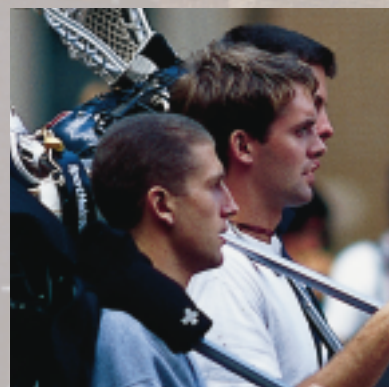


ANNUAL REPORT

1998-1999



UNIVERSITY OF PENN



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MESSAGE FROM THE
PRESIDENT
ON THE UNDERGRADUATE
EXPERIENCE AT PENN



Agenda for Excellence, Penn's strategic plan, has moved forward on the principle that an intellectually stimulating environment and a lively, engaging campus life will attract outstanding undergraduate students and help them realize their fullest potential. With an aim to give students an extraordinary undergraduate experience, this principle has also informed our academic, residential, and co-curricular planning. We have made much progress, and I will tell of it in these pages.

Enhancing Intellectual Resources

As we approach the new millennium, it is clear that success in the pursuit of education and in a chosen discipline will require a departure from the traditional approach of expertise in one's field. In fact, it will require a much broader knowledge base that incorporates theories and principles from other, related fields. Fundamental to the academic priorities of *Agenda for Excellence*, therefore, is an interdisciplinary approach to our educational programs that builds upon Penn's innate strengths in each of our undergraduate schools.

In 1998-99, all four undergraduate schools launched new interdisciplinary academic programs. The College of Arts and Sciences (College) and the Wharton School unveiled three new minors: biological basis of behavior and health service management, organizations and environmental management, and urban real estate and management. In the School of Engineering and Applied Science, four new initiatives debuted: digital media design with the Annenberg School for Communication and the Graduate School of Fine Arts; environment and technology with the College; a science and math certification program with the Graduate School of Education; and nursing and technology with the School of Nursing. The School of Nursing has also created new minors with the College, the Annenberg School, and the Law School.

To support our academic mission, we must ensure that the tools of scholarship — books, technology, and academic resources — are of the highest caliber. In September 1998, we unveiled two campus facilities that help nourish a successful life of the mind.

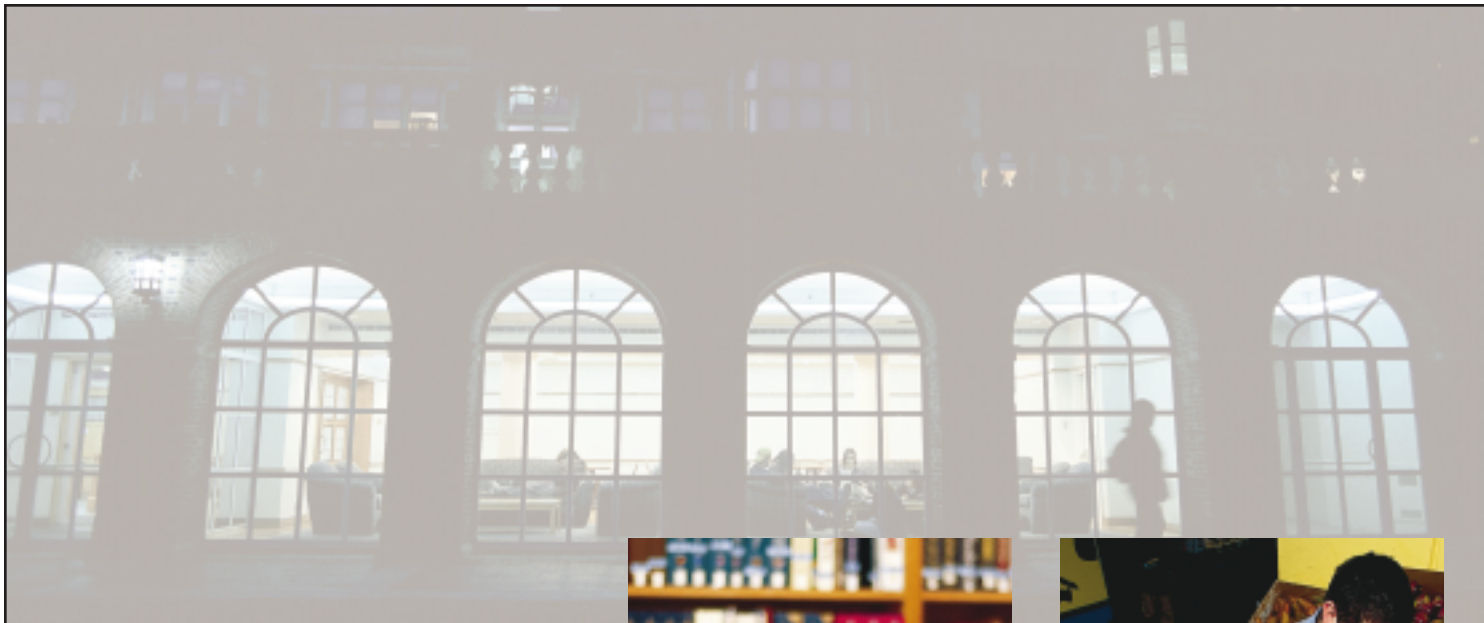
In the fall, students arrived to a renewed campus core. Wonderful renovations in the main study and research areas of Van Pelt-Dietrich Library created a new haven for scholarly work on campus. With a bright new ambiance; advanced, user-friendly technology; and comfortable space for reading, research, and study sessions, the library is a vibrant and inviting destination for students and faculty.



Also in September, students found their course books on the shelves of our handsome new University bookstore at 36th and Walnut Streets. The vaulting atrium gives rise to two floors of books, texts, research supplies, and Penn memorabilia. Students, faculty, and others browse and read in the comfortable carrels and the café from the time the doors open early in the morning to the time they close late at night. The bookstore anchors a block of dining and retail called Sansom Common, where a new hotel, named the Inn at Penn, will open in the fall of 1999.

Living Intersects with Learning

In an era when technology has made instant communication a reality, the limits of space and time on education have vanished. Technology has given our students a 24-hour classroom and a round-the-clock library, and it is changing when and how they learn.



Based on this new pattern of academic work, we launched the College House residential program last fall. All of the twelve College Houses — each its own distinctive community in one of our residences — offer academic support on site at virtually all hours of the day and night. Math and writing advising, computing support, and library reference services are now offered right in the students' residences



through an innovative program called “The Wheel.” An example of the power of The Wheel: College House computing support boosted Internet connectivity on the first day of classes to 73 percent, a nearly 20 percent increase over last year on the same day. Pilot Wheel programs in foreign language support and career services are also being launched.

Perhaps the greatest outcome of the College Houses is the sense of community and camaraderie among those who live in them: A diverse and supportive intellectual community of faculty, staff, undergraduates, and graduate students — the essence of university education. It is easy to see why the average occupancy rate in 1998-99 was 98 percent, and why the demand for rooms in the College Houses for 1999-2000 has been so extraordinary.

Student support in the Houses is comprehensive. Each College House has a Faculty Master and one or more Faculty Fellows living in residence, often with their families, offering a home-like environment and informal contact with Penn’s renowned teachers and scholars. Faculty Masters provide leadership for the Houses and make the collaborative learning relationship between students and faculty a daily reality. Also affiliated with the Houses are additional non-residential faculty, broadening opportunities for faculty-student connections.

Residential House Deans serve as the administrative directors and first-line advisors to students. In this framework, we inaugurated a new integration of undergraduate advising, with House Deans cross-trained to help students in all four undergraduate schools, creating a single “front door” to support services for students.

Student leadership is also strong. A diverse team of Graduate Associates in each House adds a unique viewpoint to the life of the community and offers experience in their fields of study. Undergraduate Residential Advisors support House programming and offer peer support, and undergraduate House Managers form a core student governing body.

A more intimate look at the College Houses reveals everyday events made extraordinary by the exceptional people they bring together. I visited each College House during the year and was delighted by what I saw. One night in October, I joined some 15 students and faculty master Dr. John Richetti of our English Department at the café at Harrison House for a roundtable discussion called “Global Economic Crisis: Why Some Countries Can’t Stand Prosperity” with Dr. Alan Heston, professor of economics and South Asia regional studies at Penn. The conversation — one of many such faculty-student exchanges during the year — was wholly engaging, as were the students’ questions. Elsewhere in Harrison, students were studying in the lounges, playing table tennis and shooting pool, using the House’s own recreational equipment.

On the same evening, I sat in on a session with the community service residential program at Hamilton College House. There, a representative from Civic House, our new core facility for programs in service-learning and civic responsibility, was talking with students about volunteer opportunities and ways for the residential program to collaborate with Civic House. Capping off the night was a visit to Harnwell House, where faculty master Dr. David Brownlee, professor of the History of Art and Director of College Houses and Academic Services, led me on a tour. Student residents from the dance troupe Sparks wowed me with their talent. We stopped by an in-house computer lab, where students work as information technology advisors. We ended the night in the pent-house study lounge, which offers a lovely, inspiring view of the Philadelphia skyline and where students can study into the early hours of the morning.

Over the next decade, a \$300 million revitalization program will renovate all the present College Houses and add about 1,000 new beds to the system. Just after Commencement, work began on the residences within Penn’s

historic Quadrangle. This work, guided by a fruitful consultative process with students, faculty, and staff, will continue for several more summers while students continue to occupy the buildings during the academic year. With the Quad project





underway, we are now turning our attention to the remaking of Hamilton Village (formerly known as Superblock), absorbing lessons for the master plan from dazzling initial ideas submitted in a design competition, selecting architects, and preparing to begin construction. An integral part of living in a College House during the next decade will be helping to design what the House will be like during the next century.

In Word and Deed

Complementing our residential communities are student-initiated “hub” facilities, which are non-residential centers devoted to specific activities and interests. The two current hubs — Civic House and Kelly Writers House — are located on Locust Walk; each offers a comfortable, home-like setting for inspiration and learning, planning and activity, with living rooms and meeting rooms alongside classrooms. In September, we launched Civic House, Penn’s community service and learning collaborative, which promotes community service as a means of preparing students for their roles as citizens and leaders. For its third full year, Kelly Writers House served as a creative venue for writers and literary enthusiasts at Penn and in Philadelphia. Other hubs are in the planning stages.

Civic House Civic House supports students’ involvement in an array of meaningful community service activities and sponsors educational programming aimed at a range of social and political issues. In addition to offering a venue for programs and resources for students engaged in this work, Civic House is, importantly, a place. As we had predicted, this flexible, attractive and strategically located structure has encouraged a multiplication of activities. In fact, one of the most noteworthy aspects of Civic House is the extent to which it is a place where people with a range of community-related interests come together: from Penn’s Center for Community Partnerships and the College Houses to student-led organizations and community groups.

A typical day there involves a wide range of activities. In the third-floor Resource Room, a Penn student volunteer tutors a West Philadelphia adult seeking to attain literacy skills. Students, staff and volunteers on the second

floor busily prepare for an upcoming campus-wide conference on linking academics and community service. The first floor is abuzz with meetings in every room: in the Seminar Room, the Penn Environmental Group plans its most recent campaign; in the Conference Room, the Foundation, a new project seeking to bring students and community members together through performing and visual arts, meets to discuss a Hip Hop Night; in the Living Room, students are gathered for a presentation by a West Philadelphia business owner on socially responsible business practices.

All this has taken place during Civic House's first year. During 1999-2000, Civic House hopes to introduce an annual lecture featuring a nationally prominent figure working in the public interest, to engage alumni through career mentorship and other programs, and to establish a public service internship program, where students can gain financial support for summer service experiences.

Penn has long been a national leader in community service learning. Through proposing and developing Civic House, an enterprising group of students — with faculty and staff — have created a place where ideas and community-building projects can flourish in partnership with a host of individuals and organizations from West Philadelphia and beyond.

The Kelly Writers House As the Writers House concluded its third and most ambitious year of programs, the campus was able to look back on lectures and readings by local, national, professional, and aspiring writers and poets, performances by student musicians in the Virgin House Band, and a class taught by the first Writers House Visiting Fellow, author Gay Talese.

Each week more than 500 people use the House, attending writing and writing-related classes, tutoring, producing magazines, creating digital audio files for an internet archive, planning literacy programs, celebrating Beat poetry with an impromptu reading, and engaging their professors in intellectual conversation beyond the classroom. And the scent of freshly baked brownies, prepared in the Writers House kitchen, is omnipresent.

This welcoming space is home to writers of all kinds and in all disciplines, from across campus and across the city. They practice their craft under the attention of interested faculty leaders, several dedicated staff members, and a score of energetic, brilliant, curious volunteers, who come to the House from the ranks of undergraduates, alumni, faculty, Penn parents, and Penn employees.

The Writers House illustrates that focused, learner-centered communities significantly augment the traditional curriculum. Students are drawn to the Writers House because they know they can help create the environment in which they acquire knowledge and skills in a single act of creativity. They come because they know they are likely to meet professors in an informal setting, where faculty, staff, alumni, students and literary neighbors interact cooperatively and voluntarily for the sake of the goal of enlarging culture.



Sound of Body and of Mind

Recreation is a tremendously important part of the Penn experience. In the fall, we opened one facility that helps satisfy our need for great recreational spaces, and others are underway.

In September of 1998, the Ellen and Howard C. Katz Fitness Center in Gimbel Gym opened its doors and more than 5,000 students, faculty, and staff have signed up to use the facility's treadmills, bicycles, stairclimbers, free weights, and weight machines. The enormous success of the Katz Fitness Center is a wonderful prelude to the recreational activity that will be possible in just another two years. Following a \$20 million restoration and expansion, Gimbel Gym will be renewed as a comprehensive health and fitness center, named for its primary donor, University alumnus and Trustee David S. Pottruck.

The revitalization of our athletic fields is also underway and Bower Field, on the eastern side of campus, will be transformed in time for our students' arrival in September 1999 into an expansive new outdoor recreation space for club and intramural teams. And a new 1,000-seat baseball park will open on Murphy Field, on the southern side of campus, in time for the Spring 2000 season.



In and outside the classroom, the Penn undergraduate experience is being actively enriched. From the libraries to the ball fields, from the residences to the campus "living rooms," every corner of our University is alive with activity that complements our superb academic programs. Through our expanding set of strategic co-curricular and residential programs and facilities — with increasing opportunities for learning and growing — our students are the beneficiaries of this nurturing environment.

A handwritten signature in black ink that reads "Judith Rodin".

Judith Rodin
President





MESSAGE FROM THE
EXECUTIVE
VICE PRESIDENT

Fiscal Year 1999 marks another year of tremendous progress for the University's administrative restructuring and quality of life initiatives. We have continued our efforts to manage our administrative activities in a cost effective manner, to improve the quality of our services, to identify new revenue generating opportunities, and to actively manage and mitigate our risks.

At the same time, we have made significant capital investments to improve the quality of life for all students, faculty, and staff who live and work on our campus, as well as for our neighbors in University City. People are now seeing and experiencing these changes in our environment, and there is no doubt that University City is the hottest emerging neighborhood in the City of Philadelphia. The following highlights some of the projects we have undertaken during Fiscal Year 1999.

Campus Enhancements

- **Katz Fitness Center:** In the Fall of 1998, we dedicated the Katz Fitness Center, a state-of-the art fitness facility located on two floors in the Gimbel Gymnasium. The Fitness Center provides approximately 7,500 square feet of bright, open, air conditioned space and includes the latest cardiovascular and strength machines.



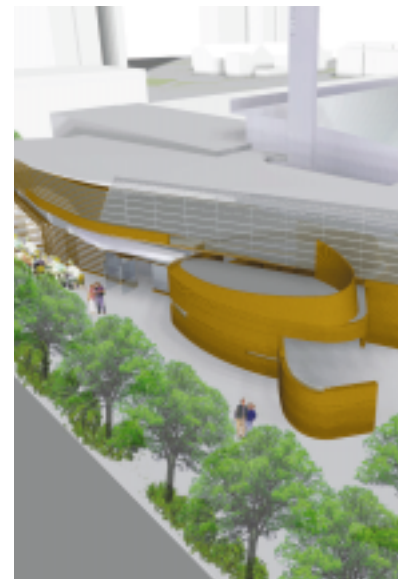
- **Housing and Dining Renewal Project:** The Housing and Dining Renewal Project is a 10-year, \$300 million investment by the University of Pennsylvania to enhance and renovate our residences and dining halls, as well as to build a series of new residential facilities. Beyond this, the Renewal Project will also strengthen the College House system and optimize the undergraduate experience. Two programs, renovation of the Quadrangle and rehabilitation of the Hill College House Dining Facility, began during the Summer of 1999.
- **Jon M. Huntsman Hall:** Huntsman Hall, now under construction, is the result of a planning effort that began in the early 1990's to accommodate the space needs of the Wharton School's academic program. The new \$120 million building will create state-of-the-art instructional space that will serve the "cohort and learning team" pedagogical approach developed by Wharton. The building will also enhance the educational experience of both undergraduates and MBA students. Features such as common areas, study and breakout spaces, and cafes are intended to encourage an increased presence of MBA's throughout the day and into the evening, thereby increasing the vitality and appeal of our campus.
- **Sansom Common:** Fiscal Year 1999 marked the opening of the greatly expanded and enhanced Penn Bookstore and Computer Connection in Sansom Common. Also in Fiscal Year 1999, additional retail venues, including Urban Outfitters, Eastern Mountain Sports, Douglass Cosmetics, and Xando Coffee and Bar opened along Walnut and 36th Streets, revitalizing this part of the campus. The final phase of Sansom Common is currently being completed; the Inn at Penn and the Faculty Club are scheduled to open in fall of 1999, and additional restaurants and retail venues will open during the fall of 1999 and spring of 2000. Sansom Common is also notable for the economic development opportunities created by the project; approximately 45% of construction contracts have been awarded to minority and women owned businesses, and over 150 residents of West Philadelphia have worked on the construction of the project.

- **The Module VII Chilled Water Facility:** This \$64 million project will provide 20,000 tons of chilled water via an expanded campus-wide chilled water piping distribution system to support the future growth of the campus, and in particular our research enterprise. The plant, along with a 1,000 seat baseball park, will be built on the existing Murphy Field site. The design of the Chiller Plant by Leers Weinzapfel Associates was one of 18 projects chosen by Architecture Magazine for their prestigious 1999 Progressive Architecture Award. The project will be completed in May 2000; campus piping installation commenced in December 1998 and site construction began in January of 1999.



Neighborhood Revitalization

- **Hamilton Square:** This mixed use retail project, which will include the country's first Sundance Cinema, commenced in October 1998 with the execution of a lease with Robert Redford's Sundance organization. The Hamilton Square complex will be located on 40th and Walnut Streets, where the campus meets our University City neighborhood. In addition to the Cinema, a 30,000 square foot fresh food market will be constructed, as well as an 800 car garage that will accommodate student, faculty, staff and visitor parking. Project construction began in April 1999 and the overall project will be complete by Summer 2000. Once open, Hamilton Square will be an entertainment destination for the entire city, bringing additional visitors and economic development opportunities to West Philadelphia.
- **Westside Commons:** In February 1999, the University entered into an agreement with Dranoff Properties to develop 285 units of high-end market housing as well as parking, office, and retail space on the site of the former GE Building at 3100 Chestnut Street. Westside Commons will provide a new, high quality housing option near the University to our graduate and professional students as well as faculty and staff.





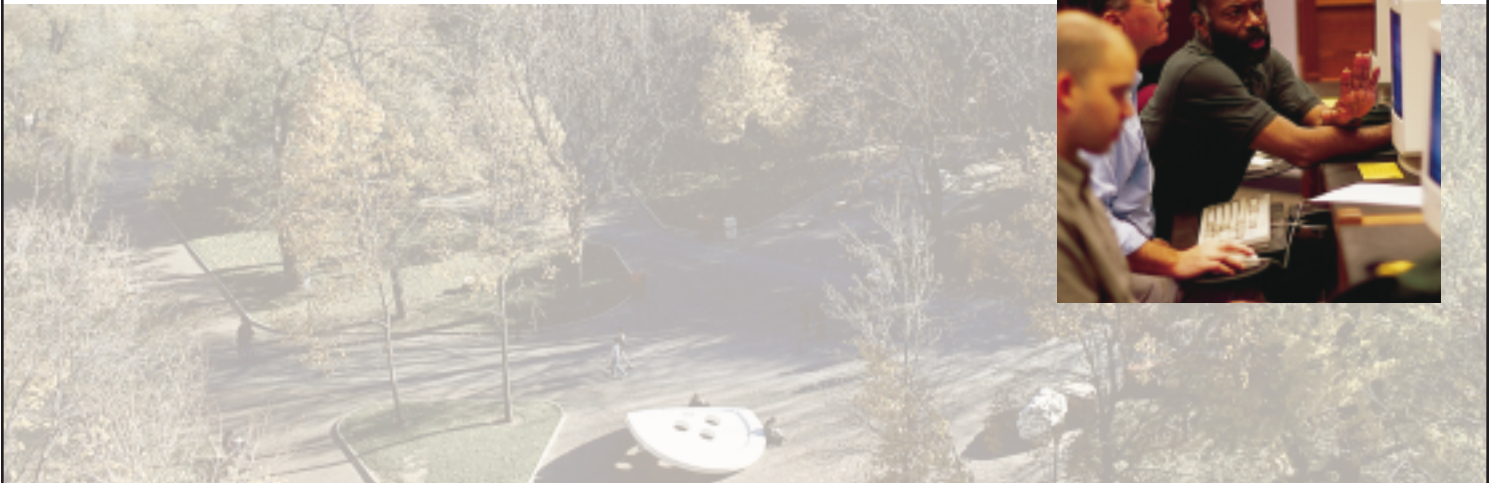
- **University City District Headquarters:** The University City District (UCD) headquarters and the Philadelphia Police substation at 40th and Chestnut Streets opened in June 1999. In addition to housing 40 UCD Safety Ambassadors and uniformed cleaning crews, this facility brings to University City 30 additional Philadelphia police officers. The new UCD Headquarters, combined with Penn's Public Safety Headquarters built in 1997, together provide a permanent safety presence near 40th Street.
- **Community Housing Programs:** The University purchased, rehabilitated and sold nine single-family homes in key blocks in University City. By rehabilitating severely dilapidated properties, the program helps to retain the stability and attractiveness of the University City neighborhood. In addition to this, the Enhanced Mortgage and Home Improvement Programs, both initiated in 1998, have provided incentives to over 200 Penn affiliates who either purchased a new home or improved the exterior of their existing home in University City.

Administrative Initiatives

Administrative restructuring initiatives continue apace with major projects completed or underway in Benefits Administration, Dining, Research Services, Facilities Services, Procurement, and Parking. Fiscal Year 1999 highlights include:

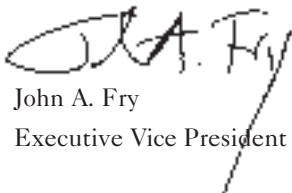
- **Campus Development Plan:** Fiscal Year 1999 marked the beginning of our long range campus development planning process. The purpose of this plan is to ensure that the University's physical plant fulfills the needs of its academic mission, and to provide a safe and attractive campus environment. As such, the Campus Development Plan will not only respond to academic trends and needs, but also focus on the preservation of our historic buildings, campus amenities, and access and circulation throughout our campus. Consistent with the plan, we are working to secure properties on important adjacent sites to our campus, most notably the Civic Center Exhibition Hall site from the City, and the 2.6 acre parcel of land on the northwest corner of 34th and Chestnut Streets from the Redevelopment Authority.
- **Dining Services:** During Fiscal Year 1999, the University outsourced the direct management of the residential dining program to Bon Appétit, a San Francisco-based contract food service company with a national reputation for creativity and high quality. With this new role for Bon Appétit, which was selected in 1998 to provide all food services in the Perelman Quad, we will be able to extend to the residential dining halls a much higher quality food service program.

- **Public Safety:** We have continued to invest in the safety and security of our surroundings. During the 1996 to 1999 period, all categories of crime were down 27%, and robberies and attempted robberies down 45%. To ensure that this trend will continue, we have undertaken a multi-faceted strategy which includes focus on improving the professional standards and performance of our police and security guards; the overhaul of our communications, control and records management systems through a long-term outsourcing arrangement with EDS-Systemshouse; and continuation of our aggressive program of installing security technology systems, Blue Light phones, and closed circuit television monitors in key areas throughout the campus and adjacent neighborhoods.
- **Facilities Services:** In Fiscal Year 1999, we continued to work with the Trammell Crow Company to improve the quality and cost effectiveness of our construction management and operations and maintenance services across campus. In addition, we implemented a new capital project approval process designed to ensure that each project is reviewed within the context of the University's campus development plan, the unit's specific strategic plan, and the project's costs and sources of funding. The new approval process will allow us to analyze better the University's capital investments and prioritize among competing initiatives.
- **High Performance Work Culture:** As we undertake administrative restructuring at Penn, an important goal has been to create a high performance work culture by investing in the professional development of our staff, and by putting in place incentives to facilitate productivity and service quality gains. In Fiscal Year 1999, pilot Professional Development Programs were initiated for Penn managers, and Career Life Seminars for administrative staff. Additionally, the Flexible Work Option program was implemented to help us recruit and retain our most talented professionals, and a "Models of Excellence" program was announced to identify and reward employees who have made extraordinary contributions to Penn.



Conclusion

In Fiscal Year 1999, we continued to build on our aggressive track record of restructuring the way we manage the University, and improving the quality of life on our campus and in our surrounding neighborhoods. As we look to Fiscal Year 2000 and beyond, we will stay the course by seeking new ways to leverage our human, physical, and financial resources, generate new sources of revenue, invest in our people, and improve our physical surroundings. Our goal continues to be nothing less than being the best managed University in the country.


 John A. Fry
 Executive Vice President





MESSAGE FROM THE
EXECUTIVE VICE PRESIDENT
OF THE UNIVERSITY AND
CEO OF THE UNIVERSITY OF
PENNSYLVANIA HEALTH SYSTEM



Background

On June 4, we celebrated the 125th anniversary of the founding of the Hospital of the University of Pennsylvania (HUP). This festive occasion was also a time to look back at the many important events in the history of the University of Pennsylvania Health System (UPHS). Although our Health System is currently facing major financial pressures, we can be heartened by our strong history of overcoming challenges. The Trustees established UPHS in 1993 to create a fully integrated academic health system to support our three core missions – education, research, and patient care. Six years into our implementation strategy, we have reason to be immensely proud of some unprecedented achievements and honors, but at the same time, we are concerned and cautious.

Fulfilling Our Academic Missions

Education – Since establishing Curriculum 2000® — a major transformation of medical education — in 1997, the University of Pennsylvania School of Medicine has continued to implement and broaden this path-breaking program. Taking advantage of new Web-based technologies, the School has developed Virtual Curriculum 2000™, which has allowed students to view lectures and access other institutional materials through the Internet – no other medical school in the country has developed such an advanced distance-learning program to date. Some other recent educational highlights include the arrival of the first group of young physicians into the Family Practice Residency Program, based at Presbyterian Medical Center, and the continued development of the Office of Network and Primary Care Education, which places medical students and residents in our community-based practices to complement their hospital-based training. For these and other initiatives, the School has achieved national recognition, climbing to 3rd place in the 1999 *U.S. News & World Report* ranking of medical schools in the United States.



Research – One of the keys to developing outstanding research programs is providing our faculty with modern laboratory space. During the past decade, the School of Medicine has constructed 771,000 gross square feet of new research and education space and has renovated an additional 658,000 gross square feet for research and education. This does not include the 435,000 gross square feet constructed by Children's Hospital for our faculty in Pediatrics. The latest phase of this decade-long initiative was the opening of Biomedical Research Building II/III in April. With 15 floors and 384,000 gross square feet of new space, this state-of-the-art research building will support a valuable synergy among the many programs it houses. These include the recently established Leonard and Madlyn Abramson





Family Cancer Research Institute at the University of Pennsylvania Cancer Center, as well as other major multidisciplinary programs that have helped propel UPHS into second place in the nation in total research funding from the National Institutes of Health (NIH). The total, \$231 million in NIH grants for Fiscal Year 1999, is more than all other Delaware Valley academic medical centers combined. Penn Med has also had the highest average annual growth rate in NIH research funding among the top 10 NIH institutions during the past decade and has achieved the highest absolute increase in NIH funding this decade among the nation's 125 medical schools. Our new Penn Center for AIDS and HIV Research continues to take shape, and it was recently designated a national Center for AIDS Research (CFAR) by the National Institutes of Health. The only CFAR on the East Coast between New York and North Carolina, the center will enable Penn to build on its fine record of working to understand, treat, and prevent the disease.

Clinical – In 1999, the Hospital of the University of Pennsylvania was ranked 10th in the nation among 7,000 hospitals surveyed in *U.S. News & World Report's* annual listing of "America's Best Hospitals," up from 11th place in 1998. After winning three major awards in health care quality in 1998 – the "triple crown of quality" – the Health System has continued to receive national recognition. This includes the Health System Award in Clinical Effectiveness from the Voluntary Hospitals of America, the inaugural award for quality from the American College of Medical Quality, the 1999 Acclaim Award from the American Medical Group Association, and the Pinnacle Award from the American Pharmaceutical Association.

The national trend to use hospitalists has also arrived at HUP. These are generalists who assume the care of inpatients from their primary-care physicians while they are in the hospital, spending almost all of their time on the inpatient floors. The first group of Penn hospitalists started last year, and their success has encouraged us to bring another group aboard. We expect the use of hospitalists to both improve patient care and help cut costs.

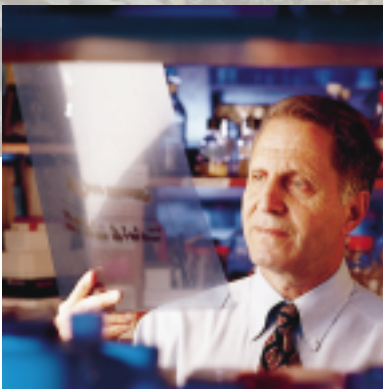


I am happy to report that admissions at HUP are at an all-time high. Across our system in Fiscal Year 1999, we experienced double-digit growth (13 percent) in ambulatory visits as well as an increase in admissions of more than 8 percent. With all the components of our Health System, we currently have an estimated 20 percent of the market share in the region. In Fiscal Year 2000, Phoenixville Hospital will open Penn Medicine at Limerick, a medical office building that will further extend our regional presence.

Implementation of a Fully Integrated Academic Health System

With four owned hospitals, 13 hospital affiliates, 12 educational affiliates, a primary-care physician network, several large multispecialty satellites, and home care, hospice, and nursing home services, UPHS provides a full range of clinical services across the entire continuum of care to residents of the Philadelphia region. Essentially

all of the critical components to our Health System are now in place; our current focus is on impeccable implementation and operation. We believe we are well on track to improving the way health care is delivered in this country and to demonstrating to the nation the added value of a fully integrated academic health system.



Health Care Environment

During this volatile period in health care, hospitals and health systems across the country continue to grapple with the severe effects of rate reductions and denials of coverage from managed-care companies, as well as the reduced reimbursements from Medicare that were mandated by the Balanced Budget Act of 1997. Within the last year, many academic health systems, elsewhere in the nation, announced significant losses and the elimination of thousands of jobs. In the Philadelphia region, the impact has been even worse, given the absence of a public hospital and the lack of significant financial support for indigent care. Indeed, one of the top news stories in the region in the past year was the bankruptcy and sale of local hospitals by one of Penn's major competitors, followed by the purchase of those hospitals by a for-profit health system.



Despite treating record numbers of patients, the University of Pennsylvania Health System sustained a \$166 million operating loss in Fiscal Year 1999, which includes the write-down of certain accounts receivable and severance costs from a workforce reduction in May. After adjusting for reportable interest and dividend income, the total operating loss in Fiscal Year 1999 was \$198 million.

The University of Pennsylvania Health System has launched an aggressive financial recovery plan including a major workforce reduction, and a restructuring and consolidation of work processes in hospitals and physician practices to streamline flow and eliminate duplicate functions. Expenses were reduced through a variety of means including consolidated purchasing of supplies and equipment.

The first phase of the workforce reduction occurred in May, when 1,100 positions, or 9 percent of the health services workforce, were eliminated. By the end of Fiscal Year 2000, the University of Pennsylvania Health System will have eliminated close to 2,800 positions, or 20 percent of the health services workforce, since May 1999. Our financial recovery plan is expected to bring the University of Pennsylvania Health System to break-even (minus \$10 million amortization) by the end of Fiscal Year 2000.

Our Health System will be better for these changes. We will have become more efficient, even more selective about what programs to support, and even leaner and more entrepreneurial. In the end, preserving academic excellence will remain our core mission.

A Summary and a Thank You

All of the successes we have achieved this past year, and in earlier years, are due to our superb faculty, outstanding leadership, and to the many others in our organization who give their best each and every day. On behalf of the University, I offer my personal thanks to each who has contributed so much to creating the future of medicine at the University of Pennsylvania Health System.

William N. Kelley, M.D.
Executive Vice President of the University and
CEO of the University of Pennsylvania Health System





MESSAGE FROM THE VICE PRESIDENT FOR FINANCE

Fiscal Year 1999 was filled with many successes and rising national prominence for both the University and the University of Pennsylvania Health System (Health System). The financial performance of the University's educational and general component was very strong, with a substantial increase in net assets coupled with unprecedented strength in admissions quality, sponsored research funding and fundraising. The Health System faced severe competitive pressures that led to a serious deterioration in operating performance. This occurred despite solid increases in patient volume and further confirmation of its reputation as one of the leading health care providers in the world.

It was a year of continued investment in our academic and physical infrastructure within the framework laid out in the *Agenda for Excellence*. At the same time, we remained vigilant in searching out opportunities to reduce costs, enhance revenue, and improve service delivery across campus. We completed construction of the state-of-the-art research facility, Biomedical Research Building II/III, designed to house our burgeoning medical research activities. In addition, we completed substantial renovations to research facilities in the School of Veterinary Medicine.



At the same time, we made continued progress in those construction projects whose goal is to further improve the quality of campus life, including the substantial completion of Phase I of the Sansom Common project.

Fiscal Year 1999 Performance Highlights

During Fiscal Year 1999, on a consolidated basis, the University recorded an increase in net assets of \$237 million, for a total of nearly \$4.8 billion, of which \$2.3 billion was unrestricted. The increase in net assets was mainly attributable to non-operating activities: realized and unrealized gains on investments of about \$240 million and \$119 million in contributions received for capital projects and endowment. There was a decrease in net assets before non-operating revenue of \$136.8 million, all attributable to the net loss experienced by the Health Services Component. The operating loss included a non-recurring charge of \$11.6 million associated with the reduction of 1,100 positions at the Health System in the spring of 1999.

Tuition, Fees and Financial Aid

During Fiscal Year 1999, the University recorded a \$24 million increase in tuition and fee revenue to a total of over \$374 million, net of financial aid direct grants. This represents an increase of nearly 7% over Fiscal Year 1998. The University was able to continue to maintain its need-

blind undergraduate admissions policy, with 56% of Penn undergraduate students receiving some type of financial aid. Overall, undergraduate and graduate direct grants totaled almost \$94.5 million for the year. Once again, Penn surpassed its undergraduate admissions record, with the highest SAT scores and most competitive admissions in history. A sharp positive upturn in the number of admitted students electing to matriculate at Penn will provide us the challenge of accommodating an unusually large freshman class in the fall of 1999.

Development and Alumni Relations

Development and Alumni Relations raised \$277 million in gifts and private grants for Fiscal Year 1999. The University's Annual Fund programs also produced a record-setting total of \$26.9 million, a 15% increase over Fiscal Year 1998. Contributions added to the University's endowment during Fiscal Year 1999 totaled \$87 million, nearly a 40% increase over the previous year.

Funds raised for the *Agenda for Excellence* represented a significant portion of total giving. Fiscal Year 1999 gifts for *Agenda* priorities emphasized student financial aid, academic and recreational facilities, endowed professorships, and academic and research programs.

The University of Pennsylvania Alumni Society published the first all-University alumni directory in more than seven decades and moved forward with expanded programming to attract and engage alumni at every stage in their lives and careers. The Society also sponsored highly successful regional and campus events that recognized and celebrated alumni involvement.

Sponsored Programs

Sponsored program support was exceptionally strong in Fiscal Year 1999. For the fifth year in a row, sponsored project awards grew at double-digit rates of increase. This rate of growth is far greater than that of Penn's peer institutions. Total awards for the year reached \$471 million, an increase of 13.8% over the previous year. Sponsored programs revenue totaled over \$418.7 million last year, a 17.8% increase over Fiscal Year 1998. Nearly all the Schools showed healthy increases in support, with the School of Medicine, the School of Arts and Sciences, the School of Engineering and Applied Science and the Graduate School of Education all showing significant increases in research funding. The University, largely through the efforts of the School of Medicine, moved up to a number two national ranking in funding from the National Institutes of Health (NIH). New funding proposals submitted during the year also increased by 11.3%, so it is likely that Penn's strong growth in sponsored program support will continue into the coming years.

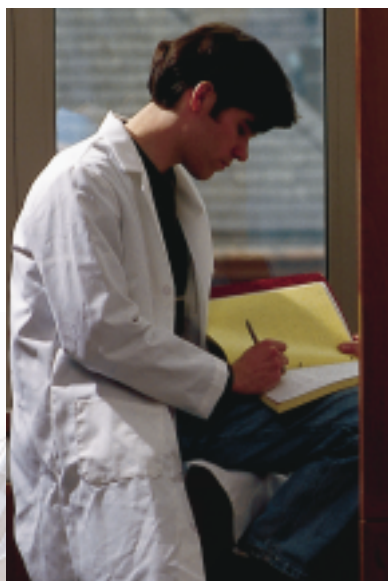


Endowment and Investments

Penn's endowment grew to \$3.28 billion at June 30, 1999, up \$222 million or 7.3% from \$3.06 billion at June 30, 1998. After a significant correction in August of 1998, financial markets recovered for relatively strong performance throughout the remainder of the fiscal year. The Associated Investments Fund ("A.I.F."), in which a majority of the endowment is invested, earned a total investment return of 11.2% in Fiscal Year 1999. While this return is impressive on an absolute basis, the A.I.F. lagged its benchmark (+15.4%) for the year, reflecting its value and mid-cap equity orientations in a year in which large capitalization and growth stocks dominated market performance. This market bias has impacted the fund's performance on a longer-term basis. For the ten years ended June 30, 1999, the A.I.F. returned 12.6%, while its composite benchmark earned 14.2%.

During Fiscal Year 1999, the Office of Investments completed comprehensive studies of the role and structure of each asset class in the endowment to enhance its overall risk/return profile. As a result of these studies, new asset

class exposures were added, including private equity and absolute return, and the structure of the domestic equity portfolio was refined. Finally, additions to the Investment Board and Office of Investments staff were made during Fiscal Year 1999 to complement the changes in portfolio structure. The enhancements made to the structure of the portfolio and the composition of the Investment Board and staff are expected to position the endowment well for the long-term.



Capital Investment

During Fiscal Year 1999, the University invested over \$369 million in new construction, renovation, and the purchase of property, plant and equipment to support our teaching, research and health care services mission. In the spring of 1999, we completed construction on the Biomedical Research Building II/ III. The 384,000 gross square foot building provides modern and technologically advanced laboratories for medical research. The University also completed renovations at the School of Veterinary Medicine's Myrin Building and an expansion project at our large animal facility, New Bolton Center.



Investments to improve the quality of life for students, faculty and staff within and around campus continued apace. Phase I of the Sansom Common project, including Penn's bookstore and the Inn at Penn, was substantially completed. The Katz Fitness Center opened to students, faculty and staff as a convenient on-campus site for a physical work out and has been an overwhelming success. Campus vending plazas were created to preserve the opportunity for customers to purchase food and other goods from street vendors in specially designated locations, while improving overall campus aesthetics.

During Fiscal Year 1999, work, at various stages of planning and construction, was initiated for several other important projects. These include the restoration of the Law School's Silverman Hall and the planning for the renovation of Skinner Hall to house the Graduate School of Fine Arts' studio arts programs in a newly-named Charles Addams Hall. Design began on the new Melvin J. and Claire Levine Hall for the School of Engineering and Applied Science. Other projects related to student life included the beginning of the Hill House Dining and Quadrangle College House renovations; the design competition for the proposed Hamilton Village College Houses; and the construction of a new baseball park and the rehabilitation of Bower Field, both designed to improve much needed recreational facilities.

Summary

During Fiscal Year 1999, Penn students, faculty and staff were challenged to aim for true excellence in all their endeavors. Their extraordinary efforts were publicly recognized by the University's overall sixth place ranking by *US News & World Report* and the Hospital of the University of Pennsylvania's (HUP) selection as the tenth highest rated hospital in the United States. In the year ahead, we will face many challenges, most notably the financial turnaround of the Health System, but with the continuing guidance of the *Agenda for Excellence*, we expect to achieve even greater accomplishments going forward.

Kathryn Engebretson

Kathryn J. Engebretson
Vice President for Finance





FINANCIALS A FIVE-YEAR REVIEW OF INVESTMENTS

University of Pennsylvania
(Thousands of Dollars)

	1999	1998	1997	1996	1995
Investments:					
Fair Value					
Stocks	\$2,183,638	\$1,780,483	\$1,474,925	\$967,484	\$807,602
Bonds	1,109,980	1,244,519	1,424,951	1,348,576	939,934
Short-term	484,929	536,608	403,303	548,151	699,164
Other	180,239	215,025	168,961	135,225	100,703
Total Investments	\$3,958,786	\$3,776,635	\$3,472,140	\$2,999,436	\$2,547,403
Cost					
Stocks	\$1,754,541	\$1,434,745	\$1,179,632	\$847,373	\$665,171
Bonds	1,129,818	1,235,824	1,242,192	1,346,675	923,859
Short-term	485,203	536,608	402,602	545,617	703,141
Other	121,395	165,541	145,188	120,842	88,191
Total Investments	\$3,490,957	\$3,372,718	\$2,969,614	\$2,860,507	\$2,380,362
Endowment:					
Fair Value	\$3,281,306	\$3,059,401	\$2,535,312	\$2,108,961	\$1,675,740
Cost	\$2,836,033	\$3,009,100	\$2,202,511	\$1,986,641	\$1,513,309
Associated Investments Fund:					
Fair Value	\$2,661,621	\$2,138,012	\$1,856,663	\$1,527,651	\$1,255,411
Cost	\$2,358,924	\$1,899,007	\$1,622,538	\$1,438,583	\$1,113,163

FINANCIALS ENDOWMENT

University of Pennsylvania, June 30, 1999

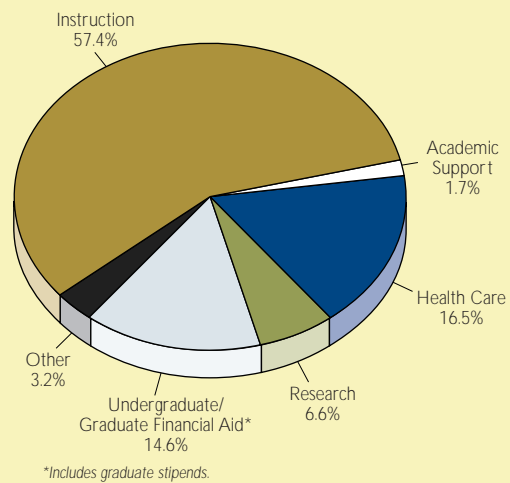
Total Endowment

The role of Penn's endowment is to support its schools and centers by generating a growing, real (inflation-adjusted) flow of funds for the operating budget. The endowment funds 3.8% of the University's consolidated operating budget. At June 30, 1999, the endowment reached a record high market value of \$3.28 billion, attributable in part to the total investment return of 11.2% attained over Fiscal Year 1999. The market value of the endowment increased by \$222 million over the year, with such gain being comprised by net investment appreciation of \$228 million, net gifts and transfers from the endowment of \$5 million and net spending rule liquidation of less than \$1 million.

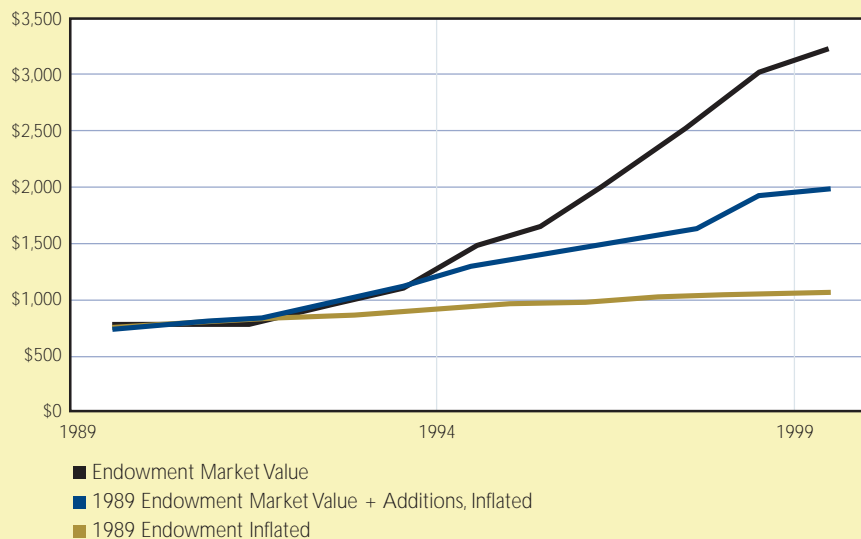
The total endowment includes the endowment of all of Penn's schools and centers. The endowments serve a variety of purposes. The chart below reflects the breakdown of endowment by purpose.

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

ENDOWMENT BY PURPOSE



ENDOWMENT GROWTH VS. INFLATION



FINANCIALS

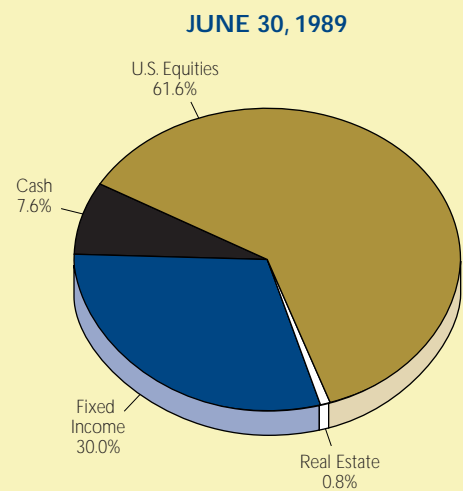
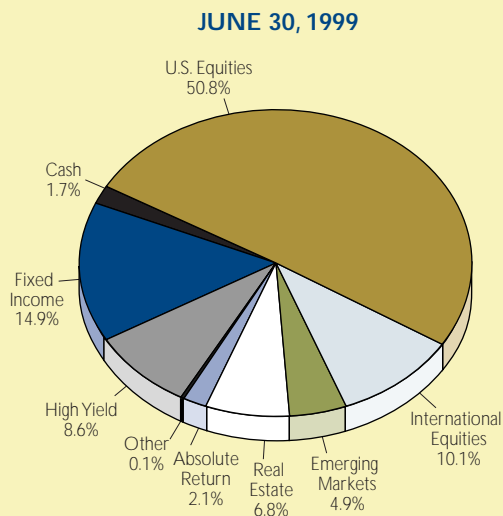
ASSOCIATED

INVESTMENTS FUND

University of Pennsylvania, June 30, 1999

Associated Investments Fund

Approximately 81% of the University's endowment is invested in the Associated Investments Fund ("A.I.F."), an open ended pooled investment fund, managed by the University, which had a market value of \$2.66 billion as of June 30, 1999. One of the key determinants of investment performance is asset allocation. This allocation has changed dramatically over the years as the A.I.F.'s diversification has increased, reducing its dependence on domestic marketable equities and fixed income. This shift, over the past ten years, in asset allocation is illustrated below.



FINANCIALS ASSOCIATED INVESTMENTS FUND

University of Pennsylvania, June 30, 1999

The A.I.F. is managed for total return, as investment returns are sought from both current income and principal appreciation. For the one-year period ending June 30, 1999, the A.I.F. generated an average annual compounded total investment return of 11.2%. This return compares with the 10.7% preliminary average university endowment return (as reported by Cambridge Associates). 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, 1999

Annualized Returns (%)

Category	10 Years	5 Years	3 Years	1 Year
Associated Investments Fund (AIF)	12.6	16.2	15.7	11.2
Composite Index*	14.2	18.8	18.2	15.4
S&P 500 Index	18.8	27.8	29.1	22.8
Lehman Bros. Gov't./Corp. Index	8.1	7.8	7.2	2.7

* The Composite Index represents S&P 500, EAFE, MSCI Emerging Markets Free, NCREIF, Lehman Gov't./Corp., Salomon High Yield indices on a weighted basis equal to the AIF'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 income and high yield allocations.

A.I.F. Distributions

In addition to principal gains and gifts, a total of \$90,606,000 was earned from interest and dividend payments on assets held in the A.I.F. in Fiscal Year 1999. From this total, \$1,676,000 was applied to investment administration charges, which support the internal costs of investment management. An allocation of \$13,767,000 was made for general school/center support, which covers the general overhead (e.g., heat, light, maintenance) of the schools and centers benefiting from the endowment. To meet the spending requirement, an additional \$545,000 was liquidated from principal pursuant to the A.I.F. spending rule policy, described below. The net distribution following these transfers was \$75,708,000, which went to support a variety of University purposes, dependent on the restrictions of each endowment fund held in the A.I.F.

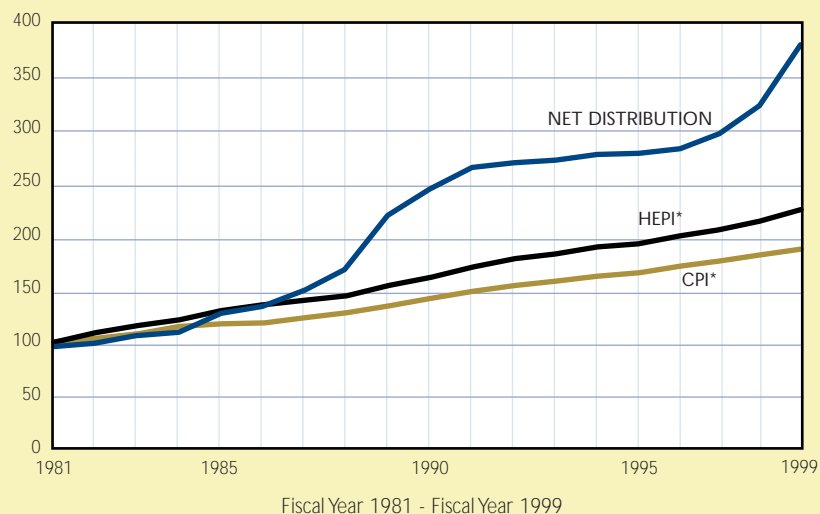
FINANCIALS
ASSOCIATED
INVESTMENTS FUND

University of Pennsylvania, June 30, 1999

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 1999 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, 1998 market value, the spending rate was 3.8%.

AIF DISTRIBUTION GROWTH RELATIVE TO INFLATION



* HEPI - Higher Education Price Index
* CPI - Consumer Price Index

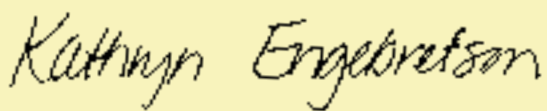
FINANCIALS MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the University of Pennsylvania is responsible for the preparation, integrity and fair presentation of the financial statements. The financial statements, presented on pages 34 to 46, have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments and estimates by management. The University also prepared the other information included in this annual report and is responsible for its accuracy and consistency with the financial statements.

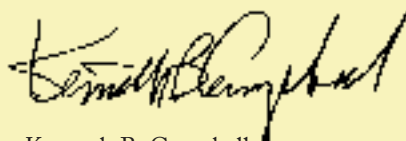
The financial statements have been audited by the independent accounting firm PricewaterhouseCoopers, LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of trustees. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on page 33.

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



Kathryn J. Engebretson
Vice President for Finance



Kenneth B. Campbell
Comptroller

FINANCIALS
REPORT OF
INDEPENDENT
ACCOUNTANTS

To the Trustees of the
University of Pennsylvania

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of the University of Pennsylvania at June 30, 1999, and the changes in its net assets and its cash flows for the year ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of University management. The prior year summarized comparative information has been derived from the University of Pennsylvania's 1998 financial statements; and in our report dated October 9, 1998, we expressed an unqualified opinion on those financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

October 1, 1999
Philadelphia, Pennsylvania

FINANCIALS

STATEMENT OF FINANCIAL POSITION

University of Pennsylvania
(thousands of dollars)

	JUNE 30, 1999	JUNE 30, 1998
Assets		
Cash and cash equivalents	\$252,091	\$342,899
Accounts receivable, net of allowances	102,123	87,052
Patient receivables	358,248	378,488
Investment sales receivable	9,917	100,542
Contributions receivable, net	173,380	166,209
Loans receivable, net of allowances	95,553	91,629
Other assets	136,427	150,977
Investments, at fair value	3,958,786	3,776,635
Plant, net of depreciation	2,288,800	2,095,026
Total assets	\$7,375,325	\$7,189,457
Liabilities		
Accounts payable	\$136,623	\$119,278
Investment purchases payable	192,830	317,410
Accrued expenses and other liabilities	509,111	506,015
Deferred income	29,231	28,855
Deposits, advances, and agency funds	67,471	49,146
Federal student loan advances	67,031	66,396
Accrued retirement benefits	209,591	212,951
Debt obligations	1,410,698	1,373,891
Total liabilities	2,622,586	2,673,942
Net assets		
Unrestricted	2,328,803	2,342,218
Temporarily restricted	1,394,299	1,211,859
Permanently restricted	1,029,637	961,438
Total liabilities and net assets	\$7,375,325	\$7,189,457

See accompanying notes to financial statements.

FINANCIALS

STATEMENT OF ACTIVITIES

University of Pennsylvania
for the year ended June 30, 1999
(with summarized financial information
for the year ended June 30, 1998)
(thousands of dollars)

	UNRESTRICTED	RESTRICTED		TOTAL	
		TEMPORARILY	PERMANENTLY	1999	1998
Revenue and other support:					
Tuition and fees, net	\$374,580			\$374,580	\$350,355
Commonwealth appropriations	36,792			36,792	35,783
Sponsored programs	418,675			418,675	355,473
Contributions	45,109	\$32,328		77,437	60,589
Investment income	90,473	57,698		148,171	142,056
Hospitals and physician practices	1,568,738			1,568,738	1,471,914
Sales and services of auxiliary enterprises	72,724			72,724	70,020
Other income	98,569			98,569	93,135
Independent operations	27,436			27,436	15,637
Net assets released from restrictions	81,174	(81,174)			
	2,814,270	8,852		2,823,122	2,594,962
Expenses:					
Program:					
Instruction	500,694			500,694	449,004
Research	335,340			335,340	292,098
Hospitals and physician practices	1,761,380			1,761,380	1,561,108
Auxiliary enterprises	75,921			75,921	71,214
Other educational activities	76,199			76,199	74,221
Student services	31,323			31,323	27,455
Support:					
Academic support	46,804			46,804	43,506
Management and general	104,404			104,404	95,456
Independent operations	27,885			27,885	15,327
	2,959,950			2,959,950	2,629,389
Increase (decrease) in net assets before nonoperating revenue, net gains, reclassifications and other	(145,680)	8,852		(136,828)	(34,427)
Nonoperating revenue, net gains, reclassifications and other:					
Gain on investments, net	70,282	148,220	\$20,994	239,496	221,614
Investment income	8,026	9,764	1,407	19,197	50,968
Contributions	38,873	34,715	45,798	119,386	171,252
Non-recurring charges	(4,027)			(4,027)	(19,299)
Transfer to First Hospital Foundation and Phoenixville Health Care Corporation					(22,726)
Net assets released from restrictions	19,111	(19,111)			
Increase (decrease) in net assets	(13,415)	182,440	68,199	237,224	367,382
Net assets, beginning of year	2,342,218	1,211,859	961,438	4,515,515	4,148,133
Net assets, end of year	\$2,328,803	\$1,394,299	\$1,029,637	\$4,752,739	\$4,515,515

See accompanying notes to financial statements

FINANCIALS

STATEMENT OF CASH FLOWS

University of Pennsylvania
(for the years ended June 30, 1999 & 1998)
(thousands of dollars)

	1999	1998
Cash flows from operating activities:		
Increase in net assets	\$237,224	\$367,382
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	184,534	152,254
Provision for bad debts	85,326	48,268
Gain on investments, net	(239,496)	(221,614)
Loss on disposal of plant, property, and equipment	637	186
Nonoperating revenue designated for the acquisition of long-lived assets	(139,497)	(192,526)
Write down of property and equipment		1,538
Transfer to First Hospital Foundation and Phoenixville Health Care Corporation		22,726
Changes in operating assets and liabilities:		
Patient, accounts and loan receivable	(82,089)	(133,305)
Contributions receivable	(216)	(13,125)
Other assets	4,905	5,400
Accounts payable, accrued expenses and accrued retirement benefits	17,079	62,813
Deposits, advances and agency funds	18,325	(2,107)
Deferred income	376	(1,257)
Net cash provided by operating activities	87,108	96,633
Cash flows from investing activities:		
Student loans repaid	10,389	9,842
Student loans issued	(11,629)	(10,695)
Purchase of investments	(4,272,459)	(3,874,687)
Proceeds from sale of investments	4,295,850	3,968,656
Purchase of plant, property, equipment and physician practices	(369,217)	(339,713)
Transfer to First Hospital Foundation and Phoenixville Health Care Corporation		(6,400)
Net cash used by investing activities	(347,066)	(252,997)
Cash flows from financing activities:		
Nonoperating revenue designated for the acquisition of long-lived assets	131,791	126,578
Federal student loan advances	635	881
Repayment of long-term debt	(62,553)	(73,823)
Proceeds from issuance of long-term debt	166,192	247,970
Defeasance of long-term debt	(66,915)	
Net cash provided by financing activities	169,150	301,606
Net increase(decrease) in cash and cash equivalents	(90,808)	145,242
Cash and cash equivalents, beginning of year	342,899	197,657
Cash and cash equivalents, end of year	\$252,091	\$342,899
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$66,039	\$53,441
Non-cash activity		
Due to First Hospital Foundation	\$1,197	\$16,326

See accompanying notes to financial statements

FINANCIALS
NOTES TO FINANCIAL
STATEMENTS

University of Pennsylvania

1. Significant Accounting Policies

Organization

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

Basis of Presentation

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

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

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

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

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

Expenses are reported as a decrease in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions recognized on net assets are reported as 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, 1998 from which the summarized information was derived. Certain reclassifications have been made to the summarized financial information for comparative purposes.

Cash and Cash Equivalents

Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at cost which approximates fair value. Short-term investments with maturities of three months or less are classified as cash equivalents, except that any such investments held in trusts or by external investment managers are classified as investments.

Investments

Investments in equity and debt securities with readily determinable fair values are reported at fair value. Changes in fair value of investments are reported in the University's Statement of Activities. Fixed income investments with a maturity of less than one year are included in short-term investments. Derivative financial instruments held for investment purposes are carried at fair value with the resulting gains and losses included in investment earnings for the period. The University's principal derivative financial instruments are forward mortgage contracts. Fair values for certain private equity and real estate investments held through limited partnerships or commingled funds are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and methods that are reviewed by the University.

FINANCIALS
NOTES TO FINANCIAL
STATEMENTS

University of Pennsylvania

The majority of the endowment funds of the University have been pooled in the University's Associated Investments Fund (A.I.F.), which is invested primarily in three investment pools: an Equity Fund, a Fixed Income Fund, and a High Yield Fund. Each participating endowment fund in the A.I.F. earns investment income on the basis of each fund's percentage ownership of the A.I.F. The A.I.F. investment returns are managed within the concept of total return. The distribution of A.I.F. returns for expenditure is independent of the cash yield and appreciation of investments for the year. The University has adopted an endowment spending policy designed to stabilize annual spending levels and to preserve the real value of the A.I.F. portfolio. The A.I.F. returns made available for expenditures in 1999 were \$89,474,000 and are included in investment income from operations on the Statement of Activities.

Loans Receivable

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

Plant

Plant is stated at cost, or fair value at the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Museum contents, rare books and other collectibles aggregating \$12,449,000 are not subject to depreciation.

Intangible Assets

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

Split-Interest Agreements

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

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

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts and the estimated future receipts from pooled income funds are calculated using discount rates which represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the respective net asset 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 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 \$94,479,000 in 1999.

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Sponsored Programs

The University receives grant and contract revenue from governmental and private sources. In 1999, grant and contract revenue received from governmental sources totaled \$338,938,000. The University recognizes revenue associated with the direct costs of sponsored programs as the related costs are incurred. Indirect costs recovered on Federally-sponsored programs are based on predetermined reimbursement rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsor. Funds received for sponsored research activity are subject to audit.

Contributions

Contributions are reported as increases in the appropriate net asset category based on donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received at their fair values. Unconditional pledges are recognized at their estimated net present value, net of an allowance for uncollectible amounts, and are classified in the appropriate net asset category. Unconditional promises to give and contributions of cash and other assets designated for the acquisition of long-lived assets are reported with non-operating revenue, net gains, reclassifications and other.

Health Services Component

Revenue of the Health Services Component is derived primarily from patient services and is accounted for at established rates on the accrual basis in the period the service is provided. Net patient service revenue is net of charity care and community service. Certain revenue received from third-party payors is subject to audit and retroactive adjustment. Final adjustments to revenue, resulting from settlements with third-party payors, are recorded in the year in which they are settled. Third-party settlements increased net patient revenue by \$9,017,000 and \$11,773,000 in 1999 and 1998, respectively. Additionally, the Health Services Component has entered into certain contracts under which it is responsible for providing medical care to covered members at pre-determined rates. Any changes in estimates under these contracts are recorded in operations currently.

Allocation of Certain Expenses

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

Use of Estimates

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

2. University of Pennsylvania Health System - Health Services Component

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

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

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

Summarized financial information for the Health Services Component as of June 30, 1999 and 1998, prior to eliminations for transactions between the Health Services Component and other entities of the University, is as follows (in thousands):

	1999	1998
Net patient service and premium revenue	\$1,468,911	\$1,383,657
Other revenue	136,899	132,807
Total expenses	(1,772,015)	(1,575,524)
Excess of expenses over revenue from operations	(166,205)	(59,060)
Nonoperating, net	59,566	50,053
Decrease in net assets before inter-entity transfers	\$(106,639)	\$(9,007)
Total current assets	\$489,462	\$571,371
Investments and assets whose use is limited (including Board designated funds of \$363,321 and \$457,877 and trustee held funds of \$42,142 and \$50,740 for 1999 and 1998, respectively)	714,845	818,917
Property, plant and equipment, net	683,637	675,696
Other assets	84,412	100,824
Total assets	\$1,972,356	\$2,166,808
Total current liabilities	\$450,893	\$485,113
Long-term debt, net of current portion	812,230	761,790
Other liabilities	293,668	301,590
Total liabilities	1,556,791	1,548,493
Net assets		
Unrestricted	110,901	345,268
Temporarily restricted	246,702	216,331
Permanently restricted	57,962	56,716
Total net assets	415,565	618,315
Total liabilities and net assets	\$1,972,356	\$2,166,808

3. Investments

A summary of investments, stated at fair value, at June 30, 1999 is as follows (in thousands):

Short-term	\$484,929
Stocks	2,183,638
Bonds	1,109,980
Real estate	161,356
Other	18,883
End of year	\$3,958,786
Beginning of year	\$3,776,635

Included in investments are assets held in trust with an aggregate fair value of \$165,560,000 at June 30, 1999.

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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, 1999, short-term investments held under this arrangement aggregated \$9,938,000.

At June 30, 1999 investments with a fair value of \$45,601,000 were held by trustees under indenture and escrow agreements.

At June 30, 1999, investment securities with an aggregate fair value of \$9,666,000 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, 1999 (in thousands):

Unconditional promises expected to be collected in:	
Less than one year	\$91,532
One year to five years	130,999
Over five years	34,567
	<u>257,098</u>
Less: Unamortized discount and allowance for doubtful amounts	<u>(83,718)</u>
Contributions receivable, net	<u>\$173,380</u>

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

5. Plant

The components of plant at June 30, 1999 are as follows (in thousands):

Land	\$58,678	
Buildings	2,323,726	(a)
Contents	1,212,654	
Construction-in-progress	160,900	
	<u>3,755,958</u>	
Less accumulated depreciation	<u>(1,467,158)</u>	
Plant	<u>\$2,288,800</u>	

(a) Includes \$102,948,000 of completed facilities which serve as collateral for debt obligations.

The University recorded \$174,527,000 of depreciation expense for the year ended June 30, 1999.

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6. Debt Obligations

Debt obligations at June 30, 1999 are as follows (in thousands):

Pennsylvania Higher Education Facility Authority (PHEFA) Series A and B 1996 Revenue Bonds, (4.60%-6.00%), net of unamortized discount of \$2,702 (a), (o)	\$425,204
PHEFA Series 1998 Revenue Bonds, (4.50% -5.50%), net of unamortized discount of \$2,264 (b)	197,736
PHEFA Series B of 1998 Revenue Bonds, (variable interest rate, 3.70% at June 30, 1999) (c), (o), (p)	121,600
PHEFA Series A of 1995 Revenue Bonds, (4.8%-7.0%) (d)	103,790
PHEFA Series B of 1994 Revenue Bonds, (variable interest rate, 3.70% at June 30, 1999) (e), (o), (p)	90,000
PHEFA Series C of 1996 Revenue Bonds, (variable interest rate, 3.70% at June 30, 1999) (f), (o), (p)	80,000
Quakertown General Authority Pool Financing Program, 1985 Series A Bonds, (variable interest rate, 5.0% at June 30, 1999) (g)	71,664
Washington County Authority Lease Revenue Bonds, Series 1985 A, (variable interest rate, 3.45% at June 30, 1999) (h)	49,073
PHEFA Series B of 1995 Revenue Bonds, (4.85% - 7.0%) (d)	46,705
PHEFA Series A of 1998 Revenue Bonds, (4.50% - 5.10%) including unamortized premium of \$813 (i), (o)	39,563
PHEFA Series A of 1994 Revenue Bonds, (5.6% - 7.0%), including unamortized premium of \$755 (j), (o)	35,755
PHEFA Series of 1968 Revenue Bonds, (4.9%) (k)	24,455
Pennsylvania Economic Development Financing Authority Series C of 1994 Revenue Bonds, (variable interest rate, 5.15% at June 30, 1999) (l)	10,867
PHEFA Second Series of 1985 Revenue Bonds, (variable interest rate, 3.94% at June 30, 1999) (m)	10,610
PHEFA Series of 1990 Revenue Bonds, (variable interest rate, 3.94% at June 30, 1999) (n)	6,500
Mortgages payable and other, (6.01% weighted average interest rate, due through 2008)	97,176
	<u>\$1,410,698</u>

- (a) The Series A and B of 1996 Bonds mature in varying annual amounts ranging from \$11,825,000 in 2000 to \$14,110,000 in 2003, with maturities of \$8,970,000 in 2021 and \$9,590,000 in 2022.
- (b) The Series of 1998 Bonds mature in varying annual amounts ranging from \$1,790,000 in 2000 to \$11,245,000 in 2039. The Bonds are subject to optional redemption by the Authority on or after July 15, 2008 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2039 range from \$11,313,000 in 2000 to \$11,554,000 in 2039.
- (c) The Series B of 1998 Bonds mature in varying amounts ranging from \$2,080,000 in 2011 to \$2,700,000 in 2015 and \$9,825,000 in 2018 to \$15,055,000 in 2026. The Bonds are subject to optional redemption on any interest payment date at a redemption price equal to the principal amount.
- (d) The Series A and Series B of 1995 Bonds mature in varying annual amounts ranging from \$1,720,000 in 2000 to \$9,345,000 in 2015. The Bonds are subject to optional redemption by the Authority on or after September 1, 2005 at a redemption price of 100% plus accrued interest. Annual debt service payments to the Authority extending through 2016 range from \$14,098,000 in 2000 to \$14,349,000 in 2016.

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- (e) The Series B of 1994 Bonds mature in varying amounts ranging from \$16,900,000 in 2020 to \$19,100,000 in 2024. The Bonds bear a floating rate of interest which 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.
- (f) The Series C of 1996 Bonds mature in varying annual amounts ranging from \$9,100,000 in 2023, \$9,700,000 in 2024, \$30,000,000 in 2025 and a final maturity of \$31,200,000 in 2026. The Bonds have a variable interest rate, but are eligible to be 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.
- (g) 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.
- (h) 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.
- (i) The Series A of 1998 Bonds mature in varying amounts ranging from \$1,635,000 in 2007 to \$5,300,000 in 2015. The Bonds are subject to optional redemption by the Authority on or after July 1, 2008 at a redemption price equal to the principal amount plus accrued interest.
- (j) The Series A of 1994 Bonds mature in varying amounts from \$3,340,000 in 2003 to \$5,205,000 in 2010. The Bonds are subject to optional redemption on or after January 1, 2004 at redemption prices of 102%, 101% and 100% plus accrued interest in 2004, 2005, and thereafter, respectively.
- (k) The Series of 1968 Bonds mature in varying amounts from \$2,195,000 in 2000 to \$3,305,000 in 2008. Annual debt service payments to the Authority range from \$3,393,000 in 2000 to \$3,467,000 in 2008.
- (l) The Series C of 1994 Bonds mature in varying annual amounts ranging from \$400,000 in 2000 to \$1,200,000 in 2014. The Bonds are subject to optional redemption on any interest payment date at a redemption price equal to 100% of principal amount plus accrued interest to redemption date.
- (m) The Second Series of 1985 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the Authority's option. The Bonds mature in 2016, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.
- (n) The Series of 1990 Bonds have a variable interest rate which is based on the discount rate of short-term United States government securities and may be converted to a fixed rate at the Authority's option. The Bonds mature on December 1, 2020, subject to earlier redemption by bond holders (prior to conversion to a fixed rate) or the Authority.
- (o) The University has entered into a Master Trust Indenture (MTI) with respect to the indebtedness related to the assets and revenue of the Hospital of the University of Pennsylvania, the Clinical Practices of the University of Pennsylvania, the Presbyterian Medical Center of the University of Pennsylvania Health System, Clinical Care Associates, Phoenixville Hospital, Pennsylvania Hospital and the operating unit known as Managed Care/Full Risk Capitation (collectively, the designated units). The Indenture and related agreements contain certain restrictive covenants which limit the issuance of additional indebtedness and, among other things, require the Health Services Component to meet an annual debt service coverage requirement of "income available for debt service" (excess of revenue over expenses plus depreciation, amortization, interest expense and extraordinary items) at an amount equal to 110% of the annual debt service requirements. If the coverage requirement for a particular year is not met within six months of the close of

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that fiscal year, the Health Services Component must retain the services of a consultant to make recommendations to improve the coverage requirement. The Health Services Component must also implement the recommendations of the consultant to the extent that they can be feasibly implemented. The Health Services Component will not be considered to be in default of the provisions of the MTI so long as the Health Services Component has sufficient cash flow to pay total operating expenses and to pay debt service for the fiscal year. The debt service coverage requirement for 1999 was not met. As a result, the Health Services Component has retained a consultant to make recommendations to increase the debt service coverage requirement of the MTI. Management also believes it is probable that the Health Services Component will have sufficient cash flow to pay operating expenses and debt service requirements during fiscal year 2000.

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

The fair value of the University's debt obligations was \$1,421,062,000 at June 30, 1999. The fair value represents the quoted market value for Authority Revenue Bonds and carrying amounts for all other debt which approximates fair value.

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

Fiscal Year	Amount
2000	\$45,079
2001	53,402
2002	26,686
2003	36,798
2004	29,266

On August 13, 1998, the Hospitals and Higher Education Facilities Authority of Philadelphia (HHEFAP) Revenue Bonds Series A and B of 1994 were legally defeased using the proceeds of the issuance of Pennsylvania Higher Education Facilities Authority Series A and B of 1998 Revenue Bonds. The defeasances were 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 bonds, and, accordingly, the obligation to repay the bonds is no longer included in the Statement of Financial Position. Additionally, the HHEFAP Revenue Bonds Series C of 1994 were retired on July 1, 1998. At June 30, 1999, \$106,525,000 of debt obligations is considered legally defeased.

7. Pension and Other Postretirement Benefit Costs

Retirement benefits are provided for academic employees and certain administrative personnel through a defined contribution plan. The University's policy with respect to its contribution is to provide up to 9% of eligible employees' salaries. The University's contributions amounted to \$28,315,000 in 1999.

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 preceeding 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.

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

	Pension Benefits	Other Postretirement Benefits
Change in benefit obligation:		
Benefit obligation at June 30, 1998	\$434,697	\$199,905
Service cost	18,139	10,457
Interest cost	28,006	13,452
Plan participants' contributions		82
Actuarial gain	(62,879)	(17,642)
Benefits paid	(16,242)	(9,834)
Plan amendments		(868)
Benefit obligation at June 30, 1999	\$401,721	\$195,552
Change in plan assets:		
Fair value of plan assets at June 30, 1998	\$509,063	\$56,116
Actual return on plan assets	64,870	6,595
Employer contribution	1,087	6,825
Plan participants' contribution		33
Benefits paid	(16,242)	(2,315)
Fair value of plan assets at June 30, 1999	\$558,778	\$67,254
Reconciliation of funded status:		
Funded status	\$157,057	\$(128,298)
Unrecognized net actuarial gain	(203,496)	(21,642)
Unrecognized prior service cost	342	(816)
Unrecognized transition asset	(4,602)	
Accrued benefit cost	\$(50,699)	\$(150,756)
Weighted-average assumptions as of end of year:		
Discount rate	7.50%	
Expected return on plan assets	9.25% to 9.50%	
Rate of compensation increase	4.00% to 4.75%	

The health care trend rate was assumed to decrease gradually from 7.00% in 1999 to a range of 4.50% to 6.00% over the next five to eight years, and remain level thereafter.

	Pension Benefits	Other Postretirement Benefits
Service cost	\$18,139	\$10,457
Interest cost	28,006	13,452
Expected return on plan assets	(46,761)	(5,463)
Amortization of prior service cost	169	(52)
Amortization of transition asset	(973)	
Amortization of net actuarial gain	(6,718)	(260)
Net periodic benefit cost	\$(8,138)	\$18,134

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

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost	\$4,717	\$(3,812)
Effect on accumulated postretirement benefit obligation	\$29,295	\$(24,541)

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

8. Medical Professional Liability Claims

The University is insured for medical professional liability claims through the combination of the Medical Professional Liability Catastrophe Loss Fund of the Commonwealth of Pennsylvania, various commercial insurance companies, and a risk retention program. The University accrues for estimated retained risks arising from both asserted and unasserted medical professional liability claims. The estimate of the liability for unasserted claims arising from unreported incidents is based on an analysis of historical claims data by an independent actuary. A trust fund has been established for the payment of medical professional liability claims under the risk retention program. Prior to July 1, 1998, annual contributions were made to the trust fund to provide funding for retained risk. The trust fund's assets are included in the accompanying financial statements. Effective July 1, 1998, the Health Services Component entered into a three-year agreement with a commercial insurer to provide claims made primary layer coverage on a premium basis.

9. Contingencies

The University has guaranteed certain obligations, principally mortgages and leases on properties owned by related parties, totaling \$80,431,000 at June 30, 1999. 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.

10. Non-Recurring Charges

Non-recurring charges in 1999 are comprised of costs associated with the advance refunding of debt. Non-recurring charges in 1998 include costs associated with the closure of Franklin Physician Services Inc., costs associated with the merger of Pennsylvania and Phoenixville Hospitals into the Health Services Component, and the write-off of Hill Clinical Associates, a joint venture with an affiliated hospital.



UNIVERSITY OF
PENNSYLVANIA
TRUSTEES

as of June 30, 1999

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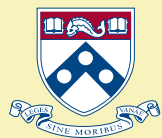
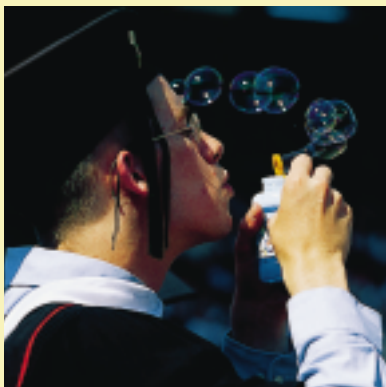
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