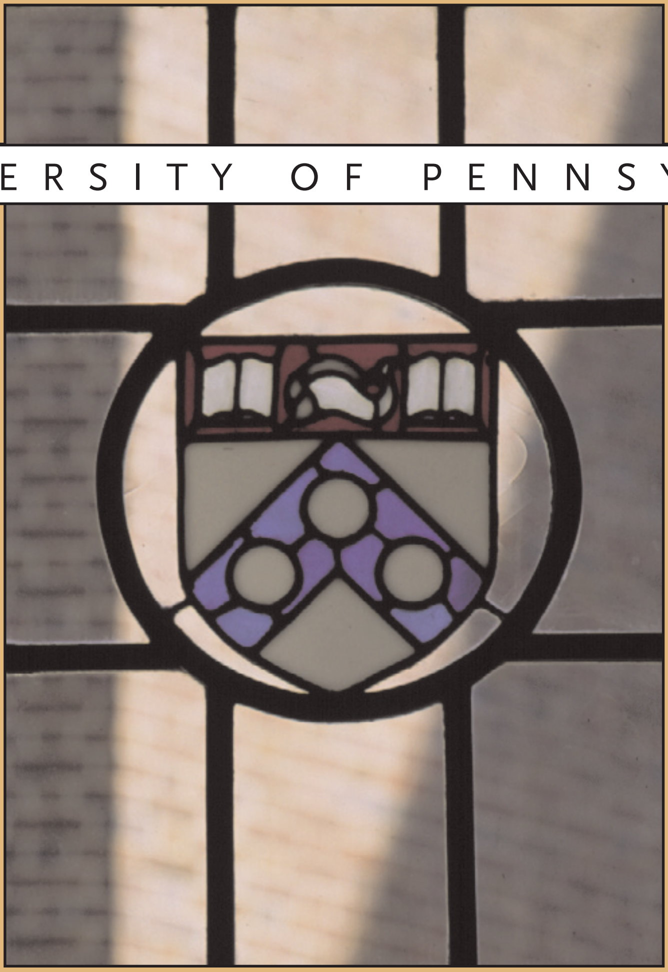
UNIVERSITY OF PENNSYLVANIA



2001 FINANCIAL REPORT

Highlights*

Students	
Enrollment (full-time equivalent)	
Undergraduate students	10,502
Graduate & professional students	9,156
Admission Statistics	
Applications	19,153
Percent accepted	21.6%
Percent matriculated	57.9%
Faculty	
Standing faculty	2,267
Financial (thousands of dollars)	
Total Operating Revenue	$3,190,689
Total Operating Expenditures	$3,113,914
Principal sources of revenue	
Tuition and fees (net)	$430,285
Sponsored programs	$503,223
Hospitals and physician practices	$1,678,866
Contributions	$251,745
Investment income	$190,553
Principal purposes of expenditures	
Instruction	$568,261
Research	$428,145
Hospitals and physician practices	$1,644,407
Endowment (market value)	$3,381,848
One-year endowment performance	6.0%
Net Assets	
Unrestricted	$2,530,680
Temporarily restricted	$1,250,270
Permanently restricted	$1,249,750

* Student, Admission and Faculty statistics are for Academic Year 2002 (class beginning September 2001) while Financial statistics are for Fiscal Year 2001 (year ending June 30, 2001)

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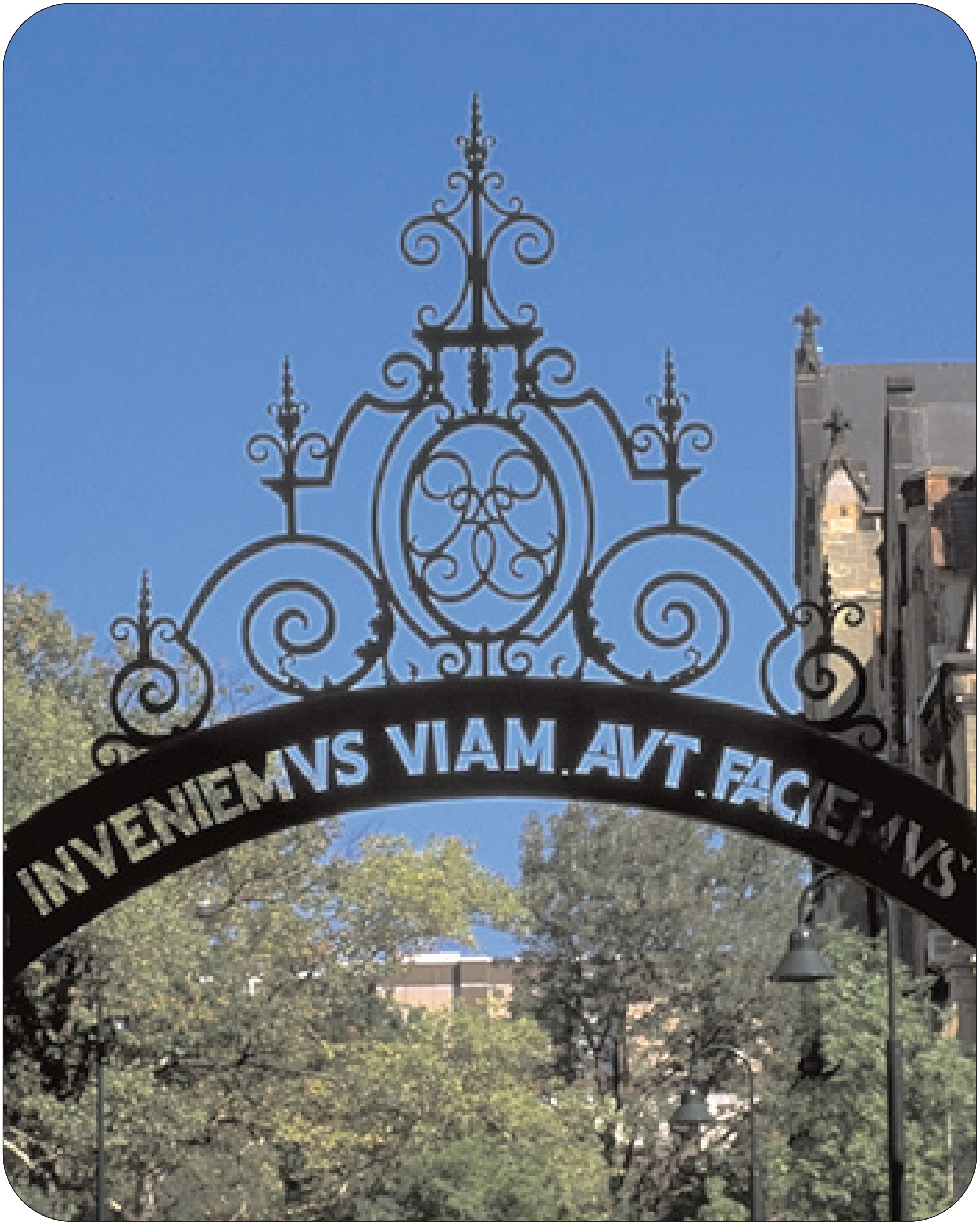
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Message from the Vice President for Finance & Treasurer

Fiscal year 2001 proved to be financially and operationally successful for both the academic and health services components of the University. The year was distinguished by growth and recovery from some of our recent fiscal challenges. Most notably, our health services component returned an operating surplus following three years of operating losses. In addition, the endowment registered a 6% return, the third best performance for the one-year fiscal period ended June 30 for endowments over $1 billion, as reported by the National Association of College and University Business Officers.

The academic component of the University registered significant growth in both tuition and research revenue. Demand for a Penn undergraduate education is increasing and the University continues to be highly selective. The percentage of applicants offered admission declined to a record low and the rate of matriculation increased to an all-time high. While research revenue grew, awards received in Fiscal Year 2001 were lower, due in part to extraordinary award activity in the prior fiscal year. Among other major academic revenue sources, contributions exhibited sustained strength despite the weakening economy, and investment income available for spending grew as a result of the University's three-year spending rule formula.

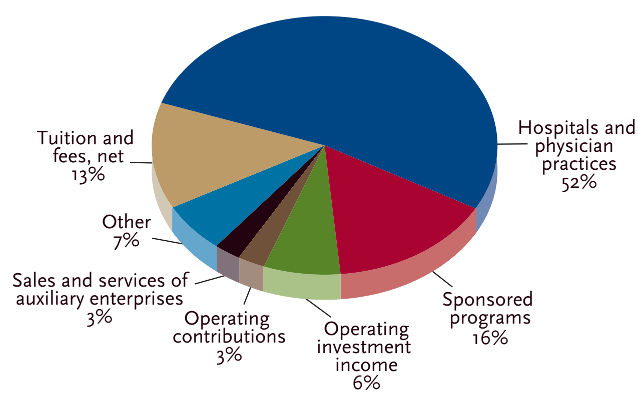
The health services component generated positive operating performance for the year as a result of the revenue generation and cost curtailment strategies implemented in previous fiscal years. The recent appointment of permanent leadership and establishment of a new organizational structure should help to sustain this momentum. Additionally, the Hospital of the University of Pennsylvania continues to receive acclaims as one of the most distinguished health care institutions in the country.

The University undertook significant capital improvements during Fiscal Year 2001. These enhancements benefited our academic, research, and student-life programs and improved our neighborhood environment. We continue to position the campus to meet current and future programmatic demands and to improve the quality of life at Penn.

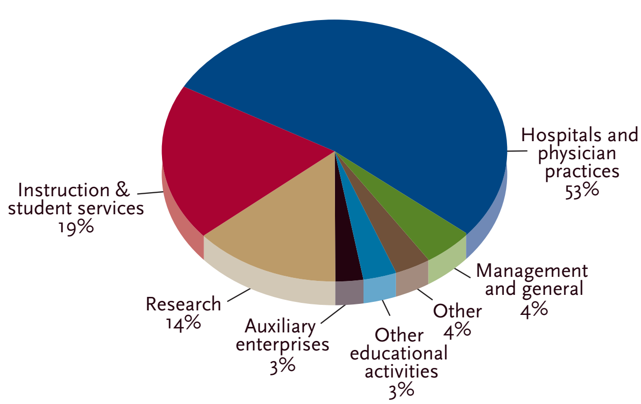
Fiscal Year 2001 Performance Highlights

During Fiscal Year 2001, the University recorded an increase in net assets of $269 million to over $5 billion, of which unrestricted net assets were $2.5 billion. This increase was mainly attributable to non-operating revenue (investment income and contributions) and positive operating margins. For the fiscal year, the University recorded a net gain on investments of $35 million, which compares to a $145 million loss (mostly unrealized) in Fiscal Year 2000. In addition, net assets before non-operating revenue and other changes improved by $80 million primarily due to improved health services component operations.

Operating Revenues by Source - $3.2 Billion



Operating Expenses by Source - $3.1 Billion



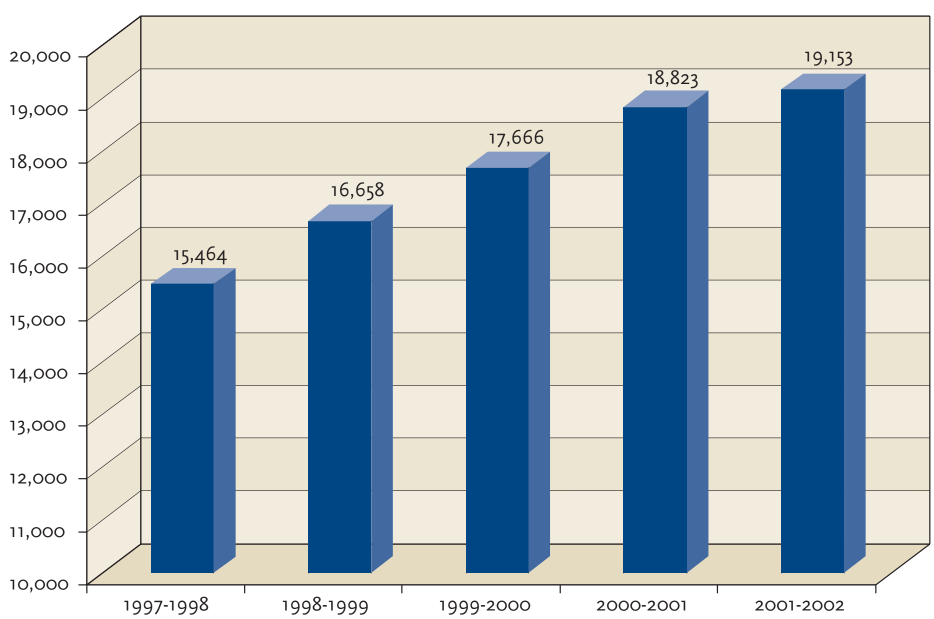
Tuition, Fees, and Financial Aid

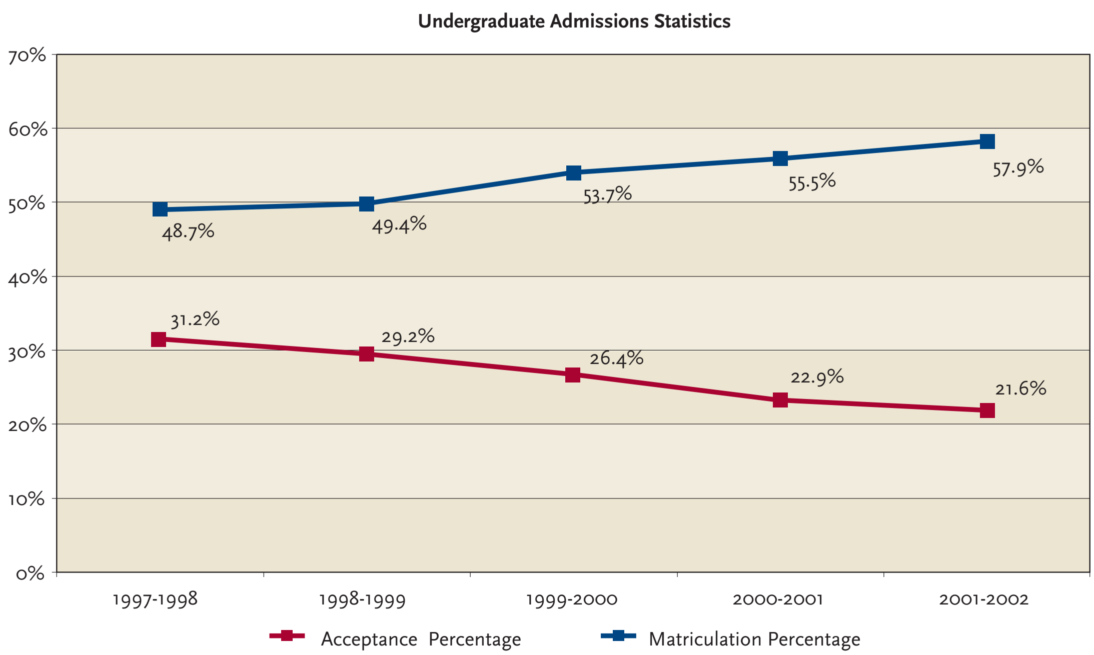
During Fiscal Year 2001, the University recorded a $33 million increase in tuition and fee revenue to a total of over $430 million. These amounts are net of financial aid direct grants. This represents an increase of 8.2% over Fiscal Year 2000.

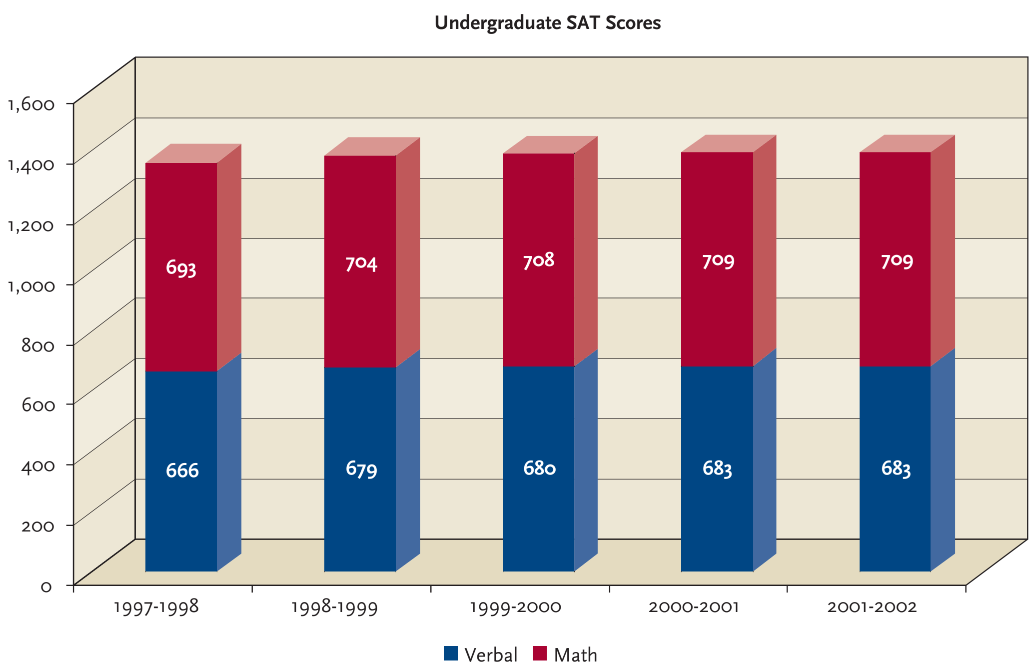
The University continues its need-blind undergraduate admissions policy, with 68% of Penn students receiving need-based financial aid. Overall, undergraduate and graduate direct grants totaled $102 million for the year.

For the 2001-2002 academic year, competition for the limited number of available slots in the undergraduate program continued to escalate. The University received a record-high 19,153 applications for this academic year. The number of early decision applications grew to 3,053, also a new record. This increase is indicative of an overall trend of undergraduates making Penn their first choice. The percent of applicants admitted to Penn declined to 21.6% from 22.9% the prior academic year, while the percentage of students offered admission who matriculated grew to 57.9% from 55.5%.

Undergraduate Applications




Undergraduate Admissions Statistics
70%
60%
50%
40%
30%
20%
10%
0%
48.7%
49.4%
53.7%
55.5%
57.9%
31.2%
29.2%
26.4%
22.9%
21.6%
1997-1998
1998-1999
1999-2000
2000-2001
2001-2002
Acceptance Percentage
Matriculation Percentage


Undergraduate SAT Scores
1,600
1,400
1,200
1,000
800
600
400
200
0
693
704
708
709
709
666
679
680
683
683
1997-1998
1998-1999
1999-2000
2000-2001
2001-2002
Verbal
Math

Sponsored Programs

Sponsored program support represents a major component of the University's operating budget, nearly 16% of revenue. Sponsored programs revenue totaled $503 million, an increase of over $38 million, or 8.2%, compared to the prior fiscal year.

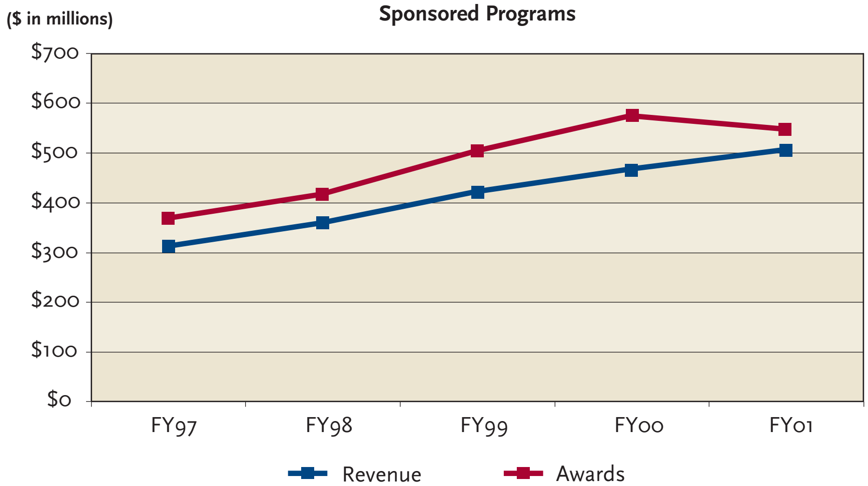
In Fiscal Year 2001, total awards reached nearly $548 million. This represents a 4.0% reduction in award dollars from last year's record of $571 million, and reflects the receipt of certain one-time large corporate and foundation awards in the prior fiscal year. Awards from the National Institutes of Health (NIH), Penn's largest sponsor, for research, training, fellowship, and other programs totaled almost $335 million. The School of Medicine continues to be ranked second in funding from the NIH for the latest available federal fiscal year (Fiscal Year 2000). Three of Penn's departments were ranked first in NIH funding: pathology and laboratory medicine, dermatology, and radiology. The number of sponsored research proposals submitted and their dollar value remain comparable to Fiscal Year 2000.

Sponsored Programs

Both direct and indirect cost activities are essential for the operation of the University. Without reimbursement for indirect costs, sponsored programs and research would require additional institutional support, to the detriment of other University activities. Actual indirect cost revenues earned in Fiscal Year 2001, totaling $126 million, represented approximately 3.9% of total current unrestricted revenue. The University's current Federal Indirect Cost Recovery Rate is 58.5%. This rate has been renegotiated through 2004.

Finally, a noteworthy research accomplishment in Fiscal Year 2001 was the receipt of a Nobel Prize in chemistry by Penn professor Dr. Alan McDiarmid. Dr. McDiarmid received the award for his work with former Penn colleagues in the discovery and subsequent study of "synthetic metals"—plastics that conduct electricity.

Sponsored Programs



Endowment and Investments

For the fiscal year ended June 30, 2001, Penn's endowment rose to $3.4 billion from $3.2 billion. The Associated Investments Fund (A.I.F.), in which approximately 84% of the endowment is invested, outperformed its composite benchmark by 13.4%. It returned a gain of 6.0% versus a loss of 7.4% for its benchmark portfolio. In comparison, a hypothetical portfolio consisting of 70% in the S&P 500 and 30% in the Lehman Government/Credit index would have lost 7.0% over the same period.

Penn's public domestic and international equity portfolios, which represent over half of the A.I.F.'s investments, contributed the bulk of this performance, producing positive returns while their benchmarks had significantly negative returns. The performance in these portfolios resulted largely from their focus on "value" stocks and, as a result, under-exposure to the technology, media, and telecommunications sectors. Other asset classes including bonds, absolute return hedge fund investments, and real estate also outperformed their respective benchmarks and produced strong positive returns. Penn's emerging market equities and high yield bonds were the only two asset classes that underperformed their benchmarks for the year.

Over the fiscal year, Penn focused its investment activity in two areas: the ongoing reorientation of the domestic equity portfolio, A.I.F.'s single largest allocation, and the continued building of A.I.F.'s two alternative investment programs, absolute return hedge funds and private equity funds. Penn continues to make progress building its nascent private equity portfolio, although it is too early to judge its performance.

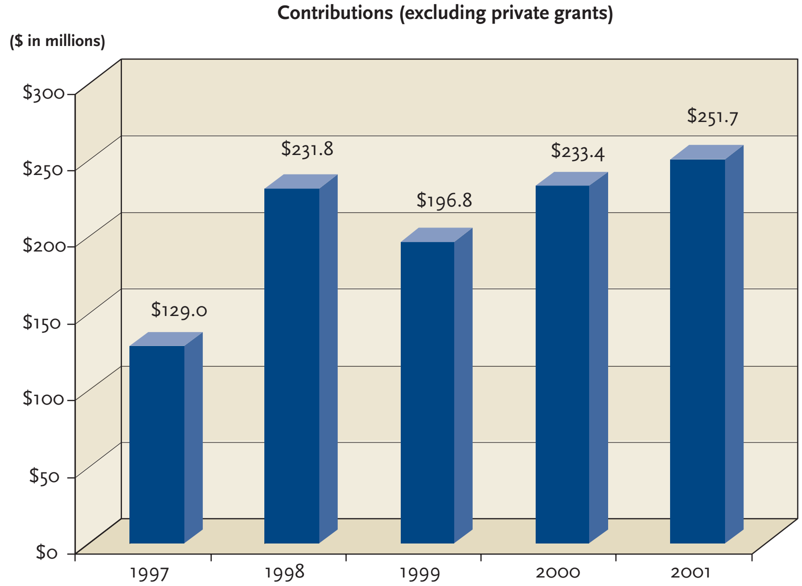
Development and Alumni Relations

Contributions during Fiscal Year 2001 totaled $252 million (operating and non-operating, excluding private grants), an increase of 7.9% compared to the prior fiscal year.

Cash receipts of $210 million were second only to the previous year's record-setting results. Contributions of $94 million were added to the University's endowment. Penn's annual giving programs also produced a record-breaking $32 million in unrestricted support for a wide array of University programs.

During Fiscal Year 2001, Development and Alumni Relations inaugurated Penn's on-line giving program to facilitate fundraising activity and provide donors a convenient, secure method of supporting their alma mater. The program's early success reflected the growing strength of Penn's Alumni On-Line Community, which offers information and services designed to attract and engage alumni at every stage in their lives and careers.

Contributions (excluding private grants)



University of Pennsylvania Health System-Health Services Component

The health services component continued to make tangible progress in its financial recovery in Fiscal Year 2001, generating an operating surplus for the first time in four years. In addition, in September 2001, the University appointed Arthur H. Rubenstein, M.B., B.Ch., as Executive Vice President for the Health System and Dean of the School of Medicine. With Robert D. Martin, Ph.D., continuing as CEO of the Health System, UPHS is well positioned with strong leadership to achieve future success.

To further ensure this success, the Board of Trustees approved a proposal to establish an umbrella governance structure for the Health System entitled "Penn Medicine" in early Fiscal Year 2002. This new structure will integrate the various governing boards currently in existence into one unified board. Penn Medicine will oversee the academic, research and clinical components of the Health System, streamlining governance processes and allowing more cooperative and creative interaction among these various areas. As Penn Medicine evolves there may be further structural changes.

In Fiscal Year 2001, the health services component generated an operating surplus of $25 million (excluding interest and dividend income of $33 million). This represents a $55 million increase over the previous fiscal year. Given that the health services component had almost $300 million in combined operating losses in Fiscal Years 1998 and 1999, this improvement is all the more impressive. These results reflect cost cutting measures implemented in prior fiscal years and revenue generation strategies, including a focus on case mix and billing and collection efforts.

The Hospital of the University of Pennsylvania was once again named to the Honor Roll of American hospitals by *U.S. News & World Report*, one of only 15 hospitals so named. HUP was ranked 10th overall and was commended for excellence in 13 medical specialties. The Joint Commission on Accreditation of Healthcare Organizations surveyed several components of UPHS this fiscal year, which scored very well, another indication of the high-quality care patients receive at Penn.

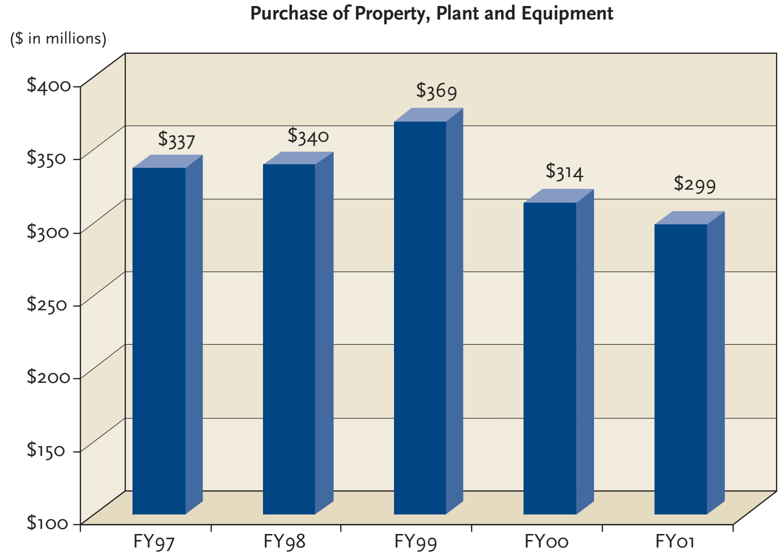
Capital Investment

During Fiscal Year 2001, the University invested $299 million in property, plant, and equipment to support our teaching, research, and service missions.

On the academic side, the Charles Addams Fine Arts Hall (Graduate School of Fine Arts), the Graduate School of Education Building, and Silverman Hall (Law) projects were completed or substantially completed this year. Significant progress was also made on the Wharton School's Huntsman Hall project, the Robert Schattner Center at the School of Dental Medicine, and the Mainwaring Wing of the Museum of Archaeology and Anthropology. In addition, we executed a multi-year lease in San Francisco in order to begin an executive MBA program and other executive education programs on the West Coast next year.

Research initiatives included the initial stages of planning for the School of Engineering's Melvin J. and Claire Levine Hall for Computer and Information Science, the School of Arts and Science's Life Sciences project, and a Biology/Psychology research and academic building. The School of Medicine also made capital investments in laboratory renovations for the purpose of conducting AIDS/HIV and anesthesia research.

Purchase of Property, Plant and Equipment



Capital Investment

With the completion of the Palestra remodeling, the ongoing Quadrangle dormitory renovation, and the Pottruck Fitness Center projects, we continued to make investments in student life initiatives across campus. We improved the University's infrastructure in Fiscal Year 2001 with the completion of a new chilled water plant, College Hall interior renovations, and the development of new office space at the Left Bank. With the generous support of our donors, we were also able to make significant progress in upgrading the University Museum's infrastructure.

Finally, the ground-breaking for a new K-8 school adjacent to campus and the opening of a new food market with an adjoining parking garage are investments that are expected to improve the safety and vitality of the Penn community. We believe that it is essential to continue investing in Penn's physical environment to ensure that future generations of students, faculty, and staff have facilities that enhance the Penn experience.

Summary and Future Outlook

Fiscal Year 2001 was a positive year for Penn. The financial turnaround of our health services component and the positive, absolute and relative performance of our endowment were two important highlights. The remarkable accomplishments of our students, faculty, and staff are also a source of pride.

It is noteworthy that Moody's Investors Services upgraded its outlook for both the University and our health services component from "negative" to "stable" at the end of the fiscal year. In addition, our undergraduate program ranking was upgraded to 5th nationally, from its prior 6th place ranking, by U.S. News & World Report. This reflects, in part, the demand for Penn and the excellence of our student body. Two additional Penn graduate schools, the Graduate School of Education and the Law School, also moved into the top ten in their respective fields within the U.S. News rankings.

While we are proud of Penn's recent accomplishments, the University faces a number of challenges as we enter Fiscal Year 2002. The nation's economic downturn and the global political climate are likely to impact the University and its diverse revenue sources. While such an environment is expected to sustain or perhaps even increase demand for Penn academically, we must continue to manage our other revenue sources that could exhibit more sensitivity. These include revenue received from federal and state governments, corporations, donors, and visitors to our West Philadelphia campus. We are prepared to make adjustments accordingly.

In Fiscal Year 2001, the University successfully completed the initiatives outlined in the Agenda for Excellence, Penn's strategic plan put forth by President Rodin five years ago. The University continues to build on that strategic plan for future years and plans to enhance our position among the top tier of research and teaching universities, leverage our intellectual assets and brand in order to enter new markets, and create the campus of the future. Managing these objectives within realistic capital constraints will naturally be a challenge. However, with Penn's human, physical, and financial capital, we remain confident and motivated about our ability to meet these goals and secure Penn's future.

On a final note, I would like to express my gratitude to the faculty, staff, and students whose efforts have contributed to Penn's successes and will play a significant role in the future achievements of the University.

Craig R. Carnaroli

Vice President for Finance and Treasurer

A Five-Year Review of Investments

(Thousands of Dollars)

	2001	2000	1999	1998	1997
Investments:					
Fair Value					
Stocks*	$1,769,368	$1,695,205	$2,181,568	$1,758,030	$1,478,932
Bonds*	900,080	1,321,508	962,844	1,048,050	1,380,926
Short-term	484,573	348,561	449,797	538,662	403,303
Other	470,353	354,332	181,663	215,025	168,961
Total Investments	$3,624,374	$3,719,606	$3,775,872	$3,559,767	$3,432,122
Cost					
Stocks	$1,642,412	$1,523,957	$1,752,471	$1,412,292	$1,183,639
Bonds	947,826	1,378,183	982,682	1,039,355	1,198,167
Short-term	474,322	348,456	450,071	538,662	402,602
Other	355,489	271,214	122,820	165,541	145,188
Total Investments	$3,420,049	$3,521,810	$3,308,044	$3,155,850	$2,929,596
Endowment:					
Fair Value	$3,381,848	$3,200,712	$3,281,306	$3,059,401	$2,535,312
Cost	$3,143,110	$3,050,942	$2,836,033	$3,009,100	$2,202,511
Associated Investments Fund:					
Fair Value	$2,800,390	$2,556,597	$2,661,621	$2,138,012	$1,856,663
Cost	$2,709,937	$2,464,477	$2,358,924	$1,899,007	$1,622,538

* Includes securities pledged under a securities lending program.

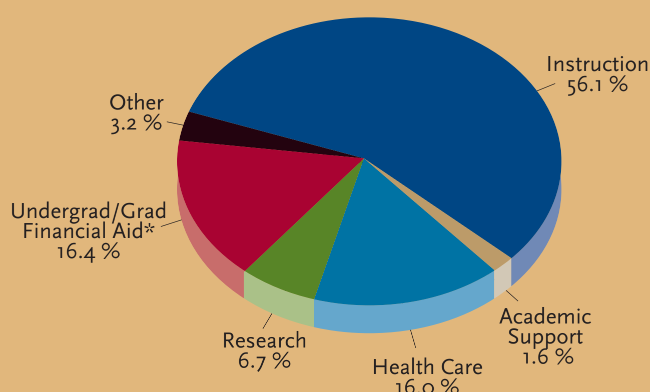
Endowment

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 approximately 4% of the University's consolidated operating budget. At June 30, 2001, the endowment had a market value of $3.382 billion. For the year, the endowment's value increased 5.7%, reflecting primarily a significant rebound in the performance of its value-oriented equities along with new contributions. The market value of the endowment increased by $181 million over the year, comprised of a net investment gain of $43 million, net gifts and transfers from the endowment of $151 million and net spending rule liquidation of almost $13 million.

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

Endowment by Purpose

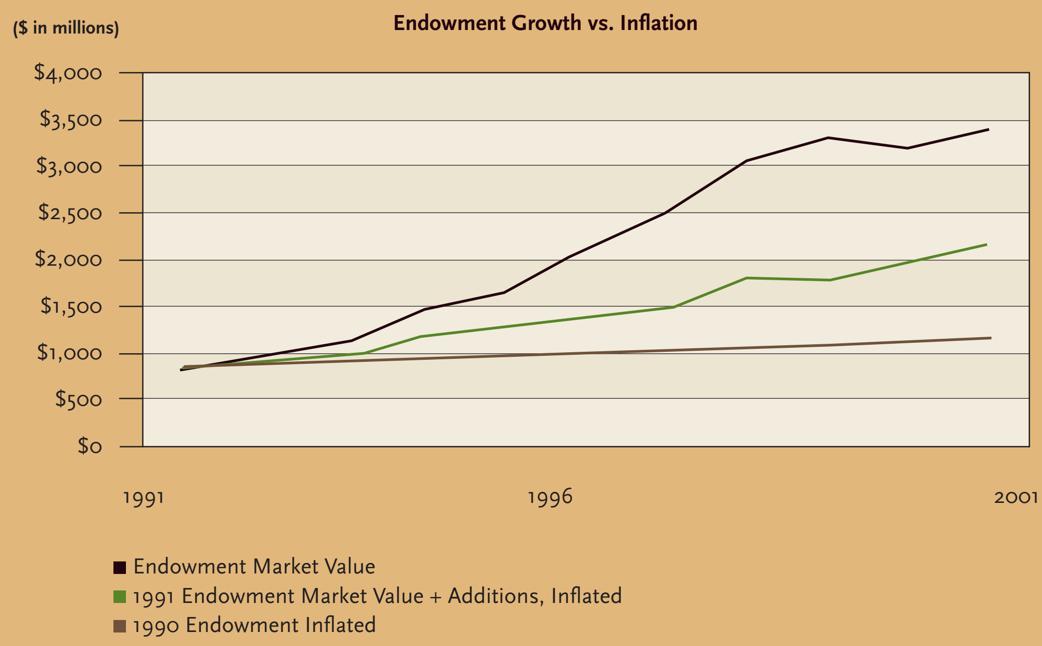


* Includes graduate stipends

Endowment

Endowment Growth vs. Inflation

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 and shows the impact of both investment performance and gifts. The chart illustrates 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.

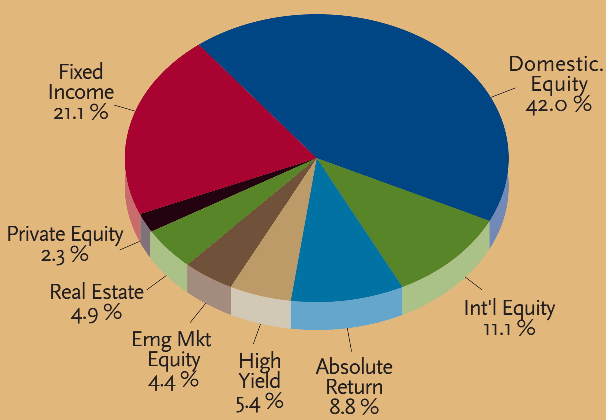


Associated Investments Fund

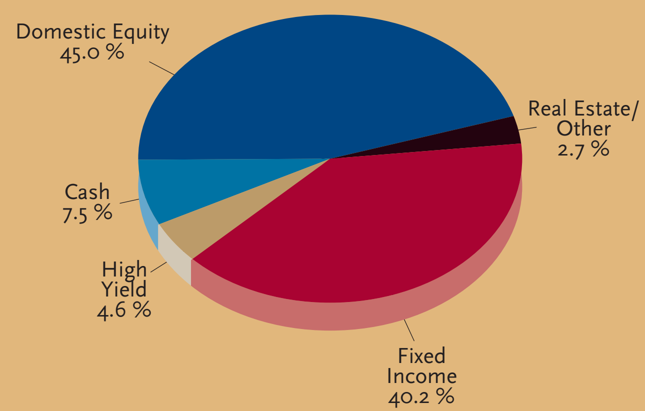
Associated Investments Fund

Approximately 84% 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 $2.8 billion as of June 30, 2001. 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 over the past ten years is illustrated below.

AIF Asset Allocation 6/30/01



AIF Asset Allocation 6/30/91



The A.I.F. is managed for total return, as investment returns are sought from both current income and principal appreciation. For the one-year period ending June 30, 2001, the A.I.F. generated a total investment return of 6.0%. This return compares with the median -3.7% university endowment return (as reported by NACUBO, the National Association of College and University Business Officers). Longer measurement periods provide a meaningful context in which to evaluate investment performance, as illustrated in the chart below.

Total Return Performance Comparison
Periods Ended June 30, 2001
Annualized Returns (%)

Category	10 Years	5 Years	3 Years	1 Year
Associated Investments Fund (A.I.F.)	12.4	10.0	5.0	6.0
Composite Index*	11.5	9.9	3.8	-7.4
Wilshire 5000	14.6	13.1	3.5	-15.4
Lehman Bros. Gov't./Credit Index	7.9	7.4	6.0	11.1

* 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.

Associated Investments Fund

A.I.F. Distributions

In addition to principal gains and gifts, a total of $111,743,000 was earned from interest and dividend payments on assets held in the A.I.F. in Fiscal Year 2001. From this total, $2,679,000 was applied to investment administration charges, which supports the internal costs of investment management. An allocation of $19,326,000 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 $12,913,000 was liquidated from principal pursuant to the A.I.F. spending rule policy, described below. The net distribution following these transfers was $102,651,000, 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

The University has maintained an endowment spending policy since Fiscal Year 1981. The primary purpose of the spending policy is to protect the purchasing power of the endowment from the impact of inflation. In addition, the spending rule policy seeks to provide smooth and predictable endowment distributions. The policy in place for Fiscal Year 2001 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, 2000 market value, the spending rate was 4.6%. Over the past decade, the income distributed per unit pursuant to the spending rule has grown by 5.4% annually, well in excess of the rate of inflation.

Management Responsibility for Financial Statements

The management of the University of Pennsylvania is responsible for the preparation, integrity and fair presentation of the financial statements. The financial statements, presented on pages 22 to 36, 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 auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on page 21.

The University maintains a system of internal controls over financial reporting, which is designed to provide a reasonable assurance to the University's management and board of trustees regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention 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

Report of Independent Accountants

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, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of University management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University of Pennsylvania's 2000 financial statements; and in our report dated October 2, 2000, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 our opinion.

PricewaterhouseCoopers LLP

October 19, 2001
Philadelphia, Pennsylvania

Statement of Financial Position

(thousands of dollars)

	June 30, 2001	June 30, 2000
Assets		
Cash and cash equivalents	$317,096	$144,139
Accounts receivable, net of allowances of $13,886 (2001) and $17,175 (2000)	114,471	115,588
Patient receivables, net of allowances of $67,639 (2001) and $69,689 (2000)	342,809	364,148
Contributions receivable, net	229,228	187,176
Loans receivable, net of allowances of $3,319 (2001) and $5,842 (2000)	104,083	98,671
Other assets	154,863	129,092
Investments, at fair value (net of $250,747 held as collateral in 2001)	3,624,374	3,719,606
Plant, net of depreciation	2,505,896	2,420,661
Total assets	$7,392,820	$7,179,081
Liabilities		
Accounts payable	$105,425	$109,717
Accrued expense and other liabilities	484,067	508,035
Deferred income	46,931	48,777
Deposits, advances, and agency funds	79,225	74,728
Federal student loan advances	77,300	67,568
Accrued retirement benefits	179,339	189,336
Debt obligations	1,389,833	1,418,733
Total liabilities	2,362,120	2,416,894
Net assets		
Unrestricted	2,530,680	2,375,103
Temporarily restricted	1,250,270	1,250,612
Permanently restricted	1,249,750	1,136,472
	5,030,700	4,762,187
Total liabilities and net assets	$7,392,820	$7,179,081

See accompanying notes to financial statements

Statement of Activities

for the year ended June 30, 2001
(with summarized financial information for the year ended June 30, 2000)
(thousands of dollars)

		RESTRICTED			
	UNRESTRICTED	TEMPORARILY	PERMANENTLY	2001	2000
Revenue and other support:					
Tuition and fees, net	$430,285			$430,285	$397,738
Commonwealth appropriations	40,878			40,878	38,099
Sponsored programs	503,223			503,223	464,907
Contributions	33,397	$49,503		82,900	76,490
Investment income	120,279	77,482		197,761	179,528
Hospitals and physician practices	1,678,866			1,678,866	1,617,590
Sales and services of auxiliary enterprises	82,272			82,272	77,980
Other income	114,317			114,317	108,749
Independent operations	60,187			60,187	45,884
Net assets released from restrictions	128,177	(128,177)			
	3,191,881	(1,192)		3,190,689	3,006,965
Expenses:					
Program:					
Instruction	568,261			568,261	551,710
Research	428,145			428,145	387,750
Hospitals and physician practices	1,644,407			1,644,407	1,647,778
Auxiliary enterprises	84,740			84,740	81,403
Other educational activities	95,310			95,310	82,140
Student services	35,302			35,302	33,864
Support:					
Academic support	52,735			52,735	52,659
Management and general	141,262			141,262	122,260
Independent operations	63,752			63,752	50,325
	3,113,914			3,113,914	3,009,889
Increase (decrease) in net assets before nonoperating revenue, net gains, reclassifications and other	77,967	(1,192)		76,775	(2,924)
Nonoperating revenue, net gains, reclassifications and other:					
Gain (loss) on investment, net	17,569	29,387	$(12,421)	34,535	(145,158)
Investment income, net of amounts classified as operating revenue	(11,833)	2,812	1,813	(7,208)	613
Contributions	10,093	34,866	123,886	168,845	156,917
Other	(4,434)			(4,434)	
Net assets released from restrictions	66,215	(66,215)			
Increase (decrease) in net assets	155,577	(342)	113,278	268,513	9,448
Net assets, beginning of year	2,375,103	1,250,612	1,136,472	4,762,187	4,752,739
Net assets, end of year	$2,530,680	$1,250,270	$1,249,750	$5,030,700	$4,762,187

See accompanying notes to financial statements

Statement of Cash Flows

(for the years ended June 30, 2001 & 2000)
(thousands of dollars)

	2001	2000
Cash flows from operating activities:		
Increase in net assets	$268,513	$9,448
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	191,140	190,850
Provision for bad debts	87,596	80,758
(Gain)loss on investments, net	(34,535)	145,158
Loss(gain) on disposal of plant, property, and equipment	5,501	(556)
Nonoperating revenue designated for the acquisition of long-lived assets and long-term investment	(161,637)	(155,401)
Changes in operating assets and liabilities:		
Patient, accounts and loan receivable	(56,858)	(97,743)
Contributions receivable	(12,063)	(3,322)
Other assets	(25,771)	7,336
Accounts payable, accrued expenses and accrued retirement benefits	(21,325)	(48,236)
Deposits, advances and agency funds	4,497	7,257
Deferred income	(1,846)	19,547
Net cash provided by operating activities	243,212	155,096
Cash flows from investing activities:		
Student loans repaid	10,017	13,235
Student loans issued	(13,766)	(17,412)
Purchase of investments	(6,769,632)	(5,465,856)
Proceeds from sale of investments	6,899,398	5,376,963
Purchase of plant, property, equipment	(298,725)	(313,873)
Net cash used by investing activities	(172,708)	(406,943)
Cash flows from financing activities:		
Proceeds from contributions received designated for the acquisition of long-lived assets and long-term investment	121,701	143,605
Federal student loan advances	9,732	537
Repayment of long-term debt	(28,980)	(39,637)
Proceeds from issuance of long-term debt		39,390
Net cash provided by financing activities	102,453	143,895
Net increase (decrease) in cash and cash equivalents	172,957	(107,952)
Cash and cash equivalents, beginning of year	144,139	252,091
Cash and cash equivalents, end of year	$317,096	$144,139
Supplemental disclosure of cash flow information:		
Cash paid for interest	$70,476	$72,845
Non-cash activity		
Due to First Hospital Foundation	($1,743)	$1,280
Capital additions included in accounts payable	$16,931	
Redevelopment Authority Mortgage		$8,200

See accompanying notes to financial statements

Notes to Financial Statements

1. Significant Accounting Policies

Organization

The University of Pennsylvania (the University), located in Philadelphia, Pennsylvania, is an independent, nonsectarian, not-for-profit institution of higher learning founded in 1740. The University Academic Component (Academic Component) provides educational services, primarily for students at the undergraduate, graduate and postdoctoral levels and performs research, training and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States Government. The University also operates an integrated health care delivery system, the University of Pennsylvania Health System-Health Services Component (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 subsidiaries. All material transactions between the University and its subsidiaries 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, 2000 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 maturities of three months or less when purchased are classified as cash equivalents, except that any such investments held in trusts or by external investment managers are classified as investments. Included in cash and cash equivalents is $7,911,000 of restricted cash that is held in escrow.

Notes to Financial Statements

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. For securities that have gone public, but are restricted, valuation is the last sale price at the valuation date with an illiquidity discount of 20 percent. For securities which are bankrupt, total valuations are carried at zero.

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. The University has adopted an endowment spending policy governing the expenditure of the total return of funds invested in the A.I.F. The spending policy is designed to stabilize annual spending levels and to preserve the A.I.F. portfolio and is independent of the cash yield and appreciation of investments for the year. The A.I.F. returns available for expenditure in 2001 were $108,670,000, which exceeded available investment income by $12,913,000.

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 practicable.

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. Contents, rare books and other collectibles aggregating $14,120,000 are not subject to depreciation. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

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. Goodwill associated with the statutory merger of the Presbyterian Medical Center of Philadelphia into the Health Services Component is 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.

Notes to Financial Statements

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. The total liability to donors and beneficiaries under terms of the agreements as of June 30, 2001 is $41,165,000 and is included in accrued expenses. 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.

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 scholarships and discounts in the amount of $101,546,000 in 2001.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 2001, grant and contract revenue received from governmental sources totaled $416,853,000. 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. Based upon information currently available, management believes that any liability resulting therefrom will not materially affect the financial position or operations of the University.

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 nonoperating revenue, net gains, reclassifications and other.

Health Services Component

Revenue of the Health Services Component is derived primarily from patient services and is accounted for at established rates on the accrual basis in the period the service is provided. 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. 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.

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 benefited from the proceeds of the debt.

Notes to Financial Statements

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.

Derivative Transactions

Effective July 1, 2000, the University adopted Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The adoption of SFAS 133, which requires the University to recognize all derivatives at fair value in the Statement of Financial Position, did not affect the University's consolidated financial statements.

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, 2001, the Health Services Component net liability to the University was $49,807,000 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 two years to fully satisfy its obligation.

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.

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 $1,922,000 and $1,610,000 in 2001 and 2000, respectively. 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. There was no similar transaction in 2001.

Summarized financial information for the Health Services Component as of June 30, 2001 and 2000, prior to eliminations for transactions between the Health Services Component and other entities of the University, is as follows (in thousands):

Notes to Financial Statements

	2001	2000
Net patient service and premium revenue	$ 1,584,243	$ 1,530,413
Other revenue	119,674	122,736
Total expenses	(1,646,083)	(1,652,096)
Excess of revenues over expenses from operations	57,834	1,053
Nonoperating, net	25,810	(48,144)
Increase(decrease) in net assets after inter-entity transfers	$ 83,644	$ (47,091)
Total current assets	$467,525	$464,141
Investments and assets whose use is limited (including board designated funds of $276,148 and $273,352 and trustee held funds of $20,707 and $36,752 for 2001 and 2000, respectively)	646,975	616,657
Property, plant and equipment, net	610,096	652,946
Other assets	81,595	84,066
Total assets	$1,806,191	$1,817,810
Total current liabilities	$295,871	$350,232
Long-term debt, net of current portion	783,387	798,152
Other liabilities	274,815	300,952
Total liabilities	1,354,073	1,449,336
Net assets		
Unrestricted	107,260	67,964
Temporarily restricted	245,099	240,627
Permanently restricted	99,759	59,883
Total net assets	452,118	368,474
Total liabilities and net assets	$1,806,191	$1,817,810

3. Investments

A summary of investments, stated at fair value, at June 30, 2001 is as follows (in thousands):

Investment sales receivable	$ 149,233
Short-term	335,340
Stocks	1,544,587
Bonds	881,054
Real estate	120,128
Other	350,225
Securities pledged	243,807
Cash collateral received for securities lending	250,747
	3,875,121
Cash collateral due broker	(250,747)
End of year	$ 3,624,374
Beginning of year	$ 3,719,606

Included in investments are assets held in trust for the University with an aggregate fair value of $162,636,000 at June 30, 2001.

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, 2001, short-term investments held under this arrangement aggregated $9,525,000.

At June 30, 2001, investments with a fair value of $24,130,000 were held by trustees under indenture and escrow agreements.

During fiscal year 2001 the University adopted SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Debt", which requires organizations that enter into qualifying securities lending transactions to disclose those assets which have been loaned to a broker as well as recognize the receipt of cash provided as collateral by the broker. At June 30, 2001, investments with a fair value of $243,807,000 were loaned on an overnight basis to various brokers. The University receives lending fees and continues to earn interest and dividends on the loaned securities. These securities are returnable on demand and are collateralized by cash deposits amounting to 102% of the market value of the securities loaned. The borrower has provided $250,747,000 of cash collateral for the loaned securities at June 30, 2001. The University is indemnified against borrower default by the financial institution that is acting as its lending agent.

At June 30, 2001, short-term investment securities with a fair value of $210,603,000 have been earmarked for the purchase of other long term investments. Additionally, included in investments at June 30, 2001 are investment sales receivable with an aggregate fair value of $149,233,000.

A summary of the University's total investment return as reported in the Statement of Activities is presented below (in thousands):

A.I.F. investment income, net of investment management fees	$109,069
A.I.F. realized and unrealized gains	39,954
Return on the A.I.F.	149,023
Other investment income and losses	76,065
Total return on investments	$225,088

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 2001 (in thousands):

Unconditional promises expected to be collected in:	
Less than one year	$ 43,783
One year to five years	242,313
Over five years	13,080
	299,176
Less: Discount and allowance for doubtful amounts	(69,948)
Contributions receivable, net	$229,228

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.

Notes to Financial Statements

5. Plant

The components of plant at June 30, 2001 are as follows (in thousands):

Land	$ 79,098
Buildings	2,599,211 (a)
Contents	1,207,774
Construction-in-progress	303,615
	4,189,698
Less accumulated depreciation	(1,683,802)
Plant	$2,505,896

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

The University recorded $182,911,000 of depreciation expense for the year ended June 30, 2001.

6. Debt Obligations

Debt obligations at June 30, 2001 are as follows (in thousands):

	Maturity	Interest Rate at June 30, 2001	June 30, 2001
Academic Component:			
Fixed Rate Debt Obligations:			
Pennsylvania Higher Education Facility Authority (PHEFA)			
Series of 1968	2008	4.9%	$ 19,950
Series of 1968 Ware College House	2003	6.8%	117
Series A of 1995 Revenue Bonds	2015	5.3% - 7.0%	96,340
Series B of 1995 Revenue Bonds	2015	5.3% - 7.0%	43,350
Series of 1998 Revenue Bonds	2039	4.5% - 5.5%	196,500
Unamortized Discount			(2,101)
Department of Education Bonds	2007	3.0%	372
Other Loans	2015	5.0% - 9.8%	8,804
Mortgage Notes	2025	8.0%	8,239
Total Fixed Rate Debt Obligations			371,571

Notes to Financial Statements

	Maturity	Interest Rate at June 30, 2001	June 30, 2001
Variable Rate Debt Obligations:			
PHEFA			
Series of 1985 Revenue Bonds	2016	3.0%	10,610
Series of 1990 Revenue Bonds	2020	3.0%	6,500
Quakertown General Authority			
Pool Financing	2005	5.0%	71,745
Washington County Authority			
Lease Revenue Bonds	2005	2.9%	59,701
Other Loans	2007	4.1% – 5.6%	44,319
Total Variable Rate Debt Obligations			192,875
Total Academic Component Debt Obligations			564,446
Health Services Component:			
Fixed Rate Debt Obligations:			
PHEFA			
Series A of 1994 Revenue Bonds	2010	5.6% - 7.0%	35,000
Unamortized Premium			610
Series A and B 1996 Revenue Bonds	2022	4.6% - 6.0%	403,676
Unamortized Discount			(2,500)
Series A of 1998 Revenue Bonds	2015	4.5% - 5.1%	38,750
Unamortized Premium			712
Notes Payable	2006	7.0% - 8.5%	25,821
Capital Leases	2004	5.9%	1,955
Mortgage Notes	2002	7.9%	217
Total Fixed Rate Debt Obligations			504,241
Variable Rate Debt Obligations:			
PHEFA			
Series B of 1994 Revenue Bonds	2024	2.8%	90,000
Series C of 1996 Revenue Bonds	2026	2.8%	80,000
Series B of 1998 Revenue Bonds	2026	2.8%	121,600
Pennsylvania Economic Development Financing Authority Series C of 1994 Revenue Bonds	2014	4.0%	10,066
Mortgage Notes	2003	5.7%	1,480
Other Loans	2007	5.3%	18,000
Total Variable Rate Debt Obligations			321,146
Total Health Services Component Debt Obligations			825,387
Total Academic and Health Services Component Debt Obligations			$ 1,389,833

Notes to Financial Statements

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. In 2001, the Health Services Component met its debt service coverage requirement under the MTI.

On August 2, 2000, 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 $1,406,787,000 at June 30, 2001. The fair value represents the quoted market value for PHEFA 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
2002	$ 27,811
2003	29,084
2004	32,650
2005	125,747
2006	96,411

On August 1, 2001, the Pennsylvania Economic Development Financing Authority issued Revenue Bonds, Series 2001A, with an aggregate principal amount of $20,240,000. The proceeds of the bonds were then loaned pursuant to a Loan Agreement dated August 1, 2001, to University City Associates, Inc. (UCA), a wholly owned subsidiary of the University, to be used for the construction of a new pre K-8 University-assisted public school in the West Philadelphia area. The Bonds mature on January 1, 2005, subject to early redemption by the Authority or bondholders at a purchase price equal to 100% of the principal amount thereof plus accrued interest. The Bonds bear a floating rate of interest, which is adjusted by the Authority at certain intervals. Under the Loan Agreement, UCA will make payments sufficient to fund the debt service of the Bonds, which consists of interest due each year until maturity and principal due January, 2005.

Notes to Financial Statements

7. Operating Leases

The University leases office space and equipment under operating leases expiring through April 2016. Rental expense of $36,668,000 is included in the accompanying Statement of Activities.

At June 30, 2001, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2002	$28,466
2003	21,847
2004	18,494
2005	15,794
2006	14,039
Thereafter	43,297
Total minimum lease payments	$141,937

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 $37,127,000 in 2001.

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 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, 2000	$ 399,324	$ 223,817
Service cost	11,832	10,875
Interest cost	30,233	16,721
Plan participants' contributions	--	1,120
Amendments	--	(9,153)
Actuarial loss	15,573	10,771
Benefits paid	(17,901)	(12,602)
Curtailments	(8,960)	(507)
Benefit obligation at June 30, 2001	$ 430,101	$ 241,042

Notes to Financial Statements

	Pension Benefits	Other Postretirement Benefits
Change in plan assets:		
Fair value of plan assets at June 30, 2000	$ 522,808	$ 68,334
Actual return on plan assets	31,102	2,924
Employer contribution	--	6,869
Plan participants' contribution	--	71
Benefits paid	(17,901)	(3,041)
Divestitures/settlements	(1,670)	--
Fair value of plan assets at June 30, 2001	$ 534,339	$ 75,157
Reconciliation of funded status:		
Funded status	$ 104,237	$ (165,885)
Unrecognized net actuarial (gain) loss	(105,844)	16,367
Unrecognized prior service (benefit) cost	135	(8,805)
Unrecognized transition asset	(1,339)	--
Accrued benefit cost	$ (2,811)	$ (158,323)

Weighted-average assumptions as of June 30, 2001:	
Discount rate	7.50 %
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 8.50% in 2001 to a range of 5.00% to 6.00% over the next seven years, and remain level thereafter.

The components of net periodic benefit cost for pension benefits and other postretirement benefits are as follows (in thousands):

	Pension Benefits	Other Postretirement Benefits
Service cost	$ 11,832	$ 10,875
Interest cost	30,233	16,721
Expected return on plan assets	(47,899)	(6,089)
Amortization of prior service cost	51	(1,101)
Amortization of transition asset	(974)	--
Amortization of net actuarial gain	(9,002)	(1,531)
Net periodic (benefit) cost	(15,759)	18,875
Curtailment gain	(8,897)	(507)
	$ (24,656)	$ 18,368

Notes to Financial Statements

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 on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost	$ 5,159	$ (4,328)
Effect on accumulated postretirement benefit obligation	$ 34,362	$ (29,930)

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.

From July 1998 through June 2001, the University placed its primary layer coverage with a commercial insurer on a claims-made basis. Effective July 1, 2001, the University will fund Franklin Casualty Insurance Company, a wholly owned Risk Retention Group, for purposes of administering its risk retention program covering its primary layer exposure. During 2001, the University changed its method of valuing its medical professional liabilities to a discounted presentation. Total malpractice liabilities of $44,100,000 are presented utilizing a discount rate of 6%. This change resulted in a decrease to 2001 expense of $6,600,000.

10. Contingencies

The University has guaranteed certain obligations, including student loans, mortgages, and leases on properties owned by related parties, totaling $141,701,000 at June 30, 2001. 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.

Trustees

as of June 30, 2001

Statutory Officers

as of June 30, 2001

President
Dr. Judith S. Rodin

Provost
Dr. Robert L. Barchi

Executive Vice President
Mr. John A. Fry

Vice President for Facilities Services and Real Estate Services
Mr. Omar H. Blaik

Vice President for Finance and Treasurer
Mr. Craig R. Carnaroli

Vice President for Development and Alumni Relations
Ms. Virginia B. Clark

Vice President and General Counsel of the University and the Health System
Mr. Peter C. Erichsen, Esq.

Vice President for Human Resources
Mr. John H. Heuer

Vice President for Budget and Management Analysis
Mr. Michael J. Masch

Vice President for Business Services
Mr. Leroy D. Nunery

Vice President for Public Safety
Ms. Maureen S. Rush

Vice President for Government, Community and Public Affairs
Ms. Carol R. Scheman

Vice President for Audit and Compliance
Mr. Rick N. Whitfield

Secretary of the University
Ms. Leslie L. Kruhly

Comptroller
Mr. Kenneth B. Campbell

Non-Discrimination Policy Statement

The University of Pennsylvania values diversity and seeks talented students, faculty and staff from diverse backgrounds. The University of Pennsylvania does not discriminate on the basis of race, sex/gender, sexual orientation, religion, color, national or ethnic origin, age, disability, or status as a Vietnam Era Veteran or special disabled or other eligible veteran in the administration of educational policies, programs, or activities; admissions policies; scholarship and loan awards; athletic, or other University administered programs or employment. Questions regarding this policy should be directed to: Executive Director, Office of Affirmative Action and Equal Opportunity Programs, Sansom Place East, 3600 Chestnut Street, Suite 228, Philadelphia, PA 19104-6106 or (215) 898-6993 (voice) or (215) 898-7803 (TDD).