



ANNUAL
REPORT

UNIVERSITY
OF PENNSYLVANIA

Penn



1996/97

UNIVERSITY OF PENNSYLVANIA *Penn*

Table of Contents

MESSAGE FROM THE PRESIDENT	3
MESSAGE FROM THE EXECUTIVE VICE PRESIDENT	15
MESSAGE FROM THE VICE PRESIDENT FOR FINANCE	19
FINANCIAL SECTION	25
A FIVE-YEAR REVIEW OF INVESTMENTS	25
ENDOWMENT	26
ASSOCIATED INVESTMENTS FUND	27
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS	30
REPORT OF INDEPENDENT ACCOUNTANTS	31
STATEMENT OF FINANCIAL POSITION	32
STATEMENT OF ACTIVITIES	33
STATEMENT OF CASH FLOWS	34
NOTES TO FINANCIAL STATEMENTS	35
TRUSTEES OF THE UNIVERSITY OF PENNSYLVANIA	45
STATUTORY OFFICERS OF THE UNIVERSITY OF PENNSYLVANIA	48





UNIVERSITY
OF PENNSYLVANIA *Penn**Message from the President*

"I FIND THE GREAT THING IN THIS WORLD IS NOT SO MUCH WHERE WE STAND, AS IN WHAT DIRECTION WE ARE MOVING: TO REACH THE PORT OF HEAVEN, WE MUST SAIL SOMETIMES WITH THE WIND AND SOMETIMES AGAINST IT — BUT WE MUST SAIL, AND NOT DRIFT, NOT LIE AT ANCHOR."

- OLIVER WENDELL HOLMES

This report marks an initial passage. We have travelled through the first year of implementation of the *Agenda for Excellence* in the 21st Century, the comprehensive course charted for the future of the University of Pennsylvania by our faculty, deans and administrative officers.

In last year's annual report I described the *Agenda's* goals and academic priorities. This year — and in years to come — I intend to report on the progress we have made in reaching those goals and achieving those priorities. Much has happened here: no one can suggest that Penn either lazily drifts or lies quietly at anchor.

The preeminent goal of the *Agenda for Excellence* is comprehensive excellence: we aim to secure Penn's position as one of the world's premier research and teaching universities. To do so, we must attract the "best and the brightest" undergraduate students, and our doctoral and professional programs must be the programs of choice for the very ablest graduate and professional students from around the globe.



Judith Rodin
President

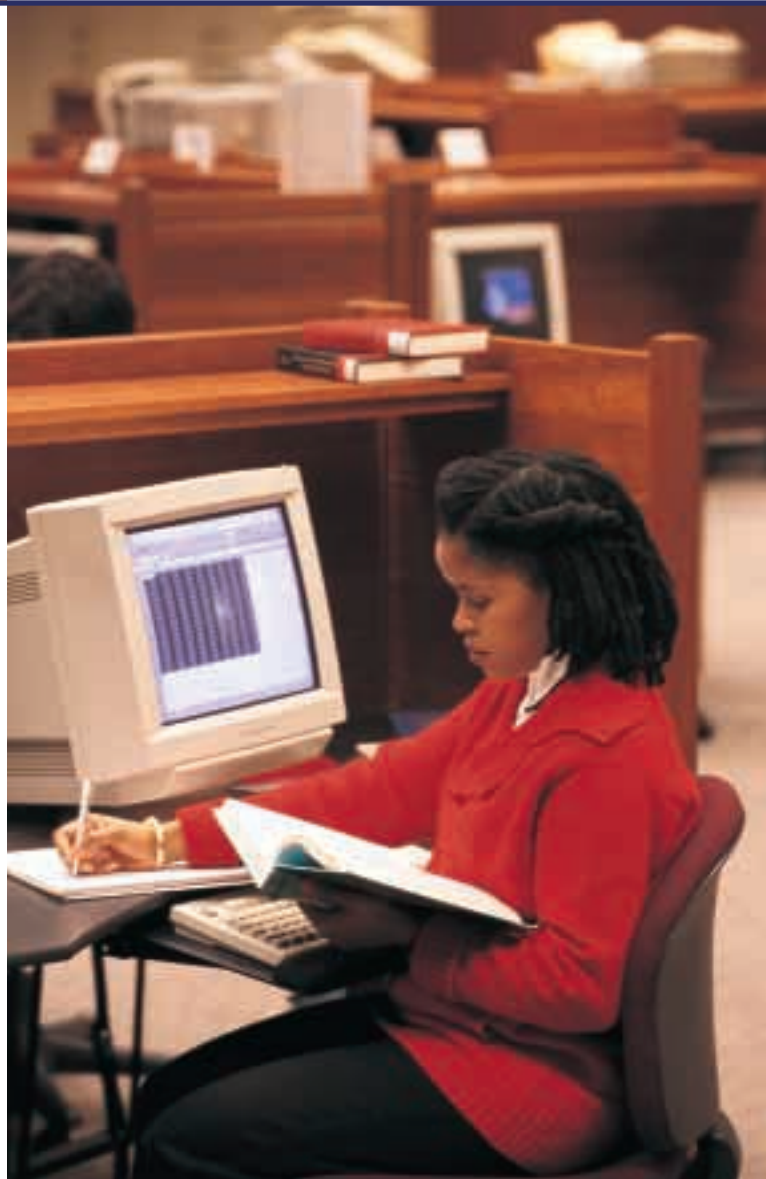
*Agenda for
Excellence*



Students selected for the class of 2001 are the most academically accomplished young men and women ever to enroll at Penn, with outstanding scholastic and co-curricular backgrounds. Representing 48 states and 55 countries, they are brilliantly diverse in every way.

Our students will benefit from curricular innovations that will prepare them for leadership in the 21st Century — important new quantitative skills requirements in the School of Arts and Sciences; trend-setting instruction in the “technological liberal arts” in the School of Engineering and Applied Science; global management courses at the Wharton School; and a host of new cross-school ventures such as a six-year BA/JD degree program sponsored by Arts and Sciences and the Law School.

*Academically
Accomplished*





Penn is offering students a growing number of novel post-baccalaureate options, as well. Higher education in the future must respond to the need and the demand for **rigorous, high-quality, strategically focused master's and continuing education programs** — and the *Agenda for Excellence* has prompted Penn to make significant investments in several such programs. New master's programs include:

- Environmental Studies (School of Arts and Sciences)
- Telecommunications (School of Engineering and Applied Science)
- Biotechnology (School of Engineering and Applied Science and School of Arts and Sciences)
- Bioethics (School of Arts and Sciences and School of Medicine)

Faculty and administrators in the several schools have also been energetically researching new distance learning technologies that could be put to work, in the future, in high-demand continuing education programs for alumni and others.

*Strategically
Focused*





Individual schools at Penn continue to receive critical acclaim; in the course of their success, they invigorate the entire University. Wharton is unsurpassed among business schools. The School of Arts and Sciences was ranked seventh among private universities in a new study comparing science, social science and arts and humanities programs — building on the 1995 National Research Council rankings in which 15 of Penn's Arts and Sciences programs were ranked in the top ten and an additional six programs in the top fifteen. Penn's School of Medicine, the nation's first, is also among its very best: it stands at number three in terms of overall National Institutes of Health research funding. Our School of Veterinary Medicine, School of Nursing and Annenberg School for Communication are all among America's top three, and each of Penn's remaining schools has also received national recognition among peer institutions over the past year.

The University's strong presence overseas has been nourished through strategic collaborations with foreign universities, businesses, and governments. In addition, Penn's study abroad programs have provided exciting opportunities for our students: 483 undergraduate and graduate students participated in Fiscal Year 1997, an increase of 20 percent over the previous year. Penn has consistently been an attractive place for international students: nearly 3,000 students from 125 countries studied on our campus this year; 2,349 of these students were enrolled in our academic programs, representing 13.5 percent of the student body.

*National
Recognition*

Global Mindset

We want to engender a **global mindset** as well as a **global presence**. The Wharton School established a Chinese Business and Entrepreneurship Initiative and accelerated the globalization of its MBA courses in Fiscal Year 1997; the Graduate School of Education received substantial support for its Shanghai Education Project; the School of Arts and Sciences was able to enhance its Korean Studies Program with generous gifts from both The Korea Foundation and Korean alumni; and we received impressive support for the new Huntsman Program in International Studies and Business.

As I emphasized in last year's annual report, one of the most important features of the *Agenda for Excellence* is its articulation of six University-wide academic priorities. Chosen with care, these priorities will receive significant institutional investments over the next several years; they are targeted to provide maximum support to the strategic endeavors of the University's twelve schools.

Three of the six academic priorities received particular attention in Fiscal Year 1997. To advance our **American and Comparative Democratic Institutions** priority, the School of Arts and Sciences began a multi-year, nationwide search for leading Americanist political scientists. Simultaneously, Penn agreed with great enthusiasm to become the "academic arm" of the National Constitution Center — the interactive museum and constitutional study center that is being planned as part of Philadelphia's Independence Mall. To advance the **Urban Agenda**, another signature priority, we convened an extraordinary group of scholars from across the University to consider the most important urban issues of the coming century and to propose synergistic ways to address them. Finally, consistent with our strategic emphasis on **Information Science, Technology and Society**

Global Presence





and the 50th anniversary celebration of ENIAC, Penn hosted a national conference on “Higher Education and the Information Age” to accentuate imaginative and cost-efficient creation and application of information technology. This conference showcased Penn’s leadership in this area. We are committed to developing the most novel programs in higher education, those that emphasize technology not as an adjunct to teaching but as an essential link to learning.

With this level of achievement and public recognition, it is no wonder that we have maintained an enviable record of attracting the very best faculty from around the world. They form the institution’s very backbone and, thanks to their energetic efforts, Penn continues to garner **greater research funding and new sources of support**. Over the course of Fiscal Year 1997, the University attracted \$365 million in support of our research enterprise, an increase of 11.5 percent over the preceding year — and this record was achieved in the most demanding, competitive research environment America has ever seen.

There are many examples that illustrate the research productivity of our faculty, but none more dramatic than the School of Nursing and the Graduate School of Education. Both are reasonably small schools, certainly compared to their institutional peers. Nevertheless, both are leaders in their respective professions, not only in high-quality teaching, but in research. The School of Nursing is a national leader in the generation, dissemination and utilization of nursing science. It has a significantly smaller faculty than most of its peers, yet it is an extraordinarily productive faculty. In Fiscal Year 1997 Penn’s Nursing faculty were awarded some \$11 million in federal research dollars and ranked second in the country in federal funds awarded to schools of nursing. The Graduate School of Education, where more than two-thirds of the faculty participate in externally-funded research, received more than \$8.5 million in new grant and contract awards in Fiscal Year 1997, from 23 different private and federal sources, an extraordinary achievement, given the School’s size.

*New Grant
Awards*

For Penn to maintain its success in attracting outstanding students and world-class research faculty, the University must provide an inviting, stimulating and supportive environment. In recognition of this, the *Agenda for Excellence* envisions Penn as “an attractive, rewarding, fair and supportive place at which to study, teach and work.” Guided by this vision, we completed a study of our student housing stock this year, and we received the results of an exciting Residential Communities study conducted by members of the faculty and students. Subsequently, a working group of faculty and staff integrated these two reports and we are now prepared to begin taking the required steps to renovate and upgrade both the physical structures of our student residences and the content of student programming delivered inside them. A major goal of our residential improvements in the years ahead will be to attract more undergraduate students to continue living on campus after their first year. This will foster a better, deeper and longer-lasting sense of community among our students; it will also benefit the entire Penn community in a variety of ways.

In addition to our residential planning, Penn has continued to improve the core of our campus — already one of the loveliest urban oases in the country — making it ever more attractive and functional, while preserving some of our most historically significant buildings. College, Logan, Houston and Williams Halls and Irvine Auditorium are being transformed into Perelman Quadrangle. This imaginative construction — an academic and student activities complex designed for the 21st Century — will feature Wynn Commons, a tree-lined plaza with an amphitheater and rostrum; new state-of-the-art classrooms, meeting rooms and academic offices; performing arts spaces, study areas, game rooms, eating areas and student activities spaces; a formal performance hall, rehearsal and practice rooms; and more.

We also broke ground in Fiscal Year 1997 for Sansom Common, a 300,000 square-foot retail, residential, dining and hotel complex that will feature a new University of Pennsylvania Bookstore and The Inn at Penn. As we are doing with Sansom Common, we are also committing great attention and resources to the revitalization of the 40th Street retail corridor that forms the western border of our campus — strong evidence of our commitment to comprehensively improve the retail amenities surrounding Penn.

Sansom Common and the Perelman Quadrangle are two examples of our progress in campus master planning. There are many others. As Fiscal Year 1997 drew to a close, the Vagelos Laboratories of the Institute for Advanced Science and Technology were near completion, construction of a new biomedical research building was proceeding rapidly at the School of Medicine, the Wharton School was designing a spectacular classroom and research facility, initial planning was underway for new biology and psychology buildings in the School of Arts and Sciences, and the Gateway Building for the School of Dental Medicine was nearing construction.

Critically important to our environment, as well, is the condition of the neighborhoods surrounding the University. Understanding this, Penn has made an extensive and long-term commitment to its host community in West Philadelphia — and at the heart of this commitment are community partnerships.

In a project dubbed “UC Brite,” Penn joined with PECO Energy Corporation and the West Philadelphia Partnership to illuminate residences not only on the streets near campus but also well beyond. Thousands of new porch lights, lamp-posts, and security lighting have transformed University City. It is a safer, more secure community as a result.

Master
Planning





Throughout Fiscal Year 1997 hundreds of faculty, students and staff from Penn sustained a wide range of partnerships with the public schools in West Philadelphia. These engagements included a broad range of University-sponsored tutoring programs, work-based learning projects and community service projects at a dozen schools in the University City High School and West Philadelphia High School clusters.

One of our most exciting achievements has been the creation of the University City District (UCD), a consortium of Penn and other local institutions providing services specially tailored to the area: removing graffiti, cleaning sidewalks and lots, coordinating safety services, enhancing lighting, planting trees and marketing University City as an attractive destination.

All that we do to improve our campus and contribute to the community beyond its borders is a means to an end — the creation of an optimal environment in which teaching and research can flourish. The very best students and faculty deserve nothing less.

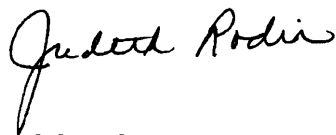
Large scale improvements do not come cheaply, however, and we must do everything possible to conserve our resources and spend funds as wisely as possible. Institutions of our size and complexity are difficult to change, but clearly we and other private research universities can no longer afford to conduct business as usual; **we must do everything possible to enhance the strategic management of our human, financial and physical resources.** To become stronger, we must continue to do things better. We have established a five-year institutional budgeting regimen that facilitates long-term planning; we have increasingly integrated our operating and capital budgeting processes; and we have imposed new discipline on our outcomes evaluation processes.

The evidence suggests that our administrative restructuring efforts are paying off. Penn achieved cost savings totaling over \$12 million in Fiscal Year 1997 through financial services reengineering, benefits redesign, energy management and process improvements in administrative centers. Every dollar saved in administrative costs is an extra dollar to reinvest in our core missions.

*University
City*

At the same time, the generous support of our alumni, friends, corporate sponsors and foundations has allowed us to move with speed toward our most important strategic goals. In Fiscal Year 1997, Penn received \$212 million in subscriptions, a total that was substantially ahead of Fiscal Year 1996. Among these gifts were seven new endowed chairs and \$15 million toward student financial aid. Our alumni and friends have continued their enthusiastic support of all that has been accomplished; perhaps more importantly, they have continued to see the extraordinary possibilities for still greater accomplishment in the future.

There is great energy on this campus, in its programs and its people. It is a powerful force, and it is no wonder that we are moving forward at such a remarkable pace. I have no doubt that we will realize the goals in the *Agenda for Excellence* because of the vision, the spirit and the strength of the members of this community — students, faculty, staff, trustees, alumni and friends who love the University and believe so deeply in its future. These are people who are not willing to sit at anchor; they are anything but adrift.



Judith Rodin
President

Vision
Spirit
Strength





UNIVERSITY
OF PENNSYLVANIA *Penn**Message from the
Executive Vice President***BACKGROUND**

The University's administrative initiatives for the past year have been driven by the principles outlined in our strategic plan, the *Agenda for Excellence*. Our goals have been to enhance significantly the quality of life on campus and in our neighboring communities, and to manage aggressively our internal administrative processes to improve quality and cost effectiveness while minimizing risk.

QUALITY OF LIFE

Fiscal Year 1997 saw significant progress in our efforts to enhance the quality of life for our students, faculty, and staff through projects such as the Perelman Quadrangle and Campus Lighting. 1997 was also an active year for realizing Penn's commitment to contribute to the revitalization of its neighborhood. Our most notable efforts have been the start of construction on Sansom Common, the creation of the University City District, and the implementation of our neighborhood lighting program, UC Brite.

Perelman Quadrangle. During the summer of 1996, we began the construction of the Perelman Quad, which will utilize Irvine Auditorium and Houston, College, Logan and Williams Halls. These significant campus buildings, to be connected by Wynn Commons, will be restored and renovated into a modern campus center with nearly 86,000 square feet of space for student use. Perelman Quad will include a state of the art auditorium for professional and student performances, an art gallery, cafes and other food options, study lounges, and meeting rooms. The entire project is scheduled to be completed in December 1999.



Campus Lighting. During Fiscal Year 1997, we completed a campus lighting master plan for the lighting of walkways, building entrances, and open spaces on campus to allow for better visibility. Phase I of the project, which included the installation of new lighting fixtures in Hamilton Village (formerly referred to as Superblock), the School of Dental Medicine campus, and 40th Street, has been completed. The entire \$5 million project is being funded through new revenue generated by the University through the introduction of our innovative "PennCard," and is projected to be fully implemented by May 1998.

Revitalization



Sansom Common. June 1997 marked the beginning of construction on Sansom Common, the largest mixed-use development project ever undertaken in West Philadelphia. The \$73 million Phase I project comprises the Inn at Penn, the University Bookstore, and significant additional retail space for University City. When complete (the Bookstore in Fall 1998 and the Inn in late 1999), Sansom Common will serve as an important commercial and civic hub of the Penn campus and the entire University City community. Subsequent phases, now being planned, will substantially increase the quality and quantity of retail offerings on campus.

University City District. During the course of the year, the University led an effort to create a “special services district” in University City, aimed at creating a safe, clean and vibrant neighborhood. Through a collaborative effort among the major not-for-profit institutions in University City, as well as local community leaders and business interests, the University City District will clean sidewalks, remove graffiti, provide public safety ambassadorial services and implement a capital program that will include new signage, “street furniture” and other public amenities. The University City District commenced operations in August 1997.

UC Brite. The University also catalyzed a unique partnership of institutional and community interests aimed at upgrading residential lighting in University City. By the end of 1997, we anticipate that over 60 residential blocks of University neighborhoods will have been re-lit, making these blocks safer and more pleasant for residents and students.

ADMINISTRATIVE RESTRUCTURING

We have accomplished much this year toward our five year goal for administrative restructuring. As first outlined in the 1995-1996 Annual Report, our goal is to reduce the cost of administration by \$50 million through process reengineering and innovative business practices. We will also generate at least \$10 million in new net revenues from entrepreneurial business ventures, allowing us to make investments in our academic programs and physical

infrastructure. We will accomplish these goals while improving the quality and timeliness of service delivery and minimizing the risk to the University.

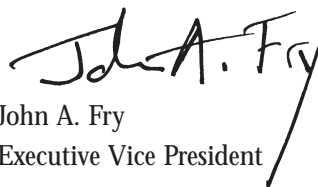
Fiscal Year 1997 saw continuing progress in administrative restructuring on a number of fronts. We realized administrative cost savings of approximately \$12 million through better procurement practices, the redesign of our employee benefits package, innovative energy management programs, and a continuous and systematic reengineering of our key business functions. Additionally, we have well exceeded our new net revenue generation target of \$10 million, having signed contracts with Barnes & Noble, MBNA and other providers, that total approximately \$20 million. Our goal for new net revenues has therefore been increased to \$50 million.

CONCLUSION

As a result of these and other significant initiatives, the Penn we envisioned in the *Agenda for Excellence* has begun to take shape. All around the campus and in the surrounding neighborhoods we see revitalization, excitement, and new energy. From increased public safety efforts and more

efficient management, to new economic development efforts, our current and future projects will sustain and support the University into the next millenium. Most importantly, students, faculty and staff will live and work in an environment that is vibrant, safe and convenient, and specifically designed to foster their academic endeavors.

As we look to Fiscal Year 1998, our administrative restructuring efforts will no doubt continue. We will focus relentlessly on improving the quality of life on campus and in surrounding neighborhoods. We will also seek innovative ways to provide more efficient and cost effective services to our academic units, while generating new revenues through creative management of all of our assets. Finally, we will put special emphasis on enhancing the quality of worklife for the University's employees, to ensure that we can retain our best people and attract great new talent in order to improve Penn's competitive position among our nation's greatest universities.


John A. Fry
Executive Vice President

Restructuring





UNIVERSITY
OF PENNSYLVANIA *Penn**Message from the
Vice President for Finance***INTRODUCTION**

During Fiscal Year 1997, the University significantly improved its financial position for both the academic and health care enterprises, thus continuing the positive financial trend that it has experienced over the past twenty years. While the overall financial performance was primarily the result of another year of favorable investment markets, the University also saw support from its donors, both in terms of operating and non-operating gifts, and its research sponsors continue to increase. The University was also able to achieve a significant operating surplus during the year as a result of both increases in revenue and cost savings generated from the administrative restructuring efforts begun several years ago. Continued strong financial performance permitted Penn to make those strategic investments which a world class institution of higher learning must make in its human, physical and information infrastructure.

FINANCIAL PERFORMANCE

During Fiscal Year 1997, the University increased its net assets by about 15%, almost \$524 million, to a total of over \$4 billion, of which \$2.3 billion was unrestricted. Over \$492 million of this increase was attributable to nonoperating activities in the form of gains on investments, nonoperating investment income and contributions made for the acquisition of long-lived assets, i.e., plant and endowment. The University's endowment increased approximately 23% for the year, or \$426 million, to a fair value of over \$2.5 billion at June 30, 1997.

*Endowment*



During Fiscal Year 1997, the University was able to effectively manage its operations in order to generate an excess of revenue over expenses of over \$31 million. Contributing to this positive performance was a 7.8% increase in tuition and fee revenue, net of direct grants, representing an increase of more than \$24 million over Fiscal Year 1996. In addition to the amount attributable to increased rates for tuition and fees, there was significant growth in Penn's international and other special programs. Also contributing to the positive performance was our ability to maintain Fiscal Year 1997 management and general expenses at about the same level as the previous year. This achievement is but one measure of the success of the University's administrative restructuring efforts to date.

DEVELOPMENT

Development and Alumni Relations exceeded its fund raising targets for Fiscal Year 1997, generating \$212 million in new subscriptions. The University's annual funds produced a record-setting total of \$21 million, up 6.6% from Fiscal Year 1996.

Penn's development program was energized by significant new gifts for the *Agenda for Excellence*. Gifts of \$1 million or more totaled \$73 million in support of *Agenda* priorities, such as undergraduate financial aid, a new building for the Wharton School, the University Museum's new collections storage and study wing, the Perelman Quadrangle, the Health System's campaign,

renovations in Van Pelt-Dietrich Library, and a number of new professorships.

Important steps were taken during Fiscal Year 1997 to prepare Development and Alumni Relations' staff and volunteers for the challenges ahead. New volunteer leadership was recruited, trained, and motivated through the *Agenda for Excellence* Council. Alumni Relations made important progress in its development of a new model for programming and service that engages alumni at every age and stage of their lives. In addition, Development and Alumni Relations' senior administrative staff was reorganized to ensure the continued effectiveness of Penn's overall fund raising efforts.

RESEARCH

Fiscal Year 1997 proved to be an extremely successful year for sponsored programs support at the University. Total awards for the year reached \$365 million, an increase of 11.5% over the previous year. Sponsored program revenue totaled over \$309 million for Fiscal Year 1997. The significant increase in research funding reflects the high quality of Penn's faculty and the aggressive efforts by many of its schools to increase sponsored research. Notably, the School of Medicine increased its awards by 6.4% to a total of \$211 million. Other schools that also experienced significant increases included the School of Arts and Sciences, the School of Engineering and Applied Science, and the Graduate School of Education.

STUDENT FINANCIAL SERVICES

Penn is maintaining its leading edge reputation for helping students and their families cope with the cost and administrative complexities of attendance. The University is nearing completion of a newly renovated student administrative service facility, which will offer counseling on student financial aid and other financial matters. This new center will consolidate the financial aid and student receivable functions to permit professionally trained counselors to address a student's full range of financial concerns at a single location. In addition, Penn has made student financial and registration information accessible to our students around the world by means of the Internet using PennInTouch, a University developed web-based application.

As part of the Penn Plan, the University's nationally known financial assistance program, a new loan plan has been introduced for graduate and professional students, which we believe offers the lowest interest rate and best terms and conditions in higher education. We expect undergraduates to also benefit from this program as loans will be awarded to them, when necessary, to fulfill the University's commitment to meet the full financial need of any admitted student. Total financial aid

offered to Penn students during Fiscal Year 1997 was \$139 million, of which \$90 million was in the form of direct grants. The University continues to maintain its need-blind admissions policy, with over 46% of Penn students qualifying for some type of financial aid during Fiscal Year 1997.

HEALTH SERVICES COMPONENT

The University of Pennsylvania Health System, formed in June 1993, was organized to integrate the delivery of instruction, research and patient care. The Health System is comprised of the School of Medicine and the Health Services Component, which is a network of hospitals and physician practices providing health care services across the Delaware Valley.

Fiscal Year 1997 was a challenging time for the health care industry. Unfortunately, difficulties seen this year are expected to continue into the foreseeable future. Increased marketplace competition for both traditional patient service fees and groups covered under managed care contracts, coupled with continued cutbacks in governmental support for the health care sector, provide a number of both short and long-term challenges for the health care enterprise. We also saw competing networks continue the recent trend of consolidations

Commitment



in the Philadelphia health care market through mergers, alliances and acquisitions of both hospitals and physician practices. The University of Pennsylvania Health System acquired the Wissahickon Hospice on April 1, 1997 and the Phoenixville Hospital on July 1, 1997. As of June 30, 1997, the Health System was also in the process of completing its negotiations toward a definitive agreement of merger with Pennsylvania Hospital, the nation's oldest hospital, founded by Benjamin Franklin in 1751. That merger was finalized and became effective on October 31, 1997.

Overall, the Health Services Component generated a surplus of \$67 million. This surplus included the effect of changes to certain estimates as well as additional favorable third-party settlements.

At June 30, 1997, the Health Services Component had unrestricted net assets of \$481 million, an increase of 3.1% over the previous year. This demonstrates the Health Services Component's ability to weather the challenging times facing the health care industry and to make additional strategic investments. Moreover, we

fully expect that, with a continued emphasis on strategic planning coupled with strong and prudent management, the Health System will emerge in a much stronger position.

CAPITAL INVESTMENT

During Fiscal Year 1997, the University continued to expand and improve the physical infrastructure required to support both new and existing programs with an investment of over \$300 million for new construction, renovation and the purchase of property, plant and equipment.

Penn continues to recognize the importance of its architectural heritage, as demonstrated by the renovation and restoration of both College Hall and Logan Hall. As a major research university, we are continuing to increase our research capacity and strengthen our competitive position in science and technology with the construction of new state-of-the-art research facilities. During Fiscal Year 1997, we saw significant work completed on the Roy and Diana Vagelos Laboratories of the Institute for Advanced Science and Technology as well as another new biomedical



research building, the second in the last three years. Construction has likewise begun on the multiphase Perelman Quadrangle and Wynn Commons, which will address the need for improved student facilities by providing gracious spaces for student activities and staged events. The University also continued to invest in order to improve the quality of life for students, faculty and staff within and around campus. Penn held ground breaking ceremonies this Summer for Sansom Common. This project will include the construction of a new University bookstore, a 250 room hotel and other upscale retail establishments. The implementation of a campus lighting plan is improving safety and security. The Public Safety Department is in the process of relocating to a renovated facility, where their operations will be consolidated in order to improve delivery of services to the University community.

RESTRUCTURING ACCOMPLISHMENTS

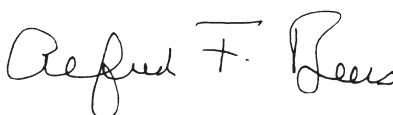
Penn continued to restructure its administrative operations during Fiscal Year 1997, a critical part of the *Agenda for Excellence*. This included not only cost-reduction initiatives, but also attempts to maximize the value of all Penn's human, physical, information and financial resources in order to better serve its constituencies. The overall goal of the restructuring is to provide more effective management over, and a more efficient use of, resources in order to free them for mission critical programs.

One of the major initiatives completed during Fiscal Year 1997 was the implementation of a new financial system. This was an ambitious and challenging endeavor, requiring extraordinary efforts by staff in both the central administrative offices and the schools. The major goal of the project was to provide more effective tools for

managing the University's resources. As part of the implementation of the financial system, a University data warehouse was created, which gathers information from a number of sources and integrates the data at a single location. The warehouse provides for faster, and more accurate and flexible data analysis than what was previously possible. This capability is especially important given Penn's decentralized management and planning structure.

SUMMARY

In summary, Fiscal Year 1997 yielded sustained financial growth and positive operating performance for both the University and its Health System. A strong stock market augmented the positive impact of Penn's planning, management efforts and restructuring initiatives. The growth in research funding clearly reflects the quality of the University's faculty. Penn's commitment to this core mission is further demonstrated by the investments being made in new research facilities. The generosity and commitment of Penn's alumni are reflected in the highly successful results reported by the Office of Development and Alumni Relations. Implementation of the new financial information system should promote proactive management of resources by providing new and improved access to the data that is critical in planning and decision making. Finally, the significant investments being made in support of the *Agenda for Excellence* will help the University realize the critically important and ambitious goals of this strategic initiative.



Alfred F. Beers

Interim Vice President for Finance

Capital Investment



A FIVE-YEAR REVIEW OF INVESTMENTS

University of Pennsylvania
(thousands of dollars)

	1997	1996	1995	1994	1993
Investments:					
Fair Value					
Stocks	\$1,474,925	\$967,484	\$807,602	\$659,146	\$511,920
Bonds	1,237,546	1,348,576	939,934	889,369	834,950
Short-term	359,138	548,151	699,164	672,707	516,957
Other	168,961	135,225	100,703	80,661	57,859
Total Investments	\$3,240,570	\$2,999,436	\$2,547,403	\$2,301,883	\$1,921,686
Cost					
Stocks	\$1,179,632	\$847,373	\$665,171	\$576,776	\$434,564
Bonds	1,203,400	1,346,675	923,859	917,410	785,044
Short-term	358,514	545,617	703,141	672,700	516,793
Other	145,188	120,842	88,191	72,742	53,224
Total Investments	\$2,886,734	\$2,860,507	\$2,380,362	\$2,239,628	\$1,789,625
Endowment:					
Fair Value	\$2,535,312	\$2,108,961	\$1,675,740	\$1,464,455	\$1,095,796
Cost	\$2,202,511	\$1,986,641	\$1,513,309	\$1,403,735	\$985,294
Associated Investments Fund:					
Fair Value	\$1,856,663	\$1,527,651	\$1,255,411	\$1,064,865	\$1,002,782
Cost	\$1,622,538	\$1,438,583	\$1,113,163	\$997,548	\$897,950

ENDOWMENT

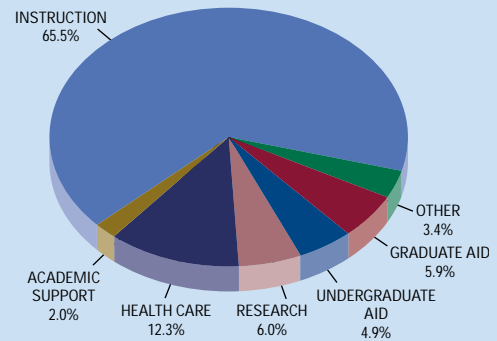
University of Pennsylvania, June 30, 1997

Endowment

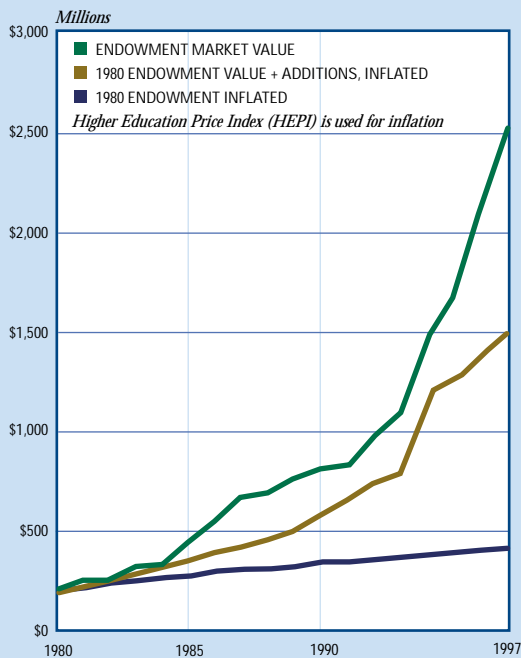
The role of Penn's endowment is to support its schools and centers by generating a growing, real (inflation-adjusted) flow of funds for the operating budget. The endowment funds 3.3% of the University's consolidated operating budget. At June 30, 1997, the endowment reached a record high market value of \$2.54 billion, attributable largely to the significant total investment return of 23.2% attained during Fiscal Year 1997. The market value of the endowment increased by \$426 million over the year. This gain was comprised of investment returns of \$344 million, net gifts and transfers to endowment of \$73 million, and income reinvestment of \$9 million.

The endowment includes funds designated for a variety of school and center purposes. The chart to the right reflects the allocation of endowment by purpose.

ENDOWMENT BY PURPOSE



ENDOWMENT GROWTH VS. INFLATION



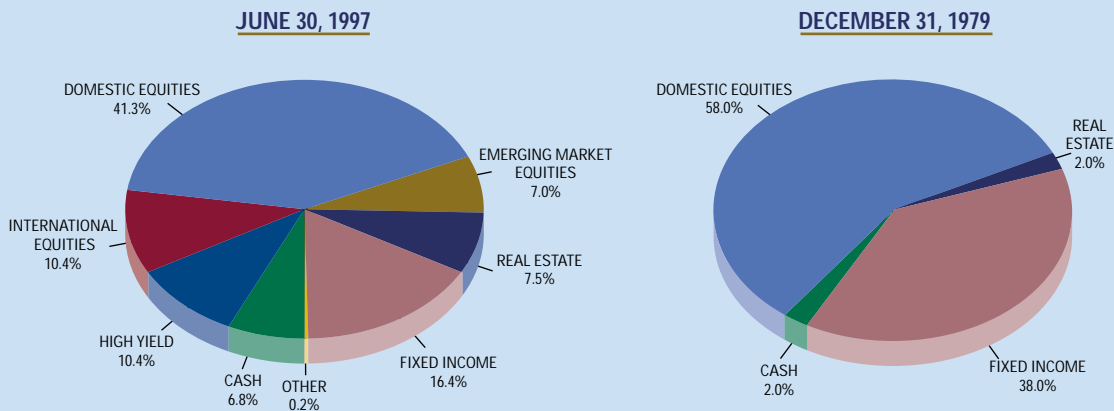
The endowment is managed by Penn's Investment Board, a ten-member body which is comprised primarily of University Trustees. Since December 31, 1979, John Neff has served as Chair of the Investment Board. The Investment Board provides overall guidance in establishing investment policy, determining asset allocation and selecting investment managers for the endowment. In managing the endowment, the Investment Board seeks to maximize real returns within tolerable risk constraints. The chart to the left shows the nominal and real growth in the endowment since 1980. The impact of both performance and additions is shown. The chart demonstrates that the endowment's growth has significantly outpaced inflation over this time period. Note that the endowment market value excludes income which has been distributed. Including such income would make the comparison of endowment performance with inflation even more favorable.

ASSOCIATED INVESTMENTS FUND

University of Pennsylvania, June 30, 1997

Associated Investments Fund

Approximately 73% 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 \$1,857,000,000 as of June 30, 1997. One of the Investment Board's most important functions is to determine A.I.F. asset allocation, a key factor for investment performance. This allocation has changed dramatically over the years as the A.I.F.'s diversification has increased, reducing its dependence on domestic marketable equities and fixed income. This shift in asset allocation is illustrated below.



The A.I.F. is managed for total return, as investment returns are sought from both current income and principal appreciation. For the five year period ended June 30, 1997, the A.I.F. generated an average annual compounded total investment return of 15.7%. This return compares favorably with the 14.7% average university endowment return (as reported by National Association of College and University Business Officers). Longer measurement periods provide a meaningful context in which to evaluate investment performance, as shown in the chart below.

TOTAL RETURN PERFORMANCE COMPARISON

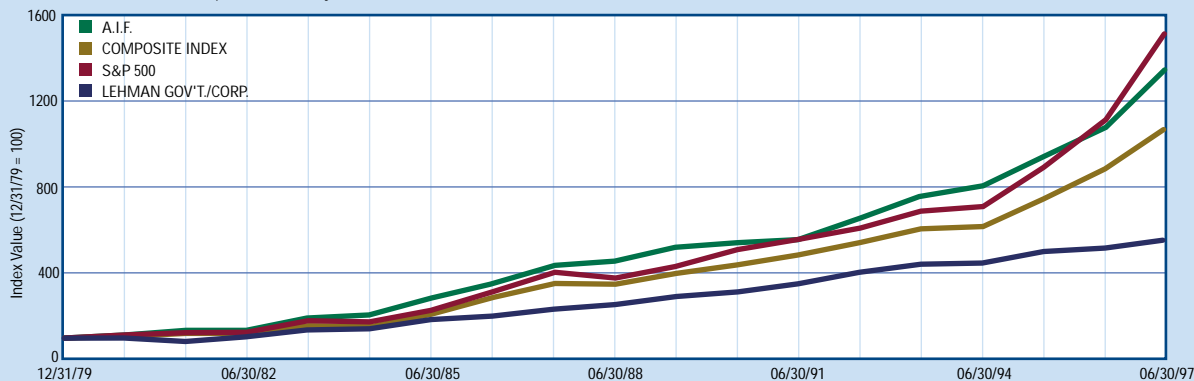
Periods Ended June 30, 1997, Annualized Returns (%)

Category	12/31/79	10 Years	5 Years	3 Years	1 Year
A.I.F.	16.1	12.3	15.7	18.9	23.2
Composite Index*	14.7	12.4	14.9	20.5	22.1
S&P 500	16.9	14.6	19.8	28.8	34.7
Lehman Gov't./Corp.	10.6	8.7	7.2	8.3	7.7

* The Composite Index represents S&P 500, EAFE, MSCI Emerging Markets Free, NCREIF, Lehman Gov't./Corp., and Salomon High Yield indices on a weighted basis equal to the A.I.F.'s long-term asset allocation objective beginning 1/1/96. Previously, the Index reflected the S&P 500, Lehman Gov't./Corp. and Salomon High Yield weighted to the actual equity, fixed and high yield allocations.

A.I.F. TOTAL RETURN PERFORMANCE

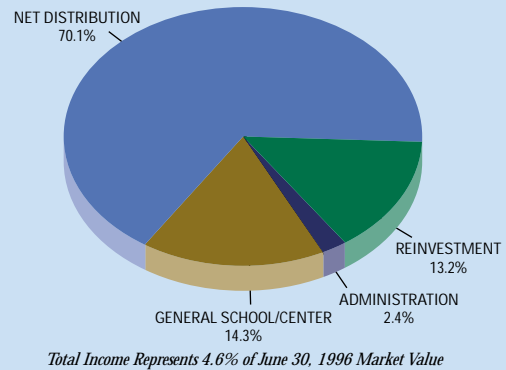
Cumulative Returns Compounded Quarterly



A.I.F. Distributions

In addition to principal gains and gifts, a total of \$71,381,000 was earned from interest and dividend payments on assets held in the A.I.F. in Fiscal Year 1997. From this total, \$9,414,000 was reinvested into principal pursuant to the A.I.F. spending rule policy, described below. Additionally, \$1,692,000 was applied to investment administration charges, which supports the internal costs of investment management. An allocation of \$10,244,000 was made for general school/center support, which covers the general overhead (e.g., heat, light, maintenance) of the schools and centers benefitting from the endowment. The net distribution following these deductions was \$50,031,000, which went to support a variety of university purposes, dependent on the restrictions of each endowment fund held in the A.I.F. The standard distribution of A.I.F. income for Fiscal Year 1997 is reflected to the right.

DISTRIBUTION OF FY 1997 A.I.F. INCOME

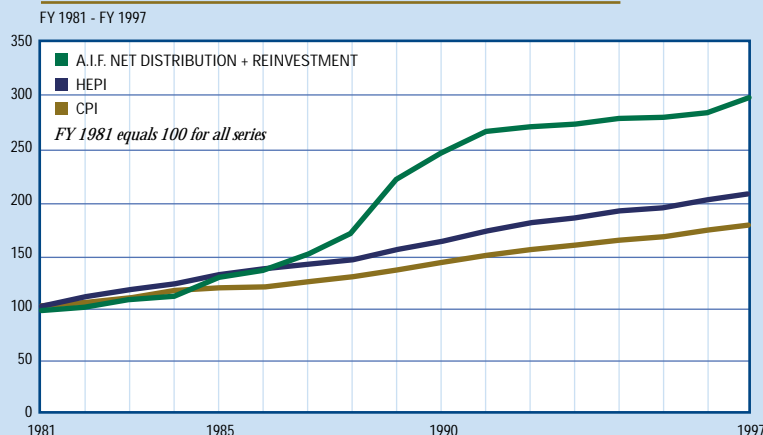


A.I.F. Spending Rule Policy

In Fiscal Year 1981, the Trustees implemented an endowment spending policy. Prior to that, all interest and dividends earned were distributed to A.I.F. unitholders. The primary purpose of implementing a spending policy was to protect the purchasing power of the endowment against the impact of inflation. In addition, the spending rule policy seeks to provide smooth and predictable endowment distributions. The spending rule policy in place for Fiscal Year 1997 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, 1996 market value, the spending rate was 3.9%.

Since inception of the spending rule in Fiscal Year 1981, a total of \$145 million of income earned has been reinvested into the A.I.F. The impact of this reinvestment means that A.I.F. participants in Fiscal Year 1981 now hold approximately 36% more units and receive 36% more income annually than they would otherwise.

A.I.F. DISTRIBUTION GROWTH RELATIVE TO INFLATION



The chart to the left reflects the growth in the distribution relative to the Consumer Price Index (CPI) and Higher Education Price Index (HEPI) since 1981. As reflected, the net distribution generated by the A.I.F., adjusted for such reinvestment, has dramatically outpaced both the CPI and HEPI. The A.I.F. net distribution has grown by 6.7% annually versus 4.5% for HEPI and 3.4% for the CPI.



MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

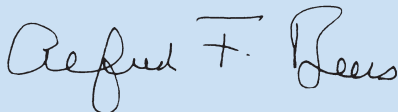
University of Pennsylvania
Report of Management

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 32 to 44, have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information included in this annual report and is responsible for its accuracy and consistency with the financial statements.

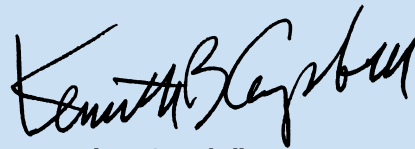
The financial statements have been audited by the independent accounting firm, Coopers & Lybrand, L.L.P., which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. Coopers & Lybrand's audit opinion is presented on page 31.

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

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



Alfred F. Beers
Interim Vice President for Finance



Kenneth B. Campbell
Comptroller

REPORT OF INDEPENDENT ACCOUNTANTS

To the Trustees of the
University of Pennsylvania
Philadelphia, Pennsylvania

We have audited the accompanying statement of financial position of the University of Pennsylvania as of June 30, 1997 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of University management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Pennsylvania as of June 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.



2400 Eleven Penn Center
Philadelphia, Pennsylvania
October 14, 1997

STATEMENT OF FINANCIAL POSITION

University of Pennsylvania

(with summarized financial information for the year ended June 30, 1996)

(thousands of dollars)

	June 30, 1997	June 30, 1996
Assets		
Cash and cash equivalents	\$182,056	\$244,307
Accounts receivable, net of allowances of \$13,918	86,716	89,320
Patient receivables, net of allowances of \$78,844	219,833	146,600
Investment sales receivable	24,298	79,794
Contributions receivable, net	91,754	94,531
Loans receivable, net of allowances of \$5,575	93,593	97,156
Other assets	138,102	133,624
Investments	3,240,570	2,999,436
Plant, net of depreciation	1,849,049	1,666,013
Total assets	\$5,925,971	\$5,550,781
Liabilities		
Accounts payable	\$157,463	\$137,734
Investment purchases payable	64,316	280,822
Accrued expense and other liabilities	318,647	320,223
Deferred income	30,112	40,454
Deposits, advances, and agency funds	51,253	37,308
Federal student loan advances	65,515	64,954
Accrued retirement benefits	223,536	218,608
Debt obligations	997,615	956,787
Total liabilities	1,908,457	2,056,890
Net assets		
Unrestricted	2,271,276	2,102,637
Temporarily restricted	899,419	633,070
Permanently restricted	846,819	758,184
	4,017,514	3,493,891
Total liabilities and net assets	\$5,925,971	\$5,550,781

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

University of Pennsylvania

for the year ended June 30, 1997

(with summarized financial information for the year ended June 30, 1996)

(thousands of dollars)

	Unrestricted	Restricted		Total	
		Temporarily	Permanently	1997	1996
Revenue and other support:					
Tuition and fees, net	\$332,106			\$332,106	\$307,849
Commonwealth appropriations	35,783			35,783	35,783
Sponsored programs	309,320			309,320	304,108
Contributions	31,506	\$34,660		66,166	68,527
Investment income	48,399	44,911		93,310	86,244
Hospitals and physician practices	1,203,537			1,203,537	997,649
Sales and services of auxiliary enterprises	66,062			66,062	75,180
Other educational activities	75,990			75,990	68,746
Independent operations	15,028			15,028	13,371
Net assets released from restrictions	79,537	(79,537)			
	2,197,268	34		2,197,302	1,957,457
Expenses:					
Program:					
Instruction	421,653			421,653	406,754
Research	248,707			248,707	238,247
Hospitals and physician practices	1,198,029			1,198,029	965,542
Auxiliary enterprises	72,984			72,984	84,204
Other educational activities	67,031			67,031	65,460
Student services	23,683			23,683	21,808
Support:					
Academic support	40,528			40,528	37,318
Management and general	80,593			80,593	80,467
Independent operations	12,714			12,714	12,971
	2,165,922			2,165,922	1,912,771
Increase in net assets before nonoperating revenue, net gains, reclassifications and other	31,346	34		31,380	44,686
Nonoperating revenue, net gains, reclassifications and other:					
Gain on investments, net	57,965	262,936	\$42,512	363,413	197,185
Investment income	61,547	8,262	1,151	70,960	57,130
Contributions	6,277	11,630	44,972	62,879	57,862
Other, net	(5,043)	34		(5,009)	1,529
Postretirement benefit transition obligation					(107,502)
Net assets released from restrictions	16,547	(16,547)			
Increase in net assets	168,639	266,349	88,635	523,623	250,890
Net assets, beginning of year	2,102,637	633,070	758,184	3,493,891	3,243,001
Net assets, end of year	\$2,271,276	\$899,419	\$846,819	\$4,017,514	\$3,493,891

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

University of Pennsylvania

(with summarized financial information for the year ended June 30, 1996)

(thousands of dollars)

	1997	1996
Cash flows from operating activities:		
Increase in net assets	\$523,623	\$250,890
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	122,746	126,853
Gain on investments, net	(363,413)	(197,185)
Postretirement benefit transition obligation		107,502
Loss on disposal of plant, property, and equipment	2,969	1,552
Nonoperating revenue designated for the acquisition of long-lived assets	(133,839)	(114,992)
Changes in operating assets and liabilities:		
Patient, accounts and loan receivable	(66,633)	(70,060)
Contributions receivable	2,777	(3,513)
Other assets	1,352	(25,285)
Accounts payable, accrued expenses and accrued retirement benefits	23,081	83,598
Deposits, advances and agency funds	13,945	3,664
Deferred income	(10,342)	7,664
Net cash provided by operating activities	116,266	170,688
Cash flows from investing activities:		
Student loans repaid	11,332	10,219
Student loans issued	(11,765)	(12,867)
Purchase of investments	(6,455,119)	(5,832,845)
Proceeds from sale of investments	6,416,388	5,766,796
Purchase of plant, property, and equipment	(300,155)	(291,705)
Statutory merger and purchase of physician practices	(14,426)	(60,235)
Net cash used by investing activities	(353,745)	(420,637)
Cash flows from financing activities:		
Nonoperating revenue designated for the acquisition of long-lived assets	133,839	114,992
Federal student loan advances	561	1,145
Repayment of long-term debt	(10,267)	(93,477)
Proceeds from issuance of long-term debt	51,095	444,027
Net cash provided by financing activities	175,228	466,687
Net increase(decrease) in cash and cash equivalents	(62,251)	216,738
Cash and cash equivalents, beginning of year	244,307	27,569
Cash and cash equivalents, end of year	\$182,056	\$244,307
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$43,981	\$32,178

See accompanying notes to financial statements.

1. Significant Accounting Policies

Organization

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

Basis of Presentation

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

The University's financial reporting is in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations."

SFAS No. 116 requires that the University record unconditional promises to give as revenue in the period that the promise is made, and recognize contributions received in the appropriate net asset category according to donor-imposed restrictions. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to donor-imposed restrictions.

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

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

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

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

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

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, 1996 from which the summarized financial 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 market value. Short-term investments with maturities of three months or less are classified as cash equivalents, except that any such investments held in trusts or by external investment managers are classified as investments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities 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 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 each fund's percentage of the total market value. A spending limitation is in effect on this income, and unexpended A.I.F. income (\$9,414,000 in 1997) is reinvested and is included in nonoperating investment income.

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

Loans Receivable

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

Plant

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

Intangible Assets

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

Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. Contribution revenue for pooled income funds is recognized upon establishment of the agreement, at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

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

Tuition and Fees

The University maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance. This policy provides for financial aid to those admitted in the form of direct grants, loans, and employment during the academic year. Tuition and fees have been reduced by certain direct grants in the amount of \$90,268,000 in 1997.

Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 1997, grant and contract revenue received from governmental sources totaled \$268,280,000. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Indirect costs recovered on federally-sponsored programs are based on cost reimbursement rates negotiated with the University's cognizant agency, the Department of Health and Human Services (DHHS). Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective party.

Contributions

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

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

Health Services Component

Revenue of the Health Services Component is derived primarily from patient services and is accounted for at established rates on the accrual basis in the period the service is provided. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled.

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

Excess of revenue over expenses for the Health Services Component was increased by \$52,549,000 and \$20,036,000 as a result of changes in estimates, including third-party settlements of \$21,819,000 and \$14,223,000 in 1997 and 1996, respectively.

Allocation of Certain Expenses

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

Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS

University of Pennsylvania

2. University of Pennsylvania Health System - Health Services Component

The University Trustees formed the University of Pennsylvania Health System in June 1993. The Health System operates an integrated system which delivers education, research, and patient care. The Health System currently includes the Health Services Component and the School of Medicine. The Health Services Component includes the Hospital of the University of Pennsylvania (HUP), Clinical Practices of the University of Pennsylvania (CPUP), Clinical Care Associates, Franklin Physician Services, Inc., Presbyterian Medical Center of the University of Pennsylvania Health System (PMC-UPHS) and the Wissahickon Hospice of the University of Pennsylvania Health System, which was formed as a result of a merger on April 1, 1997.

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

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

Summarized financial information for the Health Services Component as of June 30, 1997 and 1996, prior to eliminations for transactions between the Health Services Component and other entities of the University, is as follows (in thousands):

	1997	1996
Net patient service revenue and premium revenue	\$1,057,404	\$940,091
Other revenue	63,392	52,636
Total expenses	(1,117,919)	(965,406)
Excess of revenue over expenses from operations	2,877	27,321
Nonoperating gains, net	64,396	47,745
Excess of revenue over expenses	\$67,273	\$75,066
Total current assets	\$336,505	\$327,326
Investments and assets whose use is limited (including Board designated funds of \$492,291 and \$464,618 and trustee held funds of \$108,814 and \$172,631 for 1997 and 1996, respectively)	767,294	793,978
Property, plant, and equipment, net	594,768	533,015
Other assets	100,599	93,219
Total assets	\$1,799,166	\$1,747,538
Total current liabilities	\$262,950	\$238,366
Long-term debt, net of current portion	645,893	651,405
Other liabilities	277,205	276,420
Total liabilities	1,186,048	1,166,191
Net assets		
Unrestricted	481,289	466,815
Temporarily restricted	98,859	81,562
Permanently restricted	32,970	32,970
Total net assets	613,118	581,347
Total liabilities and net assets	\$1,799,166	\$1,747,538

Effective July 1, 1997, the Phoenixville Hospital was merged into the Phoenixville Hospital of the University of Pennsylvania Health System (PH-UPHS), a newly-formed tax-exempt subsidiary of the University. This transaction was effected by the transfer of certain assets and liabilities to PH-UPHS, which included the guarantee by HUP and CPUP of a \$18,000,000, five-year term loan.

On June 30, 1997, the Health System signed a definitive agreement of merger with the Contributors of Pennsylvania Hospital. Under this agreement, Pennsylvania Hospital and certain of their affiliates will become a part of the Health System on or before November 1, 1997. This transaction will be effected by the transfer of certain assets and liabilities to the Pennsylvania Hospital of the University of Pennsylvania Health System (PAH-UPHS), a newly-formed tax-exempt subsidiary of the University.

3. Investments

A summary of investments, stated at fair value, at June 30, 1997 is as follows (in thousands):

Short-term	\$359,138
Stocks	1,474,925
Bonds	1,237,546
Real estate	156,984
Other	11,977
End of year	<u>\$3,240,570</u>
Beginning of year	<u>\$2,999,436</u>

Included in investments are assets held in trust with an aggregate fair value of \$126,932,000 at June 30, 1997.

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, 1997, short-term investments held under this arrangement aggregated \$8,020,000.

At June 30, 1997 investments with a fair value of \$112,214,000 were held by trustees under indenture and escrow agreements.

At June 30, 1997, investment securities with an aggregate fair value of \$71,589,000 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.

4. Contributions Receivable

A summary of contributions receivable is as follows at June 30, 1997 (in thousands):

Unconditional promises expected to be collected in:

Less than one year	\$33,372
One year to five years	89,867
Over five years	12,143
	<u>135,382</u>
Less: Unamortized discount and allowance for doubtful amounts	<u>(43,628)</u>
Contributions receivable, net	<u>\$91,754</u>

At June 30, 1997, the University also received conditional promises to give of approximately \$28,890,000. These conditional promises to give are not recognized as assets. When they are received, they generally will be restricted for specific purposes as stipulated by the donors. These restrictions include endowments for faculty support, research, scholarships or general operating support of a particular area of the University.

5. Plant

The components of plant at June 30, 1997 are as follows (in thousands):

Land	\$47,608	
Buildings	1,880,984	(a), (b)
Contents	800,294	(c)
	<u>2,728,886</u>	
Less accumulated depreciation	<u>(879,837)</u>	
Plant, net	<u>\$1,849,049</u>	

(a) Includes \$165,973,000 of construction-in-progress.

(b) Includes \$104,312,000 of completed facilities which serve as collateral for debt obligations.

(c) Museum contents and rare books not subject to depreciation aggregate \$11,648,000 at June 30, 1997.

The University recorded \$114,150,000 of depreciation expense for the year ended June 30, 1997.

6. Debt Obligations Refunded in Advance

The Pennsylvania Higher Education Facilities Authority Revenue Bonds, Series A of 1987, the Berks County Municipal Authority Higher Education Revenue Bonds, Series of 1985, the Hospitals and Higher Education Facilities Authority of 1978 were refunded in advance or defeased. The advance refunding of these bonds was accomplished by depositing sufficient funds in irrevocable escrow accounts maintained by trustees. The escrowed amounts will be used to satisfy all principal and interest requirements relating to the refunded bonds. The University has accounted for these bonds as though defeased through redemption and, accordingly, the obligation to repay the bonds is not included in the Statement of Financial Position of the University. At June 30, 1997, \$237,750,000 of refunded bonds are considered defeased.

7. Debt Obligations:

Debt obligations at June 30, 1997 are as follows (in thousands):

PHEFA Series A and B of 1996 Revenue Bonds, (4.60% - 6.00%) (a),(k)	\$445,533
PHEFA Series A of 1995 Revenue Bonds (4.7% - 7.0%) (b)	110,130
PHEFA Series B of 1994 Revenue Bonds, (variable interest rate, 3.80% at June 30, 1997) (c),(k)	90,000
PHEFA Series C of 1996 Revenue Bonds, (variable interest rate, 3.80% at June 30, 1997) (d),(k)	80,000
PHEFA Series B of 1995 Revenue Bonds (4.85% - 7.0%) (b)	46,705
Washington County Authority Lease Revenue Bonds, Series 1985 A, (variable interest rate, 4.20% at June 30, 1997) (g)	46,137
PHEFA Series A of 1994 Revenue Bonds, (5.6% - 7.0%) including unamortized premium of \$900 (e),(k)	35,900
PHEFA Series of 1968 Revenue Bonds (4.9%) (f)	28,520
Quakertown General Authority Pool Financing Program, 1985 Series A Bonds (variable interest rate, 5.205% at June 30, 1997) (h)	23,267
PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 4.08% at June 30, 1997) (i)	10,610
PHEFA Series of 1990 Revenue Bonds, (variable interest rate, 4.08% at June 30, 1997) (j)	6,500
Mortgages payable and other (7.05% weighted average interest rate, due through 2026)	74,313
	<u>\$997,615</u>

- (a) The Series A and B of 1996 Bonds mature in varying annual amounts ranging from \$9,195,000 in 1998 to \$27,120,000 in 2015, with maturities of \$59,080,000 in 2017 and \$72,730,000 in 2022. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at redemption prices of 101%, 100.5%, and 100% plus accrued interest in 2006, 2007, and thereafter, respectively. The Bonds maturing in 2017 and 2022 are subject to mandatory sinking fund redemption at a price of 100% plus accrued interest in 2016 through 2022.
- (b) The Series A and Series B of 1995 Bonds mature in varying annual amounts ranging from \$2,880,000 in 1998 to \$9,345,000 in 2016. The Bonds are subject to optional redemption by the Authority on or after September 1, 2005 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2016 range from \$8,979,000 in 1998 to \$14,349,000 in 2016.
- (c) The Series B of 1994 Bonds mature in varying amounts ranging from \$16,900,000 in 2020 to \$19,100,000 in 2024. The Bonds bear a floating rate of interest which is adjusted by the Authority at certain intervals. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at a redemption price of 100% plus accrued interest.
- (d) The Series C of 1996 Bonds mature in varying annual amounts ranging from \$9,100,000 in 2023, \$9,700,000 in 2024, \$30,000,000 in 2025 and a final maturity of \$31,200,000 in 2026. The Bonds have a variable interest rate, but are eligible to be changed to a fixed rate as elected by the Authority. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at a redemption price of 100% plus accrued interest.
- (e) The Series A of 1994 Bonds mature in varying amounts from \$3,340,000 in 2003 to \$5,205,000 in 2010. The Bonds are subject to optional redemption by the Authority prior to their scheduled maturity at redemption prices of 102%, 101% and 100% plus accrued interest in 2004, 2005 and thereafter, respectively.

- (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 1985 Series A Bonds mature on June 1, 2005 and are subject to optional prepayments as stipulated in the Loan Agreement. The Bonds bear a floating rate of interest which is adjusted by the Authority at certain intervals.
- (i) The Second Series of 1985 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the Authority's option. The Bonds mature in 2015, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.
- (j) The Series of 1990 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the Authority's option. The Bonds mature on December 1, 2020, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.
- (k) A Master Trust Indenture limits the respective indebtedness to the assets and revenue of the Hospital, Clinical Practices, and Presbyterian Medical Center (designated units). The indenture and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness of the designated units and, among other things, require the designated units to maintain "net revenue" (excess of revenue over expenses plus depreciation, interest and amortized finance costs relating to the bonds) at an amount equal to 110% of the annual debt service requirements.

The fair value of the University's debt obligations was \$1,035,014,000 at June 30, 1997. 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
1998	\$15,029
1999	29,284
2000	36,611
2001	30,518
2002	24,119

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 \$23,731,000 in 1997.

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 1997 net periodic pension cost are as follows (in thousands):

Service cost - benefits earned during the year	\$14,447
Interest cost on projected benefit obligation	18,516
Actual return on plan assets	(58,186)
Net amortization and deferral	32,242
Additional one-time charge for early retirement window	3,751
Periodic pension cost	<u>\$10,770</u>

The following table sets forth the funded status of the plans at June 30, 1997 and the amount recognized in the accompanying Statement of Financial Position:

Plan assets at fair value	<u>\$310,265</u>
Actuarial present value of benefit obligations:	
Vested	212,639
Nonvested	4,509
Accumulated benefit obligation	<u>217,148</u>
Effect of projected future compensation increases	77,487
Projected benefit obligation	<u>294,635</u>
Plan assets in excess of projected benefit obligation	15,630
Unrecognized net gain	(77,655)
Unrecognized transition asset	(6,550)
Unrecognized prior service cost	441
Accrued pension cost	<u>\$(68,134)</u>

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 6.75% to 7.75%. The rate of compensation increase used to measure the projected benefit obligation was 4.75% to 5.5%. The expected long-term rate of return on assets was 9.25% to 9.5%.

Postretirement Benefit Cost

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

The components of 1997 net periodic postretirement benefit cost are as follows (in thousands):

Service cost - benefits earned during the year	\$7,970
Interest cost on projected benefit obligation	12,301
Actual return on plan assets	(7,537)
Net amortization and deferral	4,529
Additional one-time-charge for early retirement window	2,549
Net periodic postretirement benefit cost	<u>\$19,812</u>

The following table sets forth the funded status of the plans at June 30, 1997 and the amount recognized in the accompanying Statement of Financial Position:

Plan assets at fair value	<u>\$41,377</u>
Actuarial present value of benefit obligations:	
Retirees	85,139
Fully eligible plan participants	10,236
Other plan participants	89,571
Accumulated benefit obligation	<u>184,946</u>
Accumulated benefit obligation in excess of plan assets	(143,569)
Unrecognized net gain	<u>(1,479)</u>
Accrued postretirement benefit cost	<u>\$(145,048)</u>

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 7.0% to 7.75%. The health care trend rate was assumed to decrease gradually from a range of 9.5% in 1998 to 4.5% over the next six 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 \$25,796,000 change to the accumulated postretirement benefit liability at June 30, 1997 and a \$3,370,000 change to the aggregate of the service and interest cost components of net periodic postretirement cost for the year ended June 30, 1997.

The University elected to recognize the remaining transition obligation associated with the postretirement benefit plan as of July 1, 1995. This resulted in a \$107,502,000 charge to unrestricted net assets in the Statement of Activities for the year ended June 30, 1996. The University's prior year audit report contained a paragraph explaining that the University's recognition of the transition obligation associated with the University's postretirement benefit plan was not in conformity with generally accepted accounting principles.

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 \$50,867,000 at June 30, 1997.

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.

UNIVERSITY OF PENNSYLVANIA *Penn*

Trustees of the University of Pennsylvania

AS OF JUNE 30, 1997

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

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

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

* **Hon. Walter H. Annenberg**
Former Ambassador to the
United Kingdom
Chairman and President,
The Annenberg Foundation
St. Davids, PA

* **Mr. Walter G. Arader**
Chairman
Walter G. Arader & Associates Inc.
Bala Cynwyd, PA

* **Mr. Samuel H. Ballam, Jr.**
Former President and CEO,
Fidelcor Inc. and The Fidelity Bank
Bryn Mawr, PA

Ms. Lynda Barness
Vice President
The Barness Organization
Warrington, PA

Ms. Judith R. Berkowitz
President
Jarby, Inc.
New York, NY

* **Mr. Julian S. Bers**
Retired Chairman
Imperial Metal & Chemical Co.
Elkins Park, PA

* **Mr. Gordon S. Bodek**
Director and Retired President
Bobrick Washroom Equipment Inc.
Los Angeles, CA

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

Mr. Christopher H. Browne
General Partner
Tweedy, Browne Company, L.P.
New York, NY

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

Hon. Gilbert L. Casellas
Chairman
U.S. Equal Employment Opportunity
Commission
Washington, DC

Mrs. Susan W. Catherwood
Bryn Mawr, PA

Mr. Robert E. Cawthorn
Chairman Emeritus
Rhône-Poulenc Rorer Inc.
Collegeville, PA

Mr. Richard J. Censits
Consultant to Business
Naples, FL

* **Mr. Henry M. Chance II**
Former Chairman
United Engineers
and Constructors, Inc.
Kennett Square, PA

Dr. Gloria Twine Chisum
Retired Research Psychologist
Philadelphia, PA

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

Stanley N. Cohen, M.D.
Professor of Genetics and
Professor of Medicine
Stanford University School of
Medicine
Palo Alto, CA

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

* **Mr. G. Morris Dorrance, Jr.**
Chairman Emeritus
CoreStates Financial Corp
and CoreStates Bank, N.A.
Villanova, PA

Ms. Carol B. Einiger
Chief Investment Officer
The Rockefeller University
New York, NY

Mr. Jerome Fisher
Chairman
Nine West Group
Stamford, CT

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

Mr. Robert A. Fox
President & Chairman
R.A.F. Industries
Jenkintown, PA

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

Mrs. Mary Ann Greenawalt
President
B&B Specialty Foods
Bloomfield Hills, MI

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

Norman P. Hetrick, Esq.
Partner
Eckert Seamans Cherin &
Mellott
Harrisburg, PA

* **Hon. A. Leon Higginbotham, Jr.**
Of Counsel
Paul, Weiss, Rifkind, Wharton
& Garrison
New York, NY

Mr. John C. Hover II
Executive Vice President
U.S. Trust Company of New
York
New York, NY

Mrs. Elsie Sterling Howard
Sterling Public Relations
Miami Beach, FL

Mr. Jon M. Huntsman, Jr.
Vice Chair
The Huntsman Corporation
Salt Lake City, UT

* **Mr. Reginald H. Jones**
Retired Chairman and CEO
General Electric Co.
Stamford, CT

Mr. Edward W. Kane
HVP Partners, LLC
Boston, MA

* **Dr. Carl Kaysen**
David W. Skinner Professor
Emeritus of Political
Economy
Massachusetts Institute of
Technology
Cambridge, MA

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

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

Edwin Krawitz, Esq.
Partner
Krawitz & Krawitz
Stroudsburg, PA

* **Dr. Ralph Landau**
Listowel Incorporated
New York, NY

Thomas F. Lang, Sr., Esq.
Partner
Allen, Lang, Morrison &
Curotto
Orlando, FL

Dr. Donald N. Langenberg
Chancellor
University System of Maryland
Adelphi, MD

Mr. Leonard A. Lauder
Chairman of the Board and
CEO
The Estée Lauder Companies
Inc.
New York, NY

Dr. Arnold J. Levine
Harry C. Wiess Professor of
Life Sciences
Department of Molecular
Biology
Princeton University
Princeton, NJ

Mr. Robert P. Levy
Chairman
DRT Industries, Inc.
Philadelphia, PA

Mrs. Carolyn A. Lynch
President
The Lynch Foundation
Marblehead, MA

Mr. Jerry Magnin
President
The Magnin Co., Inc.
Beverly Hills, CA

* **Mr. David J. Mahoney**
Chairman & CEO
The Charles A. Dana
Foundation
New York, NY

* **Mr. A. Bruce Mainwaring**
Chairman
UTI Corporation
Collegeville, PA

* **Mrs. Margaret R. Mainwaring**
Phoenixville, PA

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

* *Emeritus*

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

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

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

Mr. John B. Neff
Retired Managing Partner
Wellington Management
Company
Malvern, PA

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

Mr. Ronald O. Perelman
Chairman and CEO
MacAndrews & Forbes Group, Inc.
New York, NY

Mr. Egbert L. J. Perry
President and Owner
The Integral Group, L.L.C.
Atlanta, GA

Mr. David S. Pottruck
President & CEO
Charles Schwab & Co., Inc.
San Francisco, CA

Ms. Pamela Petre Reis
Rolling Hills, CA

Hon. Marjorie O. Rendell
Judge
United States District Court
Eastern District of Pennsylvania
Philadelphia, PA

Hon. Tom Ridge (ex officio)
Governor, Commonwealth of
Pennsylvania
Harrisburg, PA

Mr. James S. Riepe
Vice Chairman
T. Rowe Price Associates
Baltimore, MD

Dr. Judith Rodin (ex officio)
President
University of Pennsylvania
Philadelphia, PA

Mrs. Adele K. Schaeffer
Bryn Mawr, PA

Mr. William Schawbel
The Schawbel Corp.
Boston, MA

Leonard A. Shapiro, Esq.
President
Emerald Realty Advisors, Inc.
Bethesda, MD

Mr. Alvin V. Shoemaker
Former Chairman
The First Boston Corp.
Stone Harbor, NJ

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

Mr. Saul P. Steinberg
Chairman and CEO
Reliance Group Holdings, Inc.
New York, NY

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

Myles H. Tanenbaum, Esq.
President
Arbor Property Trust
West Conshohocken, PA

Mr. Michael L. Tarnopol
Vice Chairman
Bear Stearns Companies, Inc.
New York, NY

* **Robert L. Trescher, Esq.**
Former Chairman and Senior
Partner
Montgomery, McCracken,
Walker & Rhoads
Haverford, PA

Dr. P. Roy Vagelos, *Chairman*
Former Chairman
Merck & Co., Inc.
Bedminster, NJ

* **Hon. John H. Ware 3rd**
Former member of the U.S.
House of Representatives
Former Pennsylvania State
Senator
Former Chairman, CEO and
Director, Penn Fuel Gas, Inc.
Strasburg, PA

Mr. George A. Weiss
President
George Weiss Associates, Inc.
Hartford, CT

Mr. Raymond H. Welsh
Senior Vice President
PaineWebber Incorporated
Philadelphia, PA

* **Mrs. Jacqueline Wexler**
Former President
Hunter College
Orlando, FL

Dr. Charles K. Williams II
Field Director, Corinth
Excavations
American School of Classical
Studies
Athens, Greece

* **Morton H. Wilner, Esq.**
Emeritus General Counsel
Armed Forces Benefit
Association
Washington, DC

* **Mr. Charles S. Wolf**
Chairman, CEO and Director
York Container Company
York, PA

Mr. Richard B. Worley
Chairman
Miller Anderson & Sherrerd
West Conshohocken, PA

Mr. Stephen A. Wynn
Chairman, President and CEO
Mirage Resorts
Las Vegas, NV

* **Mr. D. Robert Yarnall, Jr.**
Chairman Emeritus
Envirite Corp.
Philadelphia, PA

UNIVERSITY
OF PENNSYLVANIA *Penn**Statutory Officers of the
University of Pennsylvania*
AS OF JUNE 30, 1997*President***Judith Rodin***Provost***Stanley A. 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 Chief of Staff***Stephen D. Schutt***Vice President for Government,
Community and Public Affairs***Carol R. Scheman***Interim Vice President for Finance***Alfred F. Beers***Vice President for Facilities Management***Arthur T. Gravina***Vice President for Business Services***Steven D. Murray***Vice President for Audit and Compliance***Rick N. Whitfield***Interim Secretary of the University***Barbara J. Lowery***Treasurer***Scott C. Lederman***Comptroller***Kenneth B. Campbell***General Counsel***Shelley Z. Green**

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, sexual orientation, religion, color, national or ethnic origin, age, disability, or status as a Vietnam Era Veteran or disabled 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 or complaints regarding this policy should be directed to the Executive Director, Office of Affirmative Action and Equal Opportunity Programs, 3600 Chestnut Street, Nichols House, Suite 228, Philadelphia, PA 19104-6106 or (215) 898-6993 (voice) or (215) 898-7803 (TDD).



UNIVERSITY OF PENNSYLVANIA