

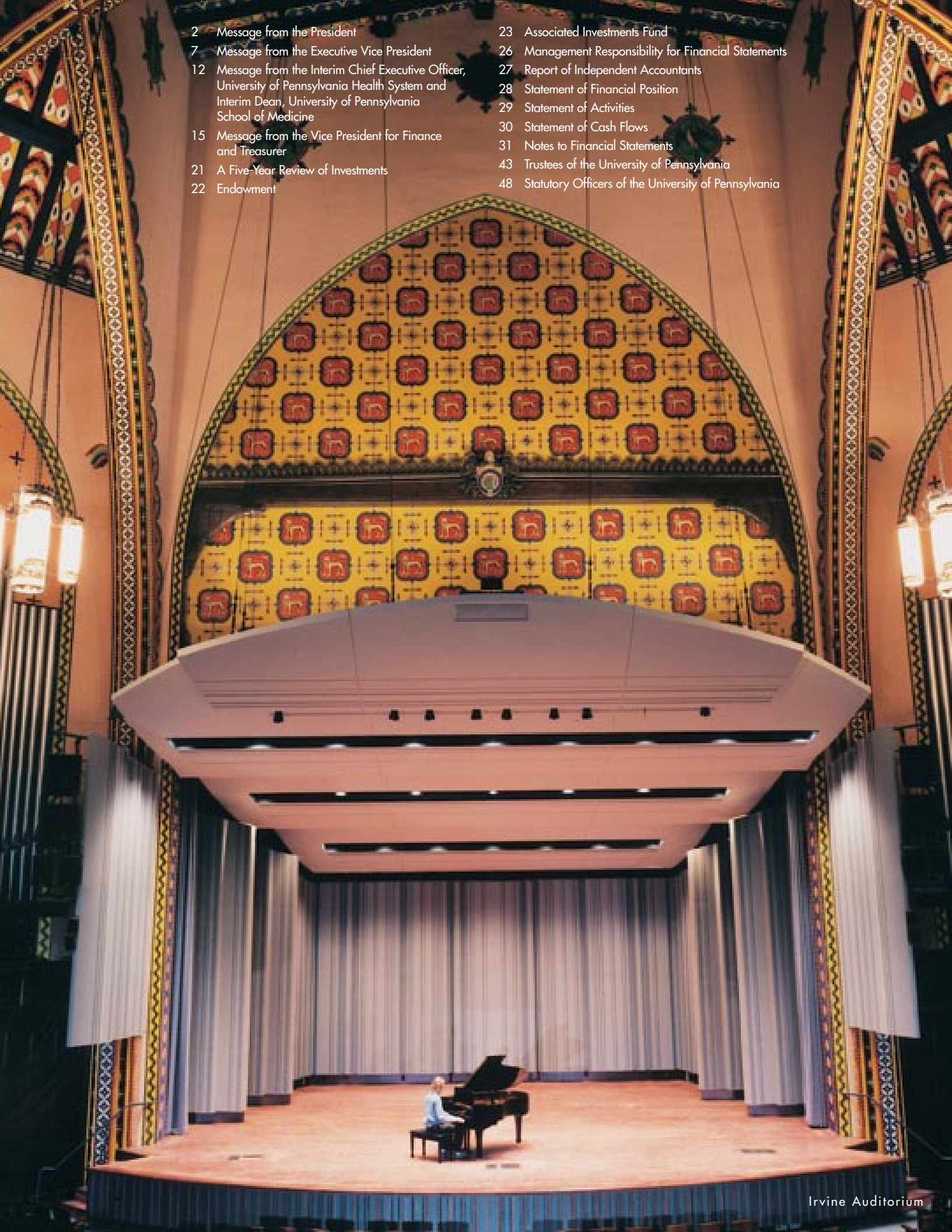
University of Pennsylvania

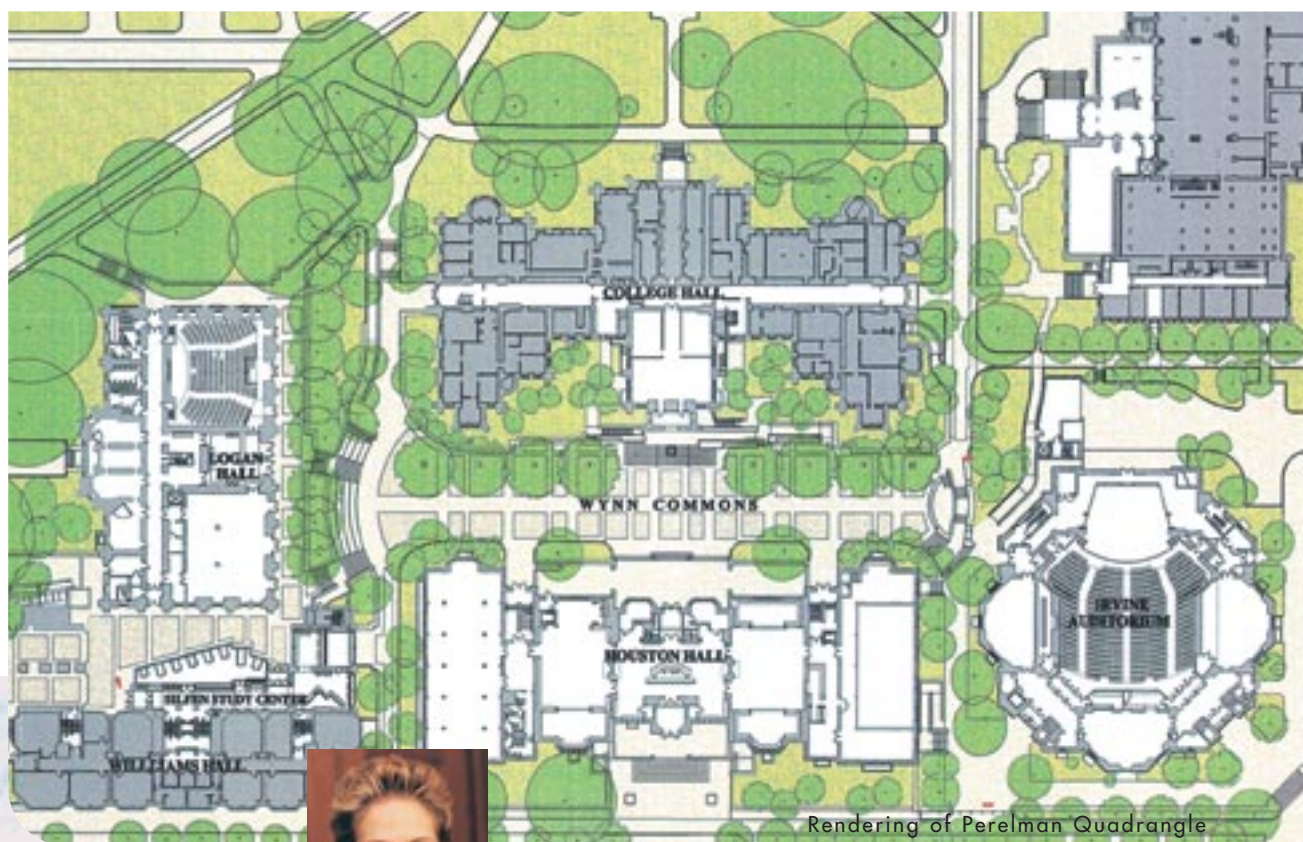
1999-2000 Annual Report



Building Penn's Future

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Rendering of Perelman Quadrangle

message from **Judith Rodin**
President, University of Pennsylvania

In his Autobiography, Benjamin Franklin observed that no sailing ship is ever designed, built and captained by a single person. Many need to be involved.

Like building a ship, building a university's future to meet the needs of discerning students and a rapidly changing world is long, painstaking work for many hands. More still are required to steer past the shoals of setbacks and misfortunes that would foil less intrepid crews.

From its founding by Mr. Franklin 260 years ago, the University of Pennsylvania has risen to meet many challenges in ways that have benefited humanity and posterity. Tapping its courage to experiment where others feared to dream, Penn produced a series of "firsts" and discoveries that helped transform America.

Entering the 21st century, Penn continues to raise high its banner of excellence to which generations of world-class faculty, students, alumni,

and friends have rallied. Regardless of the challenges imposed on us, Penn remains strong in will and firm in purpose to pursue and achieve extraordinary breakthroughs in research, in undergraduate, graduate, and professional education, and in service to humanity.

Student applications, research dollars, and donor contributions continued to flow into the University at record levels this year, while state-of-the-art facilities took shape across campus.

Our drive to enhance the academic, social, and cultural life of Penn led to the completion of Perelman Quad; the development of the Arch, an undergraduate arts, cultural, and research hub; and the conclusion of the first phase of the historic Quadrangle College House renovations.

Off campus, University City continued its spectacular re-emergence into a cleaner, safer, and more vibrant community. Our ongoing engagement with our neighbors produced a

breakthrough agreement to build a Penn-assisted, preK-8 public school. We launched a business incubator, P2B (for Penn to Business), to create entrepreneurial opportunities for faculty, students, and staff. And we began working with a private-sector partner to convert the historic GE building at 31st and Walnut into an attractive apartment and retail complex, furthering our plans to develop our eastern gateways.

At the same time, the booming economic climate in West Philadelphia convinced businesses from GMAC

Meanwhile, Penn solidified its elite position among the nation's best universities, occupying sixth place in the latest *US News & World Report* rankings.

Penn also weathered adversity in the 1999/2000 year --- including the financial difficulties in our health system and the tragic death of a young adult participant in a gene transfer clinical trial.

But true to its nature and heritage, Penn emerged from adversity and tragedy stronger in both capacity and resolve to be a model of excellence.

annual report presents a narrative of milestones, markers, and pictures that show a University creatively and aggressively on the move to build a future of academic vitality, social vibrancy, and financial health.

Fundraising: Giving Penn the Decisive Advantage

With the support of our generous donors, Penn has been able to increase financial aid to deserving students, endow more faculty chairs, build new facilities and restore old ones, and launch a full array of academic programs.

Rendering of Penn-assisted, pre K-8 public school



Mortgage to Izzy and Zoe's bagel shop and New York's Papaya King to put down roots in our community, while new establishments, like Stephen Starr's sensational futuristic pan-Asian restaurant Pod, were opening every month.

Local business owners shared in the boom. In 1999 alone, the University purchased more than \$50 million in goods and services from West Philadelphia vendors, as part of an intentional economic development strategy.

Through bold measures and strategies that Robert Martin and Arthur Asbury describe in their message, we began to nurse the Health System back to financial strength. And we went well beyond new government rules and all our peers to establish and enforce the most stringent safety and operating standards for clinical trials in the nation.

In short, Penn made lasting headway to meet the tough challenges that our students, our neighbors, and humanity will face. This 1999/2000

This past year, alumni and friends gave \$310 million to Penn --- well above the \$260 million annual baseline that we set after raising that amount in 1995, the last year of the Campaign for Penn. Of the total, the \$26 million harvested for the undergraduate financial aid endowment enabled us to fund 110 new scholarships.

Encouraged by the consistently high level of donor support, we have set a goal to raise \$350 million during the 2000/2001 academic year. Those dollars will allow us to make even



larger strides in our march to enhance programmatic and physical excellence at Penn, while supporting a new emphasis for graduate and professional student financial aid.

Penn's Students: The Best, the Brightest, and Only Getting Better

A University cannot build a future of excellence without a superior cohort of students.

By virtually every conceivable measure, our students collectively rank among the brightest, most accomplished, and most capable in the nation, helping Penn become one of America's most selective universities.

For starters, not only did the numbers of applicants and early-admissions applicants increase dramatically this past year, the academic caliber of applicants and admitted students also continued to rise. Our last crop of applicants registered an average score of 1350 on their SATs, while our matriculating class averaged 1392.

And the quantitative measures



are only the start. Our students are leaders in all areas, in culture and the arts, in athletics and business, and in science and technology.

Second, our student body grew more cosmopolitan, with more than 3,000 international students enriching the diversity and learning opportunities for all of us.

Third, our students continued to grow more socially conscious. About 25 percent of all Penn undergraduates lent their time, talents, and passion to fighting homelessness, hunger and poverty, to promoting health and nutrition, and to mentoring and educating our young people in programs like the West Philadelphia Tutoring Project, whose team leader last year, Penn senior Sarah Zimble, was awarded the prestigious Truman Scholarship for her contributions.

The Rankings: High on the Leader Board

While rankings do not measure or reflect all of the dimensions of Penn's strengths, they do at least furnish some benchmarks that measure our progress relative to some of our peers. And 2000 proved to be a very good year throughout the University.

To begin, it bears mentioning that Penn has climbed past many outstanding institutions over the past six years to reach the number-six spot in the *U.S. News & World Report* rankings.

Wharton's undergraduate program was ranked number one by *U.S. News & World Report*, while the graduate program captured the top rankings in *Business Week* and the *Financial Times*.

The School of Medicine was ranked number three by *U.S. News and World Report* and was ranked number two in funding to universities from NIH. HUP made the Honor Roll of the best hospitals in the United States and, despite our financial problems, Penn Medicine ranked in the Top Ten for six of eight specialties that were listed.

Many of our departments in the School of Arts and Sciences made strong showings. A number of our Ph.D. programs in the natural sciences, the social sciences and the humanities were ranked among the finest programs in the nation, including Top Ten

rankings for both Economics and Psychology; English was eleventh and both History and Sociology were ranked twelfth. Our graduate program in Architecture ranked ninth in the nation.

The Law School stood twelfth, among 174 accredited law schools in the nation.

The Graduate School of Education was ranked eleventh this year among 187 graduate education programs, up from twentieth a year ago.

The School of Nursing ranked

But the fact that Penn is consistently ranked among a very elite group of peers reflects both the superior caliber of our faculty, students, and staff, and the outstanding work they do in building a robust University environment.

Research: On the Cutting Edge

The generation of new knowledge through research has driven intellectual activity on campus and established Penn as one of the premier universities in the world.



second in reputational ranking, and seven of eight nursing specialties are in the Top Ten. The School of Social Work ranked eleventh among graduate programs.

The School of Veterinary Medicine ranked second in the nation in this year's reputational ranking.

High rankings do not validate a university or a school or a program. Nor do they convey the full scope and depth of the learning experience at Penn.

At Penn, the growth in research funded by government sources and private industry has been phenomenal. In fiscal year 2000 alone, sponsored research awards at Penn soared by 13 percent to a record \$540 million.

This enviable record of success underscores a fundamental truth: When it comes to fostering the kinds of interactions and discussions that lead to research that can literally



Biology Pond

change the world, there is no better place than Penn. Our faculty is extraordinary, and they are pushing the boundaries of knowledge in hundreds of areas.

For example, during the past year, Penn researchers from our Schools of Medicine, Arts and Sciences, and Engineering and Applied Science prepared to launch a new University-wide genomics initiative, which in time will dramatically expand our understanding of human nature and promote a better quality of life for millions of people.

With the dramatic completion of the human-genome project, researchers now have a powerful, comprehensive biological data base with which to study the involvement of specific genes in growth, health, behavior—and disease—and Penn scientists hope to make the most of it.

The diagnostic and life-saving potential is enormous. At the Abramson Family Cancer Research Institute at Penn, Dr. Barbara Weber is leading an international effort to move beyond early detection of breast cancer to early identification of women who genetically run a higher risk of developing the disease.

Other new research initiatives were approved this past year.

One was the Institute for Urban Innovations, to be located at the Fels Center of Government, which will be a premier location for thinking and research about cities and their future, as well as a campus hub for a community of urban scholars.

Another was the Center for Children's Policy Practice and Research. What started out as a series of brainstorming sessions among a professor of Social Work (Richard Gelles),

a pediatrician and child psychiatrist (Annie Steinberg), a law professor (Barbara Bennett Woodhouse), and members of Philadelphia's child-advocacy community on how to make child welfare more child-centered, grew into a collaborative research center dedicated to helping and protecting abused and neglected children.

At the same time, Penn has become a victim of its own success. As Penn's research base has expanded, the University has had to dig deeper into its own pockets to cover more of the indirect costs, both in the maintenance of buildings and the support of the personnel. With government shifting more of these cost burdens onto the backs of universities, Penn is examining new ways to more efficiently cover the costs of research.

New Facilities for a New Century

During the 1999/2000 year, Penn began, continued, or completed a plethora of major construction projects that will boost the teaching and research capacity of individual schools and centers while strengthening ties among all schools and across many disciplines.

For example, we conceived a Life Sciences building around the biology pond that would link the departments of Biology and Psychology with the School of Medicine and the School of Veterinary Medicine to create one integrated life sciences research campus within the campus.

Meanwhile, the School of Engineering and Applied Sciences completed a much needed Bioengineering Laboratory, while breaking ground on the Melvin J. and Claire Levine Hall for Computer and Information Science.

This state-of-the-art 40,000-square-foot facility, made possible by a generous grant by Melvin and Claire Levine, will link the Graduate Research Wing of the Moore School and the Towne Building, thereby doubling the space for a faculty whose ranks are projected to swell by 40 percent over the next several years.

This past year also saw the The Annenberg School complete its work on the Public Policy Center, thanks to the generosity of the

Rendering of the atrium of the new public school



Annenberg Foundation, creating a critically important multimedia conference facility within the Annenberg School building.

Penn's global impact- All over the map

Penn and University City continued to flourish together as all quality-of-life indicators kept moving in the right direction. Home ownership continued to rise, private investment was up, new shops and restaurants were opening, and the streets were alive with pedestrian traffic day and night.

In the middle of this brightening picture there was also growing promise for our neighborhood schools. Faculty and students from Penn and our neighbors, Drexel University and the University of the Sciences, continued to find new ways to work with students and teachers in local schools. They created viable small businesses in middle and high schools, introduced healthy eating habits and nutrition awareness to elementary school students and their



parents, and taught web-based design to at-risk high school students.

In the most significant development, Penn moved ahead with implementation of



its agreement with the School District and the Philadelphia Federation of Teachers to create a new university assisted, pre-K-8 public school that will open in the fall of 2001 on land supplied by Penn. The school will provide an outstanding education for up to 700 neighborhood children every year and it will be followed, a short time later, by the construction of a magnet public high school for science and technology.

Meanwhile, Penn's leadership in knowledge, research, and teaching continued to expand around the globe. We began forging important new partnerships with Singapore to work on joint life-science initiatives. The Wharton School teamed up with Kellogg, Northwestern University's business school, and consulting giant McKinsey and Company to launch the Indian School of Business, which is expected to open in Hyderabad in the summer of 2001.

Almost every school at Penn developed stronger ties with

students for this brave new world, it must also seize the revolutionary moment to cultivate teaching and research that is no less vigorous in scholarship than it is beneficial in impact. Fortunately, Penn has been in the business of seizing the moment to shape the future for the better part of three centuries. It is part of the genetic material that Franklin passed on to the University he founded.

Entering the new century, Penn retains that robust spirit, nurturing and benefiting the students,



dozens of countries on collaborative research, teaching, and professional development projects.

Looking ahead

The world is on the verge of a technology and life-sciences revolution that will utterly change the way we live, learn, work, engage in recreation, and age --- in short, what it means to be a human being.

The University of the future must not only prepare its

faculty, and staff who form a buoyant and fearless community of scholars -- the leaders and explorers of tomorrow.

President,
University of Pennsylvania



The courtyard at The Left Bank

message from John A. Fry
Executive Vice President

Fiscal Year 2000 marked another significant year for the University of Pennsylvania as it continues to implement its strategic plan, the *Agenda for Excellence*. Much of the past year focused on the continued implementation of our administrative restructuring program; continuing to enhance the quality of life on our campus for the benefit of the University community; and moving forward with initiatives to strengthen our University City neighborhood. The following highlights just some of the many initiatives that

were successfully completed in Fiscal Year 2000.

ADMINISTRATIVE RESTRUCTURING

Administrative restructuring initiatives continue with an emphasis on measuring and improving customer service, improving our overall financial performance, and investing in the professional growth and development of our employees. These initiatives are apace with major projects being completed in Audit and Compliance, Business Services, Facilities Services, Finance, Human

Resources, Information Systems and Computing, and Public Safety. Fiscal Year 2000 highlights include:

Campus Services

Major initiatives reflecting the creative use of University/corporate partnerships have resulted in operating efficiencies and service enhancements to students and guests:

Campus Dining

- Implemented the Bon Appetit Residential Management Model

- Addressed Kosher Dining issues by opening Irv's Place at 4040 Locust
- Brought new providers to key locations, improving both product offerings and service delivery

Housing and Conference Services

- Increased Housing Services revenues by approximately \$500,000 in Conference/Guest Services
- Restructured the Housing and Conference Services organization, thereby maximizing year-round

capability to deliver excellent service

- Hosted high visibility meetings (Republican National Convention, ResNet) and expanded sports camp presence in Summer 2000

eCommerce Marketplace Procurement System

The University, in partnership with Oracle Corporation and TPN Register, is completing a comprehensive eCommerce procurement system to support the purchase of equipment, supplies and services. This new procurement solution, to be implemented in 2001, will enable Penn to further improve the existing university-wide procurement and disbursement process and maximize its considerable buying power through new supplier contracting and product cost reduction opportunities. A recent article in *The Chronicle of Higher Education* described Penn's eCommerce program as "one of the most aggressive among universities, offering the clearest glimpse into the future of electronic procurement."

Facilities Services

We successfully renegotiated an amendment to the Servicing Agreement with Trammell Crow Company, which returned the responsibility for the management of facilities operations and maintenance to the University, while Trammell Crow retained the responsibility for project management and real estate

portfolio management for a six-year term. Improved labor contracts were successfully negotiated with members of union Local 835 (building maintenance trades) and Local 115 (housekeepers). The Campus Development Plan is substantially complete and the implementation of certain elements of the plan has begun.

High Performance Work Culture

Under the leadership of Human Resources, the University continues to invest in its people through professional development, employee recognition, and quality-of-life programs, while simultaneously keeping a sharp eye on its salary and benefits costs. The "Models of Excellence" program, "Return-to-Work" program for those with occupational injuries, and the "Workplace Resolution Program," focusing on dispute resolution and minimizing disruption in the workplace are a few notable accomplishments.

Public Safety

After a successful accreditation initiative, Public Safety continues to be ranked among the top private police forces in the country. To ensure our vision of a vibrant and safe University City community, Public Safety continues to work successfully with the Philadelphia Police Department and the University City District (UCD). Together, the University and UCD have increased the presence of security officers

and expanded and improved the PennWalk program, now known as the UCD Walk. Additionally, the development of new technology continued to be a major thrust with 54 major new security systems implemented, 25 additional blue light phones added, and 19 outdoor CCTV cameras installed. These improvements

awareness of safety issues. Since the inception of this program, homelessness and criminal activity have been reduced materially.

CAMPUS DEVELOPMENT

Many significant enhancements were made to the campus this year, including the following:



have resulted in a 33% reduction in overall criminal offenses, 64% reduction in robberies and attempted robberies, 35% reduction in assaults, 19% reduction in burglaries, and 31% reduction in thefts. To further our commitment to provide a safe and secure environment, a quality-of-life program was implemented, greatly reducing aggressive panhandling and criminal activity. Recognizing that homelessness was a growing challenge in University City, Penn and Project HOME collaborated to address this issue. As part of the quality-of-life program, Public Safety provides increased services to University City businesses to enhance

Perelman Quad

The vision of an academic and student activities complex, providing a common meeting place for everyone has been a long-term goal of the University. This goal was achieved with the completion of the Perelman Quadrangle this past summer. The Perelman Quadrangle project consisted of the renovations of five important buildings: Houston, College, Logan, Williams Halls, and Irvine Auditorium. Wynn Common has been added between these five buildings to serve as a grand plaza. The design of Wynn Commons provides a unifying sense of arrival, place and enclosure. Gateway markers announce a transition

into the Quadrangle within the historic fabric of the campus. An amphitheater and a rostrum at opposing ends of Wynn Commons complement new building entries. Houston Hall has been restored to its former grandeur and resumes its original purpose as the University's student commons. College Hall's entrance onto the Commons, sealed for decades, is now reopened. The great hall of Irvine Auditorium has been magnificently restored as a multi-seat performance hall with a capacity of 1,200 seats. Student practice rooms, a rehearsal hall, double-story side lobbies and generous backstage spaces have also been restored. Renovations to Logan Hall and Williams Hall (a classroom building dating from the 1960s) facilitate space sharing to meet the School of Arts and Sciences' academic and administrative needs. Key function spaces include a student art gallery, auditoriums and meeting rooms located in ground-level spaces, while street-level rooms in Williams Hall provide expansion space for the future needs of the extended Campus Center. The Silfen Student Study Center, a new 24-hour study pavilion helps to harmonize the academic, Williams and Logan, buildings. The new East entrance to Logan Hall provides a more direct connection between the administrative offices of Arts and Sciences in Logan and the rest of the Perelman Quadrangle complex.

Christian Association Building

We acquired the historic Christian Association property at 36th and Locust Walk, and after months of renovations, the building was re-named The Arch – Arts, Research and Culture House. The building houses academic programs, as well as a diverse group of student organizations. This centrally located facility provides an immediate opportunity to better serve the University community, as well as a wonderful site for the long-term expansion of our academic programs.

Faculty Club

The Faculty Club ceased operations in Skinner Hall in August 1999 to make way for construction of Addams Hall. The new Faculty Club, located on the second floor of the Inn at Penn, is beautifully appointed and will be serviced by professional food and beverage staff of the Inn. The Faculty Club has created a collegial environment for Penn faculty and staff, while also functioning as an upscale special event venue. This new arrangement will also save the University upwards of \$500,000 per year in operating costs.

The Left Bank

This landmark development partnership with Dranoff Properties has resulted in the creation of luxury apartments in the former GE Building at 31st and Walnut Streets. The renovation will create 285 residential apartment units, a



Faculty Club Hourglass Room

parking garage, approximately 20,000 square feet of retail space, and 95,000 square feet of office and storage space. Housed in the lower levels of the building will be the Division of Facilities Services, various other Penn offices, and the Penn Children's Center. Originally located at 42nd and Spruce Streets, the Penn Children's Center will continue to provide an on-site, full service childcare facility for faculty and staff in its expanded new home.

Hajoca and Eastern Apparatus Buildings

The University is presently working with a private real estate developer to convert these former industrial buildings into nearly 120,000 square feet of high tech space that will house emerging new businesses. The hope is that, once they are redeveloped and modernized, these facilities will attract growing businesses along with young entrepreneurs from the University and throughout the Delaware Valley.

Huntsman Hall

Huntsman Hall is currently under construction, and when opened in 2002, will provide

state-of-the art classrooms, group study rooms, community spaces and faculty offices for the Wharton School. Undergraduates will enter the building from Locust Walk and will be served by a dedicated cafe and lounge. Located within the heart of the new building, The Forum will be the first and only Wharton facility large enough to accommodate entire undergraduate classes (up to 500 people) in one location. Faculty, staff and graduate students will enter via an entrance on Walnut Street where a plaza level cafe and lounge will be available to them. Other exciting new spaces will be created at the top of the building including a 200 seat presentation room, conference rooms, and the grand sky-lit East Hall, with commanding views to the east of both the academic center of Penn's campus and the Philadelphia skyline.

Inn at Penn

The first hotel to be built in West Philadelphia in over 25 years, the Inn at Penn officially opened its doors in September 1999. Adding to the quality-of-life and economic development of University



Hamilton Square parking garage

City, the Inn provides 238 guest rooms, hospitality and conference suites, and 18,000 square feet of flexible meeting and banquet space. Each guest room is equipped with an Ethernet connection, a 25-inch television featuring WebTV, and two phone lines. The University's extensive R. Tait McKenzie-Joe Brown collection of sculpture and friezes was incorporated into the overall interior design of the hotel. The Inn, along with the Penn Bookstore, serves to anchor commercial activity in the Sansom Common complex and complement the Hamilton Square development, which is rising on 40th Street.

Wharton Sinkler Estate

In addition to expanding and developing the campus envelope, the University is also further committed to selling its underutilized properties. The Wharton Sinkler estate, located in Chestnut Hill, was sold at a price of over \$4 million. The sale of the property secured the long-term future of the historic Wharton Sinkler mansion while preserving the undeveloped character of the surrounding land. The proceeds of the sale

were used to purchase the Christian Association Building on campus.

3401-59 Chestnut Street

The University acquired from the Redevelopment Authority of the City of Philadelphia, an important two-plus acre site at 34th and Chestnut Street, which will be the future home of a significant, mixed-used development. This development, which will be announced in the coming year, would include office space, upscale housing, and a significant retail and parking program that will have a transformational effect on Chestnut Street, and significantly upgrade the housing and retail amenities for our community.

Civic Center and Exhibition Halls

Demolition of this nine-acre site was completed this year, and this property now represents one of the major opportunities for campus expansion to the east, and will provide the necessary space for new medical and research facilities. To accommodate this future growth, the University and Children's Hospital of

Philadelphia (CHOP) have commenced development of a parking garage at Civic Center Boulevard and University Avenue. Once it is completed in 2002, this new garage will provide University and CHOP employees with nearly 2000 new parking spaces.

NEIGHBORHOOD REVITALIZATION

Penn's commitment to strengthening its surrounding neighborhood remains undiminished, and many new initiatives were undertaken during FY 2000 towards this end.

West Philadelphia, Minority- and Women-Owned Businesses

With a commitment towards making targeted investments to foster community and economic development in West Philadelphia, the University has increased its purchases from qualified West Philadelphia businesses, with a strong emphasis towards minority- and women-owned businesses. During Fiscal Year 2000, the University purchased \$57.1 million in non-construction goods and services from West

Philadelphia-based businesses, bringing to \$196.7 million the five-year total of such purchases. Over the course of the past five years, the University has purchased \$179.5 million of similar goods and services from minority- and women-owned businesses, with \$39.4 million of that total coming in Fiscal Year 2000. During the same five-year period from Fiscal Year 1996 through Fiscal Year 2000, the University has made nearly \$110 million in construction contract awards to minority- and women-owned businesses. All this has been accomplished on projects that are notable for their quality as well as their successful completion in terms of timing and budget.

Hamilton Square

While the fresh food market and the 750-car garage will open in 2001, the volatile state of the nation's movie theater exhibition industry led to the bankruptcy of General Cinema, the financial partner of Robert Redford's Sundance Cinema project, following the end of the fiscal year. However, while suburban and



exurban film markets are glutted with theaters, central city locations such as Penn's continue to command attention and we are confident that we will attract a new operator/investor in the near future.

Penn-Assisted PreK-8 School

The effort to create an excellent public school choice for Penn's neighborhood residents has reached its final stages of realization. Following an intensive community-based effort to design the school's physical and programmatic features, the University has completed the design and will commence construction in 2001 and have the initial phase completed by Fall 2002. As an interim measure, kindergarten and first grade classes will commence in Fall 2001 in temporary facilities. The 700-student school will receive an operating subsidy from Penn of \$1,000 per student, along with extensive programmatic support from Penn's Graduate School of Education. Designed by the Graduate School of Fine Arts faculty member Tony Atkin, the facility is a thoughtful, contextual building located on five landscaped acres on a Penn-owned site at 42nd and Spruce Streets.

Preserving and Developing Multi-Family Residences

The University finalized the structure of a partnership with Fannie Mae, the Trammell Crow Company, and the

University of the Sciences in Philadelphia to acquire up to 1,500 units of multi-family residential property in the University City area. The properties will be preserved as a resource for moderate-income renters through modest renovations and upgrades, with a particular emphasis on preserving and restoring basic building systems and essential amenities. The University's strategic partner, Trammell Crow, will play a central role in the venture as both property manager and equity investor.

University City District

The University continues its commitment and support of the thriving University City District (UCD). In addition to operating its successful "clean and safe" programs, during Fiscal Year 2000, the UCD spearheaded the revitalization of Clark Park, completed streetscape improvements to 40th Street, launched a new website about University City, and created a colorful new quarterly calendar-of-events promoting the neighborhood's great diversity of attractions. To further their commitment to a safe and vibrant environment, UCD also introduced "LUCY," a shuttle bus service providing a convenient and safe way for people to get around University City. LUCY, short for Loop Thru University City, serves several area institutions, including Penn, Drexel University, CHOP, HUP, the Presbyterian Medical Center and the VA Medical Center.



University Mortgage and Home Improvement Program

To encourage faculty and staff to live in University City, Penn offers a guaranteed mortgage incentive program and other incentives to those who purchase homes in West Philadelphia. Since the program's inception in 1999, over 220 employees of the University have purchased homes in the neighborhood. In addition to encouraging new homeowners to put down roots in University City, Penn is also providing home improvement incentives to employees already living in the neighborhood to further invest in their properties. To date, over 100 families have taken advantage of this program. To combat the potentially corrosive impact vacant properties can have on a residential neighborhood, Penn rehabilitated, and reconverted to homeownership, four formerly derelict properties, bringing to twenty the total number of local properties which the University has transformed via this program.

CONCLUSION

In Fiscal Year 2000, we made significant progress in expanding the campus envelope and developing key properties, as well as disposing of underutilized properties. As a result of these efforts, we have already begun to realize the aspirations of our Campus Development Plan, a plan created to help fulfill the academic mission of the University by providing a vibrant campus environment that supports our well-established excellence in research and instruction. As we look to Fiscal Year 2001 and beyond, we will continue the creative use of our resources for improving the quality of life for the entire University community and its surrounding neighborhoods.

A handwritten signature in black ink, appearing to read "John A. Fry". The signature is fluid and stylized, with a long, sweeping line extending from the end of the name.

John A. Fry
Executive Vice President



message from

Robert D. Martin, Ph.D.

Interim Chief Executive Officer, University of Pennsylvania Health System and

Arthur K. Asbury, M.D.

Interim Dean, University of Pennsylvania School of Medicine

Among the many notable developments at the University of Pennsylvania Health System (UPHS) during Fiscal Year 2000, none was more significant – and more encouraging – than its remarkable progress toward financial recovery. Throughout 1999-2000, the Health System took determined steps to restore its fiscal health by trimming positions, phasing out some programs, and cutting costs. After losing \$198 million in Fiscal Year 1999, the Health Services Component of

UPHS rebounded with the outstanding help of faculty and staff and was able to cut its operating losses to \$30 million. For the final six months of the academic year, in fact, the health care enterprise operated profitably. Our goal, naturally, is to return to profitability. The road ahead will not be an easy one, but the kind of cooperation, dedication, and hard work that sustained us in the past fiscal year will carry us through Fiscal Year 2001. Yet despite the financial constraints, painful decisions,

uncertainties, and changes of leadership that had to be faced, the year also saw UPHS achieve several other milestones in our traditional missions of education, research, and patient care.

In the fall of 1999, the School of Medicine formally announced the establishment of a new basic science department, the Department of Cancer Biology. The new department is an acknowledgment of the increased prominence of cancer biology in today's biomedical research.

As the mean age of the population increases over the next several decades, experts predict that cancer will become the leading cause of death among Americans. At the same time, a department focused on cancer research will complement the clinical care provided by Penn's Cancer Center, while serving as a way to centralize and coordinate teaching efforts in the discipline.

Earlier this year, we continued our recent outstanding showing in the annual survey

of graduate and professional schools by *U.S. News & World Report*. In Fiscal Year 2000, our School of Medicine was again ranked third among all U.S. medical schools, and six specialties were ranked among the top ten programs, among the eight specialties that are ranked nationally.

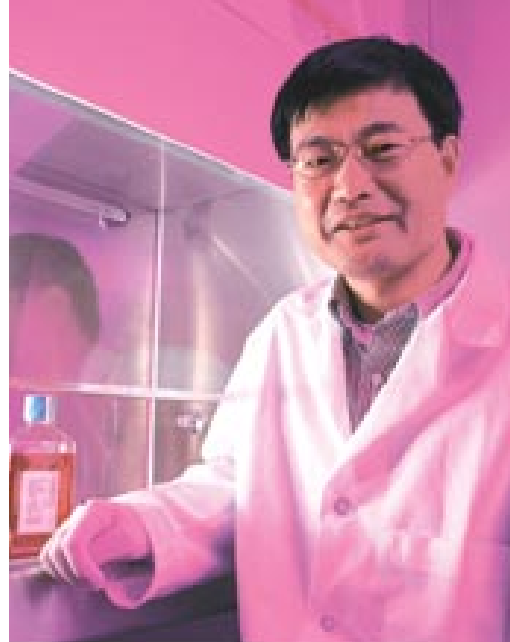
The research efforts of our faculty and staff were also recognized nationally. In the fall, Clay M. Armstrong, M.D., a professor of physiology since 1976, received the 1999 Albert Lasker Basic Medical Research Award (with two researchers elsewhere).

On the clinical side, in Fiscal Year 2000, the Hospital of the University of Pennsylvania was again ranked tenth in the nation among more than 1,700 hospitals surveyed in *U.S. News & World Report's* annual listing of "America's Best Hospitals." Thirteen specialties were nationally ranked, and two were in the top ten. In addition, in the spring, HUP was named one of the top three health-care award recipients in the "Quality Cup Competition." The national competition, sponsored annually by the Rochester Institute of Technology and *USA Today*, recognizes teams that make significant

Engineering, established in 1994, stands out as a superb example. In similar fashion, the Center for Cognitive Neuroscience was created last year to bring together the best researchers in a variety of disciplines across the University to study the physical basis of the human mind.

In the fall, the Penn Center for Excellence for Autoimmune Research was established through a five-year grant from the National Institutes of Health for \$6.5 million. The center, with experts in neurology, medicine, neuroscience, and pathology and laboratory medicine, is focusing first on multiple sclerosis and systemic lupus erythematosus. Also in the fall, the Medical Center established the Center for the Treatment and Study of Anxiety to treat such common disorders as post-traumatic stress syndrome, panic attacks, social phobia, and obsessive-compulsive disorder. The very title of the center indicates its equal footing in clinical care and research.

In the spring, Penn was designated one of eight nationally recognized research sites for the study of colorectal cancer by the National Colorectal Cancer Research Alliance – and the only center in the region. Penn's research in colorectal cancer is multi-faceted, drawing physicians from gastroenterology, gastrointestinal surgery, radiology, and the University of Pennsylvania Cancer Center.



Also in the spring, researchers at the University of Pennsylvania Cancer Center, which is itself a model for interdisciplinary study and treatment, received a major grant in the field of breast cancer. The project is to design and develop a prototype of an integrated database that will be capable of instantly retrieving and storing digital breast images from mammography facilities across the country.

When Biomedical Research Building II/III was dedicated in Fiscal Year 1999, it marked the culmination of the Health System's master plan for construction. Fiscal Year 2000, on the other hand, was a year of consolidation, new efficiencies, and smaller developments. Given our financial constraints, we had to make the fullest use of what we already had. In some cases, departments and programs that had been spread across campus were brought closer together for improved synergy. BRB II/III was one of the major sites for some programmatic consolidation. Another example comes from



The Lasker Award was only the most noteworthy among the many honors individual faculty members received.

Collectively, Penn ranked second among all American medical schools that received research, contract, and training funds from the National Institutes of Health, perhaps the single most important barometer of research strength. For Fiscal Year 2000, five of our departments were ranked at the top position, and fourteen departments finished in the top five.

contributions to the improvement of quality in their organization.

Many of the new clinical and research undertakings of the last year embody principles long associated with the University of Pennsylvania – interdisciplinary study, innovation, and practical application. The School of Medicine remains eager to build relationships with the other schools on campus and to help develop programs that cut across schools, departments, and divisions. The Institute for Medicine and



HUP, where five former obstetrical areas – Dulles 2 and 3, two nurseries, and the Dulles antepartum area – were combined into the Antepartum/Postpartum Unit and Newborn Nursery on Silverstein 8. The Department of Biostatistics and Clinical Epidemiology continued to grow in Blockley Hall, and the University of Pennsylvania Cancer Center opened new counseling offices in Penn Tower.

Two major projects that, to some extent, cut across the entire Health System also began to show fruit in the past fiscal year. One was the Faculty 2000 process, a grassroots effort initiated by the faculty through the Medical Faculty Senate. The final report, issued in the

spring, is the culmination of a two-year project to examine virtually every aspect of faculty affairs at the School of Medicine after a period of unprecedented change that had affected the school during the 1990s. Among the topics considered were funding issues, quality-of-life concerns, faculty tracks, and the status and potential use of senior professors. A significant portion of the faculty provided views on these various matters, and the proposed recommendations were overwhelmingly endorsed by the faculty through a mail ballot.

The other project was the Clinical Effectiveness and Quality initiative, a new, physician-driven program that seeks to build on Penn's proud tradition in quality improvement. Its goal is to engage physicians in a comprehensive re-engineering of our care processes to maximize cost effectiveness while maintaining and improving our quality of care. The CEQ subcommittee and team leaders have been identified, and targets have been selected. As the initiative moves ahead, there have already been some specific successes – for example, shorter length of stay at the Medical

Center during April and May, as well as a cost-saving program in the Department of Urology for cell saver use during prostatectomy surgery. More work plans are currently being developed.

We have every confidence that our Health System will be better for having gone through the pressures of the past fiscal year. We are determined not only to survive but to flourish, but to do so we will have to continue to be selective about what programs to support and become even leaner and more entrepreneurial. One of our

The successes we have achieved this past year, and in earlier years, are due to our superb faculty, to outstanding academic and administrative leadership, and to the others in our organization who give their best every day. On behalf of the University, we offer our thanks to all those who contributed to creating the future of medicine at the University of Pennsylvania Health System.



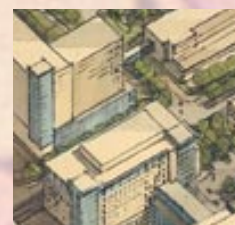
challenges for the new year is to shape a new strategic plan that will better serve us in the next decade. As we have done throughout our noble history of accomplishment and innovation, we will strive for excellence in our three-part mission of education, research, and patient care.

Robert D. Martin

Robert D. Martin, Ph.D.
Interim Chief Executive Officer
University of Pennsylvania
Health System

Arthur K. Asbury

Arthur K. Asbury, M.D.
Interim Dean, University of
Pennsylvania School of Medicine





Quadrangle Residence

message from **Craig R. Carnaroli**
Vice President for Finance and Treasurer

Fiscal Year 2000 was very much oriented toward enhancing the foundation that will allow the University and its Health Services

Component (Health Services) to meet its future goals in the twenty-first century. The overall financial performance of the University was positive, spurred by significant growth in sponsored research funding and contributions.

Importantly, the academic enterprise saw unprecedented strength in admissions quality. These positive results were reduced by the disappointing

endowment investment performance and by an operating loss for Health Services for the fiscal year.

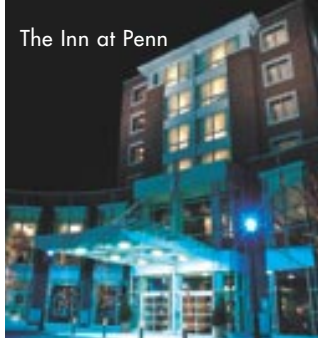
While recording a loss from operations for the year, Health Services significantly improved its operating performance when compared to the prior two fiscal years in which notably larger operating losses occurred. Proactive actions taken, including a sizable reduction in work force to stabilize its financial operations, began to take effect in Fiscal Year

2000. Despite its recent financial problems, the University of Pennsylvania Health System has been able to maintain its reputation as one of the leading healthcare providers in the world. Our flagship hospital, the Hospital of the University of Pennsylvania, was recently selected as the tenth highest rated hospital in the United States by *U.S. News and World Report*.

In Fiscal Year 2000, we continued to make substantial capital investments in the

physical infrastructure supporting our academic mission. We have made significant additions to our research and educational facilities, as well as a number of capital investments to improve the quality of campus life. Moreover, we also continue to focus on seeking out opportunities to reduce costs, enhance revenue, and improve service delivery across campus.

**Fiscal Year 2000
Performance Highlights**
During Fiscal Year 2000, on a consolidated basis, the



University recorded an increase in net assets of \$9 million to a total of almost \$4.8 billion, of which unrestricted net assets represented \$2.4 billion. This increase was mainly attributable to nonoperating revenue, specifically the receipt of almost \$157 million in nonoperating contributions for endowment and capital purposes. This compensated for a non-operating loss on investments of \$145 million for the year. There was a marginal decrease in net assets before non-operating revenue of \$2.9 million, solely attributable to the net loss experienced by the Health Services Component. Its operating loss included a non-recurring charge of \$7.8 million associated with severance and practice closure expenses.

Tuition, Fees and Financial Aid

During Fiscal Year 2000, the University recorded a \$23.2 million increase in tuition and fee revenue to a total of over \$397 million, net of financial aid direct grants. This represents an increase of about 6.1% over Fiscal Year 1999. The University was able to continue to maintain its need-blind undergraduate admissions policy, with 48% of Penn students receiving need based financial aid. Overall, undergraduate and graduate direct grants totaled almost



\$100.9 million for the year. Once again, Penn broke its former undergraduate admissions records, with the highest SAT scores and most competitive admissions in history. Penn continued to advance in its selectivity, with the percent of applicants admitted to Penn declining to an all-time low of 22.9%, and those matriculating growing to an all-time high.

Development and Alumni Relations

Gifts and pledges (including private grants) to the University totaling \$310 million exceeded fundraising goals for Fiscal Year 2000. Cash receipts of more than \$288 million set a new record for annual fundraising.

Fiscal Year 2000 receipts included \$85.1 million added to the University's endowment. Penn's annual giving programs also produced a record-setting total of \$29.4 million in unrestricted support for a wide array of University programs.

Funds raised for the *Agenda for Excellence* represented a significant portion of total giving. During the first four years of the strategic plan, a total of \$724 million was raised for Agenda priorities. Fiscal Year 2000 gifts emphasized financial aid, facilities, endowed professorships, and academic and research programs.



Development and Alumni Relations inaugurated Penn's Alumni On-Line Community, including e-mail-forwarding, access to the University's on-line alumni directory, and other services designed to attract and engage alumni at every stage in their lives and careers. The University of Pennsylvania Alumni Society sponsored a series of regional and campus events throughout the year that recognized and celebrated alumni involvement and achievement.

Sponsored Programs

Sponsored programs support continued to be exceptionally strong in Fiscal Year 2000. Since Fiscal Year 1996, sponsored project awards have grown at double-digit rates of increase, with an annualized rate of 10.6% over the period. Total awards received for Fiscal Year 2000 reached nearly \$540 million, an increase of 13.2% over the previous year. Sponsored programs revenue totaled over \$464.9 million last year, an increase of 11.0% over Fiscal Year 1999. The School of Medicine, the School of Arts and Sciences, the School of Dental Medicine, and the Annenberg School for Communication all had significant increases in their funding for research. The University, largely through the efforts and funding successes of the School of Medicine



faculty, continues at a number two national ranking in funding from the National Institutes of Health (NIH). New funding proposals submitted during the year increased by 3.2%, suggesting the likelihood that Penn's growth in sponsored programs support will continue in the upcoming years.

Endowment and Investments

For the fiscal year ended June 30, 2000, Penn's endowment fell slightly to \$3.20 billion from \$3.28 billion at June 30, 1999. The Associated Investments Fund (A.I.F.), in which a majority of the endowment is invested, lost 1.8% in Fiscal Year 2000. This return was disappointing relative to the A.I.F.'s benchmark, which returned a positive 4.7% over the same period. Penn's under-performance resulted largely from the domestic equity portfolio's value bias and lack of exposure to growth companies in technology, media and telecommunications that drove market returns for the first nine months of Fiscal 2000. However, beginning in mid-March 2000, as the first signs of a technology correction appeared in the market, the A.I.F. began to out-perform compared to its benchmark.

Several significant steps have been taken to address the A.I.F.'s under-performance in recent years that had been driven by: 1) an extreme bias toward value investing in domestic equities; and 2) a lack of alternative investments, particularly venture capital and buyout investments which have driven the performance of our peer group over the recent past. Over the past two years, over \$1 billion has been moved

among its peers. The Fiscal Year 2000 loss reflects the impact of a market cycle that has already begun to turn in favor of Penn's investment style. For example, from March 2000 through the end of calendar 2000, performance of technology stocks (and growth stocks in general) faltered, while Penn's domestic equity portfolio significantly out-performed the market. As a result of the changes

and major renovations to create a new student center on campus (Perelman Quad).

We continued to make investments designed to improve the quality of life for students, faculty and staff within and around campus. Significant renovations to Houston Hall, Irvine Auditorium, and Williams Hall as well as the creation of Wynn Way were substantially completed in Fiscal Year 2000, all of which now encompass the area now known as the Perelman Quad. This is expected to be a student hub on campus for generations of students to come. A new baseball field, coupled with the renovation of Bower Field was completed in Fiscal Year 2000, which has helped to relieve the need for additional recreational fields.

The Inn at Penn, a major component of Sansom Common opened in the early part of the fiscal year. In addition, work was begun to construct a new parking garage with a specialty supermarket on the western end of campus. The University has also teamed with a local developer to convert the GE Building, acquired by the University several years ago, into loft apartments for faculty, staff and students.

During Fiscal Year 2000, various stages of planning and construction were initiated for a number of other important projects. These included the

renovation of Skinner Hall to house the Graduate School of Fine Arts' studio arts programs in a newly named Charles Addams Hall. Work began on the new Melvin J. and Claire Levine Hall for the School of Engineering and Applied Science. Design work was initiated on a new life sciences building which will eventually house the Biology and Psychology departments.

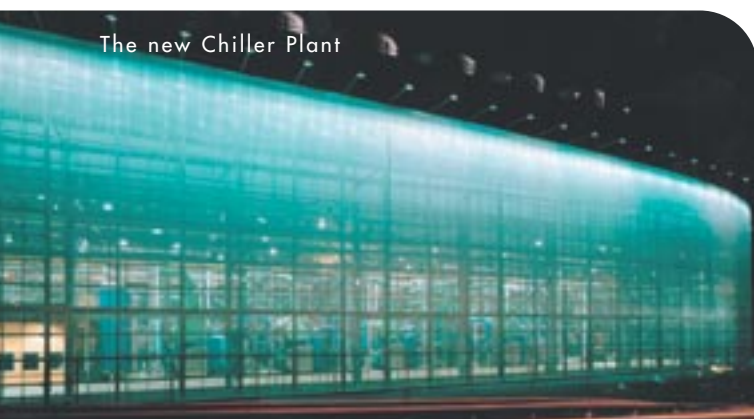
The University believes that it is essential to continue to invest in its physical environment in order to ensure that future generations of students, faculty and staff have facilities that enhance their education, research and instructional experience.

Summary

The University's continued sixth place ranking by *U.S. News & World Report* is a reflection of the excellence achieved by Penn faculty, students and staff during the past year. Fiscal year 2000 was one in which Penn made substantial investments on many fronts to ensure that its future continues to be bright. With this foundation, we look forward to achieving even greater accomplishments.



Craig R. Carnaroli
Vice President for Finance
and Treasurer



The new Chiller Plant

from cash and Penn's prior value stock investments and committed to index funds, more opportunistic domestic equity managers, venture capital, private equity and hedge funds. Style diversification has been a conscious objective, and although a bias in favor of value still exists, it has been reduced and diversified.

While the more balanced course Penn has selected for the future will not enable us to capture the returns that were missed in the last few years, we believe the recent changes to the endowment's portfolio will return its performance to a highly respectable position

mentioned above, we believe the A.I.F.'s investments are more attractively positioned for the future.

Capital Investment

During Fiscal Year 2000, the University invested almost \$314 million in new construction, renovation, and the purchase of property, plant and equipment to support our teaching, research and public service missions. Major projects ranged from the start of construction of new buildings for the Wharton School (Huntsman Hall) and School of Dental Medicine (Schattner Building), to significant renovations to the Quadrangle residences, a new chiller plant,



College Green

Building Penn's Future ...with a quality student base

We are extremely proud of the undergraduate admissions records achieved in the last five years. Indeed, the class that entered Penn in September 2000 was our most selective

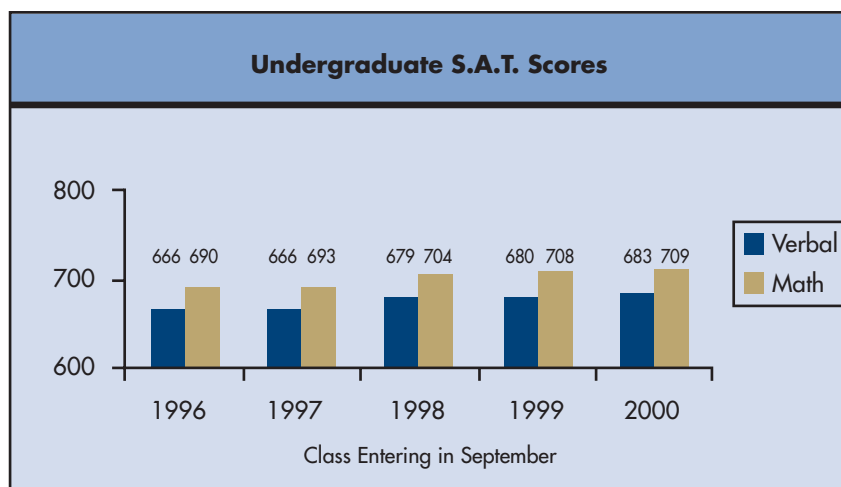
with the highest SAT scores ever. The percent of applicants admitted to Penn declined to an all-time low of 22.9%, while those matriculating grew to an all-time high of 55.5%.

The table below reflects application, acceptance, and matriculation information for undergraduates for the last five years.

Academic Year	Applicants	Acceptances	Acceptance Percentage	Matriculants	Matriculation Percentage
2000-2001	18,823	4,313	22.9	2,394	55.5
1999-2000	17,666	4,668	26.4	2,507	53.7
1998-1999	16,658	4,870	29.2	2,408	49.4
1997-1998	15,464	4,828	31.2	2,349	48.7
1996-1997	15,862	4,772	30.1	2,331	48.9

In conjunction with the dramatic growth in demand for a Penn education, we continued to see improvement in the overall quality of the applicant pool. The following table reflects the mean college entrance scores achieved by incoming Penn freshmen.

These results are heartening as they reflect a noteworthy growth in the quality of and demand for a Penn education. We are confident that the many faculty, programmatic, financial and physical investments we are making will enable us to continue these trends.



Building Penn's Future ...with a growing stream of gifts

Gift and pledges (excluding private grants) have grown by 13.1% annually over the past five years. This generous support has enabled many qualitative enhancements at the University.

Year Ended June 30	Total
2000	\$233,407
1999	196,824
1998	231,841
1997	129,046
1996	126,389

Building Penn's Future ...with growth in sponsored programs

Grants and contracts awarded to the University for sponsored research and training from governmental and private agencies during the past five years grew at a 10.6% annual rate strengthening our faculty's research.

Year Ended June 30	Total Grants & Contracts Awarded
2000	\$539,935
1999	477,161
1998	413,187
1997	364,755
1996	326,797



A Five-Year Review of Investments

University of Pennsylvania

(Thousands of Dollars)

	2000	1999	1998	1997	1996
Investments:					
Fair Value					
Stocks	\$1,422,929	\$2,181,568	\$1,758,030	\$1,478,932	\$976,114
Bonds	1,398,108	962,844	1,048,050	1,380,926	1,138,918
Short-term	342,889	449,797	538,662	403,303	548,151
Other	550,008	181,663	215,025	168,961	135,225
Total Investments	\$3,713,934	\$3,775,872	\$3,559,767	\$3,432,122	\$2,798,408
Cost					
Stocks	\$1,259,747	\$1,752,471	\$1,412,292	\$1,183,639	\$856,003
Bonds	1,378,182	982,682	1,039,355	1,198,167	1,137,017
Short-term	342,784	450,071	538,662	402,602	545,617
Other	535,425	122,820	165,541	145,188	120,842
Total Investments	\$3,516,138	\$3,308,044	\$3,155,850	\$2,929,596	\$2,659,479
Endowment:					
Fair Value	\$3,200,712	\$3,281,306	\$3,059,401	\$2,535,312	\$2,108,961
Cost	\$3,050,942	\$2,836,033	\$3,009,100	\$2,202,511	\$1,986,641
Associated Investments Fund:					
Fair Value	\$2,556,597	\$2,661,621	\$2,138,012	\$1,856,663	\$1,527,651
Cost	\$2,464,477	\$2,358,924	\$1,899,007	\$1,622,538	\$1,438,583

Endowment

University of Pennsylvania, June 30, 2000

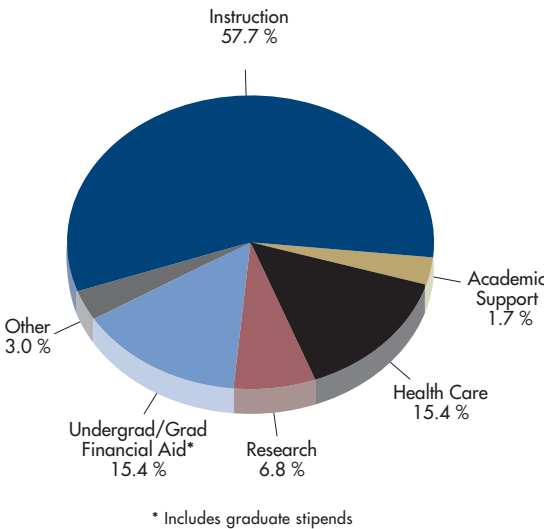
Total Endowment

The role of Penn's endowment is to support its schools and centers by generating a growing, real (inflation-adjusted) flow of funds for the operating budget. The endowment funds 3.9% of the University's consolidated operating budget. At June 30, 2000, Penn's endowment had a market value of \$3.201 billion. For the year, the endowment generated an investment return of -1.8%, reflecting a significant allocation to value-oriented equities which registered negative performance for the year. The market value of the endowment decreased by \$80 million over the year, with such decline being comprised by net investment loss of \$145 million, net gifts and transfers to the endowment of \$76 million and net spending rule liquidation of approximately \$11 million.

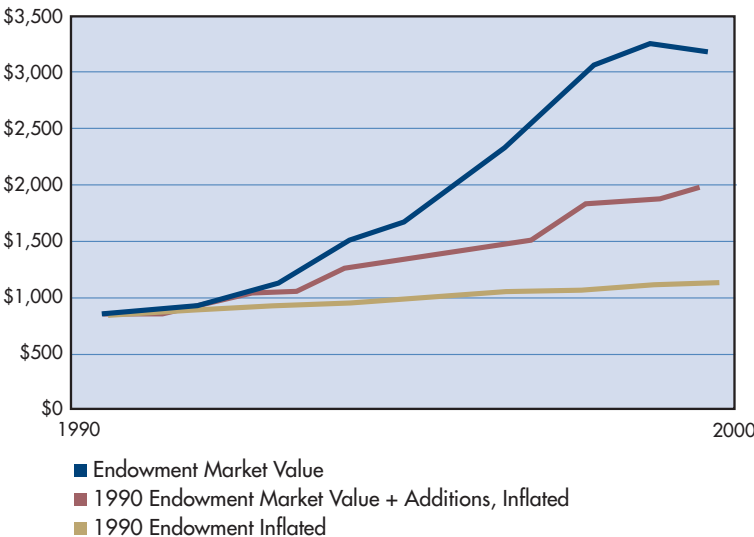
The total endowment includes the endowment of all of Penn's schools and centers. The endowments serve a variety of purposes. The pie chart below reflects the breakdown of endowment by purpose.

One objective in managing the endowment is to achieve real growth in value. The following chart reflects the growth in the endowment for the past ten years. The impact of both performance and gifts is shown. The chart shows that the endowment's growth has significantly outpaced inflation over this time period. Note that the endowment market value excludes the portion of returns which have been spent. Including such distributions would make the comparison of endowment performance with inflation even more favorable.

ENDOWMENT BY PURPOSE



ENDOWMENT GROWTH VS. INFLATION

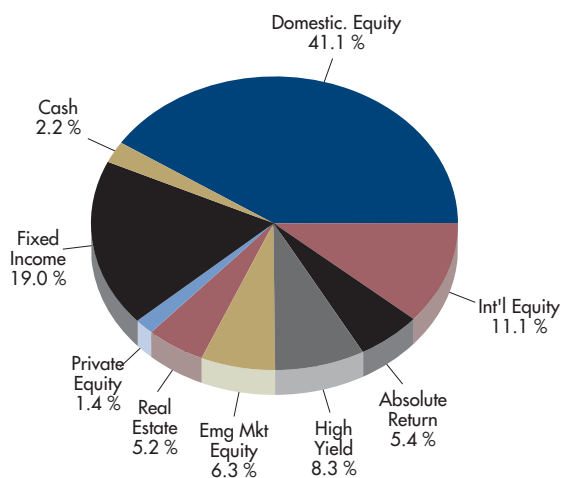
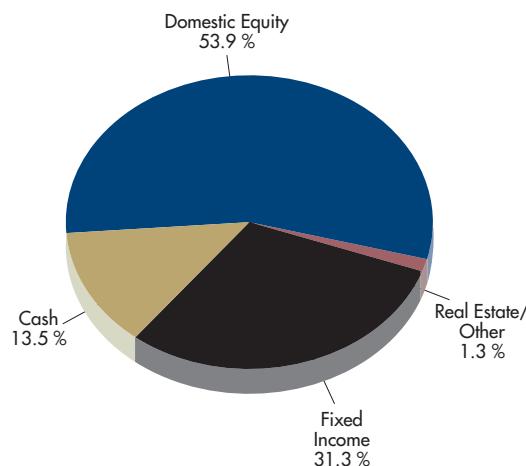


Associated Investments Fund

University of Pennsylvania, June 30, 2000

Associated Investments Fund

Approximately 80% of the University's endowment is invested in the Associated Investments Fund ("A.I.F."), an open ended pooled investment fund which had a market value of \$2.557 billion as of June 30, 2000. One of the key determinants of investment performance is asset allocation. This allocation has changed dramatically over the years as the A.I.F.'s diversification has increased, reducing its dependence on domestic marketable equities and fixed income. This shift in asset allocation is illustrated below.

AIF ASSET ALLOCATION 6/30/00**AIF ASSET ALLOCATION 6/30/90**

Associated Investments Fund

University of Pennsylvania, June 30, 2000

The A.I.F. is managed for total return, as investment returns are sought from both current income and principal appreciation. For the five-year period ending June 30, 2000, the A.I.F. generated an average annual compounded total investment return of 12.3%. This return compares with the 16.9% preliminary average university endowment return (as reported by Cambridge Associates). Longer measurement periods provide a meaningful context in which to evaluate investment performance, and are shown in the chart below.

TOTAL RETURN PERFORMANCE COMPARISON Periods Ended June 30, 2000 Annualized Returns (%)				
Category	10 Years	5 Years	3 Years	1 Year
Associated Investments Fund (A.I.F.)	12.2	12.3	7.3	-1.8
Composite Index*	13.3	15.4	12.3	4.7
Wilshire 5000	17.3	22.5	19.1	9.5
Lehman Bros. Gov't./Credit Index	7.8	6.1	6.0	4.3
* The Composite Index represents Wilshire 5000, EAFE, MSCI Emerging Markets Free, NCREIF, Lehman Gov't./Credit, Salomon High Yield indices on a weighted basis equal to the AIF's asset allocation.				

A.I.F. Distributions

In addition to principal gains and gifts, a total of \$92,311,000 was earned from interest and dividend payments on assets held in the A.I.F. in Fiscal Year 2000. From this total, \$2,542,000 was applied to investment administration charges, which supports the internal costs of investment management. An allocation of \$16,806,000 was made for general school/center support, which covers the general overhead (e.g., heat, light, maintenance) of the schools and centers benefiting from the endowment. To meet the spending requirement, an additional \$10,558,000 was liquidated from principal pursuant to the A.I.F. spending rule policy, described below. The net distribution following these transfers was \$83,521,000, which went to support a variety of university purposes, dependent on the restrictions of each endowment fund held in the A.I.F.

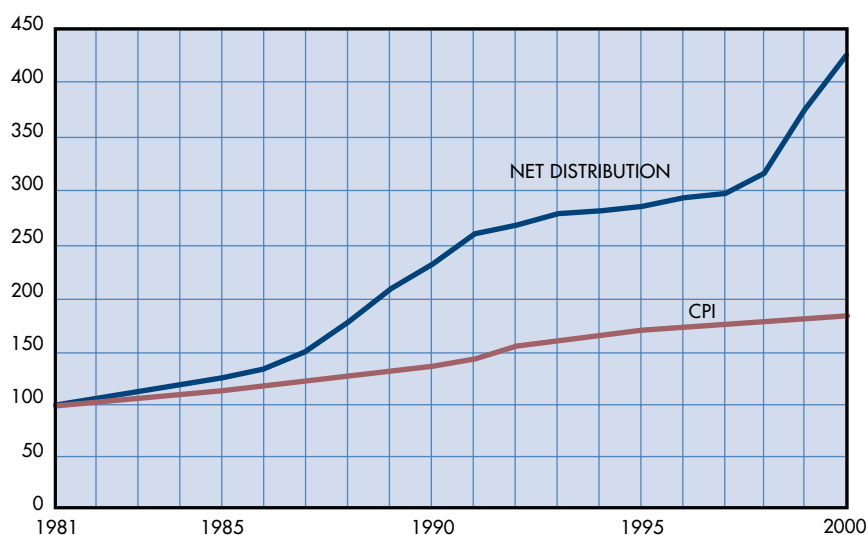
A.I.F. Spending Rule Policy

In Fiscal Year 1981, the Trustees implemented an endowment spending policy. Prior to that, all interest and dividends earned were distributed to A.I.F. unit holders. The primary purpose of implementing a spending policy was to protect the purchasing power of the endowment against the impact of inflation. In addition, the spending rule policy seeks to provide smooth and predictable endowment distributions. The spending rule policy in place for Fiscal Year 2000 was to spend 4.7% of the three-year moving average A.I.F. market value, lagged by one year. This rate is known as the "spending rate." Because this spending rate is based on a three-year moving average market value, the spending rate is different when stated in the context of the current market value. Based on the June 30, 1999 market value, the spending rate was 4.0%.

Since inception of the spending rule in FY 1981, a total of \$147 million has been reinvested in the A.I.F. The impact of this reinvestment means that A.I.F. participants in FY 1981 now hold approximately 37% more units and receive 37% more income annually than they would otherwise. The spending rate had been less than investment income until Fiscal Year 1999; however, under present market conditions, it is slightly more than earnings from current income. Any shortfall in current income relative to the amount available for spending, as calculated under the Spending Rule, is liquidated from endowment principal. Conversely, any income earned above the spending level is reinvested into principal. In Fiscal Year 2000, the A.I.F.'s distribution was greater than the interest and dividends it generated; therefore, \$10,558,000 was liquidated from principal to meet spending requirements. The chart below reflects the growth in the distribution relative to the Consumer Price Index (CPI) since 1981. As reflected, the net distribution generated by the A.I.F., adjusted for such reinvestment, has dramatically outpaced the CPI. The A.I.F. net distribution has grown by 7.9% annually versus 3.4% for the CPI.

AIF DISTRIBUTION GROWTH RELATIVE TO INFLATION

Fiscal Year 1981 - Fiscal Year 2000



Management Responsibility for Financial Statements

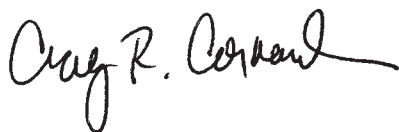
University of Pennsylvania

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 42, 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 PricewaterhouseCoopers LLP, 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 accountants during their audit were valid and appropriate. PricewaterhouseCoopers' 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 the 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 of overriding 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 and Compliance 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 internal auditors and the independent accountants have full and free access to the Committee on Audit and Compliance.



Craig R. Carnaroli
Vice President for Finance
and Treasurer



Kenneth B. Campbell
Comptroller

To the Trustees of the
University of Pennsylvania

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Pennsylvania at June 30, 2000, and the changes in its net assets and its cash flows for the year ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of University management. The prior year summarized comparative information has been derived from the University of Pennsylvania's 1999 financial statements; and in our report dated October 1, 1999, we expressed an unqualified opinion on those financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

October 2, 2000
Philadelphia, Pennsylvania

Financials

Statement of Financial Position

University of Pennsylvania

(thousands of dollars)

	JUNE 30, 2000	JUNE 30, 1999
Assets		
Cash and cash equivalents	\$149,812	\$252,091
Accounts receivable, net of allowances of \$17,175 (2000) and \$14,795 (1999)	110,998	102,122
Patient receivables, net of allowances of \$69,689 (2000) and \$67,452 (1999)	364,148	358,248
Contributions receivable, net	187,176	173,380
Loans receivable, net of allowances of \$5,842 (2000) and \$4,995 (1999)	98,671	95,553
Other assets	129,092	136,428
Investments, at fair value	3,713,934	3,775,872
Plant, net of depreciation	2,420,661	2,288,800
Total assets	\$7,174,492	\$7,182,494
Liabilities		
Accounts payable	\$132,229	\$140,508
Accrued expenses and other liabilities	485,523	505,225
Deferred income	44,188	29,231
Deposits, advances, and agency funds	74,728	67,471
Federal student loan advances	67,568	67,031
Accrued retirement benefits	189,336	209,591
Debt obligations	1,418,733	1,410,698
Total liabilities	2,412,305	2,429,755
Net assets		
Unrestricted	2,375,103	2,328,803
Temporarily restricted	1,250,612	1,394,299
Permanently restricted	1,136,472	1,029,637
	4,762,187	4,752,739
Total liabilities and net assets	\$7,174,492	\$7,182,494

See accompanying notes to financial statements.

Statement of Activities

University of Pennsylvania

for the year ended June 30, 2000
(with summarized financial information for the year ended June 30, 1999)
(thousands of dollars)

	UNRESTRICTED	RESTRICTED		TOTAL	
		TEMPORARILY	PERMANENTLY	2000	1999
Revenue and other support:					
Tuition and fees, net	\$397,738			\$397,738	\$374,580
Commonwealth appropriations	38,099			38,099	36,792
Sponsored programs	464,907			464,907	418,675
Contributions	42,254	\$34,236		76,490	77,437
Investment income	108,413	71,115		179,528	152,218
Hospitals and physician practices	1,617,590			1,617,590	1,568,738
Sales and services of auxiliary enterprises	77,980			77,980	72,724
Other income	108,749			108,749	98,569
Independent operations	45,884			45,884	27,436
Net assets released from restrictions	87,690	(87,690)			
	2,989,304	17,661		3,006,965	2,827,169
Expenses:					
Program:					
Instruction	553,685			553,685	497,702
Research	389,056			389,056	332,706
Hospitals and physician practices	1,647,778			1,647,778	1,761,380
Auxiliary enterprises	81,675			81,675	75,921
Other educational activities	82,438			82,438	75,447
Student services	33,999			33,999	31,323
Support:					
Academic support	52,750			52,750	45,918
Management and general	118,183			118,183	107,825
Independent operations	50,325			50,325	35,775
	3,009,889			3,009,889	2,963,997
Increase (decrease) in net assets before non-operating revenue, net gains, reclassifications and other	(20,585)	17,661		(2,924)	(136,828)
Non-operating revenue, net gains (losses), reclassifications and other:					
Gain/(loss) on investments, net	(50,947)	(105,749)	\$11,538	(145,158)	239,496
Investment income	(1,160)	(1,288)	3,061	613	19,196
Contributions	59,232	37,125	60,560	156,917	119,387
Extraordinary loss					(4,027)
Reclassification of net assets	2,394	(34,070)	31,676		
Net assets released from restrictions	57,366	(57,366)			
Increase (decrease) in net assets	46,300	(143,687)	106,835	9,448	237,224
Net assets, beginning of year	2,328,803	1,394,299	1,029,637	4,752,739	4,515,515
Net assets, end of year	\$2,375,103	\$1,250,612	\$1,136,472	\$4,762,187	\$4,752,739

See accompanying notes to financial statements

Financials

Statement of Cash Flows

University of Pennsylvania

(for the years ended June 30, 2000 & 1999)
(thousands of dollars)

	2000	1999
Cash flows from operating activities:		
Increase in net assets	\$9,448	\$237,224
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	190,850	184,534
Provision for bad debts	80,758	85,326
Loss/(Gain) on investments, net	145,158	(239,496)
(Gain)/Loss on disposal of plant, property, and equipment	(556)	637
Non-operating revenue designated for the acquisition of long-lived assets	(155,401)	(139,497)
Changes in operating assets and liabilities:		
Patient, accounts and loan receivable	(93,153)	(82,089)
Contributions receivable	(3,322)	(216)
Other assets	7,336	4,905
Accounts payable, accrued expenses and accrued retirement benefits	(48,236)	17,079
Deposits, advances and agency funds	7,257	18,325
Deferred income	14,957	376
Net cash provided by operating activities	155,096	87,108
Cash flows from investing activities:		
Student loans repaid	13,235	10,389
Student loans issued	(17,412)	(11,629)
Purchase of investments	(5,465,856)	(4,272,459)
Proceeds from sale of investments	5,382,636	4,295,850
Purchase of plant, property, equipment and physician practices	(313,873)	(369,217)
Net cash used by investing activities	(401,270)	(347,066)
Cash flows from financing activities:		
Non-operating revenue designated for the acquisition of long-lived assets	143,605	131,791
Federal student loan advances	537	635
Repayment of long-term debt	(39,637)	(62,553)
Proceeds from issuance of long-term debt	(39,390)	166,192
Defeasance of long-term debt		(66,915)
Net cash provided by financing activities	143,895	169,150
Net decrease in cash and cash equivalents	(102,279)	(90,808)
Cash and cash equivalents, beginning of year	252,091	342,899
Cash and cash equivalents, end of year	\$149,812	\$252,091
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$72,845	\$66,039
Non-cash activity		
Due to First Hospital Foundation	\$1,280	\$1,197
Redevelopment Authority Mortgage	\$8,200	

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.

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 that are subject to legal or donor-imposed restrictions that will be met by actions of the University and/or the passage of time. These net assets include gifts donated for specific purposes and capital appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.

Permanently restricted - Net assets that are subject to donor-imposed restrictions that require the original contribution be maintained in perpetuity by the University, but permits the use of the investment earnings for general or specific purposes.

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 net assets released from restrictions from temporarily restricted net assets to unrestricted net assets.

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 1999 from which the summarized information was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.

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 fair value. Short-term investments with original 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 in equity and debt securities with readily determinable fair values are reported 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 University's principal derivative financial instruments are forward mortgage contracts. 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.

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 three investment pools, an Equity Fund, a Fixed Income Fund, and a High Yield Fund. Each participating endowment fund in the A.I.F. earns investment income on the basis of each fund's percentage ownership of the A.I.F. The A.I.F. is managed for total return. The distribution of A.I.F. returns for expenditure is independent of the cash yield and appreciation of investments for the year. The University has adopted an endowment spending policy designed to stabilize annual spending levels and to preserve the A.I.F. portfolio. The A.I.F. returns made available for expenditures in 2000 were \$93,165,000, which exceeded actual investment income by \$10,558,000.

Loans Receivable

Student loans receivables are reported at their net realizable value. Such loans include donor-restricted and Federally-sponsored student loans with mandated interest rates and repayment terms. Determination of the fair value of student loans receivable is not practical.

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, rare books and other collectibles aggregating \$12,471,000 are not subject to depreciation.

Intangible Assets

Intangible assets are included in other assets in the accompanying Statement of Financial Position. Intangible assets consist of 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 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 of approximately \$33,142,000 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 the 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 category in the Statement of Activities. During 2000, the University reclassified approximately \$15,100,000 of previously recorded charitable remainder trusts from temporarily restricted to permanently restricted net assets.

Tuition and Fees

The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance. This policy provides 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 \$100,850,000 in 2000.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2000, grant and contract revenue received from governmental sources totaled \$391,141,000. 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 predetermined reimbursement rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsor. Funds received for sponsored research activity are subject to audit.

Contributions

Contributions are reported as increases in the appropriate net asset category based on donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received at their fair values. 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 category. Unconditional promises to give and contributions of cash and other assets designated for the acquisition of long-lived assets are reported with non-operating revenue, net gains, reclassifications and other. The University recognizes contributions in temporarily restricted net assets when a contribution is received without specific notification of donor intent. During 2000, the University reclassified approximately \$12,300,000 of previously recorded contributions from temporarily to permanently restricted net assets upon finalization of documentation reflecting the donors' intentions.

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. Net patient service revenue is net of charity care and community service. 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. Third party settlements increased net patient revenue by \$1,610,000 and \$9,017,000 in 2000 and 1999, respectively. 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. During 2000, \$24,893,000 of additional patient service revenue was recognized as a result of the reversal of previously established liabilities for disproportionate share payments (general assistance days) due to a favorable change in Federal legislation.

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Allocation of Certain Expenses

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

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. This statement is effective for all fiscal years beginning after June 15, 2000. The University has not yet completed its analysis of the effects of this statement. Accordingly, the effect of adopting this standard has not been disclosed in the fiscal year 2000 financial statements. However, management believes that the adoption of this standard would not materially affect the financial position of the University.

2. University of Pennsylvania Health System - Health Services Component

The Trustees of the University formed the University of Pennsylvania Health System (the Health System) in June 1993 to operate as an integrated system, which delivers education, research, and patient care. The Health System includes the Health Services Component and the School of Medicine of the University. The Health Services Component is comprised of the Hospital of the University of Pennsylvania, the Clinical Practices of the University of Pennsylvania, the Presbyterian Medical Center of the University of Pennsylvania Health System, Clinical Care Associates, Wissahickon Hospice of the University of Pennsylvania Health System, Phoenixville Hospital, and Pennsylvania Hospital.

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. At June 30, 2000, the Health Services Component net liability to the University was \$80,529,000 for various inter-entity billings. The University and the Health Services Component have reached a formal agreement for the repayment of the inter-entity advance. Under the terms of the agreement, the Health Services Component will make payments over the next three years to fully satisfy its obligation.

Notes to Financial Statements

University of Pennsylvania

The Health Services Component makes transfers to the School of Medicine from its operations that further research and educational activities. 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, 2000 and 1999, prior to eliminations for transactions between the Health Services Component and other entities of the University, is as follows (in thousands):

	2000	1999
Net patient service and premium revenue	\$1,530,413	\$1,468,911
Other revenue	122,736	126,863
Total expenses	(1,652,096)	(1,761,979)
Excess (deficit) of revenues over expenses from operations	1,053	(166,205)
Non-operating, net	(18,021)	59,566
Decrease in net assets before inter-entity transfers	\$(16,968)	\$(106,639)
Total current assets	\$464,141	\$489,462
Investments and assets whose use is limited (including Board designated funds of \$273,352 and \$363,321 and trustee held funds of \$36,752 and \$42,142 for 2000 and 1999, respectively)	616,657	714,845
Property, plant and equipment, net	652,946	683,637
Other assets	84,066	84,412
Total assets	\$1,817,810	\$1,972,356
Total current liabilities	\$350,232	\$450,893
Long-term debt, net of current portion	798,152	812,230
Other liabilities	300,952	293,668
Total liabilities	1,449,336	1,556,791
Net assets		
Unrestricted	67,964	110,901
Temporarily restricted	240,627	246,702
Permanently restricted	59,883	57,962
Total net assets	368,474	415,565
Total liabilities and net assets	\$1,817,810	\$1,972,356

3. Investments

A summary of investments, stated at fair value, at June 30, 2000 is as follows (in thousands):

Short-term	\$342,889
Stocks	1,422,929
Bonds	1,398,108
Real estate	157,487
Other	392,521
End of year	<u>\$3,713,934</u>
Beginning of year	<u>\$3,775,872</u>

Included in investments are assets held in trust with an aggregate fair value of \$179,291,000 at June 30, 2000.

Notes to Financial Statements

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, 2000, short-term investments held under this arrangement aggregated \$9,718,000.

At June 30, 2000, investments with a fair value of \$40,378,000 were held by trustees under indenture and escrow agreements.

At June 30, 2000, investment securities with an aggregate fair value of \$2,487,000 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.

At June 30, 2000, short-term investment securities with a fair value of \$258,549,000 have been earmarked for the purchase of other long-term investments. Additionally, included in short-term investments at June 30, 2000 are investment sales receivable with an aggregate fair value of \$44,154,000.

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2000 (in thousands):

Unconditional promises expected to be collected in:	
Less than one year	\$107,187
One year to five years	146,705
Over five years	14,773
	<hr/> 268,665
Less: Unamortized discount and allowance for doubtful amounts	<hr/> (81,489)
Contributions receivable, net	<hr/> \$187,176

Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not estimated by management and are recognized if and when the specified conditions are met.

5. Plant

The components of plant at June 30, 2000 are as follows (in thousands):

Land	\$79,650
Buildings	2,484,860 (a)
Contents	1,238,009
Construction-in-progress	216,108
	<hr/> 4,018,627
Less accumulated depreciation	<hr/> (1,597,966)
Plant	<hr/> \$2,420,661

(a) Includes \$79,725,000 of completed facilities which serve as collateral for debt obligations.

The University recorded \$182,592,000 of depreciation expense for the year ended June 30, 2000.

6. Debt Obligations

Debt obligations at June 30, 2000 are as follows (in thousands):

Pennsylvania Higher Education Facility Authority (PHEFA) Series A and B 1996 Revenue Bonds, (4.60% - 6.00%), net of unamortized discount of \$2,601 (a), (o)	\$413,479
PHEFA Series 1998 Revenue Bonds, (4.50% - 5.50%), net of unamortized discount of \$2,182 (b)	196,108
PHEFA Series B of 1998 Revenue Bonds, (variable interest rate, 4.80% at June 30, 2000) (c), (o), (p)	121,600
PHEFA Series A of 1995 Revenue Bonds, (4.8% - 7.0%) (d)	100,160
PHEFA Series B of 1994 Revenue Bonds, (variable interest rate, 4.80% at June 30, 2000) (e), (o), (p)	90,000
PHEFA Series C of 1996 Revenue Bonds, (variable interest rate, 4.80% at June 30, 2000) (f), (o), (p)	80,000
Quakertown General Authority Pool Financing Program, 1985 Series A Bonds, (variable interest rate, 5.25% at June 30, 2000) (g)	71,744
Washington County Authority Lease Revenue Bonds, Series 1985 A, (variable interest rate, 4.85% at June 30, 2000) (h)	61,528
PHEFA Series B of 1995 Revenue Bonds, (4.85% - 7.0%) (d)	45,070
PHEFA Series A of 1998 Revenue Bonds, (4.50% - 5.10%), including unamortized premium of \$763 (i), (o)	39,513
PHEFA Series A of 1994 Revenue Bonds, (5.6% - 7.0%), including unamortized premium of \$683 (j), (o)	35,683
PHEFA Series of 1968 Revenue Bonds, (4.9%) (k)	22,260
Pennsylvania Economic Development Financing Authority Series C of 1994 Revenue Bonds, (variable interest rate, 6.75% at June 30, 2000) (l)	10,468
PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 4.61% at June 30, 2000) (m)	10,610
PHEFA Series of 1990 Revenue Bonds, (variable interest rate, 4.61% at June 30, 2000) (n)	6,500
Mortgages payable and other, (6.64% weighted average interest rate, due through 2022)	114,010
	<u>\$1,418,733</u>

(a) The Series A and B of 1996 Bonds mature in varying annual amounts ranging from \$12,405,000 in 2001 to \$14,110,000 in 2003, with maturities of \$8,970,000 in 2021 and \$9,590,000 in 2022.

(b) The Series of 1998 Bonds mature in varying annual amounts ranging from \$1,790,000 in 2001 to \$50,955,000 in 2039. The Bonds provide for optional redemption by the Authority on or after July 15, 2008 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2039 range from \$11,314,000 in 2001 to \$11,554,000 in 2039.

(c) The Series B of 1998 Bonds mature in varying amounts ranging from \$2,080,000 in 2011 to \$2,700,000 in 2015 and \$9,825,000 in 2018 to \$15,055,000 in 2026. The Bonds are subject to optional redemption on any interest payment date at a redemption price equal to the principal amount plus accrued interest.

(d) The Series A and Series B of 1995 Bonds mature in varying annual amounts ranging from \$1,825,000 in 2001 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 2016 range from \$14,098,000 in 2001 to \$14,349,000 in 2016.

(e) 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 may be 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.

(f) 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 converted 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.

(g) The 1985 Series A Bonds mature on June 1, 2005 and provide for optional prepayments as stipulated in the loan agreement. The Bonds bear a floating rate of interest which may be adjusted by the Authority at certain intervals.

(h) The Series 1985 A Bonds mature on November 1, 2005 and provide for advance payments and optional prepayments as stipulated in the Lease Agreement. The Bonds bear a floating rate of interest which may be adjusted by the Authority at certain intervals. The Authority has the option to convert the interest rate on the Bonds to a fixed rate.

(i) The Series A of 1998 Bonds mature in varying amounts ranging from \$1,635,000 in 2007 to \$5,300,000 in 2015. The Bonds are subject to optional redemption by the Authority on or after July 1, 2008 at a redemption price equal to the principal amount plus accrued interest.

(j) 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 on or after January 1, 2004 at redemption prices of 102%, 101% and 100% plus accrued interest in 2004, 2005, and thereafter, respectively.

(k) The Series of 1968 Bonds mature in varying amounts from \$2,310,000 in 2001 to \$3,305,000 in 2008. The Bonds are subject to optional redemption on any interest payment date at a redemption price equal to 100% of principal amount plus accrued interest to redemption date. Annual debt service payments to the Authority range from \$3,401,000 in 2001 to \$3,467,000 in 2008.

(l) The Series C of 1994 Bonds mature in varying annual amounts ranging from \$400,000 in 2001 to \$1,200,000 in 2014. The Bonds are subject to optional redemption on any interest payment date at a redemption price equal to 100% of principal amount plus accrued interest to redemption date.

(m) 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 2016, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.

(n) 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.

Notes to Financial Statements

University of Pennsylvania

(o) The University has entered into a Master Trust Indenture (MTI) with respect to the indebtedness related to the assets and revenue of the Hospital of the University of Pennsylvania, the Clinical Practices of the University of Pennsylvania, the Presbyterian Medical Center of the University of Pennsylvania Health System, Clinical Care Associates, Phoenixville Hospital, Pennsylvania Hospital and the operating unit known as Managed Care/Full Risk Capitation (collectively, the designated units). The MTI and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness and, among other things, require the Health Services Component to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the debt service coverage requirement for a particular fiscal year is not met, the Health Services Component must retain the services of a consultant, within six months of the close of that fiscal year, to make recommendations to improve its debt service coverage. The Health Services Component must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. The Health Services Component will not be considered to be in default of the provisions of the MTI so long as the Health Services Component has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. In 1999, the debt service coverage requirement was not met. As a result, the Health Services Component retained a consultant to make recommendations to increase its debt service coverage. In 2000, the Health Services Component met its debt service coverage requirement under the MTI.

(p) On August 2, 1999, the Health Services Component entered into a reimbursement agreement with three financial institutions, whereby these institutions have agreed to provide letters of credit for the principal amount of the bonds, plus applicable interest coverage to support the PHEFA Series B of 1994, Series C of 1996 and Series B of 1998 outstanding variable rate bonds. The letters of credit expire in August, 2002. The conditions under the reimbursement agreement permit a borrowing under the letter of credit in the event the bonds are not successfully remarketed. The Health Services Component pays commitment fees on the unused amount of the letters of credit. The University has agreed to guarantee the obligations of the Health Services Component under the reimbursement agreement with the financial institutions.

The fair value of the University's debt obligations was \$1,145,145,000 at June 30, 2000. The fair value represents the quoted market value for Authority Revenue Bonds and carrying amounts for all other debt which approximates fair value.

Maturities of debt obligations for each of the next five years are as follows (in thousands):

Fiscal Year	Amount
2001	\$25,642
2002	27,007
2003	28,160
2004	31,684
2005	105,242

7. Operating Leases

The University leases office space and equipment under operating leases expiring through January 2015. Rental expense of \$33,282,000 is included in the accompanying Statement of Activities.

At June 30, 2000, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2001	\$28,667
2002	20,955
2003	16,892
2004	14,657
2005	14,081
Thereafter	26,293
Total minimum lease payments	<u>\$121,545</u>

8. Pension and Other Postretirement Benefit Costs

Retirement benefits are provided for academic employees and certain administrative personnel through a defined contribution plan. The University's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries. The University's contributions amounted to \$30,211,000 in 2000.

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 accrued benefit costs and net periodic benefit cost for pension benefits and other postretirement benefits are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Change in benefit obligation:		
Benefit obligation at June 30, 1999	\$401,721	\$195,551
Service cost	14,876	11,194
Interest cost	29,817	16,453
Plan participants' contributions	--	91
Actuarial (gain) loss	(27,762)	13,980
Benefits paid	(15,837)	(10,770)
Curtailments	(3,487)	(2,682)
Benefit obligation at June 30, 2000	<u>\$399,324</u>	<u>\$223,817</u>
Change in plan assets:		
Fair value of plan assets at June 30, 1999	\$558,778	\$67,253
Actual return on plan assets	(20,133)	(2,519)
Employer contribution	--	6,179
Plan participants' contribution	--	38
Benefits paid	(15,837)	(2,617)
Fair value of plan assets at June 30, 2000	<u>\$522,808</u>	<u>\$68,334</u>

Notes to Financial Statements

University of Pennsylvania

	Pension Benefits	Other Postretirement Benefits
Reconciliation of funded status:		
Funded status	\$123,484	\$(155,483)
Unrecognized net actuarial (gain)/loss	(147,572)	900
Unrecognized prior service cost	250	(753)
Unrecognized transition asset	(3,628)	--
Accrued benefit cost	\$27,466	\$(155,336)
Weighted-average assumptions as of end of year:		
Discount rate	8.00%	
Expected return on plan assets	9.25% to 9.50%	
Rate of compensation increase	4.00% to 4.75%	

The health care trend rate was assumed to decrease gradually from 9.00% in 2000 to a range of 5.00% to 6.00% over the next seven to eight years, and remain level thereafter.

	Pension Benefit	Other Postretirement Benefits
Service cost	\$14,876	\$11,194
Interest cost	29,817	16,453
Expected return on plan assets	(51,314)	(6,331)
Amortization of prior service cost	80	(63)
Amortization of transition asset	(974)	--
Amortization of net actuarial (gain)/loss	(12,230)	287
Net periodic (benefit) cost	(19,745)	21,540
Curtailment gain	(3,487)	(2,682)
	\$(23,232)	\$18,858

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefits. A one-percentage-point change in assumed health care trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost	\$5,298	\$(4,425)
Effect on accumulated postretirement benefit obligation	\$32,710	\$(28,394)

Pension plan assets consist principally of investments in a master trust account, invested in a diverse portfolio of equity and debt securities. Other postretirement employee benefit plan assets consist principally of investments in a diverse portfolio of equity and debt securities.

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. A trust fund has been established for the payment of medical professional liability claims under the risk retention program. Prior to July 1, 1998, annual contributions were made to the trust fund to provide funding for retained risk. The trust fund's assets are included in the accompanying financial statements. Effective July 1, 1998, the Health Services Component entered into a three-year agreement with a commercial insurer to provide claims made primary layer coverage on a premium basis.

10. Contingencies

The University has guaranteed certain obligations, including student loans, mortgages and leases on properties owned by related parties, totaling \$104,632,000 at June 30, 2000. Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the University's education and health care activities. Based upon information currently available, management believes that any liability resulting therefrom will not materially affect the financial position or operations of the University.

Mrs. Madlyn K. Abramson
Jupiter, FL

- * Hon. Arlin M. Adams
Of Counsel
Schnader, Harrison, Segal & Lewis
Philadelphia, PA

- * Gustave G. Amsterdam, Esq.
Retired Chairman and CEO
Bankers Securities Corp.
Philadelphia, PA

Dr. Edward T. Anderson
Palo Alto, CA

- * Hon. Leonore Annenberg
Former Chief of Protocol of the
United States
Wynnewood, PA

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

- * Mr. Walter G. Arader
Chairman
Walter G. Arader & Associates
Radnor, PA

- * Mr. Samuel H. Ballam, Jr.
Bryn Mawr, PA

Ms. Lynda Barness
President
The Barness Organization
Warrington, PA

Mrs. Judith Roth Berkowitz
President
Jarby, Inc.
New York, NY

* *Emeritus*

Mr. Robert S. Blank
Co-Chairman and Co-CEO
Whitney Communications
New York, NY

Dr. Mitchell J. Blutt
Executive Partner
Chase Capital Partners
New York, NY

- * Mr. Gordon S. Bodek
Los Angeles, CA

- * Richard P. Brown, Jr., Esq.
Counsel
Morgan, Lewis & Bockius, LLP
Philadelphia, PA

Mr. Christopher H. Browne
Managing Director
Tweedy, Browne Company, LLC
New York, NY

- * Mr. I. W. Burnham II
Honorary Chairman
Burnham Securities, Inc.
New York, NY

Gilbert F. Casellas, Esq.
West Chester, PA

Mrs. Susan W. Catherwood
Bryn Mawr, PA

- * Mr. Henry M. Chance II
Kennett Square, PA

- * Dr. Gloria Twine Chisum
Retired Research Psychologist
Philadelphia, PA

Mr. L. John Clark
Founding Partner
Compass Partners International
London, United Kingdom

Trustees

as of June 30, 2000

Dr. Stanley N. Cohen
Kwoh-Ting Li Professor of Genetics
and Professor of Medicine
Stanford University School of
Medicine
Palo Alto, CA

- * Mr. Charles D. Dickey, Jr.
Retired Chairman
Scott Paper Company
West Conshohocken, PA

- * Mr. G. Morris Dorrance, Jr.
Villanova, PA

Mr. James D. Dunning, Jr.
President
The Dunning Group, Inc.
Stamford, CT

Mr. Jerome Fisher
Chairman Emeritus
Nine West Group, Inc.
Palm Beach, FL

Mr. Richard L. Fisher
Fisher Brothers
New York, NY

- * Mr. Robert A. Fox
Chairman and CEO
R.A.F. Industries
Jenkintown, PA

Mr. Robert A. Gleason, Jr.
Chairman and CEO
The Gleason Agency, Inc.
Johnstown, PA

- * Mr. Bruce J. Graham, FAIA
Partner
Graham and Graham Architecture
& Interior Design
Hobe Sound, FL

- * John G. Harkins, Jr., Esq.
Partner
Harkins Cunningham
Philadelphia, PA

Mr. Alan G. Hassenfeld
Chairman and CEO
Hasbro, Inc.
Pawtucket, RI

Charles A. Heimbold, Jr., Esq.
Chairman and CEO
Bristol-Myers Squibb Co.
New York, NY

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Vice Chairman
Huntsman Corporation
Salt Lake City, UT

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Retired Chairman and CEO
General Electric Company
Stamford, CT

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Senior Managing Director
Harbour Vest Partners, LLC
Boston, MA

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David W. Skinner Professor Emeritus
of Political Economy
Massachusetts Institute of Technology
Cambridge, MA

Mr. Paul K. Kelly
President and CEO
Knox & Co.
Westport, CT

* *Emeritus*

Mr. James J. Kim
Chairman and CEO
Amkor Technology, Inc.
West Chester, PA

Mr. Yotaro Kobayashi
Chairman and CEO
Fuji Xerox Co., Inc.
Tokyo, Japan

Natalie I. Koether, Esq.
Counsel
Rosenman & Colin
Far Hills, NJ

* Dr. Ralph Landau
Stanford University
c/o Listowel, Inc.
New York, NY

Thomas F. Lang, Sr., Esq.
Partner
Allen, Lang, Curotto & Peed, P.A.
Orlando, FL

Mr. Leonard A. Lauder
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of the Board and CEO
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Fort Lee, NJ

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* Mrs. Margaret R. Mainwaring
Bryn Mawr, PA

Arthur Makadon, Esq.
Partner
Ballard Spahr Andrews & Ingersoll
Philadelphia, PA

Mr. Howard S. Marks
Chairman
Oaktree Capital Management, LLC
Los Angeles, CA

* Mr. Paul F. Miller, Jr.
Miller Associates
West Conshohocken, PA

* Anthony S. Minisi, Esq.
Counsel
Wolf, Block, Schorr & Solis-Cohen
Philadelphia, PA

Ms. Andrea Mitchell
Chief Foreign Affairs Correspondent
National Broadcasting Company
Washington, DC

Mr. David P. Montgomery
President and CEO
Philadelphia Phillies Baseball Club
Philadelphia, PA

* *Emeritus*

Trustees

as of June 30, 2000

Mr. John B. Neff
Radnor, PA

Lawrence C. Nussdorf, Esq.
President and COO
Clark Enterprise Inc.
Bethesda, MD

Mr. Russell E. Palmer
Chairman and CEO
The Palmer Group
Philadelphia, PA

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Chairman and CEO
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President and Owner
The Integral Group, L.L.C.
Atlanta, GA

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President and Co-CEO
The Charles Schwab Corporation
San Francisco, CA

Stanley B. Prusiner, M.D.
Director, Institute for
Neurodegenerative Diseases
University of California,
San Francisco
San Francisco, CA

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Executive Vice President
ING Baring LLC
New York, NY

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Rolling Hills, CA

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United States Court of Appeals for
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University of Pennsylvania
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President
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Bethesda, MD

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Advisory Director
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New York, NY

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Cendant Corporation
New York, NY

* *Emeritus*

* Mr. Wesley A. Stanger, Jr.
Director, A.S.A., Ltd.
Summit, NJ

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Chairman and CEO
Reliance Group Holdings, Inc.
New York, NY

David W. Sweet, Esq.
Pepper Hamilton LLP
Harrisburg, PA

* Myles H. Tanenbaum, Esq.
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Arbor Enterprises
West Conshohocken, PA

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Bear Stearns & Co., Inc.
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Bedminster, NJ

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Hartford, CT

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Senior Vice President
PaineWebber Incorporated
Philadelphia, PA

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Orlando, FL

* Dr. Charles K. Williams II
Philadelphia, PA

Mr. Paul C. Williams
Vice President and Manager
Nuveen Investments
Chicago, IL

Mr. Stephen A. Wynn
Chairman and CEO
Wynn Development
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