<td>36,627</td>
<td></td>
<td></td>
</tr>
<tr>
<td>appropriations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts and private</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td></td>
<td>$472,681</td>
<td></td>
</tr>
<tr>
<td>Clinical Practices</td>
<td></td>
<td>180,558</td>
<td></td>
</tr>
<tr>
<td>Sales and services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td></td>
<td>71,301</td>
<td></td>
</tr>
<tr>
<td>Other educational activities</td>
<td></td>
<td>32,248</td>
<td>2,243</td>
</tr>
<tr>
<td>Other sources</td>
<td>25,397</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,284,039</td>
<td>1,458,246</td>
<td></td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>207,051</td>
<td></td>
<td>42,203</td>
</tr>
<tr>
<td>Research</td>
<td></td>
<td></td>
<td>157,224</td>
</tr>
<tr>
<td>University Hospital</td>
<td></td>
<td></td>
<td>340,394</td>
</tr>
<tr>
<td>Clinical Practices</td>
<td></td>
<td></td>
<td>158,436</td>
</tr>
<tr>
<td>Operation and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>maintenance of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>plant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student aid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General institutional expense</td>
<td></td>
<td>39,853</td>
<td></td>
</tr>
<tr>
<td>General administration</td>
<td></td>
<td>27,398</td>
<td></td>
</tr>
<tr>
<td>Libraries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td></td>
<td>66,439</td>
<td>751</td>
</tr>
<tr>
<td>Other educational activities</td>
<td></td>
<td>51,195</td>
<td>4,499</td>
</tr>
<tr>
<td></td>
<td>522,965</td>
<td>498,830</td>
<td>236,083</td>
</tr>
<tr>
<td>Other changes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for</td>
<td>(38,220)</td>
<td>(28,134)</td>
<td></td>
</tr>
<tr>
<td>depreciation (Note 1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of restricted</td>
<td></td>
<td></td>
<td>26,224</td>
</tr>
<tr>
<td>receipts over</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>transfers to revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers among</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory</td>
<td>(16,640)</td>
<td>(15,861)</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>1,773</td>
<td>(16,152)</td>
<td>(19,524)</td>
</tr>
<tr>
<td>Net increase (decrease) in fund balances before adjustment</td>
<td>(7,225)</td>
<td>94,359</td>
<td>6,700</td>
</tr>
<tr>
<td>Adjustment to convert basis of presentation (Note 1)</td>
<td>7,251</td>
<td>2,080</td>
<td></td>
</tr>
<tr>
<td>Net increase in fund balances</td>
<td>$26</td>
<td>$96,439</td>
<td>$6,700</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
1. 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. The statement of current funds revenue, expenditures and other changes is the statement of financial activities of the current funds and does not purport to present the results of operations or the net income or loss for the period.

Plant and accumulated depreciation are recognized in the invested plant fund. The current provision for depreciation is also reported in the statement of current funds revenue, 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 are therefore not included in current funds expenditures. The University recognizes, however, that generally accepted fund accounting principles for educational institutions currently provide for recognition of plant additions, rather than depreciation, as current fund expenditures. Accordingly, an "adjustment to convert basis of presentation" is made 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>Depreciation</td>
<td>$38,220</td>
<td>$28,134</td>
<td>$66,354</td>
</tr>
<tr>
<td>Plant additions</td>
<td>(30,969)</td>
<td>(26,054)</td>
<td>(57,023)</td>
</tr>
<tr>
<td></td>
<td><strong>$7,251</strong></td>
<td><strong>$2,080</strong></td>
<td><strong>$9,331</strong></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 the first-in, first-out basis.

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 in the A.I.F 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 ($5,467,000 in 1992) is reinvested in internally designated funds functioning as endowment.

Plant:

Plant is generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Museum contents and rare books are not subject to depreciation.
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. 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 Revenue and Allowances and Reclassifications:
Revenue of the Hospital of the University of Pennsylvania and Clinical Practices of the University of Pennsylvania is derived primarily from patient services and is accounted for at established rates on the accrual basis in the period the service is provided. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled.

Certain 1991 totals, including accounts receivable, accrued expenses, revenue and expenditures have been reclassified for presentation purposes.

Gifts:
The University does not report gifts in the financial statements until they are received. The University's gift records indicated that $202,553,000 in pledges were outstanding at June 30, 1992.
2. Investments:
A summary of investments at June 30, 1992 is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>$460,227</td>
<td>$460,884</td>
</tr>
<tr>
<td>Stocks</td>
<td>409,569</td>
<td>439,625</td>
</tr>
<tr>
<td>Bonds</td>
<td>663,330</td>
<td>697,737</td>
</tr>
<tr>
<td>Other</td>
<td>36,467</td>
<td>40,889</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td><strong>$1,569,593</strong></td>
<td><strong>$1,639,135</strong></td>
</tr>
<tr>
<td><strong>Beginning of year</strong></td>
<td><strong>$1,309,438</strong></td>
<td><strong>$1,310,501</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, 1992, short-term investments restricted under this arrangement aggregated $9,815,000.

Certain bonds with a carrying value of $27,169,000 at June 30, 1992 have been pledged as collateral for debt obligations.

At June 30, 1992, investment securities with an aggregate market value of $12,574,000 were loaned primarily on an overnight basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 102% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

3. Plant:
The components of plant at June 30, 1992 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>$30,731</td>
<td>$104</td>
<td>$30,835</td>
</tr>
<tr>
<td>Buildings</td>
<td>823,250</td>
<td>148,137</td>
<td>971,387 (b)</td>
</tr>
<tr>
<td>Contents</td>
<td>418,937 (a)</td>
<td>263,412</td>
<td>682,349</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,272,918</strong></td>
<td><strong>411,653</strong></td>
<td><strong>1,684,571</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(377,590)</td>
<td>(197,371)</td>
<td>(574,961)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$895,328</strong></td>
<td><strong>$214,282</strong></td>
<td><strong>$1,109,610</strong></td>
</tr>
</tbody>
</table>

(a) Museum contents and rare books not subject to depreciation aggregate $8,350,000 at June 30, 1992.
(b) Includes $47,604,000 of construction-in-progress and $216,447,000 of completed facilities which serve as collateral for debt obligations.
### 4. Debt Obligations:

Debt obligations at June 30, 1992 are as follows (in thousands):

<table>
<thead>
<tr>
<th>Obligation Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pennsylvania Higher Education Facilities Authority (PHEFA) Revenue Bonds, Series A of 1987, (5.1%-6.63%) net of unamortized bond discount of $863 (a)</td>
<td>$118,352</td>
</tr>
<tr>
<td>Berks County Municipal Authority Higher Education Revenue Bonds, Series of 1985 (5.1%-7.0%) (b)</td>
<td>114,100</td>
</tr>
<tr>
<td>PHEFA Series of 1968 Revenue Bonds (4.9%) (c)</td>
<td>37,035</td>
</tr>
<tr>
<td>PHEFA Floating/Fixed Rate Bonds (variable interest rate, 2.6% at June 30, 1992) (d)</td>
<td>24,285</td>
</tr>
<tr>
<td>The Hospitals and Higher Education Facilities Authority of Philadelphia Hospital Revenue Bonds, Series of 1978 (5.75%-6.0%) net of assets of the restricted funded depreciation subaccount of $15,131 (e)</td>
<td>19,136</td>
</tr>
<tr>
<td>PHEFA Series B of 1987 Revenue Bonds, (variable interest rate, 2.79% at June 30, 1992) (f)</td>
<td>16,700</td>
</tr>
<tr>
<td>PHEFA Series A of 1991 Revenue Bonds, (variable interest rate, 2.79% at June 30, 1992) (g)</td>
<td>15,000</td>
</tr>
<tr>
<td>PHEFA Series A of 1985 Revenue Bonds, (variable interest rate, 3.49% at June 30, 1992) (h)</td>
<td>13,100</td>
</tr>
<tr>
<td>Department of Education of the Commonwealth of Pennsylvania Revenue and General Service Bonds (4.44% weighted average interest rate) (i)</td>
<td>10,500</td>
</tr>
<tr>
<td>PHEFA Second Series of 1985 Revenue Bonds (variable interest rate, 2.79%, at June 30, 1992) (j)</td>
<td>10,610</td>
</tr>
<tr>
<td>The Pew Memorial Trust, non-interest bearing term loan (k)</td>
<td>10,000</td>
</tr>
<tr>
<td>Quakertown General Authority Pool Financing Program, 1985 Series A Bonds (variable interest rate 2.65% at June 30, 1992) (l)</td>
<td>8,122</td>
</tr>
<tr>
<td>PHEFA Series of 1990 Revenue Bonds (variable interest rate, 2.79%, at June 30, 1992) (m)</td>
<td>6,202</td>
</tr>
<tr>
<td>Mortgages payable and other (7.62% weighted average interest rate, due through 2013)</td>
<td>35,304</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$438,446</strong></td>
</tr>
</tbody>
</table>

(a) The Series A of 1987 Bonds mature in varying annual amounts ranging from $2,135,000 in 1993 to $3,530,000 in 2002, with maturities of $21,420,000 in 2007 and $30,215,000 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 are approximately $9,825,000.

(b) The Series of 1985 Bonds mature in varying annual amounts ranging from $2,270,000 in 1993 to $3,810,000 in 2002, with 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 are approximately $9,625,000.

(c) The Series of 1968 Bonds mature in 2008. Annual debt service payments to the Authority extending through 2008 are approximately $3,400,000.

(d) 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. The bonds mature in 1999, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the University. The liability of the University is a limited obligation, enforceable solely and exclusively against various bond investments pledged as collateral.
(e) The Series of 1978 Bonds mature in varying amounts ranging from $1,355,000 in 1993 to $1,300,000 in 1997, with 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 $308,000 to $2,227,000.

The University has pledged and granted to the Authority a collateralized interest in the Hospital of the University of Pennsylvania (Hospital) gross revenue 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 revenue" (excess of revenue 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.

(f) 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.

(g) The Series A of 1991 Bonds mature on September 1, 2001 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.

(h) The Series A of 1985 Bonds mature on November 25, 1996 and are subject to advance payments and optional prepayments as stipulated in the Loan Agreement. The Bonds bear a floating rate of interest which is adjusted by the Authority at certain intervals. The Authority has the option to convert the interest rate on the Bonds to a fixed rate.

(i) Aggregate annual debt service payments under five building leases extending through 2012 range from $465,000 to $1,035,000.

(j) 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.

(k) The proceeds of the $10,000,000 non-interest bearing term loan have been fully invested for the purpose of generating investment income which will be used to fund certain programs. The term loan matures on January 15, 1996.

(l) The 1985 Series A Bonds mature on June 1, 2005 and are subject to optional prepayments as stipulated in the Loan Agreement. The Bonds bear a floating rate of interest which is adjusted by the Authority at certain intervals.

(m) The Series of 1990 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 on December 1, 2020, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the University.

Maturities of debt obligations 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>1993</td>
<td>$8,720</td>
</tr>
<tr>
<td>1994</td>
<td>9,072</td>
</tr>
<tr>
<td>1995</td>
<td>9,455</td>
</tr>
<tr>
<td>1996</td>
<td>19,878</td>
</tr>
<tr>
<td>1997</td>
<td>40,117</td>
</tr>
</tbody>
</table>

5. Defeased Debt Obligations:

The proceeds of debt obligations issued by the University during 1987 were used for the advance refunding of the Hospitals and Higher Education Facilities Authority of Philadelphia Series of 1984 Revenue Bonds and certain Pennsylvania Higher Education Facilities Authority Series of 1985 Revenue Bonds. 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 and, accordingly, the obligation to repay the bonds is not included in the balance sheet of the University. At June 30, 1992, $171,305,000 of the refunded bonds are considered defeased.
6. Interfund Balances — Advances for Plant:

At June 30, 1992, advances for plant that will result in charges to unrestricted funds in the future amounted to $23,125,000. Internal interest is charged on outstanding advances at rates ranging from 6% to 10%.

7. 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 $2,067,000 in 1992. The University is sole or primary income beneficiary of assets with a reported cost of $30,768,000 at June 30, 1992 ($48,543,000 market value).

8. Pension Cost and Post-Employment Benefits:

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 $17,444,000 in 1992.

The University has noncontributory defined benefit pension plans for substantially all other full-time employees. Benefits under these plans generally are based on the employee's years of service and compensation during the years preceding retirement. Contributions to the plans are made in amounts necessary to at least satisfy the minimum required contributions, as specified in the Internal Revenue Service code and related regulations.

The components of 1992 pension cost are as follows (in thousands):

- Service cost — benefits earned during the year: $8,453
- Interest cost on projected benefit obligation: 10,300
- Actual return on plan assets: (15,299)
- Net amortization and deferral being recognized over 17 years: 5,747
- Net periodic pension cost: $9,201

The following table sets forth the funded status of the plans at June 30, 1992 and the amount recognized in the accompanying balance sheet:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets at fair market value</td>
<td>$126,786</td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>103,691</td>
</tr>
<tr>
<td>Nonvested</td>
<td>3,185</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>106,876</td>
</tr>
<tr>
<td>Effect of projected future compensation increases</td>
<td>50,159</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>157,035</td>
</tr>
<tr>
<td>Projected benefit obligation in excess of plan assets</td>
<td>(30,249)</td>
</tr>
<tr>
<td>Unrecognized net loss</td>
<td>22,644</td>
</tr>
<tr>
<td>Unrecognized transition asset</td>
<td>(11,420)</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td>($19,025)</td>
</tr>
</tbody>
</table>
Plan assets consist principally of investments in a master trust account, invested in a diverse portfolio of equity and debt securities. The actuarial present value of benefits was determined using a discount rate of 7.5%. The rate of compensation increase used to measure the projected benefit obligation was 5.5% to 6.5%. The expected long-term rate of return on assets was 8.5%.

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 $40,922,000 for 1992.

The cost of providing benefits for approximately 2,000 retirees is not separable from the cost of providing benefits for more than 13,200 active employees.

In December 1990, Statement of Financial Accounting Standards No. 106, "Employers' Accounting of Postretirement Benefits Other Than Pensions" (SFAS No. 106) was issued. This Statement requires that the expected cost of such benefits be actuarially determined and accrued ratably during the vesting period. The University is not required to implement SFAS No. 106 until fiscal year 1994, and, accordingly has chosen to defer its implementation.

The University is currently unable to estimate the impact of the new accounting method. However, the adoption of SFAS No. 106 is expected to result in a significant increase in benefit expenses in the year of adoption and in subsequent years.

9. Medical Professional Liability Claims:

The University is insured for medical professional liability claims through the combination of the Medical Professional Liability Catastrophe Loss Fund of the Commonwealth of Pennsylvania, various commercial insurance companies, and a risk retention program.

The University accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. The estimate of the liability for unasserted claims arising from unreported incidents is based on an analysis of historical claims data by an independent actuary.

The University has established a trust fund for the payment of its medical professional liability claims under its risk retention program. Annual contributions are made to the trust fund, at an actuarially determined rate, to provide funding for its retained risk. The assets of the trust fund are included in the accompanying financial statements.

10. Contingencies:

The University has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling $23,308,000 at June 30, 1992.

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.
THE CAMPAIGN FOR PENN: CONTINUING SUCCESS

The Campaign for Penn: Keeping Franklin's Promise continued its successful drive toward the $1 billion goal. As of June 30, 1992 the total amount raised was $816,355,666, and the Campaign was nine months ahead of schedule.

The five-year Campaign, launched publicly in 1989, seeks investments that will ensure the University's future as one of the world leaders in higher education. Campaign priorities are:

- Endowed professorships to retain and recruit outstanding faculty;
- Enhancement of undergraduate education and student life;
- Research excellence;
- Student aid; and
- Minority permanence.

As of June 30, 1992, funding for each of these priorities stood at 74 percent or more.

At the end of Fiscal Year 1992, the Campaign reached a number of milestones:

- 111 endowed professorships, a national record for new chairs created during a campaign;
- Another national record for alumni participation, with a total of 83,729; and
- An increase of nearly 25 percent in donors to The Penn Fund (unrestricted annual giving).

Gifts to endowment reached a new high in FY92. The $47.2 million added to Penn's endowment this year continues a trend of escalated growth that began with The Campaign for Penn.

The Council for Aid to Education, in its annual survey of voluntary support for American colleges and universities, ranked Penn's development program among the top four in the nation. And, for the third consecutive year, Penn was cited by the Council for the Advancement and Support of Education (CASE) for excellence in its overall development effort.

The continuing success of The Campaign for Penn is a tribute to the University's academic vision and planning. Penn's many external constituencies — alumni, parents, friends, corporations, foundations, and associations — have demonstrated once again their belief in the University's leadership in higher education.

FUNDING FOR CAMPAIGN PRIORITIES

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate Education</td>
<td>77%</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>107%</td>
</tr>
<tr>
<td>Endowed Professorships</td>
<td>74%</td>
</tr>
<tr>
<td>Minority Permanence</td>
<td>77%</td>
</tr>
<tr>
<td>Research</td>
<td>90%</td>
</tr>
</tbody>
</table>
TRUSTEES OF THE UNIVERSITY OF PENNSYLVANIA

as of June 30, 1992

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