Over the past year new stones have been installed in our crosswalks, increasing their strength and durability. To serve the future and prosper in it, the University must likewise strengthen and expand our intellectual crosswalks. Through investments in our University priorities we will do that—creating new academic neighborhoods and reinvigorating old ones.
Great universities grew by chance
as much as by design through much of our history. A serendipitous gathering of scholars — more accidental than strategic — could result in a university becoming known, for example, as a center of knowledge and discovery in the natural sciences. A different set of keen minds in combination could cause a university to make its mark in philosophy and letters. The dictates of religion, the stability or instability of politics, the fashions and appetites of different periods — these and other forces also have had their influence on the development of universities over time. Great universities, in this sense, have never been wholly “planned.”

The same is true today in part: The combustible energy of faculty “accidentally” thrown together at leading schools continues to produce the often unanticipated and extraordinary discoveries that propel research and teaching forward. And it will always be the case that intellectual curiosity — the currency of higher learning and the lifeblood of universities — is not necessarily “strategic” in the paths it chooses to follow. Great universities must continue to value a certain quantity of seeming indirection as well as direction. A blind alley for ten scientists may become a road to glory for the eleventh.

More than ever before, however, great universities are now compelled to make choices and to do so strategically. Not every avenue of inquiry can be pursued at a time when the boundaries of knowledge have become almost infinitely elastic; not every subject can be taught when the available resources for higher education are, in real terms, shrinking. Choices must be made and, if they are to be made wisely, then universities must plan for the future.

It is the aim of the University of Pennsylvania to become one of a very small number of internationally outstanding universities in the 21st Century. We are planning to pursue this ambitious goal with a pragmatic boldness and vigor that I believe are unsurpassed in higher education.

Judith Rodin
President

We call our plan for Penn’s future an Agenda for Excellence. Since early 1995 this strategic plan has been the focus of a deliberative, consensus-driven planning process that has engaged the entire University community. Our planning has been broadly inclusive because the days are long past when one or two leaders at the top could amass enough information to build an institution’s agenda. Successful strategic planning today must involve every sector of a university: trustees, faculty, students, staff, alumni, and donors.
The first product of that inclusive planning process was a new mission statement for the University. Reprinted below, the statement is inspiring as it speaks to Penn’s unique place in history, intellectual breadth, strength in diversity, and future aspirations:

**Mission of the University**

The University of Pennsylvania’s roots are in Philadelphia, the birthplace of American democracy. But Penn’s reach spans the globe.

Faithful to the vision of the University’s founder, Benjamin Franklin, Penn’s faculty generate knowledge that is unconstrained by traditional disciplinary boundaries and spans the continuum from fundamental to applied. Through this new knowledge, the University enhances its teaching of both theory and practice, as well as the linkages between them.

Penn excels in instruction and research in the arts and sciences and in a wide range of professional disciplines. Penn produces future leaders through excellent programs at the undergraduate, graduate, and professional levels.

Penn inspires, demands, and thrives on excellence, and will measure itself against the best in every field of endeavor in which it participates.

Penn is proudly entrepreneurial, dynamically forging new connections and inspiring learning through problem-solving, discovery-oriented approaches.

Penn research and teaching encourage lifelong learning relevant to a changing, global society.

Penn is a major urban university that is committed to strength and vitality in each of its communities. In this connection, Penn will:

- Encourage, sustain, and reward its faculty; nurture, inspire, and challenge its students; and support and value its staff;
- Strengthen and appreciate the diversity of its communities;
- Support free expression, reasoned discourse, and diversity in ideas;
- Pursue positive connections to the city, state, and region and a mission of service to its neighbors in West Philadelphia;
- Develop and support its connections to alumni and friends; and
- Foster the growth of humane values.
With this vigorous new mission statement foremost in our minds, we established nine goals for Penn as part of our Agenda for Excellence. All of the goals support the mission of this great University. The first goal is a preeminent statement of our institutional aspirations, and the remaining eight are supportive means to that end.

Summarized, our goals for Penn are to:

1. Attain comprehensive excellence and secure Penn's position as one of the world's premier research and teaching universities.
   - Ensure that Penn's undergraduate program will be considered among the top 10 in the nation. It must be the program of choice for the ablest undergraduate students in the nation and in the world.
   - Ensure that every individual academic department and program of strategic importance at Penn will be considered among the top tier. Penn's doctoral and professional programs must be the programs of choice for the ablest graduate and professional students in the nation and in the world.

2. Secure greater research funding and new sources of support.
3. Restructure, improve and cut costs of administration.
4. Invest in strategic master's and continuing education programs.
5. Enhance government and community relations programs essential to Penn's missions of teaching, research, and service.
6. Increase Penn's international reach and global perspective.
7. Creatively deploy new technologies.
8. Effectively communicate Penn's contributions to society.
9. Raise the funds required to support Penn's strategic goals.
Over the next five years, these goals will drive Penn to think in profoundly different ways about itself, from its long-range academic aspirations to its day-to-day operations. Every part of Penn — each of our schools, research centers, departments, and offices — will be enhanced by *Agenda for Excellence*. Every important decision at Penn should be made in support of the pre-eminent goal of *Agenda for Excellence*: to secure Penn's place as one of the premier research and teaching universities in the world.

Let me be clear. The achievement of these goals is not needed to transform a good institution into a great one. Far from it. Penn is already a great university. Rather, what we envision is the kind of transformation that occurs when well-conditioned, superbly trained athletes realize their potential and become brilliant champions. They could not have done this without long preparation, hard work, great talent, and a swelling host of accomplishments. The same is true of Penn today. Our hope and our goal is to make Penn truly world-class.

Will Penn be different? Yes. But the change we seek is not a radical redefinition of Penn. It is rather the full realization of Penn's enormous potential. It is, once again, the fulfillment of a champion.

Penn's campus is home to twelve of the most extraordinary schools in America. Across our campus, linking these schools into one large, synergistic whole are intellectual pathways bearing the daily commerce of the academy: ideas, discoveries, knowledge, truth. This commerce enriches the schools: They draw strength from each other.
Guided by the nine goals set for Penn as an institution, each school has developed its own strategic plan to move forward to new levels of excellence in the 21st Century. These plans identify the strategic imperatives of the individual schools: the academic areas they will emphasize most strongly, the curricular initiatives they will undertake, the expectations they will have for their faculties and students, the facilities they must build, the resources they must raise. Individually and collectively, the school strategic plans present a detailed present picture and an ambitious future vision for Penn's twelve schools.

From the twelve school plans, in turn, the provost and the deans, the faculty and the students serving on the University's academic planning and budget committee, and I have collaboratively drawn six University-wide academic priorities. We believe those priorities will dramatically move Penn forward. Success in them will have the greatest impact on the University as a whole and provide the greatest leverage for advancement in other areas within and among the schools. We expect to make significant investments in them over the next five years.

Each of the six university priorities is multidisciplinary and embraces the dual elements of Penn's signature: theory and practice. Each responds to the reality that, in the century to come, the acquisition, communication, and use of knowledge will be even less contained within a single discipline or single school than is true today. And each takes advantage of Penn's unique gift of geography: unlike all of our Ivy peers, we have twelve schools located on a single compact campus, and our critical mass of intellectual strength has few competitors.
We intend to forge a multidisciplinary approach to the future. The explosion of new knowledge at the confluence of disciplines suggests the power of this approach. The more we enhance Penn’s natural advantages in this regard, the more distinctive Penn will be. With this in mind, our six academic priorities are:

- **Life sciences, technology, and policy.** A strategic focus on the health and life sciences, technology, and policy builds on strengths of Penn’s four biomedical schools — Medical, Nursing, Dental, and Veterinary — as well as the major departments in the School of Arts and Sciences, the School of Engineering and Applied Science, and the Wharton School.

- **American and Comparative Democratic and Legal Institutions.** We are increasing our strength in several areas so that Penn — a Philadelphia native — can take advantage of a rare opportunity at the close of this century to use our democracy as a prism through which to view the contemporary world and our place in it.

- **Management, Leadership and Organizations.** The need for creative and effective management in private and public organizations — and the challenges in its path — are profound. In the global marketplace and the “privatizing” public sector, the issues facing management are insistent and absorbing. Truly, there has never been a greater need for clear vision, for fundamental research into the changing forms of organizations, and for leadership.

- **The Humanities — Meaning in the 21st Century.** Controversial debates among scholars over topics such as cultural values and inherited wisdom have led to consternation on and off university campuses. But as we approach a new millennium, there are still questions about human existence that can only be answered by the humanistic interpretations of life, meaning, and culture.

- **The Urban Agenda — Penn in Philadelphia.** Civilization and culture are the products of cities. So are crime and violence. Few universities are better placed than Penn to contribute to the rigorous study of urban issues, from questions of urban design to ideas about welfare reform. Further, given the explosive growth of cities internationally, the accompanying rise in urban poverty, and the decline in federal involvement worldwide, these issues will be major global public policy questions for years to come.

- **Information Science and Technology.** Information science and technology are transforming the world, our lives, and our understanding of who we are at a pace that grows faster every day. The world’s first electronic digital computer, ENIAC, was invented at Penn just 50 years ago, at Penn’s Moore School of Engineering. It led to a change more dramatic than anyone would have dared to imagine. We believe that Penn must therefore retake its leadership role in fundamental information science and technology as well as in the study of the impact of information technology on society.
These six academic priorities will produce distinctive features in the face of Penn. There will be other notable features as well. First and foremost, Penn's undergraduate experience will be among the most innovative and challenging in the nation. It will be characterized by superb, imaginative teaching; world-class opportunities for undergraduate research; and a full, rich and engaging campus life that includes vibrant social and athletic facilities. Penn will be a school of choice for the ablest undergraduate students from across the land — and beyond its borders.

Beyond the academic, the enhancement of Penn will also be administrative, technological, financial, international, reputational. And it will certainly be physical. I do not suggest that you might come to Penn in five years and fail to recognize it. I do suggest, though, that the University will be even more vibrant and exciting. With the Perelman Quadrangle, the Institute for Advanced Science and Technology, the Biomedical Research Buildings, a new University bookstore, and new core facilities for more than one school, Penn's campus will be heady and alive with change.

Simultaneously, along the streets approaching, bounding, and traversing the University there will be regeneration of retail, commercial and residential life. Sansom Street, Walnut Street, Spruce Street, and 40th Street may look quite different. More broadly, Penn will be an even larger presence in the City of Philadelphia and the region.

As it enjoys the benefits of new structures and a revivified environment, the University will be a stronger, leaner, smarter organization. Our systems will work better: We will not engage in wasteful practices. Our attitude will be bright: We will not allow complainers and cynics to hold sway. Excellence will draw us like a magnet.

Throughout this planning process, we have found ourselves students of our own design. The development of Agenda for Excellence has given us an opportunity to study this fascinating institution where we learn and teach and work. During this process we all have been learners, students of this great University. As Agenda for Excellence is implemented over the next five years, we look forward to continuing our education. We aspire to no less than the best and, together, we will drive aggressively to achieve it.

Judith Rodin
President
Administrative Restructuring

In early 1995, the University announced its intention to engage in a long-term program to restructure its administrative operations. Since this time, the program has been expanded significantly, to include areas related to enhancing the quality of life on and off campus, as well as upgrading the University’s internal control structure and risk management capabilities. As it stands today, Penn’s administrative restructuring program has three goals, which we intend to achieve over a five year period:

1. Improve both the quality and cost effectiveness of administrative services across the University, and establish measures to evaluate the satisfaction of our clients (students, faculty, staff, alumni, community members, etc.) with these services.

   To achieve this goal, our strategies are:
   - Reduce and contain the cost of administration by $50 million through process reengineering, shared services arrangements, outsourcing and other innovative management approaches.
   - Generate at least $10 million in new net revenues from entrepreneurial business ventures and aggressive management of assets.

2. Enhance the quality of life on campus and in our neighboring communities.

   To achieve our second goal, we are implementing the following strategies:
   - Reduce crime and enhance the safety and security of people and property on campus and within the boundaries of our campus patrol area.
   - Upgrade existing residential and recreational facilities and design and construct new residences.
   - Aggressively increase the quality and quantity of retail space serving the campus and attract an exciting mix of retailers to service Penn.
   - Implement a University City Special Services District (patterned after Philadelphia’s highly successful Center City District) to ensure that Penn’s surrounding environment is clean, safe and attractive for the Penn community, our neighbors and current and prospective service providers.

3. Finally, we are systematically upgrading the University’s internal controls, risk management capabilities and compliance functions to ensure that Penn’s reputational, financial and operational risks are mitigated.

   To achieve our third goal, we are implementing a series of strategies, namely:
   - Acquire strategic properties at the best possible price to facilitate the implementation of our Campus Land Use and Facilities Master Plan.
   - Work with our neighboring communities to strengthen and sustain the neighborhoods throughout University City, with a special focus on residential rehabilitation, zoning and code enforcement, commercial development along 40th Street and Market Street, supporting local schools and enhancing the quality of life through clean, well-lit and safe streets.
   - Adopting the Committee of Sponsoring Organizations (COSO) model for an integrated control framework, and through a series of pilots beginning the implementation of this program throughout the University.
Implementing a University-wide corporate compliance program, and in tandem developing a management structure which will enable the University, as an overall corporate entity, to better anticipate, identify, manage and minimize its risks.

Upgrading the University's Internal Audit and Risk Management departments and core processes, building new competencies within these departments (such as construction audits), and focusing on key cross-organizational functions such as training.

Much has been accomplished over the last year in all of these areas. Particularly notable have been the accomplishments of the Division of Business Services, under the excellent leadership of its Vice President, Steve Murray and his very strong management team. Business Services has taken a leadership role in a number of significant initiatives that have resulted in enhanced services to the University community as well as new sources of revenue that allow us to fund emerging academic ventures and capital needs.

Three of these projects are especially worthy of mention: the partnership with Barnes & Noble to build the first University superstore in America; Penn's innovative campus card project; and the creation of late night on-campus dining venues for students.

Effective July 1, 1996 we entered into an agreement with Barnes & Noble to operate the University's Book Store. This partnership accomplished two major goals. First, there will be a substantial new revenue stream guaranteed to the University as a direct result of this agreement (at least $18 million in new net revenues over the life of the contract, with a much higher upside depending on the Book Store's performance). Second, the University and Barnes & Noble will undertake a joint venture to design and build the finest University bookstore in the country, targeted to open in the Fall of 1998. This new bookstore, which will combine the best aspects of a great academic bookstore with the ambiance and services of a Barnes & Noble superstore, will add a new dimension to the Penn campus. Not only will it provide an additional nighttime attraction for our campus community, but it will also anchor a major new retail and hotel complex located in the heart of north campus. The Book Store project, co-funded by Penn and Barnes & Noble, is an excellent example of Penn's strategy to work with the private sector to greatly enhance the services we provide our campus while, at the same time, generating a substantial revenue stream to support our academic mission.

In the Fall of 1997, we will be introducing an expanded PennCard program for use by our students, faculty and staff. This program will enable members of the Penn community to use their identification card to make cashless purchases at a variety of on-campus venues, including the book store, dining halls, laundry and vending machines as well as local restaurants. Through the use of a computer chip on the campus identification card and a linked banking and credit account, students will have access to a wide variety of financial services without the need to carry cash. Strategically located automatic tellers and on-campus
branch banks will make this convenient for our clients. While other campuses have instituted similar programs, we believe that Penn's approach takes this initiative to the next level in terms of the variety of services provided. The net effect of this exciting venture, accomplished in partnership with our student credit union, as well as major banking and credit card companies, will be convenient, enhanced services, a new Penn-sponsored credit card product that will be introduced to our alumni, and a new net revenue stream from our corporate partners of over $6 million during the next five years.

Finally, Penn's Dining Services have added a new dimension to on-campus late-night social life by opening three locations for students to socialize in a safe, friendly environment. CHATS, located in the Class of 1920 Dining Commons, McClelland Marketplace, in the heart of the Quadrangle and Stouffer's "Diner on the Triangle" have all become popular locations for students to meet, socialize, study, eat and be entertained, without the need to venture away from campus. Hundreds of students are frequenting CHATS, McClelland and D.O.T. each evening. The renovations and operating expenses for each of these locations are fully funded through revenue generated by Penn students using their PennCards.

As you can see, Penn's Administrative Restructuring program is much more than a cost reduction initiative (although reducing costs is certainly a key goal). Rather, it is a systematic attempt to maximize all of the resources Penn has at its disposal, whether they be human, financial, physical or reputational resources, and to make these resources work better for all of our clients, especially students. Penn's employees are stepping up to the challenge put before them and are managing the University in a much more proactive, creative and aggressive way. While much remains to be done, the University can feel proud of its initial foray into administrative restructuring.

John A. Fry
Executive Vice President
is the treatment of financial aid awarded in the form of direct grants, which is now recorded as a discount against tuition and fees revenue as opposed to an expenditure of current funds. For Fiscal Year 1996, tuition and fees revenue of $307.8 million, reported in the Statement of Activities, is net of direct grant financial aid of $91.2 million. Restating the 1995 total in Fiscal Year 1996 terms results in net tuition and fees of $293.4 million, for an overall increase in tuition and fees of 4.9%.

Sponsored program revenue for Fiscal Year 1996 totaled $304.1 million, which includes grant and contract revenue received from both governmental and private sources for research, training and other programs. Governmental agencies provided $189.2 million of this revenue for the reimbursement of direct costs, while private sponsors funded direct costs of $39.6 million. Governmental and private sponsors provided the University with a combined $75.3 million for the reimbursement of indirect costs. Most of this revenue was received in support of the University's research program. During 1996, the University finalized its indirect cost rate agreement with the Department of Health and Human Services, our cognizant federal agency. The three year agreement, which expires at the end of Fiscal Year 1999, will ensure that federal funding of the University's research indirect costs (utility, space and support costs) is stable over the near term.

Revenue realized from contributions and investment income continues to represent a significant source of support for both operating and nonoperating purposes. During Fiscal Year 1996, these revenue streams, combined, provided over $154 million in support of University operations. In addition, these sources also provided over $114 million in nonoperating revenue, which was, for the most part, invested in the University’s endowment.

Nonoperating investment income included over $11 million reinvested under the University’s spending rule policy. This policy limits the amount of income that can be spent in a given year to a certain percentage of the market value of the Associated Investments Fund (A.I.F.), a pooled fund in which most of the University's endowment is invested. Amounts earned above this limitation are reinvested into principal to protect the A.I.F. from the effects of inflation. Over $135 million has been reinvested since the Trustees implemented the policy in Fiscal Year 1981. The spending rate for Fiscal Year 1996 was 4.8%, compared to 6.7% when the policy was introduced.

As stated earlier, SFAS No. 116 requires the University to disclose the expiration of a donor's restrictions as a reclassification with regard to operating gifts, capital gifts, and investment income received on true and term endowment funds. During Fiscal Year 1996, $85.0 million was released from donor restrictions, or “reclassified” from temporarily restricted net assets to unrestricted net assets for operating purposes. In addition, $13.3 million was reclassified for nonoperating purposes, primarily for capital renewal and replacement.

The other significant change in accounting practice for Fiscal Year 1996, which is reflected in the Statement of Activities, is the allocation of depreciation expense, interest expense, and operations and maintenance
costs directly to program and support functions. In Fiscal Year 1996, depreciation expense of $118 million and $32 million in interest expense was allocated across all functions. University functions, excluding the Health Services Component, were allocated $60 million in operations and maintenance costs.

**Statement of Cash Flows**

While not a new requirement in the for-profit arena, the FASB now requires not-for-profit organizations to also include a Statement of Cash Flows in their general purpose financial statements. This statement displays how cash was both provided and used by operating, investing and financing activities over the course of a fiscal year. Investing activities utilized $420.6 million in cash resources, primarily for capital investment and the acquisition of physician practices, while financing activities, principally resulting from the issuance of long-term debt by the Health Services Component, provided cash to the University of $466.7 million. Overall, the University increased its cash and cash equivalents by almost $217 million.

**Health Services Component**

The University of Pennsylvania Health System, Health Services Component, includes the Hospital of the University of Pennsylvania, the Clinical Practices of the University of Pennsylvania, Clinical Care Associates, Franklin Physician Services, Inc. and Presbyterian Medical Center of the University of Pennsylvania Health System.

Summarized financial information is provided on the Health Services Component in the Notes to Financial Statements. Despite all of the uncertainties in the health care industry today, the Health Services Component continues to be able to generate favorable financial results. For Fiscal Year 1996, the Health Services Component generated an excess of revenue over expenses of $75.3 million. At June 30, 1996 the Health Services Component had unrestricted net assets totaling $466.8 million, which will allow the University to continue to make strategic investments in its health care delivery system, both by augmenting the physician network and by improving our health care facilities.

**Capital Investment**

During Fiscal Year 1996, the University invested almost $292 million to improve our physical infrastructure through the construction, renovation or purchase of property, plant and equipment.

During the year, several major projects were in progress or begun in order to enhance our research program. The construction of the Roy and Diana Vagelos Laboratories of the Institute for Advanced Science and Technology continued over the course of the year. This new facility will support multi-disciplinary research programs for faculty from the School of Arts and Sciences, the School of Engineering and Applied Science, and the School of Medicine. Construction is on schedule, with the facility scheduled to open during Fiscal Year 1998. The School of Medicine started construction of the Biomedical Research Building II during the year, with ground breaking in May 1996 and occupancy scheduled for Fiscal Year 1999.

Work also started or continued on a number of capital projects.
intended to enhance the educational environment for our students. In November 1995, a major facilities renovation was begun on the Law School’s Lewis Hall. This yearlong project will upgrade existing lecture halls and classrooms, as well as the building’s infrastructure. Another major capital project initiated during the year was the Charles Addams Fine Arts Hall, which will improve educational facilities for students in the Graduate School of Fine Arts.

In addition, the University continues to invest in capital projects designed to improve the quality of student life on campus. The most significant project currently in progress is the Perelman Quadrangle and Wynn Commons. This project, when completed, will create a multi-purpose student center combining academic programs and student activity space. Phase I, the interior renovation of Logan Hall, is proceeding on schedule with planning under way for renovations to Williams Hall, Irvine Auditorium and Houston Hall. Other student life-related projects include the Locust House project at 37th and Locust Walk, which is now the new home of Penn’s Women’s Center, and a number of projects in the Division of Recreation and Intercollegiate Athletics designed to improve and upgrade the facilities for our female athletes and students.

Summary

In summary, Fiscal Year 1996 can be categorized as another year of positive operating performance and sustained financial growth for the Health Services Component and the University as a whole. This is certainly evidenced by the overall increase in net assets of over $250 million. While some of this increase may be considered fortuitous, e.g., gains on investments due to favorable market conditions, it also reflects well on University planning efforts and restructuring initiatives. During this past year, significant work was completed on the implementation of a new financial management information system, which went into production on July 1, 1996. We believe that the results of these efforts will provide us with the ability to plan for and manage our resources even more effectively in the future.

Fiscal Year 1996 was a year of transition and change. This was not only true in terms of financial statement presentation, but also in terms of highlighting the University’s capacity and will to maintain its position in the competitive health care market as well as to demonstrate our ability to generate those resources critical to the achievement of the ambitious vision outlined in the Agenda for Excellence by President Rodin.

Stephen T. Golding
Vice President for Finance
## A Five-Year Review of Investments

University of Pennsylvania

(thousands of dollars)

### Investments:

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### Endowment*:

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### Associated Investments Fund:

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*Endowment includes true, term and quasi-endowment only.
Associated Investments Fund Balance Sheet
University of Pennsylvania, June 30, 1996
(thousands of dollars)

1996

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<tr>
<td>Cash &amp; Equivalents</td>
<td>$592</td>
<td>$592</td>
</tr>
<tr>
<td>Equity Fund</td>
<td>959,190</td>
<td>881,066</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>276,404</td>
<td>278,418</td>
</tr>
<tr>
<td>High Yield Bond Fund</td>
<td>181,293</td>
<td>181,224</td>
</tr>
<tr>
<td>Real Estate, Venture Capital and Other</td>
<td>110,172</td>
<td>97,283</td>
</tr>
<tr>
<td>Investments, end of year</td>
<td>$1,527,651</td>
<td>$1,438,583</td>
</tr>
<tr>
<td>Investments, beginning of year</td>
<td>$1,255,411</td>
<td>$1,113,163</td>
</tr>
</tbody>
</table>

| Fund:                                        |            |           |
| Invested by participating funds              | $805,182   |           |
| Distributed accretions:                      |            |           |
| Net distributed gains realized on sales, etc. | 633,527    |           |
| withdrawals of participating funds and gains |           |           |
| availed of                                   |           |           |
| Net unrealized gains cost over fair value    | 88,942     |           |
| Investments, end of year                     | $1,527,651 |           |

*Amounts adjusted to include reinvestment of Fiscal Year 1996 spending rule income and net endowment gifts received in fourth quarter of Fiscal Year 1996.

A.I.F. Total Return Performance Comparison
Annual Total Return Compounded Quarterly
Year Ended June 30

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A.I.F.</td>
<td>18.8</td>
<td>15.8</td>
<td>6.4</td>
<td>16.5</td>
<td>17.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Composite Index</td>
<td>13.6</td>
<td>13.4</td>
<td>0.9</td>
<td>21.3</td>
<td>19.1</td>
<td>13.4</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>13.4</td>
<td>13.6</td>
<td>1.4</td>
<td>26.0</td>
<td>25.9</td>
<td>15.7</td>
</tr>
<tr>
<td>Lehman Bros. Gov't./Corporate</td>
<td>14.2</td>
<td>13.1</td>
<td>(1.3)</td>
<td>12.8</td>
<td>4.7</td>
<td>8.3</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, the Lehman Government/Corporate Bond Index, and the Salomon Brothers High Yield Index on a weighted basis equal to its actual equity, fixed income and high yield allocations during the five year period.
## Associated Investments Fund Statement of Income

*University of Pennsylvania, June 30, 1996*

*(thousands of dollars)*

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received on bonds, net of accrued interest on bonds purchased</td>
<td>$35,435</td>
</tr>
<tr>
<td>Dividends received on common stocks</td>
<td>25,849</td>
</tr>
<tr>
<td>Other income</td>
<td>6,019</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,303</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, fees, postage, etc., allocable to fund</td>
<td>1,750</td>
</tr>
<tr>
<td>Indirect expenses recovered on yield</td>
<td>10,841</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>12,591</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Distribution</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income distributed to participating units</td>
<td>54,712</td>
</tr>
<tr>
<td>Less: Income reinvested in principal</td>
<td>11,216</td>
</tr>
<tr>
<td><strong>Net income distributed to participating units</strong></td>
<td><strong>$43,496</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Distribution per Share</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net income per share</td>
<td>$31.28</td>
</tr>
<tr>
<td>Distributed net income per share</td>
<td>$19.70</td>
</tr>
</tbody>
</table>

### A.I.F. Total Return Performance

*Cumulative Returns Compounded Quarterly*

*Year ended June 30*

<table>
<thead>
<tr>
<th>Index Value (June 30, 1991 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
</tr>
<tr>
<td>1992</td>
</tr>
<tr>
<td>1993</td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td>1995</td>
</tr>
<tr>
<td>1996</td>
</tr>
</tbody>
</table>

### A.I.F. Income Per Share

*Year ended June 30*

<table>
<thead>
<tr>
<th>Source of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
</tr>
<tr>
<td>Income Spent for Funds Subject to Spending Rule</td>
</tr>
</tbody>
</table>

### Graphs

- **A.I.F. Total Return Performance**
  - A.I.F.
  - Composite Index
  - S&P 500
  - Lehman Bros. Gov't./Corporate

- **A.I.F. Income Per Share**
  - Total Income
  - Income Spent for Funds Subject to Spending Rule
Management Responsibility
for Financial Statements

The management of the University of Pennsylvania is responsible for the preparation, integrity and fair presentation of the financial statements. The financial statements, presented on pages 28 to 40, have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information included in this annual report and is responsible for its accuracy and consistency with the financial statements.

The financial statements have been audited by the independent accounting firm, Coopers & Lybrand, L.L.P., which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. Coopers & Lybrand’s audit opinion is presented on page 27.

The University maintains a system of internal controls over financial reporting, which is designed to provide a reasonable assurance to the University’s management and board of trustees regarding the preparation of reliable published financial statements. 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 weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can change with circumstances.

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. Both the internal auditors and the independent accountants have full and free access to the Committee on Audit.

Stephen T. Golding
Vice President for Finance

Alfred F. Beers
Comptroller
To the Trustees of the
University of Pennsylvania
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of the University of Pennsylvania as of June 30, 1996 and the related statements of activities and cash flows for the year then ended. 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.

As discussed in Note 9 to the financial statements, the University has recognized the transition obligation associated with the postretirement benefit plan in the accompanying financial statements that, in our opinion, should be amortized over the remaining transition period in order to conform with generally accepted accounting principles. If the transition obligation had continued to be amortized the change in net assets would be increased by $101,077,000 for the year ended June 30, 1996, with a corresponding increase in unrestricted net assets as of June 30, 1996.

In our opinion, except for the effects of the recognition of the transition obligation associated with the postretirement benefit plan, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the University applied newly established financial reporting standards for not-for-profit organizations, and changed its method of accounting for contributions received and investments in 1996. These standards were adopted retroactively.

Coopers & Lybrand L.L.P.
2400 Eleven Penn Center
Philadelphia, Pennsylvania
October 18, 1996
### Statement of Financial Position

*University of Pennsylvania, June 30, 1996*

(Thousands of dollars)

#### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$244,307</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances of $7,439</td>
<td>89,320</td>
</tr>
<tr>
<td>Patient receivable, net of allowances of $82,041</td>
<td>146,600</td>
</tr>
<tr>
<td>Investment sales receivable</td>
<td>79,794</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>94,531</td>
</tr>
<tr>
<td>Loans receivable, net of allowances of $5,230</td>
<td>97,156</td>
</tr>
<tr>
<td>Other assets</td>
<td>133,624</td>
</tr>
<tr>
<td>Investments, at fair value</td>
<td>2,999,456</td>
</tr>
<tr>
<td>Plant, net of depreciation</td>
<td>1,666,013</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$5,550,781</strong></td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$169,634</td>
</tr>
<tr>
<td>Investment purchases payable</td>
<td>280,822</td>
</tr>
<tr>
<td>Accrued expense and other liabilities</td>
<td>288,323</td>
</tr>
<tr>
<td>Deferred income</td>
<td>40,454</td>
</tr>
<tr>
<td>Deposits, advances, and agency funds</td>
<td>37,308</td>
</tr>
<tr>
<td>Federal student loan advances</td>
<td>64,954</td>
</tr>
<tr>
<td>Accrued retirement benefits</td>
<td>218,608</td>
</tr>
<tr>
<td>Debt obligations</td>
<td>956,787</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>2,056,890</strong></td>
</tr>
</tbody>
</table>

#### Net assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>2,102,637</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>633,070</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>758,184</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$5,550,781</strong></td>
</tr>
</tbody>
</table>

*See accompanying notes to financial statements.*
## Statement of Activities

*University of Pennsylvania for the year ended June 30, 1996 (thousands of dollars)*

<table>
<thead>
<tr>
<th>Total</th>
<th>Unrestricted</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Temporarily</td>
</tr>
<tr>
<td>$307,849</td>
<td>Tuition and fees, net</td>
<td>$307,849</td>
</tr>
<tr>
<td>35,783</td>
<td>Commonwealth appropriations</td>
<td>35,783</td>
</tr>
<tr>
<td>304,108</td>
<td>Sponsored programs</td>
<td>304,108</td>
</tr>
<tr>
<td>65,527</td>
<td>Contributions</td>
<td>15,703</td>
</tr>
<tr>
<td>86,244</td>
<td>Investment income</td>
<td>53,084</td>
</tr>
<tr>
<td>968,446</td>
<td>Hospitals and physician practices</td>
<td>968,446</td>
</tr>
<tr>
<td>75,180</td>
<td>Sales and services of auxiliary enterprises</td>
<td>75,180</td>
</tr>
<tr>
<td>68,746</td>
<td>Other educational activities</td>
<td>68,746</td>
</tr>
<tr>
<td>20,018</td>
<td>Independent operations</td>
<td>20,018</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>85,047</td>
<td>(85,047)</td>
</tr>
</tbody>
</table>

**Total**: 1,934,901

**Increase in net assets before nonoperating revenue, net gains, reclassifications and other**: 43,749

**Nonoperating revenue, net gains, reclassifications and other**:

- Gain on investments, net: 56,614 (125,292) $15,279
- Investment income: 48,089 (8,555) 486
- Contributions: 29,122 (8,200) 20,540
- Other, net: (59,537) 38,980 22,086
- Postretirement benefit transition obligation: (107,502) (107,502)
- Net assets released from restrictions: 13,288 (13,288)

**Total**: 250,890

**Increase in net assets**:

- 23,823 (168,676) 58,391

**Total**: 3243,001

**Net assets, beginning of year**:

- 2,078,814 (464,394) 699,793

**Net assets, end of year**:

- $2,102,637 $633,070 $758,184

*See accompanying notes to financial statements.*
# Statement of Cash Flow

**University of Pennsylvania for the year ended June 30, 1996**

*(thousands of dollars)*

## Cash flows from operating activities:

| Increase in net assets | $250,890 |

**Adjustments to reconcile increase in net assets to net cash provided by operating activities:**

| Depreciation and amortization | 126,853 |
| Gain on investments, net | (197,185) |
| Postretirement benefit transition obligation | 107,052 |
| Loss on disposal of plant, property, and equipment | 1,552 |
| Nonoperating revenue designated for the acquisition of long-lived assets | (114,992) |

## Changes in operating assets and liabilities:

| Patient, accounts and loan receivable | (70,060) |
| Contributions receivable | (3,513) |
| Other assets | (24,835) |
| Accounts payable, accrued expenses and accrued retirement benefits | 83,598 |
| Deposits, advances and agency funds | 3,664 |
| Deferred income | 7,664 |

**Net cash provided by operating activities**

170,688

## Cash flows from investing activities:

| Student loans repaid | 10,219 |
| Student loans issued | (12,867) |
| Purchase of investments | (5,832,845) |
| Proceeds from sale of investments | 5,766,796 |
| Purchase of plant, property, and equipment | (291,705) |
| Statutory merger and purchase of physician practices | (60,235) |

**Net cash used by investing activities**

(420,637)

## Cash flows from financing activities:

| Nonoperating revenue designated for the acquisition of long-lived assets | 114,992 |
| Federal student loan advances | 1,145 |
| Repayment of long-term debt | (93,477) |
| Proceeds from issuance of long-term debt | 444,027 |

**Net cash provided by financing activities**

466,687

**Net increase in cash and cash equivalents**

216,738

## Cash and cash equivalents, beginning of year

27,569

**Cash and cash equivalents, end of year**

$244,307

## Supplemental disclosure of cash flow information:

| Cash paid for interest | $32,178 |

*See accompanying notes to financial statements.*
1. Significant Accounting Policies

Organization
The University of Pennsylvania (the University), based in Philadelphia, Pennsylvania, is an independent, nonsectarian, not-for-profit institution of higher learning founded as a college in 1740. The University provides educational services, primarily for students at the undergraduate, graduate and postdoctoral levels; performs research, training and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government; and operates an integrated health care delivery system, the University of Pennsylvania Health System-Health Services Component (the Health Services Component).

Basis of Presentation
The financial statements have been prepared on the accrual basis and include the accounts of the University of Pennsylvania and its related entities. All material transactions between the University and its related entities have been eliminated.

In 1996, the University adopted Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," SFAS No. 117, "Financial Statements of Not-for-Profit Organizations" and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations" through a restatement of opening net asset balances.

SFAS No. 116 requires that the University records unconditional promises to give as revenue in the period that the promise is made, and recognizes contributions received in the appropriate net asset category according to donor-imposed restrictions. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to donor-imposed restrictions. SFAS No. 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported in the Statement of Financial Position at fair market value. Gains and losses are included in the Statement of Activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

The net assets of the University are classified and reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the University and/or the passage of time.

Permanently restricted - Net assets subject to donor-imposed restrictions that they be maintained in perpetuity by the University.

Expenses are reported as a decrease in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions recognized on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Cash and Cash Equivalents
Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at cost which approximates market value. Short-term investments with maturities of three months or less are classified as cash equivalents, except that any such investments held in trusts or by external investment managers are classified as investments.
Investments
Investments are stated at fair value. Changes in fair value of investments are reported in the University's Statement of Activities. Fixed income investments with a maturity of less than one year are included in short-term investments. Derivative financial instruments held for investment purposes are carried at fair value with the resulting gains and losses included in investment earnings for the period. 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 fair market value determined on a quarterly basis. A spending limitation is in effect on this income, and unexpended A.I.F. income ($11,216,000 in 1996) is reinvested and is included in nonoperating investment income.

Fair values for certain private equity and real estate investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the University.

Loans Receivable
Student loans receivable are reported 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 stated at cost, or fair value at the date of donation, 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. The University changed its capitalization policy, effective July 1, 1995, with regard to certain contents. The moveable equipment capitalization threshold was increased from $500 to $5,000.

Intangible Assets
Intangible assets of $77,290,000 are included in other assets in the accompanying Statement of Financial Position. Intangible assets consist of the organizational and acquisition costs, the excess of cost over net assets acquired, and non-competition agreements related to the acquisition of physician practices, which are amortized on a straight-line basis over five years or the lives of the respective non-competition agreements. Intangible assets associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into the Health Services Component of $52,850,000 are being amortized over thirty years on a straight-line basis.

Split-Interest Agreements
The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. Contribution revenue for pooled income funds is recognized upon establishment of the agreement, at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using discount rates which represent the risk-free rates in existence at the date of gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset class in the Statement of Activities.

Tuition and Fees
The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance. This policy provides for financial aid to those admitted in the form of direct grants, loans, and employment during the academic year. Tuition and fees have been reduced by certain direct grants in the amount of $91,276,000 in 1996.
Sponsored Programs
The University receives grant and contract revenue from governmental and private sources. In 1996, grant and contract revenue received from governmental sources totaled $264,505,000. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Indirect costs recovered on federally-sponsored programs are based on cost reimbursement rates negotiated with the University's cognizant agency, the Department of Health and Human Services (DHHS). Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective party.

Contributions
Contributions are reported as increases in the appropriate net asset category. Contributions, including unconditional promises to give, are recognized as revenue in the period received at their fair values. When the conditions are substantially met, conditional pledges become unconditional and are recognized as revenue. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset class.

Contributions of cash and other assets designated for the acquisition of long-lived assets are reported with non-operating revenue, gains, and other.

Health Services Component
Revenue of the Health Services Component 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.

Additionally, the Health Services Component has entered into certain contracts under which it is responsible for providing medical care to covered members at predetermined rates. Any changes in estimates under these contracts are recorded in operations currently.

Net patient service revenue was increased by $10,070,000 in 1996 for changes in estimates due to settlements with third-party payors.

Allocation of Certain Expenses
The Statement of Activities presents expenses by functional classification. Operation and maintenance of plant and depreciation are allocated based on square footage. Interest expense is allocated to the functional classifications that benefitted from the use of the proceeds of the debt.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
2. University of Pennsylvania Health System – Health Services Component

The University Trustees formed the University of Pennsylvania Health System in June 1993. The Health System operates an integrated system which delivers education, research, and patient care. The Health System currently includes the Health Services Component and the School of Medicine. The Health Services Component is comprised of the Hospital of the University of Pennsylvania, Clinical Practices of the University of Pennsylvania, Clinical Care Associates, Franklin Physician Services, Inc. and Presbyterian Medical Center of the University of Pennsylvania Health System, which was created as a result of the statutory merger on July 1, 1995.

Throughout the year, certain transactions are conducted between the Health Services Component and the University. The effect of these transactions (primarily inter-entity billings for allocations of common costs and certain purchased services) is included in the financial information of the Health Services Component.

The Health Services Component makes transfers from their operations that further the research and educational activities of the School of Medicine. These activities are integral to the overall mission of the Health System and the effect of the transfers is reflected in the Health Services Component net assets.

Summarized financial information for the Health Services Component as of June 30, 1996, prior to eliminations for transactions between the Health Services Component and other entities of the University, is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net patient service revenue</td>
<td>$917,535</td>
</tr>
<tr>
<td>Other revenue</td>
<td>52,636</td>
</tr>
<tr>
<td>Total expenses</td>
<td>(942,850)</td>
</tr>
<tr>
<td>Excess of revenue over expenses from operations</td>
<td>27,321</td>
</tr>
<tr>
<td>Non-operating gains, net</td>
<td>47,987</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$ 75,308</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$327,262</td>
</tr>
<tr>
<td>Investments and assets whose use is limited</td>
<td>793,923</td>
</tr>
<tr>
<td>(including Board-designated funds of $464,618</td>
<td></td>
</tr>
<tr>
<td>and Trustee-held funds of $172,576)</td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>533,015</td>
</tr>
<tr>
<td>Other assets</td>
<td>93,219</td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,747,419</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$238,302</td>
</tr>
<tr>
<td>Long-term debt, net of current portion</td>
<td>651,405</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>276,420</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,166,127</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>466,760</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>81,562</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>32,970</td>
</tr>
<tr>
<td>Total net assets</td>
<td>581,292</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$1,747,419</td>
</tr>
</tbody>
</table>
3. Investments

A summary of investments at June 30, 1996, is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>$548,151</td>
<td>$545,617</td>
</tr>
<tr>
<td>Stocks</td>
<td>967,484</td>
<td>847,373</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,348,576</td>
<td>1,346,675</td>
</tr>
<tr>
<td>Real estate</td>
<td>125,732</td>
<td>115,614</td>
</tr>
<tr>
<td>Other</td>
<td>2,493</td>
<td>5,228</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td><strong>$2,999,436</strong></td>
<td><strong>$2,860,507</strong></td>
</tr>
<tr>
<td><strong>Beginning of year</strong></td>
<td><strong>$2,547,403</strong></td>
<td><strong>$2,380,362</strong></td>
</tr>
</tbody>
</table>

Included in investments are assets held in trust with an aggregate fair value of $106,702,000 and cost of $68,552,000 at June 30, 1996.

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, 1996, short-term investments held under this arrangement aggregated $8,468,000.

At June 30, 1996 investments with a fair value of $175,918,000 were held by trustees under indenture and escrow agreements.

At June 30, 1996, investment securities with an aggregate fair value of $43,625,000 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 fair value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 1996 (in thousands):

Unconditional promises expected to be collected in:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>$11,796</td>
</tr>
<tr>
<td>One year to five years</td>
<td>85,013</td>
</tr>
<tr>
<td>Over five years</td>
<td>56,789</td>
</tr>
<tr>
<td><strong>Less: Unamortized discount and allowance for doubtful amounts</strong></td>
<td><strong>153,598</strong></td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td><strong>$94,531</strong></td>
</tr>
</tbody>
</table>

At June 30, 1996, the University also received conditional promises to give of approximately $15,951,000. These conditional promises to give are not recognized as assets. When they are received, they generally will be restricted for specific purposes as stipulated by the donors. These restrictions include endowments for faculty support, research, scholarships or general operating support of a particular area of the University.
5. Plant

The components of plant at June 30, 1996, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$43,554</td>
</tr>
<tr>
<td>Buildings</td>
<td>1,452,391</td>
</tr>
<tr>
<td>Contents</td>
<td>940,188</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,436,133</strong></td>
</tr>
</tbody>
</table>

Less: Accumulated depreciation

| Accumulated depreciation | 770,120 |

Plant, net

| Plant, net | $1,666,013 |

(a) Includes $91,216,000 of construction-in-progress and $103,988,000 of completed facilities which serve as collateral for debt obligations.

(b) Museum contents and rare books not subject to depreciation aggregate $11,362,000 at June 30, 1996.

The University recorded $117,940,000 of depreciation expense for the year ended June 30, 1996.

6. Debt Obligations Refunded in Advance

The Pennsylvania Higher Education Facilities Authority Revenue Bonds, Series A of 1987, the Berks County Municipal Authority Higher Education Revenue Bonds, Series of 1985, and the Hospitals and Higher Education Facilities Authority of 1978 were refunded in advance or defeased. 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 Statement of Financial Position of the University. At June 30, 1996, $244,050,000 of refunded bonds are considered defeased.

7. Debt Obligations:

Debt obligations at June 30, 1996 are as follows (in thousands):

<table>
<thead>
<tr>
<th>Debt Obligation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHEFA Series A and B of 1996 Revenue Bonds, (4.10% - 6.00%) (a),(k)</td>
<td>$445,432</td>
</tr>
<tr>
<td>PHEFA Series A of 1995 Revenue Bonds (4.7% - 7.0%) (b)</td>
<td>110,130</td>
</tr>
<tr>
<td>PHEFA Series B of 1994 Revenue Bonds, (variable interest rate, 3.25% at June 30, 1996) (c),(k)</td>
<td>90,000</td>
</tr>
<tr>
<td>PHEFA Series C of 1996 Revenue Bonds, (variable interest rate, 3.25% at June 30, 1996) (d),(k)</td>
<td>80,000</td>
</tr>
<tr>
<td>PHEFA Series B of 1995 Revenue Bonds (4.85% - 7.0%) (b)</td>
<td>46,705</td>
</tr>
<tr>
<td>PHEFA Series A of 1994 Revenue Bonds, (5.6% - 7.0%) including unamortized premium of $973 (e),(k)</td>
<td>35,973</td>
</tr>
<tr>
<td>PHEFA Series of 1968 Revenue Bonds (4.9%) (f)</td>
<td>30,400</td>
</tr>
<tr>
<td>Washington County Authority Lease Revenue Bonds, Series 1985 A, (variable interest rate, 3.30% at June 30, 1996) (g)</td>
<td>29,230</td>
</tr>
<tr>
<td>Quakertown General Authority Pool Financing Program, 1985 Series A Bonds (variable interest rate, 3.295% at June 30, 1996) (h)</td>
<td>12,670</td>
</tr>
<tr>
<td>PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 3.617% at June 30, 1996) (i)</td>
<td>10,610</td>
</tr>
<tr>
<td>PHEFA Series of 1990 Revenue Bonds, (variable interest rate, 3.617% at June 30, 1996) (j)</td>
<td>6,500</td>
</tr>
<tr>
<td>Mortgages payable and other (7.08% weighted average interest rate, due through 2013)</td>
<td>59,137</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$956,787</strong></td>
</tr>
</tbody>
</table>
(a) The Series A and B of 1996 Bonds mature in varying annual amounts ranging from $9,195,000 in 1998 to $27,120,000 in 2015, with maturities of $59,080,000 in 2017 and $72,730,000 in 2022. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at redemption prices of 101%, 100.5%, and 100% plus accrued interest in 2006, 2007, and thereafter, respectively. The Bonds maturing in 2017 and 2022 are subject to mandatory sinking fund redemption at a price of 100% plus accrued interest in 2016 through 2022.

(b) The Series A and Series B of 1995 Bonds mature in varying annual amounts ranging from $2,880,000 in 1997 to $9,345,000 in 2015. The Bonds are subject to optional redemption by the Authority on or after September 1, 2005 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2015 range from $9,115,000 in 1997 to $14,349,000 in 2015.

(c) The Series B of 1994 Bonds mature in varying amounts ranging from $16,900,000 in 2020 to $19,100,000 in 2024. The Bonds bear a floating rate of interest which is adjusted by the Authority at certain intervals. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at a redemption price of 100% plus accrued interest.

(d) The Series C of 1996 Bonds mature in varying annual amounts ranging from $9,100,000 in 2023, $9,700,000 in 2024, $30,000,000 in 2025 and a final maturity of $31,200,000 in 2026. The Bonds have a variable interest rate, but are eligible to be changed to a fixed rate as elected by the Authority. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at a redemption price of 100% plus accrued interest.

(e) The Series A of 1994 Bonds mature in varying amounts from $3,340,000 in 2003 to $5,205,000 in 2010. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at redemption prices of 102%, 101% and 100% plus accrued interest in 2004, 2005 and thereafter, respectively.


(g) The Series A of 1985 Bonds mature on November 1, 2005 and are subject to advance payments and optional prepayments as stipulated in the Lease 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.

(h) 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.

(i) 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 Authority's option. The Bonds mature in 2015, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.

(j) 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 Authority'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 Authority.

(k) A Master Trust Indenture limits the respective indebtedness to the assets and revenue of the Hospital, Clinical Practices, and Presbyterian Medical Center (designated units). The indenture and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness of the designated units and, among other things, require the designated units 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 annual debt service requirements.
The fair value of the University’s debt obligations was $966,238,000 at June 30, 1996. 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>1997</td>
<td>$4,572</td>
</tr>
<tr>
<td>1998</td>
<td>16,783</td>
</tr>
<tr>
<td>1999</td>
<td>24,389</td>
</tr>
<tr>
<td>2000</td>
<td>36,695</td>
</tr>
<tr>
<td>2001</td>
<td>22,588</td>
</tr>
</tbody>
</table>

8. Net Assets

The following is a reconciliation of the total net assets previously reported as of June 30, 1995 to the total net assets as restated (in thousands):

<table>
<thead>
<tr>
<th>Adjustments and reclassifications</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of investments</td>
<td>166,744</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>91,017</td>
</tr>
<tr>
<td>Assets held in trust</td>
<td>91,515</td>
</tr>
<tr>
<td>Federal student loan advances</td>
<td>(62,516)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(72,972)</td>
</tr>
</tbody>
</table>

Total net asset balances restated as of June 30, 1995 $3,243,001

9. Pension and Postretirement Benefit Costs

Pension Cost

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 $23,731,000 in 1996.

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 1996 net periodic pension cost are as follows (in thousands):

- Service cost - benefits earned during the year $16,571
- Interest cost on projected benefit obligation 17,846
- Actual return on plan assets (34,614)
- Net amortization and deferrals being recognized over 16 years 12,507

Net periodic pension cost $12,310
The following table sets forth the funded status of the plans at June 30, 1996 and the amount recognized in the accompanying Statement of Financial Position:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets at fair value</td>
<td>$252,716</td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>180,283</td>
</tr>
<tr>
<td>Nonvested</td>
<td>4,490</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>184,773</td>
</tr>
<tr>
<td>Effect of projected future compensation increases</td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>81,428</td>
</tr>
<tr>
<td>Projected benefit obligation in excess of plan assets</td>
<td>266,201</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>(13,485)</td>
</tr>
<tr>
<td>Unrecognized transition asset</td>
<td>(22,615)</td>
</tr>
<tr>
<td>Accrued pension cost</td>
<td>(28,508)</td>
</tr>
<tr>
<td></td>
<td>$(64,608)</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 6.0% to 7.75%. The rate of compensation increase used to measure the projected benefit obligation was 5.5% to 6.0%. The expected long-term rate of return on assets was 9.0% to 9.5%.

**Postretirement Benefit Cost**

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.

The components of 1996 net periodic postretirement benefit 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>$9,041</td>
</tr>
<tr>
<td>Interest cost on projected benefit obligation</td>
<td>11,503</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(3,514)</td>
</tr>
<tr>
<td>Net amortization and deferral</td>
<td>1,459</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>$18,489</td>
</tr>
</tbody>
</table>

The following table sets forth the funded status of the plans at June 30, 1996 and the amount recognized in the accompanying Statement of Financial Position:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan assets at fair value</td>
<td>$28,093</td>
</tr>
<tr>
<td>Actuarial present value of benefit obligations:</td>
<td></td>
</tr>
<tr>
<td>Retirees</td>
<td>76,303</td>
</tr>
<tr>
<td>Fully eligible plan participants</td>
<td>9,385</td>
</tr>
<tr>
<td>Other plan participants</td>
<td>81,435</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>167,123</td>
</tr>
<tr>
<td>Accumulated benefit obligation in excess of plan assets</td>
<td>(139,030)</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>(632)</td>
</tr>
<tr>
<td>Accrued postretirement benefit cost</td>
<td>$(139,662)</td>
</tr>
</tbody>
</table>
Plan assets consist principally of investments in a diverse portfolio of equity and debt securities. The actuarial present value of benefits was determined using a discount rate of 6.75% to 7.75%. The health care trend rate was assumed to decrease gradually from a range of 8.5% and 10% in 1997 to a range of 4.5% and 6% over the next seven to ten years, respectively, and remain level thereafter. An annual change of one percentage point in the per capita cost of covered health care would result in a $23,388,000 change to the accumulated postretirement benefit liability at June 30, 1996 and a $3,573,000 change to the aggregate of the service and interest cost components of net periodic postretirement cost for the year ended June 30, 1996.

The University elected to recognize the remaining transition obligation associated with the postretirement benefit plan as of July 1, 1995. This resulted in a $107,502,000 charge to unrestricted net assets in the Statement of Activities for the year ended June 30, 1996.

10. 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.

11. Contingencies

The University has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling $24,471,000 at June 30, 1996.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the University's education and health care activities. In December 1995, a $30 million settlement, including damages, was reached with the United States DHHS for alleged billing errors totaling approximately $10,000,000, under Part B of the Medicare Program during the period January 1, 1989 through December 31, 1994. The effect of the settlement had no impact upon the Statement of Activities for 1996. There are also related investigations regarding this matter.

Based upon information currently available with respect to the aforementioned contingencies, management believes that any liability resulting therefrom will not materially affect the financial position or operations of the University.
University of Pennsylvania
1995-1996
Annual Report

Trustees of the University of Pennsylvania
(As of June 30, 1996)

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  Cardiologist
  Palo Alto, CA

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  Former Chief of Protocol of
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  Wynnewood, PA

* The Hon. Walter H. Annenberg
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  Chairman and President,
  The Annenberg Foundation
  St. Davids, PA

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  Walter G. Arader & Associates Inc.
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  Paul J. Thomas Professor of Medicine
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  Director, Center for Genetic Disease
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  Medical Center
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  Graham and Graham Architecture
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Department of Molecular Biology  
Princeton University  
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