PENN

University of Pennsylvania

ANNUAL REPORT

1994 – 1995

University of Pennsylvania

ANNUAL REPORT 1994-1995

CONTENTS

Message from the President 3
The Unity of Theory and Practice: Penn's Distinctive Character

Financial Section 12

Message from the Vice President for Finance 13

Five Years of Financial Performance 19

A Five-Year Review of Current Funds 20

A Five-Year Review of Investments. 21

Associated Investments Fund Balance Sheet 22

Associated Investments Fund Statement of Income 23

Management Responsibility for Financial Statements 24

Report of Independent Accountants 25

Balance Sheet 26

Statement of Changes in Fund Balances 28

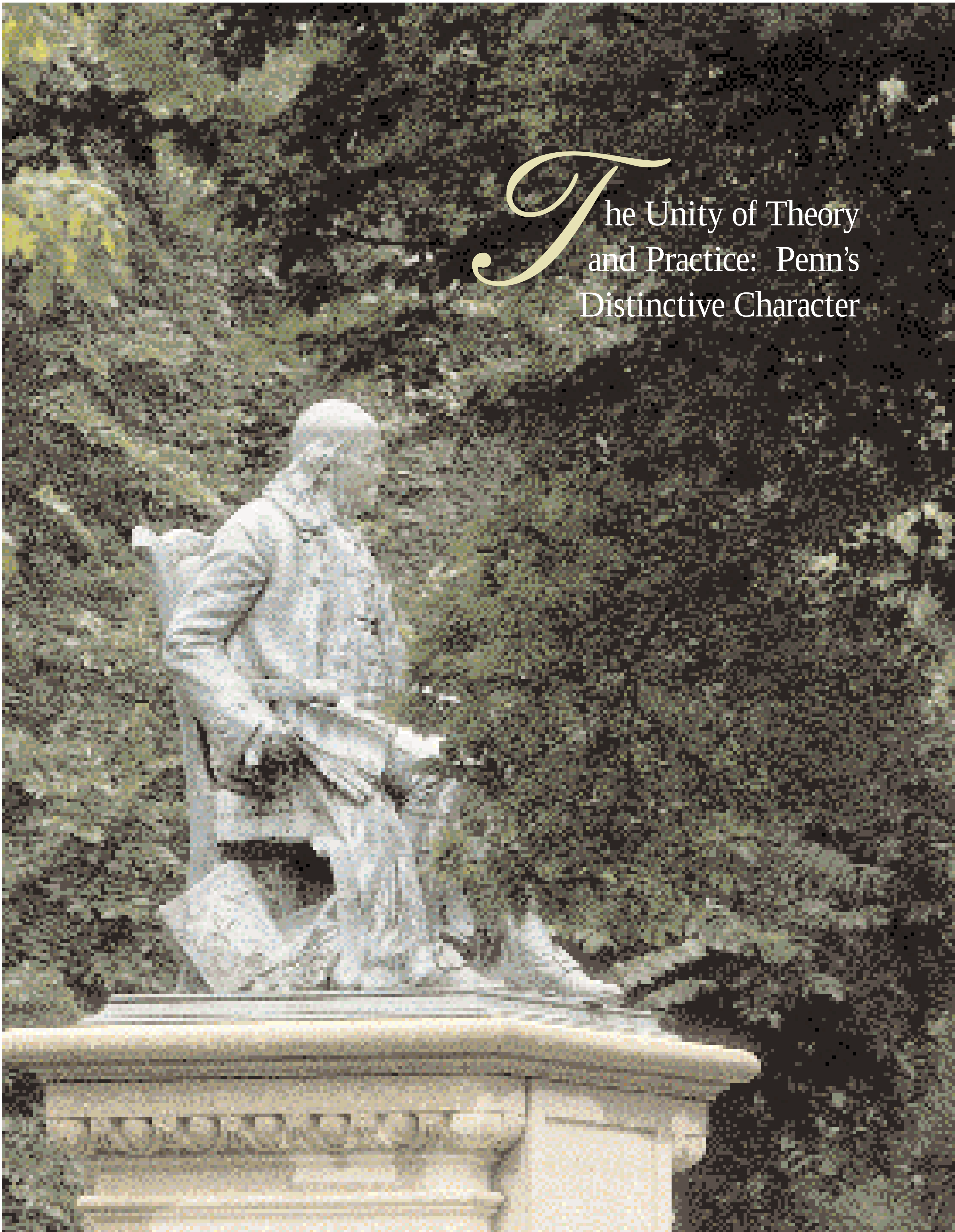
Statement of Current Funds Revenue, Expenditures and Other Changes 30

Notes to Financial Statements 31

Trustees of the University of Pennsylvania 39

Statutory Officers of the University of Pennsylvania 40

The Unity of Theory and Practice: Penn's Distinctive Character



Judith Rodin
President

We live in a pragmatic age. Pundits, politicians, and publics have little patience with claims of privileged status or even of authority. Along with every other profession and institution in our society, higher education, too, is being asked to justify itself, to document its usefulness to society, to demonstrate its ability to make critical strategic choices and to invest scarce resources wisely.

Some of these challenges have always been with us. In response, higher education leaders have long made the case that academic research and teaching are of direct and inestimable importance to the quality of our lives, to our national defense, and to the economic prosperity and happiness of our children. We will continue to assert and prove this point at the University of Pennsylvania.

But the pragmatic temper of our age is a symptom of deeper and more fundamental developments: The structure of our national economy continues to change dramatically. Historic employment patterns and social relationships are being radically altered. New technologies are changing the very nature of work, research, and education. The restructuring of corporations, government, and institutions is having powerful impacts on employees, customers, and clients. And the restructuring of our social and political lives poses challenges of conscience, commitment, and voluntary participation unanticipated in an earlier, gentler time.

Such fundamental changes require a more fundamental response from our nation's colleges and universities.

Few institutions of higher education are as well prepared as Penn to respond to this challenge, nor does doing so detract from our traditional academic missions of teaching, research, and service. Indeed, our founder, Benjamin Franklin, taught us that not only should we not be embarrassed by these pragmatic concerns, we should welcome them and value them in concert with the lofty and important pursuits of theoretical knowledge.

Today, Penn is building anew on that proud legacy.

For many years, Penn has stressed the interaction of theory and practice as an essential and valuable feature of our academic programs, our campus life, and our intellectual style. Indeed, today, we have come to regard the unity of theory and practice as one of Penn's most important and distinctive characteristics.

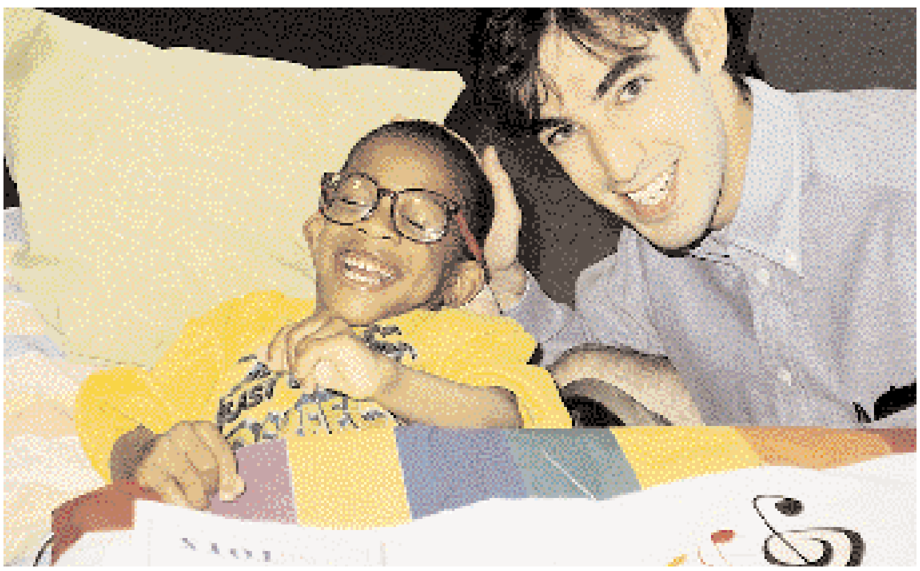
In a joint Graduate School of Education/ Wharton program, a student combines child development with workplace planning.

Theory and practice are, as I said in my Inaugural Address, a part of Penn's "genetic material." Penn is deeply endowed with a commitment to education that is both intellectual and utilitarian. Penn desires to know and to teach, not only "why," but also "how."

Thus, Franklin's legacy of robust pragmatism and disdain for pretense has fresh relevance for us today. Franklin saw far more clearly than any of his contemporaries that the classical inheritance of knowledge divorced from civic betterment or practical application was unsuited to the modern temper.

Though an able theoretician, Franklin saw early on the value of joining "theory" with "practice"—not only in meeting the special challenges of life on what was then still the American frontier, but on the frontiers of a nascent mercantile and industrial society of which his own business and technological endeavors were harbingers.

Franklin's "modern," post-Enlightenment world was an active world, as well as a contemplative one. And Franklin thought education should keep pace with this transformation. He thought knowledge should be for the body as



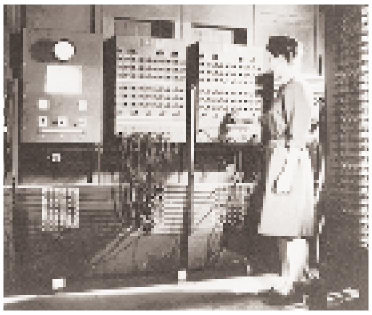
The Penn TOYS project of Dr. Daniel Bogen's bioengineering class builds toys for disabled children, such as this musical mat for children with cerebral palsy.

well as for the soul—that it should enable a graduate to be a bread-winner as well as a thinker, that it should produce socially-conscious citizens as well as conscientious bankers and traders.

So Penn has good and unique historical claim to the theme of theory and practice. From its very start, Franklin pushed for Penn to offer professional as well as scholarly studies. His famous statement, teach "every thing that is useful, and every thing that is ornamental," has since inspired more than one presidential appreciation or curricular reform at Penn.

It has been that willingness to acknowledge the claims of pragmatic considerations, the willingness to put our knowledge to work, and the willingness to learn new theoretical insights from practical experience that have enabled Penn to be "first" in so many areas: the first American "university," the first American medical school, the first business school, the first journalism curriculum, the first institute for the study of anatomy and biology, the first psychology clinic, to cite only a few.

University of Pennsylvania ENIAC 50 The Birth of the Information Age



The invention of ENIAC in 1946 founded the century's most significant new industry.

And then there was the event at Penn that was to alter forever the way we process information, acquire knowledge, and conduct business: the invention in 1946 of ENIAC, the world's first all-electronic, digital computer.

Today, as we move from the "modern," industrial societies of the 19th and 20th centuries, to the "post-modern," computer and information based, global society of the 21st century, this commitment to the unity of theory and practice has taken on even greater significance. The challenges of our "pragmatic" age cannot be adequately answered by pragmatism alone. Only theory and practice together can fully respond to the challenges of the 21st century.

Here on campus, we see the unity of theory and practice expressed in the work of thousands of faculty and students almost every day.

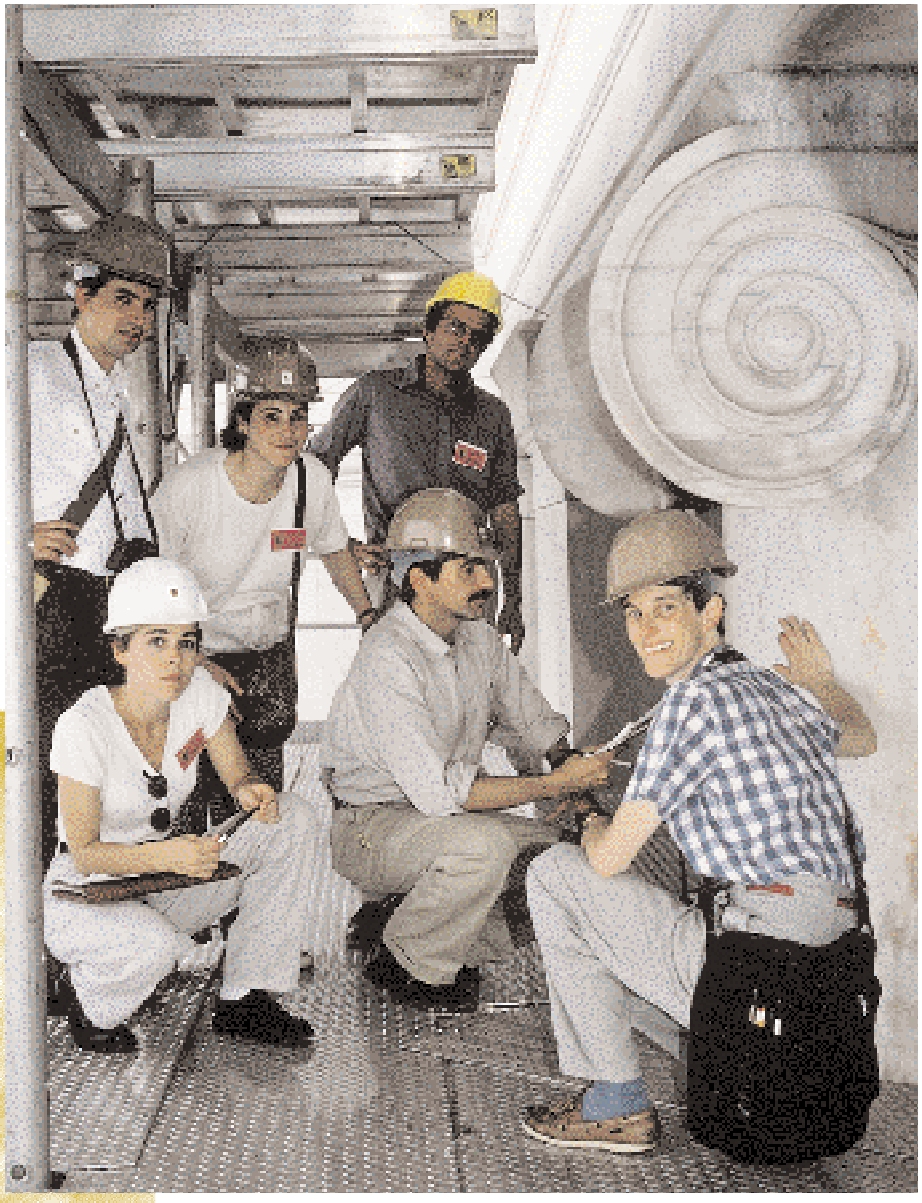
The most obvious way in which theory and practice are linked is in the direct application of theoretical knowledge to real-life problems and

"Every thing that is useful, and every thing that is ornamental."

As part of the "Say Yes to Education" program, Dr. David DiGiallorenzo of Penn's School of Dental Medicine provides a free dental screening.

opportunities. This happens so often that we almost fail to notice it unless the examples are unusually dramatic or impressive.

Not that we lack impressive examples. Here are three: the development of pioneering gene therapy techniques by Penn's Professor James M. Wilson, the creation of a stone conservation program for the Lincoln and Jefferson Memorials by students from the Graduate School of Fine Arts, and the provision of critically needed dental care to the children of migrant farm workers by the School of Dental Medicine. At the same time, working with private industry on a number of other fronts, Penn is moving aggressively to secure the benefits of "technology transfer" for both the University and our surrounding community.



Preservation of the Lincoln and Jefferson Memorials is a project of students in the Architectural Conservation Laboratory of the Graduate School of Fine Arts.

Dr. James Wilson of the School of Medicine discusses cutting edge gene therapy research with a student.

At other times, the relationship between theory and practice is reversed, and practice becomes a means of learning theory and of gaining new theoretical insights.

For example, Annenberg School Dean Kathleen Hall Jamieson is working with undergraduates and graduate students on a project funded by the Ford and Carnegie Foundations to monitor campaign discourse and advertising during the upcoming presidential elections. Their work should allow ongoing comparisons between the current campaign and significant historical benchmarks. From the close observation of real political practice will come new insights into the rapidly changing nature of political life as we approach the 21st century. Meanwhile, in Professor Daniel Bogen's bioengineering course, undergraduates are learning the special difficulties of engineering to meet specific human needs by designing special toys for handicapped children.

Undergraduates create a Campaign Discourse Quality Index in their study of political accountability in presidential elections.

But the unity of theory and practice at Penn is more than simply a matter of applying theoretical insights in practical contexts or incorporating the lessons of practice into our theoretical knowledge. Theory and practice may be married in unpredictable ways in the present and future lives of our students and faculty. Indeed, many students and faculty come to Penn to immerse themselves in theoretical research or study, only to find, sometimes years later, that they have applied their education in unique and personal ways as they achieve success in business, government, or other "practical" fields of endeavor. Other students and faculty come to Penn to study or teach the worldly disciplines of management, finance, nursing, and engineering, only to have these "practical" subjects stimulate bursts of pure, theoretical insight. Penn welcomes both kinds of students and faculty—and the dynamic new world that is rapidly taking shape around them.

That is why the combination of theoretical and practical experience throughout Penn's curriculum is so important. Penn students have the unique opportunity to combine educational elements from all of our schools, particularly from the School of Arts and Sciences and the University's eleven other professional schools, all located together on a single campus.

This synergy creates opportunities to easily study social and psychological theory while learning the practical constraints on business decisions, to learn the nature of disease while engineering the biotechnical tools for its amelioration, to learn the history of architecture and design while putting that knowledge to work in the design of community gardens or the revitalization of the Philadelphia Navy Yard—opportunities that few institutions can provide as easily or as enthusiastically as Penn.

Within this institutional framework, we are also building on the groundbreaking efforts of Penn's Joseph H. Lauder Institute of Management and International Studies to demonstrate that no practical knowledge is adequate in our international age unless it is contextualized by the cultural, social, and historical dimensions of our global society. Penn has recognized the necessity of changing international studies from a single, isolated program to a fully

As Part of Wharton's new MBA curriculum, first-year students work in teams. The "Kanchanjanga Five" served as consultants to the non-profit Avenue of the Arts in Philadelphia.

Bedside teaching/ learning now draws on a growing body of nursing research.

integrated process of learning across all of our schools at both undergraduate and graduate levels. Indeed, so important is the topic to Penn's future, that the University's Board of Trustees has created a standing committee on internationalization. In the future, all of us, students and faculty alike, will gain, use, and communicate our knowledge in a single global community. We send Penn graduates out into the world with a global perspective and a self-confident facility in putting their knowledge to work in an international context.

But merely combining and juxtaposing the practical and the theoretical in these ways is not enough. Penn has gone beyond combination to encourage their true integration in interdisciplinary courses and programs that link areas ranging from biology to engineering, economics to fine arts, languages to business, management to technology. Signature programs like Management and Technology, housed in the Wharton and Engineering Schools, consistently attract some of the country's most exceptional undergraduate students. Both practical insights and new basic theories flourish in such an interdisciplinary mix.

Undergraduates in anthropology share their knowledge of nutrition with students at Turner Middle School in West Philadelphia.

Finally, there are ways in which the complex interrelationships between theory and practice transcend any effort at neat conceptualization. One of those is the application of theory in service to our community—and the use of community service as an academic research activity for students. Nowhere else is the interactive dimension of theory and practice so clearly captured.

For more than 250 years, Philadelphia has rooted Penn in a sense of the "practical," reminded us that service to humanity, to our community, is, as Franklin put it, "the great aim and end of all learning." Today, thousands of Penn faculty and students realize the unity of theory and practice by engaging West Philadelphia elementary and secondary school students as part of their own academic course work in disciplines as diverse as history, anthropology, classical studies, education, and mathematics.

For example, Anthropology Professor Frank Johnston and his undergraduate students educate students at West Philadelphia's Turner Middle School about nutrition. Classical Studies Professor Ralph Rosen uses modern Philadelphia and fifth century Athens to explore the interrelations between community, neighborhood, and family. And History Professor Michael Zuckerman's students engage West Philadelphia elementary and secondary school students to help them understand together the nature—and discontinuities—of American national identity and national character.

In their "Penn and Ink" project, Penn students teach creative writing to interested teens.

Increasingly, too, new interactive technologies are being used to link all the various phases of the life of knowledge—discovery, refinement, transmission, revision, application, and the stimulation of new insights—to give powerful new and unpredictable expressions to the unity of theory and practice.

Take for example, Julie Sisskind, a doctoral student in African studies, who, noting the dearth of electronic resources on Africa available on the Internet, created the largest information and graphics repository of information on Africa on Penn's WorldWideWeb site. It has since been recommended as a resource by the Library of Congress. Then, before leaving for Africa to do her dissertation research, Julie trained her successor, Ali Ali-Dinar, another graduate student, who in turn has been giving training sessions to Philadelphia K-12 librarians and teachers in use of the database for their own classroom teaching (using modem pool access donated by Penn). So what began as a part-time job, and led first to the creation of a new scholarly resource, has now been turned to the direct benefit of students throughout the Philadelphia public schools.

Remarkable things like this are happening every day at Penn. They happen here because Penn refuses to separate theory and practice into separate domains. We refuse to isolate ourselves in one perspective or the other, but stand steadfastly in both, learning from experience, while testing our theories and insights in application and service.

Health Corner, the brainchild of a doctoral candidate in the Nursing School, provides a Teen Clinic emphasizing preventative health care for local teens.

Indeed, all of these linkages between theory and practice have one thing in common. In each, the faculty and students involved have refused to make sharp distinctions between theory and practice, between knowledge and application, between the life of the mind and the active life of commerce, community, health and human betterment. They have remained open to the interaction between theory and practice and to the inter-"play" that moves back and forth rather than in a single direction.

The noted architect and planner, Penn alumna Denise Scott Brown, has described this as one of the hallmarks of "professional" life: the life-long effort "to keep theory and practice together."

That is exactly the sense in which Penn's renown as a "professional" and "pre-professional" institution, together with excellence in the liberal arts, is emblematic of its special understanding of the unity of theory and practice: not the erroneous notion that professional life is simply the domain of the practical, a place where the "real world" concerns of commerce, law, health care, and design dominate to the exclusion of lofty, "academic," or theoretical concerns, but the idea that—properly undertaken—both theory and practice are professional activities, intended to enhance the quality of human life and best able to do so when kept together in close connection with each other.

A graduate student observes the excavation of a burial shaft during the 1995 excavations of the tomb of Ihy at Saqqara, Egypt.

Penn was the first to take this approach to professional training and professional life. And in its commitment today to the unity of theory and practice, Penn recognizes that "keeping theory and practice together" is the essential ingredient of education, research, and service as we train the "professionals" of the 21st century.

Today, Penn continues to lead the way in uniting theory and practice. As we reinvest human and financial resources in our core missions of education, research, and service—through thoughtful and strategic academic planning, through administrative restructuring, and through careful and attentive "best practices" management—we are ever mindful of the challenges of this pragmatic age and the exciting opportunities it presents.

Judith Rodin

Judith Rodin
President

During Fiscal Year 1995, the University of Pennsylvania continued its long tradition of financial growth and positive operating performance. The principle factors generating these results were the University's strong investment performance, continued discipline in resource utilization and the implementation of new business strategies to improve operations and reduce costs. In support of its academic mission, University leadership forged strategic relationships, throughout the country and around the globe, investing resources as required to attract and recruit top tier faculty and students and to build state-of-the-art research facilities. Ongoing positive financial performance gives the University the strength and confidence to utilize its resources to compete for the most talented faculty, students and staff in this highly competitive environment.

Fiscal Year 1995

The Fiscal Year 1995 financial performance for the University of Pennsylvania continues a two decade trend of generating an unrestricted educational and general operating surplus. For the first time in its history, total assets topped the four billion dollar mark. University assets now total almost $4.3 billion, representing an increase of 8.4%, or $334 million. During the year, total fund balances increased by $183 million, or 6.4%. Each fund group, with the exception of Health Services, increased. The Endowment Fund had the most significant increase—almost $110 million—comprised of $50 million from gifts to endowment, $51 million from net gains on the sale of investments and $8 million from spending rule reinvestment.

Government Relations

The Commonwealth of Pennsylvania continued to recognize Penn's educational, cultural and economic contributions to the state by supporting the University with budgetary appropriations. In prior years, this valuable source of funding decreased, and was targeted for elimination because of increasing pressure on the Commonwealth's budget. This year, through the effective efforts of University Officers and the Board of Trustees, Penn received an appropriation of $35.7 million, an increase of $6.7 million over last year and an amount equal to the Fiscal Year 1992 appropriation level. In connection with the appropriation and at the request of the Pennsylvania House and Senate, the University appointed to its Board four "Commonwealth Trustees" for the first time.

As President Rodin indicated in her message, the welfare of Philadelphia and the University are closely intertwined. As the largest private employer in the Greater Philadelphia region, Penn recognizes and accepts its responsibility to the City of Philadelphia. In addition to the numerous outreach programs the University initiates and conducts annually, Penn also provides appropriate assistance whenever possible.

Toward this end, Penn, in partnership with other local institutions, entered into a long term agreement with the City to make annual financial contributions for city services used by University faculty, students and staff and to provide community services to city residents in recognition of our mutual interests.

Just as stresses in the local economy and Commonwealth budgets have affected the support available to the University, the current budgetary discussions in Washington also warrant our careful attention. Primary issues of concern include the amount of funds available for health care and student financial aid, the reimbursement of indirect costs on federally-sponsored research agreements, and the general decline of resources available to support the direct costs of research.

Research

In spite of persistent threats to current funding levels of federally-sponsored research, the University continues to achieve impressive gains in the funding of its research programs. Fiscal Year 1995 saw new awards issued for sponsored projects increase by more than $41 million to a total of $322 million, an increase of 14.9%. While the School of Medicine experienced the largest dollar increase ($12 million), other schools recorded impressive gains as well, including the School of Engineering and Applied Science (39.3%), the School of Arts and Sciences (31.4%) and the School of Veterinary Medicine (25.5%).

Continued federal funding of the indirect costs of research, including utility, space and administrative support costs, is crucial to the success of Penn's research programs. Fiscal Year 1995 marked the last year of a three year negotiated rate for indirect cost reimbursement with the Department of Health and Human Services (DHHS), our cognizant federal negotiator. During this past year, the University and DHHS have been negotiating a new multi-year indirect cost rate, but an agreement has not yet been effected.

Strategic Investment

Much of Penn's growth in research funding is linked to the University's continued investment in its research buildings, laboratories and equipment. In Fiscal Year 1995, Penn spent over $152 million on its research infrastructure and other capital needs to provide students, faculty and staff with improved facilities and a safe working environment.

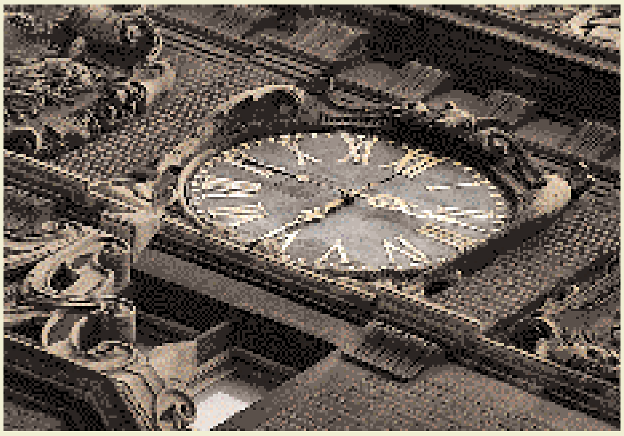
During the year, the Trustees approved plans for two major construction projects—one to further strengthen the University's competitive research position and the other to provide improved facilities for students. The first project, the Institute for Advanced Science and Technology (IAST), will support multi-disciplinary research programs for faculty from the School of Arts and Sciences, the School of Engineering and Applied Science and the School of Medicine. Phase I of the IAST, the Roy and Diana Vagelos Laboratories, will provide over 100,000 gross square feet of modern research laboratory space on the Penn campus. The University received federal approval and partial funding for the project this past summer. Groundbreaking occurred in the fall and the facility is scheduled to be operational in Fiscal Year 1998.

The other project, the Perelman Quadrangle and Wynn Commons, will create a multi-purpose student center in the historic heart of the campus, combining academic program and student activity space. Wynn Commons will serve as the point of entry to the Perelman Quadrangle, uniting some of the University's most prominent buildings and providing a landscaped plaza where people will come together for a variety of activities. Phase I of the project is the interior renovation of Logan Hall, among the oldest buildings on campus (built in 1874). Renovations on Williams Hall, Irvine Auditorium and Houston Hall, the first student union established in the United States, will follow.

Health System

The University of Pennsylvania Health System, Health Services Component, which includes the Hospital of the University of Pennsylvania (HUP), the Clinical Practices of the University of Pennsylvania (CPUP) and Clinical Care Associates (CCA), once again, through careful planning and management, generated an excess of revenue over expenditures before conversion to generally accepted accounting principles (GAAP) for colleges and universities. This excess of revenue over expenditures includes the impact of the physician faculty practice component of the Health System's (CPUP's) agreement to pay the federal government $10 million to resolve alleged errors in bills submitted to the government, plus a treble damage penalty of $20 million. The agreement resolves complex billing issues raised in an audit of Medicare Part B professional fee payments over a six year period (1989 through 1994). The Health System has initiated a comprehensive compliance program, which the federal government is promoting for other academic health systems, in order to prevent such findings in the future.

The Health System's overall performance provides the foundation upon which it will continue to grow by making substantial investments in its primary care physician network and new research facilities. To provide state-of-the-art research facilities for our medical faculty and students, Penn completed construction of its first biomedical research facility, the Stellar-Chance Laboratories, and anticipates beginning construction on a second biomedical research building during Fiscal Year 1996.



Over the past several years, the Health System has positioned itself to respond to the rapidly changing national environment in health care. While independent hospitals and physicians have characterized the health care environment of the past, the new environment emphasizes managed care and integrated delivery systems. The very phrase "Health System" implies a broader range of responsibility than that conveyed by the more traditional term, "Medical Center." In the past, the goal was to cure patients' illnesses and teach students and residents how to do so; now the goal is also to keep patients healthy, monitor clinical outcomes over a large group, and work to lower costs. Capitation is becoming the prevailing mode of payment, replacing traditional fee-for-service plans. Under capitation, the health care provider assumes full financial risk for a flat fee paid, in advance, whether for a preventive check-up or quadruple bypass surgery.

The primary care physician is essential to the achievement of superior managed care in this evolving environment. Penn's primary care network (CCA) now includes more than one hundred physicians; with a goal of three hundred primary care physicians over the next several years. CCA is the foundation on which the Health System will build its vertically-integrated health care delivery system.

In addition to its primary care physician network, the Health System recognizes its need to have strategically located hospital facilities in which to provide care and maintain and strengthen its educational mission. Toward this goal, the University finalized arrangements to acquire the Presbyterian Medical Center of Philadelphia on July 1, 1995. The official name of this new entity is the Presbyterian Medical Center of the University of Pennsylvania Health System (PMC-UPHS).

Development Activities and Endowment

December 31, 1994 marked the end of the record-breaking Campaign for Penn, which raised more than $1.4 billion, the largest amount in a completed campaign for higher education at that time. Of that total, nearly $1.1 billion has already been received; the remaining amount will be received over the next five years. More than 1,500 volunteers around the world worked throughout the Campaign to secure gifts from nearly 175,000 donors who wish to ensure that the University has the resources it needs as it moves into the future. Through their efforts, the Campaign met its goals of 150 new endowed professorships and increased student financial aid, began new and strengthened existing programs in undergraduate education, and provided additional support for minority permanence. Development efforts are continuing in order to address the University's priorities, including the 21st Century Undergraduate Experience Initiative, new investments in science and research, internationalization and student financial aid.

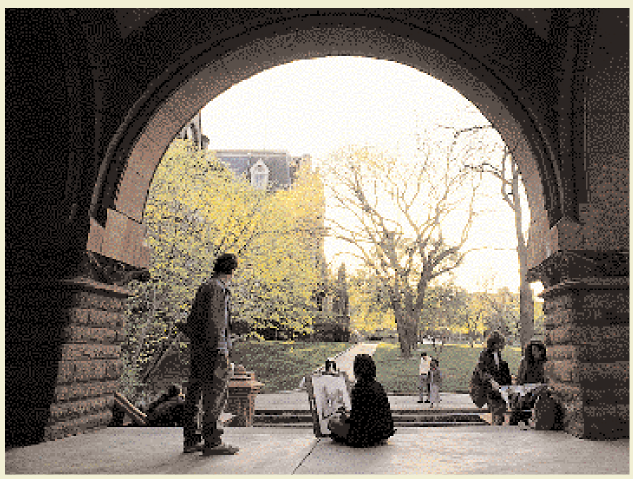
The Campaign has added over $400 million to the University's endowment, which as of June 30, 1995 had a market value of nearly $1.7 billion. Most of the endowment is pooled in the University's Associated Investments Fund (A.I.F.). In 1981, the Trustees implemented a spending rule policy to protect the A.I.F. from the effects of inflation. This policy limits the amount that can be spent in any year to a certain percentage of A.I.F. share market value, with amounts earned above the spending limitation reinvested into principal. To date, over $124 million has been reinvested. When the spending rule policy was introduced in Fiscal Year 1981, the spending rate was 6.7%. The University gradually reduced the rate until it reached 5.5% in Fiscal Year 1987, where it remained through Fiscal Year 1994. Since that time, the University has carried out a strategy of lowering the spending rate further to preserve additional resources for the funding of future initiatives. This is reflected in rates of 5.2% in Fiscal Year 1995 and 4.8% in Fiscal Year 1996.

Administrative Restructuring

Most economic indicators suggest that the next several years will be ones of financial uncertainty for all of higher education. The decreasing ability of the federal government to support sponsored research and student financial aid; the increasing costs associated with maintaining first class research facilities; the escalating expense of maintaining aging buildings and infrastructure; and the external demands to control and reduce the cost of education are realities facing all colleges and universities.

As Penn plans for the future, it is mindful of these current trends, and determined to be a leader in the effort to position higher education in a more competitive, resource-constrained environment. As such, it recognizes the need for strategic investment in its faculty and facilities. At the same time, the University must invest in the reengineering and technology that will streamline Penn's administrative processes to ensure that they are performed in the most cost effective and efficient manner and are of the highest quality. The focus of these efforts will be to improve the quality of services, enhance our ability to meet customer needs, significantly reduce costs, increase the productivity of employees and improve efficiency by eliminating administrative tasks that do not add value.

In Fiscal Year 1995, University leadership initiated an evaluation of all administrative structures and processes. This effort identified specific opportunities for restructuring some of the University's central administrative functions, as well as proposed general guidelines for administrative restructuring within Penn's schools, centers and institutes. The University



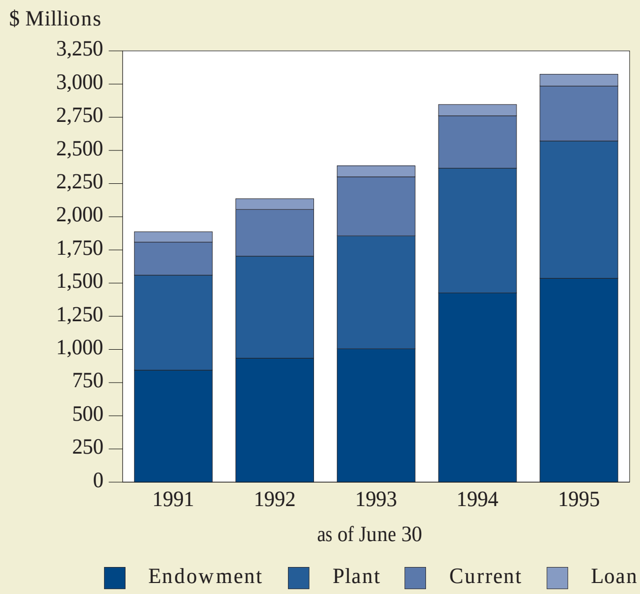
has begun efforts to reengineer Human Resources, Information Systems and Computing, Research Administration, Procurement and Risk Management. It is envisioned that this will be achieved through organizational and process restructuring, information systems enhancement, and staff development and training.

A key ingredient in the effort to increase administrative efficiency is the implementation of a new Financial Management Information System (FinMIS). The current accounting system is over twenty years old and is not well suited to providing the financial information required for planning and analysis. FinMIS includes general ledger, accounts payable and purchasing applications. The University is also building a data warehouse, which will gather and integrate information from several systems into one place, allowing for faster, more efficient and more accurate analysis.

Fiscal Year 1995 reflects another year of strong operating performance for the University. The successful completion of the Campaign for Penn underscores the commitment of our alumni and friends. The growth in the research enterprise reinforces the strength of Penn's faculty and its commitment to a core mission. The Health System's investment in primary care and new facilities ensures that the nation's first medical school will remain at the forefront of medical education and research. The significant investment in restructuring core administrative functions will promote the economical and efficient delivery of quality services, thereby providing additional resources for academic programs. These achievements and strategic investments position Penn to meet the challenges of the future.

Stephen T. Golding
Vice President for Finance

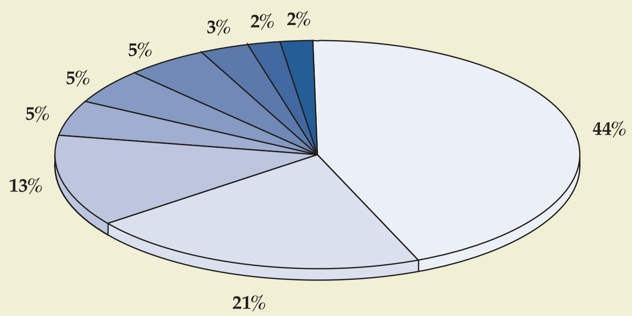
Five Year Growth in Fund Balances



Five Years of Financial Performance

University of Pennsylvania
(thousands of dollars)

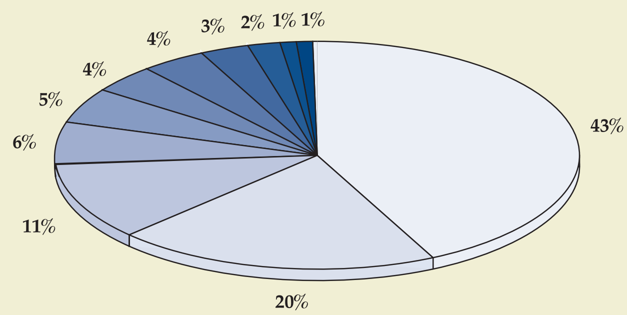
	1995	1994	1993	1992	1991
Unrestricted:					
Change in Unrestricted fund balances:					
Educational and General	$34	$32	$28	$26	$25
Health Services:					
University Hospital	(889)	(95,468)	79,714	95,218	45,204
Clinical Practices	(47,316)	21,450	1,726	1,124	(2,770)
Clinical Care Associates	8,667	16,335			
Graduate Hospital	97	97	97	97	97
	(39,441)	(57,586)	81,537	96,439	42,531
	$(39,407)	$(57,554)	$81,565	$96,465	$42,556
Unrestricted fund balances:					
Educational and General	$1,188	$1,154	$1,122	$1,094	$1,068
Health services:					
University Hospital	165,318	166,207	261,675	181,961	86,743
Clinical Practices	68,290	115,606	94,156	92,430	91,306
Clinical Care Associates	25,002	16,335			
Graduate Hospital	(1,915)	(2,012)	(2,109)	(2,206)	(2,303)
	256,695	296,136	353,722	272,185	175,746
	$257,883	$297,290	$354,844	$273,279	$176,814
Restricted:					
Net change in restricted fund balances	$13,735	$7,843	$10,728	$6,700	$1,162
Net current restricted fund balances	$111,579	$97,844	$90,001	$79,273	$72,573



1995

How it was Provided (by source)

Health Services	44%
Tuition and fees	21%
Government grants	13%
Gifts and private grants	5%
Auxiliary enterprises	5%
Investment income	5%
Other educational activities	3%
Commonwealth appropriations	2%
Other sources	2%
	100%



1995

How it was Spent (by function)

Health Services	43%
Instruction	20%
Research	11%
Student aid	6%
Auxiliary enterprises	5%
Operations and maintenance	4%
Other educational activities	4%
General institutional expense	3%
General administration	2%
Libraries	1%
Student services	1%
	100%

A Five-Year Review of Current Funds

University of Pennsylvania
(thousands of dollars)

	1995	1994	1993	1992	1991
Revenue:					
by source					
Student tuition and fees	$381,702	$353,523	$331,745	$307,514	$281,908
Commonwealth appropriations	35,750	29,004	22,060	36,627	36,627
Government grants	245,833	227,394	211,802	196,532	179,282
Investment income	87,838	71,088	69,485	67,891	65,757
Gifts and private grants	106,435	103,651	92,199	91,381	79,872
University Hospital	564,943	547,891	540,479	472,681	368,875
Physician Practices	192,007	231,886	189,256	180,558	161,365
Other educational activities	49,384	44,356	39,078	34,491	35,484
Other sources	28,868	29,785	24,309	25,494	26,054
Auxiliary enterprises	85,097	75,769	73,195	71,301	69,808
	1,777,857	1,714,347	1,593,608	1,484,470	1,305,032
Expenditures:					
by function					
Instruction	342,506	298,807	279,256	260,692	251,046
Research	194,432	176,573	165,248	157,224	140,218
Libraries	24,395	23,204	22,123	21,040	19,664
Other educational activities	63,611	59,161	57,345	58,247	52,293
Student aid	104,749	93,848	83,510	78,621	75,008
Student services	20,837	20,061	18,406	17,239	16,780
University Hospital	477,363	363,391	435,832	362,457	315,635
Physician Practices	253,322	204,132	174,485	162,427	146,407
Operations and maintenance	64,813	61,093	53,638	55,412	52,887
General institutional expense	48,174	44,358	40,738	43,878	39,713
General administration	33,109	32,011	30,659	28,790	27,128
Auxiliary enterprises	87,190	77,985	69,973	68,874	66,772
	1,714,501	1,454,624	1,431,213	1,314,901	1,203,551
Transfers to Other Funds:					
Mandatory transfers	(36,444)	(39,866)	(33,013)	(32,501)	(33,908)
Other transfers, net	(52,584)	(269,568)	(37,089)	(33,903)	(23,855)
	(89,028)	(309,434)	(70,102)	(66,404)	(57,763)
Net increase (decrease) in current fund balances	$(25,672)	$(49,711)	$92,293	$103,165	$43,718
Expenditures:					
by object					
Salaries and wages:					
University	$425,720	$394,877	$373,634	$351,046	$330,568
Health Services:					
University Hospital	167,574	163,457	155,279	148,461	138,509
Physician Practices	140,329	109,307	98,883	85,171	78,516
	733,623	667,641	627,796	584,678	547,593
Current expense	810,937	726,767	692,831	651,836	580,056
Capital additions	169,941	60,216	110,586	78,387	75,902
	$1,714,501	$1,454,624	$1,431,213	$1,314,901	$1,203,551

A Five-Year Review of Investments

University of Pennsylvania
(thousands of dollars)

	1995	1994	1993	1992	1991
Investments:					
Cost					
Stocks	$665,171	$576,776	$434,564	$409,569	$368,239
Bonds	923,859	917,410	785,044	663,330	567,395
Short-term	703,141	672,700	516,793	460,227	332,826
Other	88,191	72,742	53,224	36,467	40,978
Total Investments	$2,380,362	$2,239,628	$1,789,625	$1,569,593	$1,309,438
Market					
Stocks	$807,602	$659,146	$511,920	$439,625	$357,316
Bonds	939,934	889,369	834,950	697,737	577,019
Short-term	699,164	672,707	516,957	460,884	332,836
Other	100,703	80,661	57,859	40,889	43,330
Total Investments	$2,547,403	$2,301,883	$1,921,686	$1,639,135	$1,310,501
Endowment*:					
Cost	$1,513,309	$1,403,735	$985,294	$916,207	$827,362
Market	$1,675,740	$1,464,455	$1,095,796	$974,399	$825,601
Associated Investments Fund:					
Cost	$1,113,163	$997,548	$897,950	$826,025	$734,965
Market	$1,255,411	$1,064,865	$1,002,782	$875,337	$731,232
Per Share Market	$600.21	$543.41	$538.53	$491.93	$439.35
Per Share Income	$29.51	$29.60	$29.08	$28.27	$29.73

* Endowment includes true, term and quasi-endowment only; does not include life income, annuity and unitrust funds reported in the Financial Statements with Endowment and Similar Funds.

Associated Investments Fund Balance Sheet

University of Pennsylvania
June 30, 1995
(thousands of dollars)

	1995	
	Cost	Market
Investments:		
Equity Fund	$640,957	$772,234
Fixed Income Fund	246,815	250,195
High Yield Bond Fund	163,381	159,509
Short Term Fund	728	728
Real Estate, Venture Capital and other	61,282	72,745
Investments, end of year	$1,113,163	$1,255,411
Investments, beginning of year	$997,548	$1,064,865
Fund:		
Invested by participating funds		$681,762
Net distributed gains realized on sales, etc. of investments and withdrawals of participating funds and gains availed of		431,401
Excess of market value of investments over cost		142,248
		$1,255,411
Number of participating units		2,091,614
Per share value, end of year		$600.21
Per share value, beginning of year		$543.41

A.I.F. Total Return Performance Comparison

Annual Total Return Compounded Quarterly
Periods Ended June 30

	1986	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**10 Year Average**
A.I.F.	26.4	21.5	4.4	16.7	2.2	3.9	18.8	15.8	6.4	**16.5**	13.0
Composite Index	30.7	19.0	(2.7)	18.2	14.0	7.9	13.6	13.4	0.9	**21.3**	13.2
S&P 500	35.7	25.1	(6.9)	20.4	16.4	7.4	13.4	13.6	1.4	**26.0**	14.6
Lehman Bros. Gov't./Corporate	20.6	4.7	7.5	12.3	7.1	10.2	14.2	13.1	(1.5)	**12.8**	10.0

Compounded total return is used commonly for evaluating investment performance. This convention measures both capital appreciation and income, and assumes the reinvestment of income on a periodic basis.

The Composite Index is constructed to show what the A.I.F. return would have been if the A.I.F. had been invested in the S&P 500 Composite Stock Index and the Lehman Bros. Government/Corporate Bond Index on a weighted basis equal to its actual equity and fixed income allocations during the ten year period.

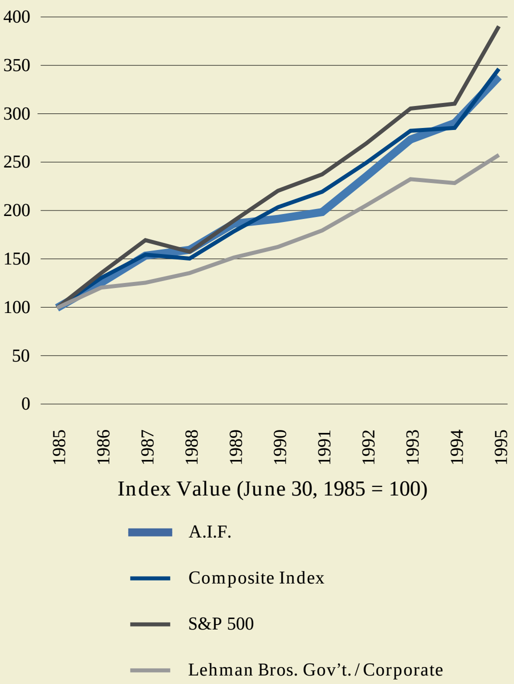
Associated Investments Fund Statement of Income

University of Pennsylvania
for the year ended June 30, 1995
(thousands of dollars)

		1995
Interest received on bonds, net of accrued interest on bonds purchased	$32,477	
Dividends received on common stocks	25,175	
Other income	2,756	
		$60,408
Less:		
Salaries, fees, postage, etc. allocable to fund	1,961	
Indirect expenses recovered on yield	10,169	
Total expenses		12,130
Total income distributed to participating units		48,278
Less: Income reinvested in principal		7,570
Net income distributed to participating units		$40,708
Total income per share		$29.51
Distributed net income per share		$19.55

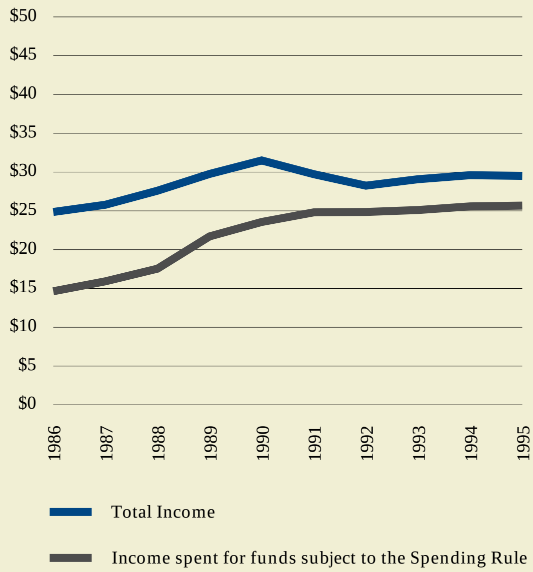
A.I.F. Total Return Performance

Cumulative Returns Compounded Quarterly
Year ended June 30



A.I.F. Income Per Share

Year ended June 30



Management Responsibility for Financial Statements

The financial statements displayed on pages 26 to 38 have been prepared to conform with generally accepted accounting principles governing educational institutions. The management of the University of Pennsylvania is responsible for the objectivity and integrity of these financial statements.

The University maintains a system of internal accounting controls which are utilized in accumulating and controlling its financial transactions. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis.

The financial statements have been examined by Coopers & Lybrand, L.L.P., Independent Accountants. Their audit opinion, as shown to the right of this page, expresses an informed judgment as to whether the University's financial statements, as prepared by management, considered in their entirety, present fairly its financial position, changes in fund balances, and current funds revenue, expenditures and other changes in conformity with generally accepted accounting principles.

The audit opinion is based on audit procedures described in the second paragraph of their report, which include obtaining an understanding of University systems, procedures and internal accounting controls, and performing tests and other auditing procedures to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors. While the Independent Accountants conduct extensive tests of University procedures and controls, it is neither practical nor necessary for them to scrutinize a large portion of the University's transactions.

The Trustees of the University of Pennsylvania, through its Committee on Audit comprised of trustees not employed by the University, is responsible for engaging the Independent Accountants and meeting with management, internal auditors, and the Independent Accountants to ensure that each is carrying out their responsibilities and to discuss auditing, internal control and financial reporting issues. Both the internal auditors and the Independent Accountants have full and free access to the Committee on Audit.

Stephen T. Golding
Vice President for Finance

Alfred F. Beers
Comptroller

Report of Independent Accountants

To the Trustees of the University of Pennsylvania
Philadelphia, Pennsylvania

We have audited the accompanying balance sheet of the University of Pennsylvania as of June 30, 1995 and the related statements of changes in fund balances and current funds revenue, expenditures and other changes for the year then ended. We previously audited and reported upon the financial statements of the University for the year ended June 30, 1994, which condensed statements are presented for comparative purposes only. These financial statements are the responsibility of University management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above (pages 26 to 38 inclusive) present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 1995, and the changes in fund balances and current funds revenue, expenditures and other changes for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
September 1, 1995, *except*
as to the information presented
in note 10, for which the date
is December 11, 1995

Balance Sheet

University of Pennsylvania
June 30, 1995 with comparative 1994 Totals
(thousands of dollars)

Total 1994	Total 1995	
		Assets
$2,608	$27,569	Cash
		Accounts receivable, net of allowances
165,463	182,258	$80,550 (1995) and $74,212 (1994)
		Loans receivable, net of allowances
89,318	92,478	$4,393 (1995) and $4,569 (1994)
42,255	57,395	Inventories and other assets
2,239,628	2,380,362	Investments
1,424,900	1,558,476	Plant, net of depreciation
		Interfund balances:
		Advances for plant
		Other
$3,964,172	$4,298,538	
		Liabilities and Fund Balances
$471,636	$577,622	Accounts payable and accrued expenses
34,053	33,644	Deposits, advances and agency funds
43,572	49,193	Deferred income
568,487	608,866	Debt obligations
2,846,424	3,029,213	Fund balances
$3,964,172	$4,298,538	

The nature of specific fund balances is as follows:

Externally restricted
Internally designated
Unexpended endowment income
U.S. Government grants
Life income, annuity and unitrust funds

See accompanying notes to financial statements.

Current Funds					Plant Funds	
Unrestricted						
Educational and General	Health Services	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Invested
$3,503	$24,066					
19,134	99,888	$43,835		$19,401		
13,581			$78,897			
21,194	36,201					
24,624	487,085	99,802	9,497	1,643,794	$115,560	
				564		$1,557,912
147,992	1,468			728		(150,188)
(64,888)	(3,310)	519	159	(3,197)	63,301	7,416
$165,140	$645,398	$144,156	$88,553	$1,661,290	$178,861	$1,415,140
$103,692	$342,503			$125,408	$6,019	
1,067		$32,577				
49,193						
10,000	46,200				3,477	$549,189
1,188	256,695	111,579	$88,553	1,535,882	169,365	865,951
$165,140	$645,398	$144,156	$88,553	$1,661,290	$178,861	$1,415,140
		$69,491	$26,037	$867,207	$18,309	
				646,102	151,056	
		42,088				
			62,516			
				22,573		
		$111,579	$88,553	$1,535,882	$169,365	

Statement of Changes in Fund Balances

University of Pennsylvania
for the year ended June 30, 1995 with comparative 1994 Totals
(thousands of dollars)

Total 1994	Total 1995	
$2,384,038	$2,846,424	Beginning balances
		Revenue and other additions:
1,408,432	1,445,790	Unrestricted current funds revenue
162,711	176,160	Government grants
294,987	136,446	Gifts and private grants
53,897	65,855	Investment income
68,552	152,321	Additions to plant (including $149,552 charged to current expenditures)
46,014	50,525	Net gain on sale of investments
1,287	1,554	Other additions, net
2,035,880	2,028,651	
		Expenditures and other deductions:
1,454,624	1,714,501	Current funds expenditures
8,336	2,769	Expended for plant
24,596	29,456	Interest on debt
81,094	94,342	Provision for depreciation
4,844	4,794	Other reductions, net
1,573,494	1,845,862	
		Transfers among funds-additions (deductions):
		Mandatory:
		Principal on debt
		Interest on debt
		Other transfers:
		Indirect costs recovered on:
		Investment income
		Restricted gifts
		Funds functioning as endowment
		Physical plant development
		Other, net
462,386	182,789	Net increase (decrease) in fund balances
$2,846,424	$3,029,213	Ending balances

See accompanying notes to financial statements.

Current Funds					Plant Funds	
Unrestricted						
Educational and General	Health Services	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Invested
$1,154	$296,136	$97,844	$85,539	$1,425,973	$160,287	$779,491
688,743	757,047					
		174,997	961		202	
		94,530	178	33,009	7,509	1,220
		62,540		2,810	505	
						152,321
				50,525		
			1,554			
688,743	757,047	332,067	2,693	86,344	8,216	153,541
696,619	730,685	287,197				
					2,769	
						29,456
						94,342
						4,794
696,619	730,685	287,197			2,769	128,592
(4,623)	(2,365)				(1,450)	8,438
(14,286)	(15,170)					29,456
8,017		(7,966)		(51)		
2,837		(2,837)				
(2,053)		(24,957)		27,010		
(8,485)		(2,166)			10,184	467
26,503	(48,268)	6,791	321	(3,394)	(5,103)	23,150
34	(39,441)	13,735	3,014	109,909	9,078	86,460
$1,188	$256,695	$111,579	$88,553	$1,535,882	$169,365	$865,951

Statement of Current Funds Revenue, Expenditures and Other Changes

University of Pennsylvania
for the year ended June 30, 1995 with comparative 1994 Totals
(thousands of dollars)

Total 1994	Total 1995		Unrestricted: Educational and General	Unrestricted: Health Services	Restricted
		Revenue:			
$353,523	$381,702	Tuition and fees	$381,702		
29,004	35,750	Commonwealth appropriations	35,750		
		Government grants:			
160,634	174,801	Direct costs			$174,801
65,985	70,836	Indirect costs	70,836		
54,457	63,121	Investment income	25,298		37,823
75,723	86,478	Gifts and private grants	16,083		70,395
547,891	564,943	University Hospital		$564,943	
231,886	192,007	Physician Practices		192,007	
		Sales and services:			
75,769	85,097	Auxiliary enterprises	85,097		
44,356	49,384	Other educational activities	45,206		4,178
29,785	28,868	Other sources	28,771	97	
1,669,013	1,732,987		688,743	757,047	287,197
		Expenditures:			
286,398	324,982	Instruction	278,916		46,066
176,573	194,432	Research			194,432
380,402	389,194	University Hospital		389,194	
196,908	238,657	Physician Practices		238,657	
48,547	54,839	Operation and maintenance of plant	54,839		
93,848	104,749	Student aid	67,282		37,467
38,418	41,109	General institutional expense	41,109		
30,662	31,661	General administration	31,661		
22,826	23,876	Libraries	22,362		1,514
18,544	20,235	Student services	20,235		
73,354	82,988	Auxiliary enterprises	82,043		945
55,996	60,632	Other educational activities	53,859		6,773
1,422,476	1,567,354		652,306	627,851	287,197
		Other changes:			
(81,094)	(94,342)	Provision for depreciation (Note 1)	(51,833)	(42,509)	
45,334	44,870	Excess of restricted receipts over transfers to revenue			44,870
		Transfers among funds:			
(39,866)	(36,444)	Mandatory	(18,909)	(17,535)	
(269,568)	(52,584)	Other, net	26,819	(48,268)	(31,135)
(98,657)	27,133	Net increase (decrease) in fund balances before adjustment	(7,486)	20,884	13,735
48,946	(52,805)	Adjustment to convert basis of presentation (Note 1)	7,520	(60,325)	
$(49,711)	$(25,672)	Net increase (decrease) in fund balances	$34	$(39,441)	$13,735

See accompanying notes to financial statements.

1. Significant Accounting Policies:

Basis of Presentation:

The accompanying financial statements are presented in accordance with principles of "fund accounting" for educational institutions in order to observe limitations and restrictions placed on the use of available resources. These resources and related expenditures are recorded in separate funds and summarized for accounting and reporting purposes into fund groups in accordance with specified activities or objectives. The statement of current funds revenue, expenditures and other changes is the statement of financial activities of the current funds and does not purport to present the results of operations or the net income or loss for the period.

Plant and accumulated depreciation are recognized in the invested plant fund. The current provision for depreciation is also reported in the statement of current funds revenue, expenditures and other changes in order to show the effect of the use of plant resources for current operating purposes; additions to plant funds funded from current unrestricted funds are therefore not included in current funds expenditures. The University recognizes, however, that generally accepted fund accounting principles for educational institutions currently provide for recognition of plant additions, rather than depreciation, as current fund expenditures. Accordingly, an "adjustment to convert basis of presentation" is made as follows (in thousands):

	Educational and General	Health Services	Total
Depreciation	$51,833	$42,509	$94,342
Plant additions	(44,313)	(102,834)	(147,147)
	$7,520	$(60,325)	$(52,805)

Investments:

Investments are stated at cost. Cost for donated securities is fair value as determined upon receipt. The cost of investments sold is determined by using the first-in, first-out basis. Fixed income investments with a maturity of less than one year are included in short-term investments. The majority of the endowment funds of the University have been pooled in the University's Associated Investments Fund (A.I.F.) which is invested primarily in two investment pools, an Equity Fund and a Fixed Income Fund. Each participating fund in the A.I.F. earns investment income on the basis of subscribed units, which are acquired or disposed of at market value determined on a quarterly basis. A spending limitation is in effect on this income, and unexpended A.I.F. income ($7,570,000 in 1995) is reinvested in internally designated funds functioning as endowment.

Loans Receivable:

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

Plant:

Plant is generally stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Museum contents and rare books are not subject to depreciation.

Gifts:

The University does not report gifts in the financial statements until they are received. The University's gift records indicated that $185,972,000 in pledges were outstanding at June 30, 1995.

Interfund Transactions:

Interfund balances represent advances which will be eliminated through collection of gift pledges, appropriations of other receipts, refinancing through external borrowings, or charges to current unrestricted expenditures and unexpended plant funds. Additionally, for financial reporting purposes, the University treats all cash as unrestricted and each fund's share of cash is recognized in the interfund balances. The current unrestricted fund recovers certain indirect costs incurred to carry out projects funded by investment income and current restricted gifts.

Health Services:

Revenue of the Hospital of the University of Pennsylvania and the University's Physician Practices (Clinical Practices of the University of Pennsylvania and Clinical Care Associates) is derived primarily from patient services and is accounted for at established rates on the accrual basis in the period the service is provided. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled.

2. Investments:

A summary of investments at June 30, 1995 is as follows (in thousands):

	Cost	Market
Short-term	$703,141	$699,164
Stocks	665,171	807,602
Bonds	923,859	939,934
Other	88,191	100,703
End of year	$2,380,362	$2,547,403
Beginning of year	$2,239,628	$2,301,883

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, 1995, short-term investments restricted under this arrangement aggregated $7,705,000.

At June 30, 1995, investment securities with an aggregate market value of $28,849,000 were loaned primarily on an overnight basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 102% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

3. Plant:

The components of plant at June 30, 1995 are as follows (in thousands):

	Educational and General	Health Services	Total
Land	$33,932	$175	$34,107
Buildings	1,107,864	351,455	1,459,319 (b)
Contents	548,260 (a)	323,616	871,876
	1,690,056	675,246	2,365,302
Less accumulated depreciation	(511,402)	(295,424)	(806,826)
	$1,178,654	$379,822	$1,558,476

(a) Museum contents and rare books not subject to depreciation aggregate $11,123,000 at June 30, 1995.

(b) Includes $99,007,000 of construction-in-progress and $94,750,000 of completed facilities which serve as collateral for debt obligations.

4. Assets Held in Trust by Others:

Assets held in trust and managed by outside fiscal agents are not included in the University's balance sheet. Income earned on all such assets was $3,099,000 in 1995. The University is sole or primary income beneficiary of assets with a reported cost of $36,969,000 at June 30, 1995 ($57,217,000 market value).

5. Interfund Balances — Advances for Plant:

At June 30, 1995, advances for plant that will result in future charges to unrestricted funds amounted to $44,923,000. Internal interest is charged on outstanding advances at rates ranging from 6% to 9%.

6. Debt Obligations Refunded in Advance:

The Berks County Municipal Authority Higher Education Revenue Bonds, Series of 1985, the Hospitals and Higher Education Facilities Authority of Philadelphia Series of 1978 and Series of 1984 Revenue Bonds, and certain Pennsylvania Higher Education Facilities Authority Series of 1985 Revenue Bonds were refunded in advance or defeased. The advance refunding of these bonds was accomplished by depositing sufficient funds in irrevocable escrow accounts maintained by trustees. The escrowed amounts will be used to satisfy all principal and interest requirements relating to the refunded bonds. The University has accounted for these bonds as though defeased through redemption and, accordingly, the obligation to repay the bonds is not included in the balance sheet of the University. At June 30, 1995, $313,760,000 of the refunded bonds are considered defeased.

7. Debt Obligations:

Debt obligations at June 30, 1995 are as follows (in thousands):

Pennsylvania Higher Education Facilities Authority (PHEFA) Revenue Bonds, Series A of 1987, (5.6% - 6.63%) net of unamortized bond discount of $757 (a)	$111,712
PHEFA Series A of 1995 Revenue Bonds (4.7% - 7.0%) (b)	110,130
PHEFA Series B of 1994 Revenue Bonds, (variable interest rate, 4.05% at June 30, 1995) (c),(n)	90,000
PHEFA Series B of 1995 Revenue Bonds (4.85% - 7.0%) (b)	46,705
PNC Bank, National Association Term Note, (variable interest rate, 6.4%, at June 30, 1995) (d),(n)	46,200
PHEFA Series A of 1994 Revenue Bonds, (4.7% - 7.0%) including unamortized premium of $1,045 (e),(n)	36,045
PHEFA Series of 1968 Revenue Bonds (4.9%) (f)	32,185
Washington County Authority Lease Revenue Bonds, Series 1985 A, (variable interest rate, 4.25% at June 30, 1995) (g)	29,230
PHEFA Series B of 1987 Revenue Bonds, (variable interest rate, 4.07% at June 30, 1995) (h)	16,700
PHEFA Series A of 1991 Revenue Bonds, (variable interest rate, 4.07% at June 30, 1995) (i)	15,000
Quakertown General Authority Pool Financing Program, 1985 Series A Bonds, (variable interest rate, 5.52% at June 30, 1995) (j)	13,180
PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 4.07% at June 30, 1995) (k)	10,610
The Pew Memorial Trust, noninterest bearing term loan (l)	10,000
PHEFA Series of 1990 Revenue Bonds, (variable interest rate, 4.07% at June 30, 1995) (m)	6,500
Mortgages payable and other (7.16% weighted average interest rate, due through 2013)	34,669
	$608,866

(a) The Series A of 1987 Bonds mature in varying annual amounts ranging from $2,495,000 in 1996 to $3,530,000 in 2002, with maturities of $21,420,000 in 2007 and $70,215,000 in 2017. The bonds are subject to optional redemption by the Authority on or after January 1, 1997 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2017 are approximately $9,825,000.

(b) The Series A and Series B of 1995 Bonds mature in varying annual amounts ranging from $2,880,000 in 1997 to $9,345,000 in 2015. The bonds are subject to optional redemption by the Authority on or after September 1, 2005 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2015 range from $9,115,000 in 1996 to $14,349,000 in 2015.

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

(d) The Term Loan matures on June 28, 1996 and is subject to optional prepayments as stipulated in the Agreement.

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

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

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

(h) The Series B of 1987 Bonds mature on April 1, 1997 and are subject to advance payments and optional prepayments as stipulated in the Loan Agreement. The bonds have a variable interest rate which is based on the discount rate of short-term United States government securities.

(i) The Series A of 1991 Bonds mature on September 1, 2001 and are subject to advance payments and optional prepayments as stipulated in the Loan Agreement. The bonds have a variable interest rate which is based on the discount rate of short-term United States government securities.

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

(k) The Second Series of 1985 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the University's option. The bonds mature in 2015, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the University.

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

(m) The Series of 1990 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the University's option. The bonds mature on December 1, 2020, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the University.

(n) A Master Trust Indenture limits the respective indebtedness to the assets and revenue of the Hospital and Clinical Practices (designated units). The indenture and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness of the designated units and, among other things, require the designated units to maintain "net revenue" (excess of revenue over expenses plus depreciation, interest and amortized finance costs relating to the bonds) at an amount equal to 110% of the annual debt service requirements.

The fair value of long-term debt was $614,209,000 at June 30, 1995. The fair value represents the quoted market value for Authority Revenue Bonds and carrying amounts for all other debt.

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

Fiscal Year	**Amount**
1996	$62,197
1997	23,891
1998	10,360
1999	15,990
2000	27,981

8. Pension and Postretirement Benefit Costs:

Pension Cost:

Retirement benefits are provided for academic employees and certain administrative personnel through direct payments to various annuity funds. The University's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries. The University's contributions to these funds amounted to $21,382,000 in 1995.

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 1995 pension cost are as follows (in thousands):

Service cost-benefits earned during the year	$13,604
Interest cost on projected benefit obligation	14,242
Actual return on plan assets	(30,029)
Net amortization and deferral being recognized over 17 years	16,969
Net periodic pension cost	$14,786

The following table sets forth the funded status of the plans at June 30, 1995 and the amount recognized in the accompanying balance sheet:

Plan assets at fair market value	$186,863
Actuarial present value of benefit obligations:	
Vested	156,073
Nonvested	3,411
Accumulated benefit obligation	159,484
Effect of projected future compensation increases	79,750
Projected benefit obligation	239,234
Projected benefit obligation in excess of plan assets	(52,371)
Unrecognized net loss	16,415
Unrecognized transition asset	(8,498)
Accrued pension cost	$(44,454)

Plan assets consist principally of investments in a master trust account, invested in a diverse portfolio of equity and debt securities. The actuarial present value of benefits was determined using a discount rate of 6.0% to 7.75%. The rate of compensation increase used to measure the projected benefit obligation was 5.0% to 6.0%. The expected long-term rate of return on assets was 8.0% to 9.5%.

Postretirement Benefit Cost:

In addition to providing pension benefits, the University provides certain health care and life insurance benefits for retired employees. Substantially all of the University's employees may become eligible for such benefits if they reach normal retirement age while working for the University. These and similar benefits for active employees are provided through insurance contracts.

The components of 1995 postretirement benefit are as follows (in thousands):

Service cost-benefits earned during the year	$6,182
Interest cost on projected benefit obligation	10,950
Actual return on plan assets	(2,114)
Net amortization and deferral being recognized over 20 years	7,777
Net periodic postretirement benefit cost	$22,795

The following table sets forth the funded status of the plans at June 30, 1995 and the amount recognized in the accompanying balance sheet:

Plan assets at fair market value	$18,286
Actuarial present value of benefit obligations:	
Retirees	60,498
Fully eligible plan participants	24,683
Other plan participants	101,139
Accumulated benefit obligation	186,320
Accumulated benefit obligation in excess of plan assets	(168,034)
Unrecognized transition obligation	116,609
Unrecognized net loss	33,051
Accrued postretirement benefit cost	$(18,374)

Plan assets consist principally of investments in a diverse portfolio of equity and debt securities. The actuarial present value of benefits was determined using a discount rate of 6% to 7.75% . The health care trend rate was assumed to decrease gradually from a range of 9% and 11% in 1996 to a range of 4.5% and 5.5% over the next eight to sixteen years, respectively, and remain level thereafter. An annual change of one percentage point in the per capita cost of covered health care would result in a $35,073,000 change to the accumulated postretirement benefit liability at June 30, 1995 and a $3,527,000 change to the aggregate of the service and interest cost components of net periodic post-retirement cost for the year ended June 30, 1995.

9. Medical Professional Liability Claims:

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

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

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

10. Contingencies:

The University has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling $21,548,000 at June 30, 1995.

Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the University's education and health care activities. In 1995, net patient service revenue of the Physician Practices was decreased by $45,000,000 which includes the effect of a $30,000,000 settlement, including damages, with the United States Department of Health and Human Services for alleged billing errors, totaling approximately $10,000,000, under Part B of the Medicare Program during the period January 1, 1989 through December 31, 1994. There are also related investigations regarding this matter.

While the ultimate disposition of the aforementioned contingencies is not available at this time, based upon information currently available, management believes that any liability resulting therefrom will not materially affect the financial position of the University.

11. Subsequent Event:

Effective July 1, 1995, the Presbyterian Medical Center of Philadelphia, including its endowment funds, and certain of its affiliates were merged into the Presbyterian Medical Center of the University of Pennsylvania Health System (PMC-UPHS), a newly formed tax-exempt subsidiary of the Trustees of the University of Pennsylvania. This transaction was effected by the transfer of certain assets to PMC-UPHS. In addition, PMC-UPHS assumed certain liabilities. The operations of PMC-UPHS will be included in the financial statements of the University from the date of merger.

Statutory Officers of the University of Pennsylvania
(As of July 1, 1995)

President
Judith Rodin

Provost
Stanley Chodorow

Executive Vice President
John A. Fry

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

Vice President for Development and Alumni Relations
Virginia B. Clark

Vice President and Secretary of the University
Barbara R. Stevens

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

Vice Presidents
Stephen T. Golding
John Wells Gould
Arthur T. Gravina
Steven D. Murray

Treasurer
Scott C. Lederman

Comptroller
Alfred F. Beers

General Counsel
Shelley Z. Green

Produced by Publications Services
University of Pennsylvania
70386 / 2.96 / 2.5M / RC.CO