The University of Pennsylvania

Statutory Officers

as of July 1, 1993

Interim President
Claire M. Fagin

Interim Provost
Marvin Lazersohn

Executive Vice President
Janet Hale

Executive Vice President
of the University of Pennsylvania
for the Medical Center and
Health System
William N. Kelley

Vice President
for Development
and Alumni Relations
Virginia B. Clark

Vice President and
Secretary of the University
Barbara R. Stevens

Vice President and
Director of Planning
John Wells Gould

Vice Presidents
Arthur T. Gravina
R. William Holland
Stephen D. Murray

Treasurer
Scott C. Lederman

Comptroller
Alfred F. Beers

General Counsel
Shelley Z. Green

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It is easy for us to think of ourselves as living in unusually turbulent times, but history reminds us that universities are enormously strong and resilient institutions. As my friend and predecessor Sheldon Hackney is fond of repeating, only the church and the university have survived the transition from the Middle Ages to modern times in roughly recognizable form; all other institutions were either fundamentally transformed or went the way of the dinosaur.

The University of Pennsylvania, like its venerable European counterparts and its great American sisters, has evolved and renewed itself through the course of momentous historical forces and events—a Revolution, a Civil War, two World Wars, conflict in Southeast Asia, the rise and fall of the Soviet Union, and others—that have recast our nation and the world. Yet the purpose of this extraordinary institution has remained remarkably constant since its founding two and a half centuries ago. In the words of Benjamin Franklin, our purpose is to teach and learn the “useful” and the “ornamental,” by which he meant the practical and the theoretical.
We tend to see our own transitions, and the changes they bring, as particularly significant in the life of our institutions, but from any perspective the transitions in Penn's administrative and academic leadership in the 1992-93 academic year were sweeping indeed. Penn has reason to be proud that our former President should be chosen for a major post in the new Administration, that our Provost and our Senior Vice President should be selected as presidents of, respectively, a significant research university and a liberal arts college, and that our Executive Vice President should be asked to lead a major investment management firm.

Yet even with such a substantial transition in key positions within the University, Penn's resilience and strength are clearly demonstrated. We continue to move forward, to establish a strong new cadre of both interim and long-term leaders, and to build on the significant achievements of our predecessors. As we take on the great honor and responsibility of leading this University, we must remind ourselves that what makes Penn so vital is the continuous renewal of our exceptional faculty and students—the heart and soul of the University—and the continuity of our purpose amidst change.

Penn's accomplishments of the past year speak to that real consistency of purpose, and to the enormous energy that our faculty, students, and staff devote to building a community of learners that is second to none. Thanks to the confidence in our purpose, and in our fiscal stewardship, that has been expressed by many
thousands of benefactors, large and small, we have exceeded the $1 billion target of The Campaign for Penn, with 18 months to go before its close. That extraordinary confidence, and commitment to Penn’s academic needs, unprecedented in the annals of higher education, has impelled us to set extended goals for the remaining period of the Campaign—for endowed chairs, for undergraduate financial aid, for minority permanence, for specific School goals, and for other core University priorities.

So, too, have we renewed our central commitment to undergraduate education, and we have asked a Visiting Committee of distinguished teachers and scholars from outside the University, led by Mary Patterson McPherson, President of Bryn Mawr College, to undertake an extensive review of undergraduate education and the undergraduate experience at Penn. This process of evaluation and interchange among faculty, students, and the Visiting Committee will continue to develop during the 1993-94 academic year and, when it concludes, we will have the building blocks to make Penn the exemplar for undergraduate education among the great research universities of the nation and the world.
We have also made enormous progress during the past year toward recasting the Medical Center to address and take advantage of rapid changes in the health care market and in health care policy, to enhance our tradition of excellence in biomedical research and in medical education, and to maintain our financial integrity and strength. The key to the new University of Pennsylvania Health System is the establishment of a physician network that will integrate a regional coordinated health delivery system with the research, training, and quaternary care missions of the Medical Center.

These signal accomplishments—at a great University, always works-in-progress—have been achieved in a time of considerable challenge. We need to take into account, in planning for the future, several pressures on sources of financial support for the University, even as we make a compelling case for investing in Penn. That recognition means that we need to constantly seek ways to do our work better, to reduce our administrative costs, and to thereby insure that our students and faculty have the first call on our scarce resources. These actions are essential to achieving our core mission of generating and transmitting knowledge.
Finally, as citizens of this extraordinary research University, we face our greatest challenge: the challenge of understanding and building community. We share a University that, in many ways, is a microcosm of our society. We differ from the larger society in that a university is a laboratory for testing what we know, or think we know, about ourselves and others, our problems and our opportunities, our hopes and our disappointments. We can only succeed in this testing if we communicate better, sharing perceptions, interpretations, and solutions across potentially isolating boundaries of difference. That is what an academic community is all about, and this is our great experiment for the coming year and beyond. We need, as we stated in our charge to Penn's Commission on Strengthening the Community, "to strengthen and sustain a full sense of participation in a pluralistic community working toward common goals and to promote a civil atmosphere built on mutual respect." If we can succeed in that monumental but essential task, the results of our great experiment-in-progress will make a significant contribution to our larger society as we move into the 21st century.

Claire Fagin
Interim President
FINANCIAL SECTION

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Fiscal Year 1993 was a year of transition for the University's academic and administrative leadership. It was also a year in which Penn continued its progress toward the financial stability and strength required to achieve a goal of academic excellence. During this past year, a number of significant financial milestones were achieved, the physical infrastructure was enhanced and several important strategic initiatives were continued. Fiscal Year 1993 also provided insight into several significant challenges that the University will be facing in the years ahead.

For the first time in history, the market value of the University's endowment surpassed $1 billion, with over $300 million added since Fiscal Year 1989. The majority of this increase can be attributed to The Campaign for Penn, which exceeded its original $1 billion goal 18 months ahead of schedule.
While The Campaign for Penn can already be considered a success, several individual Campaign goals remain to be met. In an effort to ensure full funding for all Campaign priorities, a new target of $300 million was approved by the Board of Trustees for the remaining 18 months of the Campaign.

During Fiscal Year 1993, the University completed the construction of a new Law School Library that will enhance that School's research and teaching capabilities. In addition to a significant renewal project of the clinical care space at the Hospital, the University of Pennsylvania Medical Center (Hospital of the University of Pennsylvania and the academic and clinical components of the School of Medicine) began construction of a new Biomedical Research Building. The University remains committed to ensuring that Penn's physical infrastructure supports and enhances the ability of the faculty to deliver quality instruction, research and health care.

Penn faces a number of major challenges in the future. The continuing threat of reduced governmental support, the uncertain outcome of health care reform and the increasing pressure to reduce the cost of higher education create a difficult environment for the essential strategic investments that Penn must make in the years ahead. However, the University is also well-positioned to benefit from several ongoing strategic initiatives. The Campaign for Penn, health care system planning, and institution-wide cost containment efforts will help to provide the basic foundation upon which to construct the University's future.

In June 1993, the Trustees approved the formation of the University of Pennsylvania Health System (UPHS), initially comprised of the Medical Center and Clinical Care Associates (the genesis of an integrated provider network). UPHS is also moving forward with plans for the establishment of a managed care and a management services organization. This health system is being formed in order to address the future vitality of Penn's health care enterprise, in light of the current health care reform environment, and to ensure the continued excellence of its health care education and research programs. The University believes that it has a strategy that will prepare it to deal with the inevitable reform of the nation's health care system. The University supports these reform efforts and looks forward to participating in the important discussions that lie ahead, both as a provider and purchaser of health care services.
Even though the Commonwealth of Pennsylvania appropriation to Penn was reduced for Fiscal Year 1993, the University appreciates the Commonwealth's renewed commitment, which for more than eight decades has provided the University with needed support. The Commonwealth appropriation has allowed Penn to make strategic investments required of a leading research university.

Penn remains committed to cost containment. During this past fiscal year, the University began an effort to reengineer its administrative processes, continued a number of quality management initiatives in both its schools and administrative centers, and began an examination of its organizational structures. All of these initiatives are intended to ensure a cost effective structure that supports Penn's academic enterprise.

As the University approaches the next century, Penn is confident that it will meet the future challenges by continuing a proactive planning process, by acting collectively and by being sensitive and responsive to the social and financial environment.

Janet Hale
Executive Vice President
### Five Years of Financial Performance

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

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<tr>
<td>Change in Unrestricted fund balances:</td>
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<tr>
<td>Educational and General</td>
<td>$28</td>
<td>$26</td>
<td>$25</td>
<td>$100</td>
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<tr>
<td>Health Services:</td>
<td></td>
<td></td>
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<tr>
<td>University Hospital</td>
<td>79,714</td>
<td>95,218</td>
<td>45,204</td>
<td>20,062</td>
<td>(4,575)</td>
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<td>Clinical Practices</td>
<td>1,726</td>
<td>1,124</td>
<td>(2,770)</td>
<td>5,115</td>
<td>8,384</td>
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<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>Total</td>
<td>81,537</td>
<td>96,439</td>
<td>42,531</td>
<td>25,274</td>
<td>3,906</td>
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<td>Unrestricted fund balances:</td>
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<td>$42,556</td>
<td>$25,374</td>
<td>$4,181</td>
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<td>Health services:</td>
<td>$1,122</td>
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<td>$1,068</td>
<td>$1,043</td>
<td>$943</td>
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<td>University Hospital</td>
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<td>86,743</td>
<td>41,539</td>
<td>21,477</td>
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<td>Clinical Practices</td>
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<td>92,430</td>
<td>91,306</td>
<td>94,076</td>
<td>88,961</td>
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<tr>
<td>Graduate Hospital</td>
<td>(2,109)</td>
<td>(2,206)</td>
<td>(2,303)</td>
<td>(2,400)</td>
<td>(2,497)</td>
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<td>Total</td>
<td>353,722</td>
<td>272,185</td>
<td>175,746</td>
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<td>Restricted fund balances</td>
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<td>$176,814</td>
<td>$134,258</td>
<td>$108,884</td>
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<td>Change in Restricted fund balances</td>
<td>$10,728</td>
<td>$6,700</td>
<td>$1,162</td>
<td>$4,635</td>
<td>$10,012</td>
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<td>Restricted fund balances</td>
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<td>$79,273</td>
<td>$72,573</td>
<td>$71,411</td>
<td>$66,776</td>
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#### How it was Provided (by source) 1993

- Health Services: 46%
- Tuition and fees: 21%
- Government grants: 13%
- Gifts and private grants: 6%
- Auxiliary enterprises: 5%
- Investment income: 4%
- Other educational activities: 2%
- Other sources: 2%
- Commonwealth appropriations: 1%
- **TOTAL**: 100%

#### How it was Spent (by function) 1993

- Health Services: 43%
- Instruction: 20%
- Research: 11%
- Student aid: 6%
- Auxiliary enterprises: 5%
- Operations and maintenance: 4%
- Other educational activities: 4%
- General institutional expense: 3%
- General administration: 2%
- Libraries: 1%
- Student services: 1%
- **TOTAL**: 100%
## A Five-Year Review of Current Funds

*University of Pennsylvania*  
(Thousands of dollars)

### Revenue:

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<td>Student tuition and fees</td>
<td>$331,745</td>
<td>$307,514</td>
<td>$281,908</td>
<td>$265,324</td>
<td>$244,858</td>
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<td>Commonwealth appropriations</td>
<td>22,060</td>
<td>36,627</td>
<td>36,627</td>
<td>37,639</td>
<td>35,910</td>
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<td>Government grants</td>
<td>211,802</td>
<td>196,522</td>
<td>179,282</td>
<td>166,814</td>
<td>154,018</td>
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<td>Investment income</td>
<td>69,485</td>
<td>67,891</td>
<td>65,757</td>
<td>63,800</td>
<td>59,874</td>
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<td>Gifts and private grants</td>
<td>92,199</td>
<td>91,381</td>
<td>79,872</td>
<td>99,378</td>
<td>90,268</td>
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<tr>
<td>University Hospital</td>
<td>540,479</td>
<td>472,681</td>
<td>368,875</td>
<td>299,643</td>
<td>275,708</td>
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<tr>
<td>Clinical Practices</td>
<td>189,256</td>
<td>180,558</td>
<td>161,365</td>
<td>145,596</td>
<td>132,907</td>
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<tr>
<td>Other educational activities</td>
<td>39,078</td>
<td>34,491</td>
<td>35,484</td>
<td>32,665</td>
<td>28,865</td>
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<tr>
<td>Other sources</td>
<td>24,309</td>
<td>25,494</td>
<td>26,054</td>
<td>28,614</td>
<td>27,580</td>
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<tr>
<td>Auxiliary enterprises</td>
<td>73,195</td>
<td>71,301</td>
<td>69,808</td>
<td>68,750</td>
<td>62,530</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>1,593,608</td>
<td>1,484,470</td>
<td>1,305,032</td>
<td>1,208,223</td>
<td>1,112,518</td>
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### Expenditures:

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<tr>
<td>Instruction</td>
<td>279,256</td>
<td>260,692</td>
<td>251,046</td>
<td>230,357</td>
<td>215,329</td>
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<td>Research</td>
<td>165,248</td>
<td>157,224</td>
<td>140,218</td>
<td>136,334</td>
<td>125,591</td>
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<tr>
<td>Libraries</td>
<td>22,123</td>
<td>21,040</td>
<td>19,664</td>
<td>18,196</td>
<td>16,723</td>
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<tr>
<td>Other educational activities</td>
<td>57,345</td>
<td>58,247</td>
<td>52,293</td>
<td>48,435</td>
<td>48,336</td>
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<tr>
<td>Student aid</td>
<td>83,510</td>
<td>78,621</td>
<td>75,008</td>
<td>66,882</td>
<td>60,821</td>
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<tr>
<td>Student services</td>
<td>18,406</td>
<td>17,239</td>
<td>16,780</td>
<td>15,768</td>
<td>15,673</td>
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<tr>
<td>University Hospital</td>
<td>435,832</td>
<td>362,457</td>
<td>315,655</td>
<td>262,421</td>
<td>259,022</td>
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<tr>
<td>Clinical Practices</td>
<td>174,485</td>
<td>162,427</td>
<td>146,407</td>
<td>134,122</td>
<td>121,523</td>
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<td>Operations and maintenance</td>
<td>53,638</td>
<td>55,412</td>
<td>52,887</td>
<td>53,053</td>
<td>45,595</td>
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<tr>
<td>General institutional expense</td>
<td>40,738</td>
<td>43,878</td>
<td>39,713</td>
<td>35,215</td>
<td>39,299</td>
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<tr>
<td>General administration</td>
<td>30,659</td>
<td>28,790</td>
<td>27,128</td>
<td>25,986</td>
<td>21,860</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>69,973</td>
<td>68,874</td>
<td>66,772</td>
<td>65,650</td>
<td>58,675</td>
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<tr>
<td><strong>Total Expenditures</strong></td>
<td>1,431,213</td>
<td>1,314,901</td>
<td>1,203,551</td>
<td>1,092,419</td>
<td>1,029,077</td>
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### Transfers to Other Funds:

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<tr>
<td>Mandatory transfers</td>
<td>(33,013)</td>
<td>(32,501)</td>
<td>(33,908)</td>
<td>(36,961)</td>
<td>(32,412)</td>
</tr>
<tr>
<td>Other transfers, net</td>
<td>(37,089)</td>
<td>(33,903)</td>
<td>(23,855)</td>
<td>(48,834)</td>
<td>(36,836)</td>
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<tr>
<td><strong>Net Increase</strong></td>
<td>(70,102)</td>
<td>(66,404)</td>
<td>(57,763)</td>
<td>(85,795)</td>
<td>(69,248)</td>
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### Expenditures:

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<tr>
<td>Salaries and wages</td>
<td>$373,634</td>
<td>$351,046</td>
<td>$330,568</td>
<td>$307,397</td>
<td>$285,791</td>
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<td>University Health Services</td>
<td>155,279</td>
<td>148,461</td>
<td>138,509</td>
<td>127,570</td>
<td>123,258</td>
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<td>University Hospital</td>
<td>98,883</td>
<td>85,171</td>
<td>78,516</td>
<td>74,190</td>
<td>68,781</td>
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<tr>
<td>Clinical Practices</td>
<td>627,796</td>
<td>584,678</td>
<td>547,593</td>
<td>509,157</td>
<td>477,830</td>
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<td>Current expense</td>
<td>692,831</td>
<td>651,836</td>
<td>580,056</td>
<td>523,580</td>
<td>470,088</td>
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<tr>
<td>Capital additions</td>
<td>110,586</td>
<td>78,837</td>
<td>75,902</td>
<td>59,682</td>
<td>81,159</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$1,431,213</td>
<td>$1,314,901</td>
<td>$1,203,551</td>
<td>$1,092,419</td>
<td>$1,029,077</td>
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The Law School's new Nicole E. Tanenbaum Hall.
# A Five-Year Review of Investments

**University of Pennsylvania**

(Thousands of dollars)

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<tr>
<td>Cost Stocks</td>
<td>$434,564</td>
<td>$409,569</td>
<td>$368,239</td>
<td>$369,239</td>
<td>$356,496</td>
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<td>Cost Bonds</td>
<td>785,044</td>
<td>663,330</td>
<td>567,395</td>
<td>363,558</td>
<td>264,439</td>
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<td>Cost Short-term</td>
<td>516,793</td>
<td>460,227</td>
<td>332,826</td>
<td>368,188</td>
<td>339,733</td>
</tr>
<tr>
<td>Cost Other</td>
<td>53,224</td>
<td>36,467</td>
<td>40,978</td>
<td>28,251</td>
<td>17,349</td>
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<tr>
<td><strong>Total Investments</strong></td>
<td><strong>$1,789,625</strong></td>
<td><strong>$1,569,593</strong></td>
<td><strong>$1,309,438</strong></td>
<td><strong>$1,129,236</strong></td>
<td><strong>$978,017</strong></td>
</tr>
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| Market Stocks | $511,920 | $439,625 | $357,316 | $406,691 | $444,897 |
| Market Bonds  | 834,950  | 697,737  | 577,019  | 363,290  | 268,726  |
| Market Short-term| 516,957 | 460,884  | 332,836  | 367,969  | 340,074  |
| Market Other  | 57,859   | 40,889   | 43,330   | 30,074   | 17,761   |
| **Total Investments** | **$1,921,686** | **$1,639,135** | **$1,310,501** | **$1,168,024** | **$1,071,458** |

**Endowment**: Cost $985,294, Market $1,095,796

**Associated Investments Fund**: Cost $897,950, Market $1,002,782

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<td>Cost</td>
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<td>$826,025</td>
<td>$734,965</td>
<td>$667,273</td>
<td>$589,496</td>
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<td>Market</td>
<td>$1,002,782</td>
<td>$875,337</td>
<td>$731,232</td>
<td>$700,870</td>
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<td>Per Share Market</td>
<td>$538.53</td>
<td>$491.93</td>
<td>$459.35</td>
<td>$453.69</td>
<td>$474.65</td>
</tr>
<tr>
<td>Per Share Income</td>
<td>$29.08</td>
<td>$28.27</td>
<td>$29.73</td>
<td>$31.50</td>
<td>$29.76</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, 1993
(thousands of dollars)

<table>
<thead>
<tr>
<th>1993</th>
<th>Cost</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Fund</td>
<td>$648,172</td>
<td>$732,153</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>219,402</td>
<td>235,172</td>
</tr>
<tr>
<td>Venture Capital and Real Estate Limited Partnerships</td>
<td>30,376</td>
<td>35,457</td>
</tr>
<tr>
<td><strong>Investments, end of year</strong></td>
<td>$897,950</td>
<td>$1,002,782</td>
</tr>
<tr>
<td><strong>Investments, beginning of year</strong></td>
<td>$826,025</td>
<td>$875,337</td>
</tr>
<tr>
<td><strong>Fund:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested by participating funds</td>
<td>$555,571</td>
<td></td>
</tr>
<tr>
<td>Undistributed accretions:</td>
<td></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>342,379</td>
<td></td>
</tr>
<tr>
<td><strong>Excess of market value of investments over cost</strong></td>
<td>104,832</td>
<td>$1,002,782</td>
</tr>
</tbody>
</table>

Number of participating units 1,862,072
Per share value, end of year $538.53
Per share value, beginning of year $491.93

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>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>15.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Composite Index</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>13.4</td>
<td>13.7</td>
</tr>
<tr>
<td>S&amp;P 500</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>13.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Lehman Bros. Govt./Corporate</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>13.1</td>
<td>11.8</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. Govt./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, 1993
(thousands of dollars)

<table>
<thead>
<tr>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received on bonds, net of accrued interest on bonds purchased</td>
</tr>
<tr>
<td>Dividends received on common stocks</td>
</tr>
<tr>
<td>Other income</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Less:
Salaries, fees, postage, etc. allocable to fund | 2,000
Indirect expenses recovered on yield | 8,706
Total expenses | 10,706

Total income distributed to participating units | 42,619
Less: Income reinvested in principal | 6,655
Net income distributed to participating units | $35,964

Total income per share | $29.08
Distributed net income per share | $19.46

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

A.I.F. INCOME PER SHARE
Year ended June 30
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements displayed on pages 20 to 31 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, as shown 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.

Janet Hale
Executive Vice President

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, 1993 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, 1992, 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 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 20 to 31 inclusive) present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 1993, 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.

Coopers & Lybrand
2400 Eleven Penn Center
Philadelphia, Pennsylvania
September 3, 1993
# Balance Sheet

**University of Pennsylvania**

**June 30, 1993 with comparative 1992 Totals**

(Thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Total 1992</th>
<th>Total 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$5,894</td>
<td>$1,739</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances</td>
<td>$4,604 (1993) and $4,282 (1992)</td>
<td>$74,353</td>
</tr>
<tr>
<td>Loans receivable, net of allowances</td>
<td>$4,604 (1993) and $4,282 (1992)</td>
<td>$74,353</td>
</tr>
<tr>
<td>Inventories and prepaid expenses</td>
<td>$4,604 (1993) and $4,282 (1992)</td>
<td>$74,353</td>
</tr>
<tr>
<td>Investments</td>
<td>$2,954,930</td>
<td>$3,250,495</td>
</tr>
<tr>
<td>Plant, net of depreciation</td>
<td>$2,954,930</td>
<td>$3,250,495</td>
</tr>
<tr>
<td>Interfund balances:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances for plant</td>
<td>$2,954,930</td>
<td>$3,250,495</td>
</tr>
<tr>
<td>Other</td>
<td>$2,954,930</td>
<td>$3,250,495</td>
</tr>
<tr>
<td><strong>Liabilities and Fund Balances</strong></td>
<td>$330,448</td>
<td>$352,837</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$83,216</td>
<td>$207,692</td>
</tr>
<tr>
<td>Deposits, advances and agency funds</td>
<td>$24,117</td>
<td>$29,651</td>
</tr>
<tr>
<td>Deferred income</td>
<td>$35,165</td>
<td>$38,489</td>
</tr>
<tr>
<td>Debt obligations</td>
<td>$438,446</td>
<td>$446,080</td>
</tr>
<tr>
<td>Fund balances</td>
<td>$2,136,754</td>
<td>$2,384,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,954,930</td>
<td>$3,250,495</td>
</tr>
</tbody>
</table>

The nature of specific fund balances 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, 1993 with comparative 1992 Totals

(Thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Total 1992</th>
<th>Total 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balances</strong></td>
<td>$1,887,486</td>
<td>$2,136,754</td>
</tr>
<tr>
<td><strong>Revenue and other additions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted current funds revenue</td>
<td>584,525</td>
<td>729,832</td>
</tr>
<tr>
<td>Government grants</td>
<td>140,718</td>
<td>151,489</td>
</tr>
<tr>
<td>Gifts and private grants</td>
<td>129,294</td>
<td>116,857</td>
</tr>
<tr>
<td>Investment income</td>
<td>46,987</td>
<td>51,294</td>
</tr>
<tr>
<td>Additions to plant (including $310,586 charged to current expenditures)</td>
<td>88,831</td>
<td>147,533</td>
</tr>
<tr>
<td>Net gain on sale of investments</td>
<td>37,202</td>
<td>32,450</td>
</tr>
<tr>
<td>Other additions, net</td>
<td>1,173</td>
<td>1,298</td>
</tr>
<tr>
<td><strong>Expenditures and other deductions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current funds expenditures</td>
<td>578,065</td>
<td>610,317</td>
</tr>
<tr>
<td>Expended for plant</td>
<td>37,202</td>
<td>32,450</td>
</tr>
<tr>
<td>Interest on debt</td>
<td>10,444</td>
<td>36,947</td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td>66,354</td>
<td>70,637</td>
</tr>
<tr>
<td>Other deductions, net</td>
<td>0</td>
<td>4,448</td>
</tr>
<tr>
<td><strong>Transfers among funds—additions (deductions):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal on debt</td>
<td>(4,703)</td>
<td>(5,572)</td>
</tr>
<tr>
<td>Interest on debt</td>
<td>(12,827)</td>
<td>(11,913)</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>6,469</td>
<td>6,627</td>
</tr>
<tr>
<td>Restricted gifts</td>
<td>2,189</td>
<td>(2,189)</td>
</tr>
<tr>
<td>Funds functioning as endowment</td>
<td>(18,072)</td>
<td>18,072</td>
</tr>
<tr>
<td>Physical plant development</td>
<td>(1,852)</td>
<td>1,852</td>
</tr>
<tr>
<td>Other, net</td>
<td>5,412</td>
<td>22,493</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in fund balances</strong></td>
<td>$249,268</td>
<td>$267,284</td>
</tr>
<tr>
<td><strong>Ending balances</strong></td>
<td>$2,136,754</td>
<td>$2,386,038</td>
</tr>
</tbody>
</table>

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

**University of Pennsylvania**  
for the year ended June 30, 1993 with comparative 1992 Totals  
(Thousands of Dollars)

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Educational and General</th>
<th>Health Services</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$331,745</td>
<td>22,060</td>
<td></td>
</tr>
<tr>
<td>Commonwealth appropriations</td>
<td>22,060</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government grants:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct costs</td>
<td>61,447</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect costs</td>
<td>22,053</td>
<td>32,493</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>13,947</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts and private grants</td>
<td>57,071</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td>540,479</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Practices</td>
<td>189,256</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>73,195</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other educational activities</td>
<td>35,866</td>
<td>3,212</td>
<td></td>
</tr>
<tr>
<td>Other sources</td>
<td>24,212</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>229,702</td>
<td>40,228</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>376,122</td>
<td>165,248</td>
<td></td>
</tr>
<tr>
<td>University Hospital</td>
<td>170,890</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Practices</td>
<td>47,730</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>53,016</td>
<td>30,494</td>
<td></td>
</tr>
<tr>
<td>Student aid</td>
<td>36,761</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General institutional expense</td>
<td>29,477</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General administration</td>
<td>20,463</td>
<td>1,142</td>
<td></td>
</tr>
<tr>
<td>Libraries</td>
<td>18,008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>66,742</td>
<td>1,025</td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>49,184</td>
<td>4,694</td>
<td></td>
</tr>
<tr>
<td>Other educational activities</td>
<td>551,083</td>
<td>547,012</td>
<td>242,831</td>
</tr>
<tr>
<td><strong>Other changes:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for depreciation (Note 1)</td>
<td>(41,993)</td>
<td>(28,644)</td>
<td></td>
</tr>
<tr>
<td>Excess of restricted receipts over transfers to revenue</td>
<td>36,420</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers among funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory</td>
<td>(17,528)</td>
<td>(15,485)</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>11,096</td>
<td>(22,493)</td>
<td>(25,692)</td>
</tr>
<tr>
<td>Net increase (decrease) in fund balances before adjustment</td>
<td>(14,983)</td>
<td>116,198</td>
<td></td>
</tr>
<tr>
<td>Adjustment to convert basis of presentation (Note 1)</td>
<td>15,011</td>
<td>(34,661)</td>
<td></td>
</tr>
<tr>
<td>Net increase in fund balances</td>
<td>$28</td>
<td>$81,537</td>
<td>$10,728</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>$ 41,993</td>
<td>$ 28,644</td>
<td>$ 70,637</td>
</tr>
<tr>
<td>Plant additions</td>
<td>(26,982)</td>
<td>(63,305)</td>
<td>(90,287)</td>
</tr>
<tr>
<td></td>
<td>$ 15,011</td>
<td>$(34,661)</td>
<td>$(19,650)</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 ($6,655,000 in 1993) is reinvested in internally designated funds functioning as endowment.

Loans Receivable:
Student loans receivable are reported in the Loan fund, at their net realizable value. Determination of the fair value of student loans receivable is not practicable. Such loans, include donor restricted and Federally sponsored student loans with mandated interest rates and repayment terms.

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.
Gifts:
The University does not report gifts in the financial statements until they are received. The University’s gift records indicated that $276,621,000 in pledges were outstanding at June 30, 1993.

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:
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.

2. Investments:
A summary of investments at June 30, 1993 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>$516,793</td>
<td>$516,957</td>
</tr>
<tr>
<td>Stocks</td>
<td>434,564</td>
<td>511,920</td>
</tr>
<tr>
<td>Bonds</td>
<td>785,044</td>
<td>834,950</td>
</tr>
<tr>
<td>Other</td>
<td>53,224</td>
<td>57,859</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td><strong>$1,789,625</strong></td>
<td><strong>$1,921,686</strong></td>
</tr>
<tr>
<td><strong>Beginning of year</strong></td>
<td><strong>$1,569,593</strong></td>
<td><strong>$1,639,135</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, 1993, short-term investments restricted under this arrangement aggregated $7,386,000.

Certain bonds with a carrying value of $29,140,000 at June 30, 1993 have been pledged as collateral for debt obligations.

At June 30, 1993, investment securities with an aggregate market value of $43,292,000 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, 1993 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>$31,048</td>
<td>$107</td>
<td>$31,155</td>
</tr>
<tr>
<td>Buildings</td>
<td>899,472</td>
<td>183,376</td>
<td>1,082,848 (b)</td>
</tr>
<tr>
<td>Contents</td>
<td>449,342 (a)</td>
<td>284,164</td>
<td>733,506</td>
</tr>
<tr>
<td></td>
<td>1,379,862</td>
<td>467,647</td>
<td>1,847,509</td>
</tr>
<tr>
<td>Less accumulated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>depreciation</td>
<td>(417,983)</td>
<td>(225,595)</td>
<td>(643,578)</td>
</tr>
<tr>
<td></td>
<td>$961,879</td>
<td>$242,052</td>
<td>$1,203,931</td>
</tr>
</tbody>
</table>

(a) Museum contents and rare books not subject to depreciation aggregate $8,641,000 at June 30, 1993.

(b) Includes $79,207,000 of construction-in-progress and $217,927,000 of completed facilities which serve as collateral for debt obligations.

4. 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 $3,103,000 in 1993. The University is sole or primary income beneficiary of assets with a reported cost of $26,970,000 at June 30, 1993 ($45,237,000 market value).

5. Interfund Balances — Advances for Plant:

At June 30, 1993, advances for plant that will result in future charges to unrestricted funds amounted to $27,564,000. Internal interest is charged on outstanding advances at rates ranging from 6% to 8%.
6. Debt Obligations:

Debt obligations at June 30, 1993 are as follows (in thousands):

Pennsylvania Higher Education Facilities Authority (PHEFA) Revenue Bonds, Series A of 1987, (5.5%-6.63%) net of unamortized bond discount of $828 (a) $116,252

Berks County Municipal Authority Higher Education Revenue Bonds, Series of 1985 (5.5%-7.0%) (b) 111,945

PHEFA Series of 1968 Revenue Bonds (4.9%) (c) 35,500

PHEFA Floating/Fixed Rate Bonds, (variable interest rate, 2.4% at June 30, 1993) (d) 24,285

PHEFA Series A of 1985 Revenue Bonds, (variable interest rate, 2.66% at June 30, 1993) (e) 20,372

The Hospitals and Higher Education Facilities Authority of Philadelphia Hospital Revenue Bonds, Series of 1978 (5.8%-6.0%) net of assets of the restricted funded depreciation subaccount of $15,093 (f) 17,817

PHEFA Series B of 1987 Revenue Bonds, (variable interest rate, 2.46% at June 30, 1993) (g) 16,700

PHEFA Series A of 1991 Revenue Bonds, (variable interest rate, 2.46% at June 30, 1993) (h) 15,000

Quakertown General Authority Pool Financing Program, 1985 Series A Bonds (variable interest rate 4.04% at June 30, 1993) (i) 14,158

PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 2.46%, at June 30, 1993) (j) 10,610

The Pew Memorial Trust, non-interest bearing term loan (k) 10,000

Department of Education of the Commonwealth of Pennsylvania Revenue and General Service Bonds (4.43% weighted average interest rate) (l) 9,931

PHEFA Series of 1990 Revenue Bonds (variable interest rate, 2.46%, at June 30, 1993) (m) 6,500

Mortgages payable and other (6.45% weighted average interest rate, due through 2013) 37,010

$446,080

(a) The Series A of 1987 Bonds mature in varying annual amounts ranging from $2,245,000 in 1994 to $3,350,000 in 2002, with 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 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 $2,390,000 in 1994 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 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.

(f) The Series of 1978 Bonds mature in varying amounts ranging from $1,340,000 in 1994 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 $2,140,000.

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.

(g) 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.

(h) 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.

(i) 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.

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

(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.

The fair value of long-term debt, was $465,518,000 at June 30, 1993. The fair value represents the quoted market value for Authority Revenue Bonds and carrying amounts for all other debt.

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>1994</td>
<td>10,084</td>
</tr>
<tr>
<td>1995</td>
<td>10,466</td>
</tr>
<tr>
<td>1996</td>
<td>20,889</td>
</tr>
<tr>
<td>1997</td>
<td>48,418</td>
</tr>
<tr>
<td>1998</td>
<td>11,298</td>
</tr>
</tbody>
</table>
7. 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, 1993, $167,685,000 of the refunded bonds are considered defeased.

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 $18,685,000 in 1993.

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 1993 pension cost are as follows (in thousands):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost — benefits earned during the year</td>
<td>$10,534</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>11,755</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(18,824)</td>
</tr>
<tr>
<td>Net amortization and deferral being recognized over 17 years</td>
<td>7,874</td>
</tr>
<tr>
<td>Net periodic pension cost</td>
<td>$11,339</td>
</tr>
</tbody>
</table>

The following table sets forth the funded status of the plans at June 30, 1993 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>$151,971</td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations</td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>131,378</td>
</tr>
<tr>
<td>Nonvested</td>
<td>4,192</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>135,570</td>
</tr>
<tr>
<td>Effect of projected future compensation increases</td>
<td>68,822</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>204,392</td>
</tr>
<tr>
<td>Projected benefit obligation in excess of plan assets</td>
<td>(52,421)</td>
</tr>
<tr>
<td>Unrecognized net loss</td>
<td>42,341</td>
</tr>
<tr>
<td>Unrecognized transition asset</td>
<td>(10,446)</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td>$(20,526)</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 7.0%. 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 $45,600,000 for 1993.

The cost of providing benefits for approximately 2,000 retirees is not separable from the cost of providing benefits for more than 13,400 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 $21,776,000 at June 30, 1993.

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

Goal $1.3 Billion

$1,140,580,213
6/30/93
When The Campaign for Penn surpassed $1 billion in cash and pledges at the close of Fiscal Year 1993, fully 18 months ahead of its scheduled December 1994 completion, it had already established impressive new records for fund raising at the University.

Total subscriptions for the year exceeded $324 million, including $120 million from The Annenberg Foundation, the largest single gift ever made to higher education.

University officials responded to these spectacular results with an ambitious new target of $300 million for the remainder of the Campaign. Fund-raising efforts will concentrate on priorities that have been at the center of the Campaign since its announcement in 1989: Undergraduate Education; Financial Aid; Endowed Professorships; Minority Permanence; and Research.
Some highlights of a remarkable fund-raising effort:

- Penn reached its $1 billion target in three and a half years, faster than any other campaign in higher education.

- Penn leads all colleges and universities in raising gifts of $25,000 to $100,000. The total exceeds 2,500 such gifts and continues to grow.

- For four years running, the number of gifts from Penn alumni has led the nation. In Fiscal Year 1993, the count reached 82,000.

- In creating 126 new endowed professorships, Penn has already broken every national record for the establishment of endowed positions in a fund-raising campaign. Meeting the Campaign target of 150 new chairs will more than double the number of professorships that existed before The Campaign for Penn began.

As the impact of the Campaign begins to be felt, the thousands of donors who have already contributed to its success can see for themselves how their investments in Penn are helping achieve a new standard of excellence at one of the nation's best-managed academic institutions. The world-class scholars, researchers, and talented students who have been attracted by—and who are creating—innovative new programs at the University offer abundant evidence of Penn's bright future.

The challenge of the remaining months of The Campaign for Penn will be to continue broadening the base of donor support while meeting all Campaign goals.

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Former Pennsylvania State Senator
Former Chairman, C.E.O. and Director,
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