The following is adapted from the 100-page report prepared by the Executive Office of Resource Planning and Budget under the direction of Stephen T. Golding and adopted by the Trustees at the stated meeting of the full board on June 18, 1993.

University Of Pennsylvania Fiscal Year 1994 Operating Budget

Introduction

For fiscal year 1994, the consolidated operating budget for the University of Pennsylvania amounts to expenditures of $1.772 billion. As seen on *Schedule A*, on page X, this budget reflects a 14.8% increase over the FY 1993 projections. The consolidated budget for the University includes the budgets of the twelve schools, seven resource centers, student services, auxiliary enterprises, administrative centers, the Hospital of the University of Pennsylvania (HUP), and the Clinical Practices of the University of Pennsylvania (CPUP). The HUP and CPUP budgets represent about 62% of the overall rate of increase in the FY 1994 budget which is similar to FY 1993.

The FY 1994 budget shown on *Schedule A* reflects a non-operating deficit of $113.2 million, the result of a reduction in Health Service's balances and two specific circumstances which the Trustees have reviewed in prior budgets: 1) the effect of converting the HUP and CPUP budgets to conform to Generally Accepted Accounting Principles (GAAP) for Universities; and 2) the transfer of accumulated surpluses from HUP and CPUP to the School of Medicine to support Medicine's capital program.

Converting the HUP and CPUP budgets to conform to university accounting principles will also have an effect on the University budget's bottom line for FY 1994 (see footnote to *Schedule B*, page XI, for details). GAAP for universities requires that capital additions and renovations to plant and retirement of long-term debt be treated as reductions to fund balances, while depreciation is not considered an expense of operations. These actions transform a proposed budget surplus of $60.1 million in Health Services into an anticipated non-operating deficit of $66.5 million.

Along with differences in the accounting, HUP and CPUP will also transfer resources of $46.7 million ($40.0 million in FY 1993) to the School of Medicine in support of major capital initiatives, thereby increasing the anticipated University non-operating deficit to $113.2 million. These resources are accumulated surpluses from previous years' operations and will be used primarily to finance the construction of the Biomedical Research Building I. Given the aggressiveness of the School of Medicine's capital program, future University budgets will reflect similar transfers. The projected accumulated surpluses at June 30, 1993 for HUP and CPUP are $233.3 million and $83.9 million respectively.

During the course of the past year, Trustees, Medical Center personnel, University faculty and staff, and Senior Leadership have been fully briefed on the Medical Center's strategic direction for the future of health services in the Delaware Valley. The expenditure of these Health Services resources reflects the University's commitment to insure that HUP can compete in an evolving health care marketplace once the reforms emanating from Washington take effect. Integral to this strategy is the belief that for the School of Medicine to attract and retain high-quality faculty and students, it is critical that the University of Pennsylvania Health System be established in the coming years. The funding provided for in this budget begins to establish the foundation for that system.

While the Medical Center has the capacity to invest its own resources to maintain a competitive edge, it is the allocation of central University resources that is essential in supporting Penn's academic and research core. Even with the partial restoration of $28.7 million of our Commonwealth funding, the University and its schools are still experiencing significant resource constraints. The School of Veterinary Medicine has a structural deficit of $5.9 million and requires direct University support and a bridge loan for FY 1994. Schools also encountered pressure from their financial aid budgets, the cost of FAS 106 (post retirement benefit costs), and funding to maintain the development initiative beyond the current campaign—all making FY 1994 one of the toughest budget years in recent University history. While we do not see a return to the aggressive budget growth of the 1980s, we believe that our efforts during the past year have begun to rebalance Penn's operating budget, and we are better positioned to make sound investments in our future than we were a year ago.

Commonwealth

The past year has shown how our special relationship with the Commonwealth of Pennsylvania has both positive and negative implications for the University. Entering FY 1993 with a $19.5 million deficit and the uncertainty of our Commonwealth appropriation made it difficult to make strategic financial decisions during the academic year. Because of our inability to resolve the question of Commonwealth support until the end of May 1993, putting the FY 1994 budgets together was just that much more difficult. Recognizing that we were only going to receive partial restoration for FY 1993 and FY 1994 has necessitated that the University make some very difficult programmatic changes.

Penn's Commonwealth Appropriations FY 1992 to FY 1994 (in 1000s)

Line Item	FY1992**	FY1993	FY1994
Instruction	$16,051	$8,026	$11,838
Medical Instruction	4,435	2,218	3,326
Dental Clinics	1,030	515	773
* Vet Instruction	7,725	7,456	7,456
* New Bolton Center	3,786	1,894	2,840
* Food & Animal Clinics	2,039	1,020	1,529
* Center for Animal Health & Productivity	1,245	623	934
Total	**36,311**	**21,752**	**28,696**
* Total Vet:	14,795	10,993	12,759

** Reflects abated level

On the positive side, we found in working to restore our appropriation that Penn has many supporters in Harrisburg as well as numerous constituent groups that recognize Penn's commitment and service to the Commonwealth. We found that our Veterinary School model is the most efficient and cost-effective model in the nation for providing veterinary education, research, and service. Moreover, our School generates an additional operating subsidy of $2.35 for every dollar of Commonwealth support in comparison to the average of $0.67 for state schools. With the partial restoration of our appropriation, the Veterinary School can look to making some much needed strategic investments in its core research and teaching programs.

The debate over the restoration of our Commonwealth appropriation shows how fragile this revenue stream is. The loss of our Commonwealth appropriation demonstrates the criticality of these dollars to keeping the University's financial equilibrium. The experience of this past year has drawn the University community together in realizing that Penn must seek greater management efficiency using our limited resources more effectively. The FY 1994 budget goals have been shaped by the Commonwealth debate and the decisions that follow are predicated on the belief that the University will need to change its business practices in the years ahead. The goals are intended to prepare the University to compete in a much more highly competitive environment. In this budget, our aim is to insure that we do not make unwise short-sighted programmatic decisions during this period of financial stress. In making these financial decisions for FY 1994, we therefore focused on a clear set of goals and priorities for the University in the coming year.

Goals and Strategies of the FY 1994 Budget

Over the last twelve months Penn has restructured its financial base to insulate the research and educational programs of the schools and centers from uncertain revenue streams. While the process is incomplete, Penn will be better prepared to resist such forces in the future and meet our FY 1994 goals *[next page]*:

• With the partial restoration of Penn's Commonwealth appropriation, this budget demonstrates the University's commitment to the School of Veterinary Medicine through a significant increase in its subvention and a University loan until its full appropriation can be restored.

• The budget includes the lowest salary pool in a decade, reflecting our economic circumstances and the initial funding of FAS 106—employee post-retirement health benefits. Schools and centers have been given the flexibility to offer competitive faculty salaries, but overall budget growth reflects the severe financial pressure most schools will face in the coming year.

• This budget maintains need-blind admissions with a 12% increase in our unrestricted undergraduate financial aid budget. We also have fully funded our commitment to the enhanced Mayor's Scholarship program which was settled this past winter by the Philadelphia courts.

• We have initiated a five-year program to provide access to data, voice, and video technologies through Penn's electronic network, phone system, and academic and commercial cable TV services by wiring dormitories and promoting access to campus-wide electronic mail (e-mail) for all students and faculty.

• This budget recognizes that Penn will only achieve management efficiencies through improved technologies. We have committed resources to Project Cornerstone which will bring new and enhanced technologies to Penn and help in achieving our goal of reducing the University and schools' administrative bases and overhead costs by 15%.

• Central University resources have been targeted for graduate and research fellowships, financial aid and classroom renovations, as well as support toward Penn's research infrastructure.

• This budget includes the initial funding of a post-campaign development effort that recognizes the need to maintain development resources at a higher level than was envisioned at the beginning of the Campaign.

• The tuition and fee policy for FY 1994 again demonstrates the University and Trustee's commitment to hold down the rate of increase in tuition growth.

Period of Transition

The FY 1994 budget priorities as constructed reflect the changing times confronting Penn and other institutions of higher education. The continuing downward trend in unrestricted revenue growth, the partial restoration of our Commonwealth appropriation, the reduction in federal support for sponsored research overhead, FAS 106 and the external pressures to maintain competitive programs all have left the schools and centers with marginal investment capital. The challenge has been to reconfigure school and center budgets to address these immediate concerns, while insuring that the schools have the capacity to make future investments. While the partial restoration of our Commonwealth appropriation has permitted us to do some of this in FY 1994, we do not expect the next several fiscal years to be any easier. It is with this realization that Penn is making investments in new technologies through Project Cornerstone and committing to downsizing and reallocating up to 15% of our current administrative base over the next five years in order to meet the future needs of our teaching and research core. These issues will be discussed in greater detail in this report's sections on Cost Containment and Project Cornerstone.

The FY 1994 budget includes strategies that will begin to restructure Penn financially in the coming years. Through the leadership of the interim President and Provost, many of these strategies will be in place when the new leadership is named. The University senior leadership has determined that in order for Penn to achieve financial stability and identify resources to invest in its core programs, we cannot delay these strategies during a period of transition.

Budget Overview

For fiscal year 1994, the operating budget of the University of Pennsylvania totals $1.772 billion. This figure represents the total level of expenditures that have been planned for the six major budget units: Schools, Resource Centers, University Administration, Auxiliary Enterprises, Hospital (HUP), and Clinical Practices (CPUP). The budget is $228.8 million, or 14.8% higher than the FY 1993 projection. As *Schedule A* illustrates on page X, HUP and CPUP are driving the overall rate of increase in the budget, with the balance of the University increasing by $64.9 million.

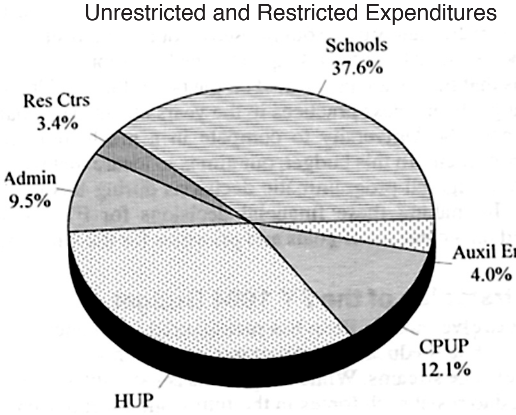
Chart 1 illustrates the distribution of total University expenditures. As can be seen, the Schools comprise the largest segment of the budget (37.6%) followed by HUP (33.4%). The proportion of the budget for Schools has declined over the past few years, due in part to the reduction in Commonwealth funding, but also because the growth of many schools has been at only slightly above the rate of inflation, while the real growth in the Health Services component (HUP and CPUP) has been more rapid. Health Services growth is somewhat misleading due to the required adjustments necessary to conform to Generally Accepted Accounting Principles (GAAP) for col-leges and universities. The significant GAAP items are the treatment of depreciation and the treatment of HUP's FAS 106 liability. Also, the transfer of Health Services fund balances of $46.7 million to support capital construction in the Medical School has a significant impact on this growth. Excluding these transfers and adjustments for GAAP, the Health Services components are expected to increase by 11.6%. The impact of the escalation in growth of Health Services and the Medical School has meant that these areas now comprise 57% of the budget compared to 47% in FY 1987.

Chart 2 shows the University budget without the Health Services component. The restoration of Commonwealth funding puts this revenue source at 3.0% of the budget. This is down from 4.5% in FY 1992, the last year in which Commonwealth support was restored by the Pennsylvania legislature after Governor Casey's proposed 50% reduction. The growth in the remaining revenue streams, implementation of cost reduction initiatives, and some program cutbacks cushion the shock of this reduction for FY 1994. Tuition continues to account for the largest source of revenue, 30.9%. The FY 1994 budget assumes a modest increase in the undergraduate student population, while graduate and professional student enrollments are not expected to vary significantly from historical patterns.

Sponsored Programs, projected to comprise 27.0% budgeted for FY 1994, remains the second largest revenue source. This category represents awards from external sponsors for both direct and indirect expenditures for research programs and contractual obligations undertaken by University faculty. The largest sponsor of these programs is the Department of Health and Human Services which accounts for about 57% of the total dollar value of awards to Penn. The National Science Foundation is another major sponsor, accounting for about 8 % of total awards.

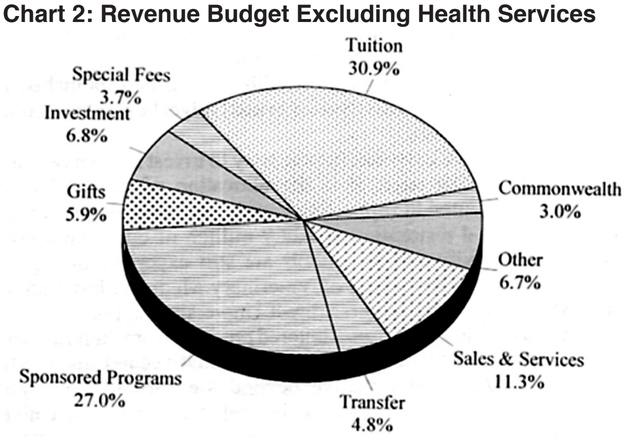
The School of Medicine has the largest dollar volume of sponsored project activity—$107.8 million projected for FY 1994. This amount represents an increase of 11% over FY 1993. In all, the School of Medicine accounts for 54% of the total sponsored project dollars at the University. Given this volume, as well as projections for continued growth, the School of Medicine is driving the overall University sponsored program growth of

Chart 1: Total University Budget
Unrestricted and Restricted Expenditures



$1.772 billion

Chart 2: Revenue Budget Excluding Health Services



$965 million

6.2%. Continued capital investments in its research infrastructure, including the Biomedical Research Building I currently under construction, and the appointment of world class research faculty, are largely responsible for Medicine's growth. This growth is expected to continue as Medicine continues to invest in research.

The component called "Transfers" on the revenue chart is important to understand. As in the past two years, this slice represents the balances that will be transferred to the Medical School from HUP and CPUP to enable the School to continue to invest in its research infrastructure. The Biomedical Research Building I, to a large extent, is being funded in this way. It is anticipated that the nature of the Medical School's long-term capital plan will require such transfers to continue in the future.

Sales revenue is budgeted to account for $108.8 million, or 11.3% of the FY 1994 budget. These revenues are generated largely by room and board charges in the Residences and Dining Services. For FY 1994, the average Residential rate is approved to increase 6.0% of which 1.8 percentage points of this rate are intended to fund a portion of the operating cost of the ResNet project (see page VI). The Dining charge as approved will increase by 5.7%.

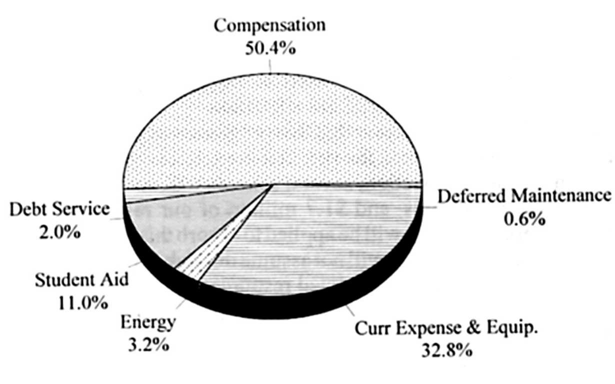
Other programs generating significant sales dollars include the clinics in the Veterinary School and the Dental School, the Bookstore, Parking, and ticket sales in Athletics and the Annenberg Center for Performing Arts. The entrepreneurial aspect of some of these programs affords managers a degree of flexibility in generating revenues. For schools that are highly tuition dependent, the ability to generate new sales dollars may be seen as one way of relieving the pressure on unrestricted resources, as the growth rate of tuition dollars remains fairly static.

The Investment category represents income that is available for expenditure from funds held in the University's endowment, the Associated Investments Fund (AIF), as well as non-pooled endowment held in trust by external agencies. For purposes of clarification, revenue budgeted for funds held in the AIF and non-pooled funds reflects only the extent to which these funds will be expended. If a fund should expend less than current year revenue, this "surplus" will be accounted for as an addition to Fund Balance. Expenditures that exceed current year revenue will be accounted for as a reduction to the Fund Balance. (The Gifts category is treated in a similar fashion for restricted term gifts.) The Investment category also includes short-term earnings on the University's cash balances. These earnings are budgeted in General University Resources. The continuation of low short-term interest rates, combined with the conservative spending rule policies for endowment funds, have retarded significant growth of this revenue source in recent years. Much of the growth of endowment fund revenues has been achieved through the addition of new gifts to endowment principal and the addition of AIF companion shares as governed by the spending rule.

Overall, the University's FY 1994 unrestricted revenue is projected to increase by 7.3%. However, much of this growth is the direct result of the 33.3% increase in the University's Commonwealth appropriation and the increased transfers to the School of Medicine from HUP and CPUP. Excluding these items, the remainder of the University's unrestricted revenues will increase about 5.9% for next year.

Restricted funds continue to become more important to the University's budget. In large measure, the growth of restricted resources is a direct result of the success of the Campaign for Penn and the success of our faculty in attracting research dollars. For FY 1994, restricted expenditures are budgeted to increase 5.8%.

Chart 3:Expenditure Budget Excluding Health Services



$965 million

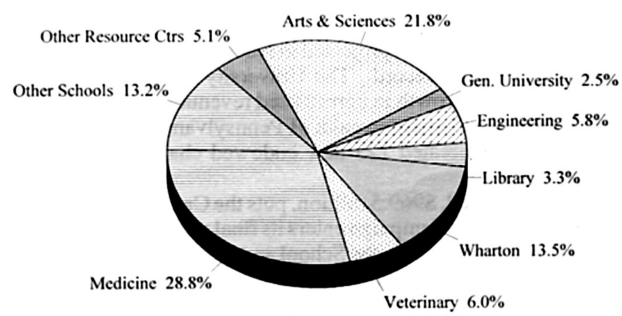
Chart 3 illustrates how the revenues from *Chart 2* will be expended. Compensation is the largest expenditure component of the budget, accounting for 50.4% of total expenditures. The increase in the full-time employee benefits rate from 29.9% in FY 1993 to 32.0% in FY 1994, a result of the University having to begin to recognize and fund its post-retirement benefits costs as required by FAS 106, is one of the primary drivers of this line item (see page VI). Though this increase puts additional pressure on the unrestricted budget, research grants are affected disproportionately, as many have predetermined multi-year awards. The increased rate, therefore, means that less dollars may be available for direct research.

While FAS 106 significantly increased the University's employee benefit rate, efforts were made to identify potential cost savings or cost avoidance that would prevent the rate from increasing even more. Some cost savings actions were targeted to reduce benefits overhead through quality improvement initiatives that would cut the cost of delivering benefits services. Other actions focused on reducing the medical benefits component of the cost. Examples of this include moving to a self-insured basis with Keystone rather than using a community rating; pre-certification for hospital admissions on the Blue Cross 100 plan which would allow for managed care intervention in catastrophic cases resulting in cost management opportunities within the traditional indemnity plan; negotiation of reduced rates for life insurance; and improved audit of medical billing activity to insure accuracy with carriers.

The salary pool for FY 1994 is the lowest in many years, with a parameter of 2.5% increase. This low parameter was developed in response to several issues, the most important being the general difficulty many of our schools faced in trying to balance their FY 1994 budgets. While we continue to be concerned about the competitiveness of our faculty salaries, we will conclude FY 1993 with salary levels that will keep us very competitive in some disciplines and about even in others. For FY 1994, the Provost will once again help schools fund faculty promotions, internal salary inequities, and competitiveness issues with a $500,000 allocation from the Salary Reserve Fund. Thus, with this salary augment, plus personnel increases in areas of the University that are projecting growth, such as the School of Medicine, the School of Nursing and Wharton, overall salaries will exceed the 2.5% parameter.

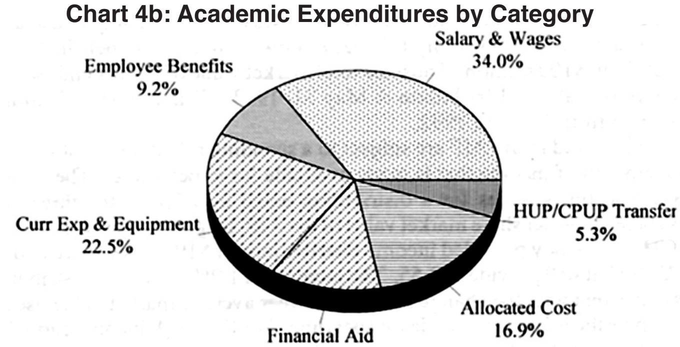
Current expense and equipment purchases account for the second largest component of University expenditures and are budgeted to increase 6.7% over the FY 1993 projection. These increases, while driven to some extent by general inflation, are also the result of our planned expansion in research activity, and the cost of acquiring Library information, a cost which has generally exceeded the Consumer Price Index. Energy costs and debt service

Chart 4a: Academic Expenditures by Center



$874 million

Chart 4b: Academic Expenditures by Category



$874 million

have remained fairly stable over the past few years, and will not experience significant increases in FY 1994. Financial Aid costs, however, remain one of the fastest growing components of the unrestricted budget, with an 8.2% increase planned for FY 1994 for both graduate and undergraduate student support. This is particularly true for undergraduate financial aid, as we strive to maintain our competitiveness for the best students (see page...).

Chart 4a [previous page] captures the expenditures related to the academic core of the University. In this presentation, Health Services and the Auxiliary Enterprises have been omitted. As can be seen, the Medical School is the largest of the twelve schools, followed by Arts and Sciences. One factor influencing this ranking is the transfer of Health Services balances to the Medical School to support Medicine's capital program. For FY 1994, this transfer amounts to $46.7 million. The category General University reflects resources that are budgeted centrally that are expended in support of academic activities. Items under this category include Graduate Fellowships, Research Assistants, classroom renovations, and funds to support minority presence.

Chart 4b illustrates how the schools, resource centers, and Library expend their resources. On this chart, the category Allocated Cost reflects the allocation of the central costs—Administration, Operations and Maintenance, Deferred Maintenance, University Police, Debt Service, and Development—to the direct responsibility centers. Allocated costs and the administrative budget are discussed in detail on pages VIII-IX.

[The next section of the full report, not included here for reasons of space, is on individual schools and centers.—Ed.]

Ongoing Resource Priorities

In addition to the programmatic efforts of the Schools and Centers, there are central initiatives and policies that have impacted the University's FY 1994 budget.

Campaign for Penn

The $1 billion Campaign for Penn continues to meet or exceed projections in all major categories. As of April 30, 1993, Campaign receipts were up 5.0% over the previous year and totaled $137.7 million. New pledges were up 13.5%, totaling $153.1 million. The growth in pledges is a clear sign that momentum is continuing as the Campaign enters its final phases. During the first three years alumni subscriptions to the University grew between 15% to 20% annually on a compounded basis.

Penn maintained its number four ranking in the nation in voluntary support according to The Council for Aid to Education—behind Harvard, Stanford, and Cornell. For the second consecutive year Annual Giving to the Penn Fund and other Annual Giving programs grew 10.0%. Total alumni donors hit a new national record of 83,729 or 48.0% of all University alumni. In the current year, the alumni donor count is up 15.0%, pointing to yet another national record.

New gifts to endowment are projected to reach $45.0 million by June 30, 1993, equaling last year's record. The University has used these gifts to offset declining rates of growth in unrestricted revenues, notably the annual appropriation from the Commonwealth of Pennsylvania. In their broadest impact, the gifts have created 125 new endowed chairs, a record for an academic institution.

To date the total raised, $969.5 million, puts the Campaign almost a year ahead of schedule. As the Campaign enters its final year and a half, the focus will be on the component goals—the School and Center campaigns and such University-wide objectives as minority permanence and financial aid.

Endowment

The University's endowment is almost exclusively held in the Associated Investments Fund (AIF), which had a market value of $991.7 million at May 31, 1993, compared to $875.3 million at July 1, 1992. Each share held in the AIF had a market value of $532.58 at May 31, 1993, compared to a per share value of $491.93 at July 1, 1992. Endowment funds not held in the AIF total about $100 million. Thus, the total market value of Penn's endowment is approximately $1.09 billion at May 31, 1993. This is a $117.3 million increase from June 30, 1992.

Funds held in the AIF are subject to a spending rule policy that governs the amount of income that is made available for expenditure. The current policy again provides for a distribution equal to 5.5% of the three-year average of the per share market value of the AIF, lagged by one year. For FY 1993, this policy provided income distributions of $19.31 per share and for FY 1994, it will provide $19.55. The increase of 1.2% in income distribution is consistent with the change in the three-year average market value used to compute the income available for spending. For FY 1994, income earned by the AIF and distributed according to the spending rule is projected to be $36.7 million.

The excess of endowment income relative to the income available for spending computed by the spending rule is reinvested in the AIF as companion shares to the individual funds. This reinvestment takes place on July 1 and is expected to increase the number of AIF shares by 0.7% this year. Thus, the AIF effective net distribution should increase by 1.9% in FY 1994 for shares held in FY 1993.

Undergraduate Financial Aid

The planned undergraduate financial aid budget of $40.0 million, including both unrestricted and designated endowment income, is designed to maintain the University's policy of need-blind admissions, thereby meeting the full financial need of all students. However, the large incoming freshman class may result in expenditures higher than the $40 million level. It is anticipated that additional tuition revenue generated by these students will go toward offsetting the augmented financial aid cost.

Students' financial needs can be met in a variety of ways, including Penn grants, federal grants, work-study, and loans. The Office of Student Financial Services is continuing to identify areas where aid expenditures can be trimmed without compromising our ability to recruit and retain students of the highest quality.

Even with this high level of expenditures, there is increasing pressure on the University to be more competitive in our aid offers to prospective freshmen. This year guidelines for assessing need were modified to make our freshman aid offers more attractive. Early indications are that this change has had a positive effect, as the number of matriculating grant recipients has increased significantly over last year.

Aside from the cost of maintaining a need-blind admissions policy, there are three factors that have contributed to the increased pressures on the financial aid budget. They are:

1) a 4% reduction ($100) in the maximum Federal Pell Grant,
2) the elimination of the Maryland State Grants to students attending out-of-state institutions, and
3) an enhanced no-loan aid package for new Mayor's Scholars to comply with the agreement between the University and the City of Philadelphia reached last fall.

President Clinton's proposed FY 1994 budget appears to offer no relief from the long-term trend of declining federal funding for grants for higher education. The budget would continue Pell grants at the reduced 1993-94 level, and would reduce funding for federal campus-based aid programs by almost 15%.

With Penn's commitment to maintain need-blind admissions and the prospect of continued erosion in federal support, the University administration, with concurrence by the deans, began an initiative in FY 1993 to increase the dollars available for undergraduate financial aid from endowment and term gifts. As conceived originally, this plan set fundraising targets for each of the twelve schools that would lower the proportion of a school's undergraduate tuition dedicated for financial aid from the current 27.5% to 24.6% by FY 1997. This reduction would increase the unrestricted budget flexibility of the schools, thus allowing the deans to dedicate the resources for other academic initiatives. To be successful, the University would have had to raise endowment sufficient to yield $6.25 million annually plus $5.0 million annually in term gifts by FY 1997.

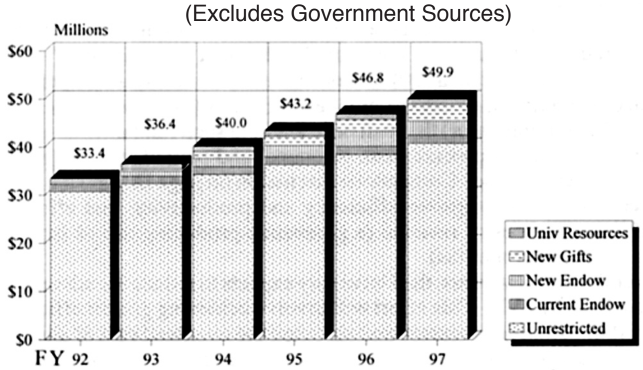
Over the course of FY 1993, it became apparent that the schools' original fundraising targets over the five year planning period were not attainable. More realistic targets were developed, although still ambitious, that would keep the ratio of unrestricted undergraduate financial aid to undergraduate tuition at 27.5%. Under this revised strategy, by FY 1997, the University intends to have raised sufficient endowment and term gifts to yield $6.4 million annually. The chart on the next page shows the effect that this policy will have on the financial aid budget. This policy also provides incentives for the schools to exceed their individual targets, as each dollar raised beyond a school's fundraising target may be used as direct budget relief for its unrestricted undergraduate financial aid allocation.

Since FY 1993 was the first year that this program was put into place, the University had agreed to assume the risk that the schools' targets would be met. Based on our final projection, several schools will not be able to raise the required restricted dollars, and $1.7 million of our restored FY 1993 Commonwealth appropriation will be applied to absorb this shortfall. For FY 1994 and beyond, the University will not assume this risk, and schools failing to meet targets must allocate unrestricted resources to cover shortfalls.

Undergraduate Admissions

For the freshman class entering in the fall of 1993, we are expecting a class of 2,370 students. Although the final breakdown of the class by undergraduate school is not yet known, recent history suggests that about 63% of the class will be enrolled in the School of Arts and Sciences, 17%

Undergraduate Financial Aid Plan
(Excludes Government Sources)



in the Wharton School, 17% in the School of Engineering and Applied Science, and 3% in the School of Nursing.

Admissions planning for the FY 1994 freshmen class began almost two years ago. After a period during the mid-1980s when Penn saw the number of applications and yield rates reach all-time highs, the number of applicants declined in the period 1988-1991. To counter some of that trend, changes were made to the admissions process in several ways, most significantly in the application form itself (creating a two-part application, revising the essay questions, and reducing the application fee to $55 helped generate additional applications). From 1991 to 1992, freshman applications increased by 27%, from 9,789 to 12,474 candidates. The number of 1993 freshman applications at 12,394 is essentially the same as 1992 is encouraging; less than a 1% decline in the year following a 27% increase in freshman applications. Planning for the process of admitting the 1994 freshman class found us on much firmer ground, and although dramatic changes seemed unnecessary, several goals were implemented to support this positive trend.

The first was to be more effective in converting inquiries into applications. The quality and yield figures confirm that once students apply, it is likely that they will matriculate. Data from the College Board and Penn's own Institute for Research in Higher Education suggest that a somewhat smaller percentage of students who have already expressed an interest in Penn are applying. In addition, while the overall quality of applications remains high, this is less true in our key market. Therefore, one of our primary goals entails greater responsiveness to those students who have already indicated some interest in Penn, both in outreach areas and in our community.

We have identified sixteen target markets nationally where Penn is not as well known as many of our peer institutions, and plan additional school visits, evening programs, counselor breakfasts and an increased alumni presence in these areas, plus continuing an on-campus program targeting guidance personnel from these markets. Some examples of increased outreach are 83 "Introduction to Pennsylvania" programs in the United States alone, with many others overseas; co-sponsored evening programs with Duke and Georgetown Universities; and receptions in Texas, Florida, the Midwest, California, the Pacific Northwest, and the Rocky Mountain states. *[Additional efforts are described in the full report.—Ed.]*

Although historically the University has devoted significant resources to the recruitment of local students, we have now set an ambitious goal of matriculating 125 Philadelphians a year. An enhanced recruitment plan began in September 1992 with new printed materials and scholarship packages. As part of this effort 53 schools were visited including all public magnet and comprehensive high schools, all parochial schools, and all private schools. We attended college nights/fairs, sent guest speakers for evening programs, conducted three Saturday morning information sessions exclusively for Philadelphia high school students and their families, and held three overnight-visit programs attended by Philadelphia students. These efforts resulted in 342 applications from Philadelphians, a 24% increase over last year when 275 applications were received.

Overall, applications for the 1993 incoming class increased significantly. This increase had a direct impact on the admit rate which has declined to 39.7% in 1992 versus 47.0% in 1991. The 1993 admit rate will be about 42%, primarily reflecting a one-year increase in the freshman class size from 2,250 to 2,370 to accommodate additional numbers of freshmen requested by Arts and Sciences and by Engineering and Applied Science. Of those who were admitted for September 1993, the quality in terms of SAT scores, class rank, and extracurricular activities was as high as those freshmen admitted for 1992. The percentage of those admitted who will matriculate in September 1993 is projected to be slightly above 46%, which compares with 1992's 46.4% and again indicates that Penn remains an institution of choice.

The makeup of the freshman class continues to reflect the University's goal of a diverse student body. There is representation from 46 of the 50 states, although the heavy concentration from the Mid-Atlantic states remains. The 1993 admissions cycle's accelerated and enhanced recruitment of Philadelphia high school students shows in a 24% increase in the number of applications (275 to 342), a 47% increase in the number of admissions offers made (129 to 181), and a 30% increase in Philadelphia high school students (81 to 106) among September 1993 entering freshmen. Of the Philadelphia students, 72 were offered Mayor's Scholarships and 30 will matriculate as freshman in September 1993. Ethnically, the class has representation from African-American, Hispanic, Asian and Native American backgrounds. While fully one-third of 1992's entering freshman were racial minorities, that percentage could reach 35% among 1993's freshman class. Minority candidates comprise 39.6% (4,903) of 1993's freshman applicants, roughly the same number and percentage as in 1992. Finally, admission offers were made to 1,989 (40.6% admit rate) minority applicants in 1993; in 1992, 1,800 (36.6% admit rate) minority candidates were offered admission.

International students comprise about 8.5% of 1993's entering freshmen and represent a richly diverse array of global areas and countries: 22 freshmen are from 10 countries in Africa and the Middle East; 72 students are from 15 countries of Asia/Pacific Islands/Australia; 63 freshmen (of whom 28 are Canadians) are from 11 countries of the Western Hemisphere; and, 43 freshmen are from 12 countries of Europe/British Isles.

Research

The FY 1994 budget for sponsored programs is projected to be $200.4 million, a 6.2% increase over the FY 1993 projection. A key factor in the rate of growth of sponsored research is the success of Penn faculty in being awarded grants. Driving this increase is the School of Medicine with a budgeted 11% increase for FY 1994. Medicine also accounts for over one-half of the sponsored programs dollars awarded to the University. In total, schools other than Medicine are budgeting increases of between 4.0% and 5.0%. Other schools with significant sponsored program activity include Arts and Sciences, Engineering and Applied Science, Veterinary Medicine, Nursing, and Education.

The primary sponsor of funded research at Penn is the Department of Health and Human Services (DHHS). Through April 1993, DHHS awards accounted for about 57% of the sponsored program dollars. The second largest federal sponsor is the National Science Foundation (NSF) with about 8% of the sponsored program dollars. The Department of Education also provides significant support with 6% of the dollars. Total federal sponsorship is about 80% with the remaining 20% coming from state and local governments, foundations and associations, and private industry.

Indirect costs are a significant part of the cost of conducting research at large research-oriented universities. These costs represent the expenditures made by a university for heat, light, power, maintenance, library, and administrative costs, both central and at the school level. The federal government will reimburse universities for the portion of indirect costs related to research. Penn has a negotiated indirect cost rate with DHHS of 62.5% for FY 1994 and 63.0% for FY 1995. This rate is applied to the Modified Total Direct Costs (MTDC) of an award (excludes equipment, facilities renovation/construction, and subcontracts) to determine the amount the University will be reimbursed.

The research agenda of the University is developed in numerous ways, but it is clear that the federal government can influence this agenda by selecting targeted areas for investment. One such area is multidisciplinary research initiatives, an area where Penn has a strong history.

[The full report gives thumbnail sketches of major cross-disciplinary research programs including the Structural Biology Initiative spearheaded by Professor Stanley Opella in Chemistry, involving cooperation of SAS, the Medical School, and the Wistar Institute; the Center for Research in Cognitive Sciences, which includes SAS/SEAS faculty from Computer and Information Science, Linguistics, Mathematics, Neuroscience/Bioengineering, Philosophy, and Psychology; and Engineering's new manufacturing laboratory open to others and particularly involving Wharton's faculty in research on the design and analysis of manufacturing systems; the Leonard Davis Institute of Health Economics scholarship in health management and social sciences; the School of Dental Medicine's Research Center in Oral Biology, and the Institute for Human Gene Therapy located in the School of Medicine with plans for ties with other schools, such as Veterinary Medicine, Engineering, Arts and Sciences, and Wharton, and other institutions such as the Wistar Institute, Children's Hospital, Children's Seashore House, and the Veterans Affairs Medical Center.—*Ed.*]

(continued next page)

The University's International Mission

In March 1992 the University of Pennsylvania adopted an International Mission Statement, in which the institution affirms its international commitment—in its people, its pursuits, and its programs. Penn seeks three main goals: the preparation of its students and faculty to be members of a more cohesive world; the generation of knowledge on a more global orientation; and provision of its academic resources, to the extent feasible, to nations and to institutions involved in international activities. Recognizing that it both gives and receives resources through its international activities, the University seeks to achieve and to maintain a role of leadership in the international sphere.

In order to accomplish this international mission, the University, through its twelve schools and through the Provost's Council on International Programs, has now developed a three-year academic plan [detailed more fully in the complete Budget Report—*Ed.*] to continue developing the breadth and coherence of its international education activities. Nine specific goals comprise this plan, each with specific action steps indicating the directions being taken by the University's schools. The nine goals are summarized as follows:

1) Internationalizing the curricula.
2) Enhancing language instruction across the University.
3) Promoting area studies and internationally focused programs.
4) Enhancing library access to international scholarship.
5) Promoting undergraduate study abroad.
6) Providing more opportunities for faculty exchange.
7) Developing more opportunities for graduate and professional students to be involved in international programs.
8) Enhancing the integration of international students, scholars and visitors at Penn.
9) Providing more and better services to Penn's international community.

The nine goals represent a starting point in what will be an ongoing process of internationalization of the University's people, programs, and pursuits. Where possible, reallocation of resources should be made in support of these activities; moving aggressively on this agenda will, however, require the identification of new resources. The University Relations and Development offices have written parallel plans to assist in this effort.

FAS 106 Post Retirement Benefits

In FY 1994, the University will adopt a new accounting standard proposed by the Financial Accounting Standards Board, a private organization that establishes national accounting standards. This new standard, known as FAS 106, requires institutions to recognize the projected costs of medical benefits for current and future retirees and to reflect these costs in their financial statements on an accrual basis. Based on the design of the University's retiree medical benefits plan, independent actuaries determined the size of the University's obligation, as of July 1, 1991, to be approximately $96 million, and estimated that by FY 1994, this amount could increase by as much as 20%.

To assess the impact of FAS 106 on the University's budget, as well as to address concerns over increasing benefits costs and the decreasing availability of unrestricted funds, the Provost and Executive Vice President convened a special task force. The Work Group was charged with responsibility for modifying the existing retiree medical plan. Three goals guided the FAS 106 Work Group in its examination of the retiree medical plan:

- The University must maintain its ability to offer a competitive compensation program (salaries and associated benefits) that will continue to play an important role in the recruitment and retention of faculty and staff.
- The University will continue to have as a goal the provision of medical care benefits to retirees and their families.
- If possible, the proposed modifications would not affect the benefits of current retirees.

After consultation with various groups within the University community, the Work Group developed a plan that will enable the University to continue to provide medical benefits for retirees and their families while at the same time offering all employees a benefits program that is both affordable and competitive. To support this plan, however, the employee benefit (EB) rate had to be raised from 29.9% to 32% in FY 1994. This extraordinary high EB rate places an additional burden on the schools as they struggle to cope with decreasing growth in unrestricted revenues, reduced support from the Commonwealth, and declining federal revenue support in sponsored programs. In an attempt to provide partial relief to schools and centers, the University has decided to use unrestricted bequests to offset the cost of FAS 106 obligations related to administrative employees in FY 1994, and will require administrative centers to absorb future costs in their on-going budgets. In this way, allocated costs will not increase as a result of FAS 106.

Cost Containment

The University has launched a number of initiatives aimed at reducing administrative costs. Among these are Total Quality Management Teams (now numbering more than 20) at work in many administrative areas and several of the schools; process re-engineering teams (each headed by a dean and a senior administrator) that will be reworking such fundamental administrative processes as procurement, personnel and payroll, and budgeting; Project Cornerstone (see Cornerstone discussion on page IX) and the use of new technologies to improve efficiency and productivity; and efforts to identify new sources of revenue (e.g. revenue-producing use of facilities during the summer months).

Over the next few years, the University expects to reduce the administrative cost base by 15%. This effort will involve achieving greater efficiency in our administrative processes and reducing the overhead cost of all of the University's academic and support functions. The goal is to achieve higher quality at lower cost, but the effort should not require sudden or unplanned cuts in faculty or staff positions. It is, however, a difficult and complex task in which all parts of the University will be involved: administrative units, faculty, academic programs and departments, and deans throughout the University's twelve schools, as well as all of Penn's non-academic resource centers, administrative areas, and support functions.

To monitor the progress of these efforts and to advise the President and the President's Advisory Group on issues and administrative processes that need to be examined in the re-engineering efforts, a joint faculty-administration Cost Containment Oversight Committee was created by the President.

Residential Network (ResNet)

The Provost, President, and Board of Trustees recently approved ResNet, a program to wire every student residence hall room for data, voice, and video services. The plans for the first phase of this project call for 1,500 students to have "wired" rooms by the fall semester, 1993, with connections for all 7,100 students living in residence halls to be installed by September 1997. When all five phases are completed, the fifteen residence halls will have roughly the same number of PennNet connections as the rest of the campus, where network installation has been in progress since 1985. ResNet is expected to make on-campus living more attractive and to change the way Penn students communicate, study, and interact with the administration.

There are numerous reasons why the University has decided to undertake this ambitious project. As Penn approaches the 21st century, the University must be prepared for and prepare its students for the challenges of an increasingly information-rich, international, multi-media, and multi-cultural world. Many of Penn's classrooms, laboratories, and libraries are equipped with the latest in computer and video facilities, yet students spend much of their time in residence halls. A lack of access to data and video services in the residences not only restricts learning opportunities, but also reduces faculty incentives to develop or use innovative, media-based instructional tools.

To integrate Penn's residence halls into the academic and clinical domains, with their increasingly electronic infrastructure, requires extending both PennNet and the Academic Video Network to all rooms in the residence halls. Given the labor-intensive nature of such a large wiring project, it makes economic sense to provide commercial cable television and modern telephone service at the same time.

The evolving nature of student instruction also has added to the demand for this project. An estimated 50% of Penn students own computers, yet student labs are nearly always at capacity. This is due in part to the demand for network access to data or specialized programs required for course assignments. Access to PennNet via modem is feasible, but comparatively slow and expensive for the University. The Academic Video Network, now limited to a small group of academic buildings, is an underused resource with great potential to improve learning if its programming can be delivered to student rooms. Finally, recent changes in the regulatory climate and advances in technology have reduced the costs of such projects, and numerous peer institutions have undertaken, or are planning, similar projects, including Chicago, Columbia, Dartmouth, MIT, and Swarthmore.

The ResNet program now calls for individual wall outlets for each student, plus additional outlets in suite living rooms and lounges. Each outlet will have live data and video service, with voice service to be available at extra cost. Each outlet will support:

- Data communication using ethernet over twisted pair wiring (10-base-T) at 10 megabits-per-second (Mbps), which is the same data rate currently supported in offices and many student computer labs. At 10 Mbps, a high-resolution color graphic image can be transmitted in 3 seconds; communication of text and lower resolution graphics will be effectively instantaneous. A key benefit of ethernet connections is support for the emerging client-server model of computing, with a uniform graphic interface replacing arcane terminal-to-host communication. The same wiring will support 100 Mbps, when needed, via upgrading electronics in wiring closets.

- Telephone service, which will be administered by PennTrex, the unit within Business Services that negotiates services from Bell of Pennsylvania and long-distance providers and re-sells to students. Various private and shared-line services will be available within rooms and suites.
- Video service, to merge programming from both Academic Video Network (including Scola, C-SPAN, and CNN) and commercial cable TV (local broadcast channels, ESPN, MTV, and others). No decision has been reached on availability of premium channels such as, HBO, Prism, or TMC or pay-per-view channels.

Given the economies of scale when installing and operating networks, the current plan is to wire several buildings each summer. These buildings will then be promoted as "wired residences" and priced higher than similar buildings without wiring. That is, all residents of wired buildings will be assessed a higher fee ($70 for 1993-94), and there will be no option to refuse data or video service. Thus, there will be no incentive to "beat the system", via pirating cable signals from neighbors or "daisy-chaining" ethernet connections, and no concern about unsightly and potentially hazardous private wiring. To take advantage of Ethernet, students will have to outfit their computers with "10baseT" Ethernet cards or adapters, at costs ranging from $150-$250.

Buildings slated for wiring by fall 1993 are:

- High Rise North
- Kings Court
- English House
- Quad–Ware College House
- Class of 1925

A program to market these buildings to students was launched in February 1993, with encouraging results to date.

Planning for ResNet was accomplished by the work of numerous working committees, reporting to a Steering Committee, co-chaired by Vice Provost for University Life Kim Morrisson, and Associate Vice Provost for Information Systems and Computing Daniel Updegrove. Administrative support for ResNet will be coordinated by the offices of Residential Living, Business Services, and Information Systems and Computing (ISC). Additionally, assistance with hardware setup and software installation, training, and ongoing support will be provided through a combination of residence hall computer lab staff, the Computer Connection, the Computing Resource Center (CRC), and the office of Data Communications and Computing Services (DCCS). Students who signed up for ResNet will receive more detailed information on these services during the summer.

The ResNet program contains both capital and operating costs. In Phase I of this project, estimated capital costs amount to $3.5 million and will be financed nearly exclusively with internal capital resources. The payback plan calls for the construction and wiring component totaling $2.6 million to be amortized over ten years. The electronics, servers, and other minor equipment will be amortized over five years. The estimated annual debt service on these costs is $466,000, which will be funded by income from undergraduate, graduate, and professional General Fee charges.

The operating costs of ResNet during the first year are projected to amount to $579,000 and will be funded by room rents in the residence halls. Prior to the inclusion of these costs, the average rate increase in room rents for FY 1994 was 4.23%. The addition of the ResNet operating costs, which were spread across all residence halls, pushed the average rate increase to 6.03%. In addition, students choosing to live in rooms that will be wired for ethernet access to PennNet and cable television will be charged an additional $70 per year to cover costs associated with these services.

A third feature of the ResNet program is the offering of low cost electronic mail service to students, regardless of whether or not they live in the residence halls. For FY 1994, $63,500 has been budgeted for this service, and General Fee revenue will be used to fund these costs.

FY 1994 Central Administrative Budget

The total central administrative budget for FY 1994 grew by about 5%, or $7.2 million, for FY 1994. Of this growth, about $6.2 million will be funded through allocated costs and the remaining $1 million through unrestricted bequests. The total $7.2 million growth includes approximately $4.2 million in programmatic additions that fall outside of ongoing administrative growth. Ongoing growth to the budget, therefore, is slightly over 2%.

Unrestricted bequests are being used in FY 1994 to offset the cost of FAS 106 obligations related to administrative employees. By using this funding source, the University has attempted to shield the schools and centers from having to pay the cost of the higher employee benefit rate (EB rate) in the allocated cost pool. Over the next three years, the administrative centers will absorb the cost of the higher EB rate into their ongoing budgets so that increased allocated costs to the schools and centers as a result of FAS 106 will be avoided.

The 5% increase in the administrative budget includes several initiatives and costs related to University-wide priorities. These include investments in computing, the library, Project Cornerstone, and the new chiller plant. Nearly $500,000 has been added to the FY 1994 central computing budget to cover costs such as maintenance, management, and license fees related to the University's mainframe consolidation.

The library budget has been augmented by about $540,000 in order to cover the double digit increases recently experienced in the acquisitions lines. Additional investment has also been made to cover the cost of extra computing capacity needed by the library.

In the FY 1994 budget, approximately $640,000 has been set aside to partially offset the cost of Project Cornerstone. These dollars will go towards consulting, hardware and software expenses incurred as the University continues to re-engineer administrative processes across campus. This fund will also provide the seed capital to help initiate and implement other cost saving measures (see Project Cornerstone discussion on page 90).

Finally, $640,000 has been added to the operations and maintenance budget for the cost of the new chiller and electric substation currently under construction at 38th and Walnut Streets. This project is necessary to provide additional electrical and chilled water capacity to meet the demands of the new Law Library, the Revlon Center, and the Institute for Advanced Science and Technology. The total project cost is estimated at about $34 million and the University will likely continue to increase the funding to pay back this amortization over the next several years. In addition to the above programmatic enhancements, modest investments have been made in the FY 1994 administrative budget for escort service, internal audit, the development Campaign, and deferred maintenance. The chart below displays the proportional breakdown of administrative costs, including the Library, as well as the distribution of these costs.

Distribution of Allocated Costs:

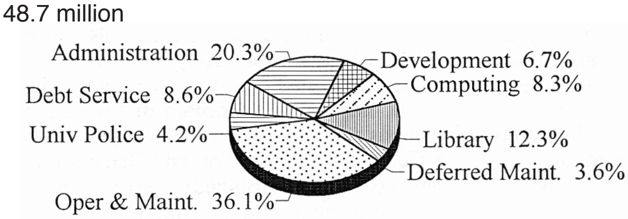
The central administrative budget is distributed to the schools and other direct centers on campus using a set of algorithms that approximate use of central services and infrastructure. At the request of Provost Michael Aiken, during FY 1993, the Executive Office of Resource Planning and Budget formed a team to study these algorithms. This team, comprised of representatives from both the schools and the administration, conducted an in-depth evaluation of the existing distribution methodology and recommended changes where necessary.

The allocated cost team examined the distribution of four operational areas of the administrative budget: the Library, Operations and Maintenance (including Deferred Maintenance), Regulatory Issues and University Police, and General Administration & General Expense. In each area, the team recommended changes in the distribution methodology.

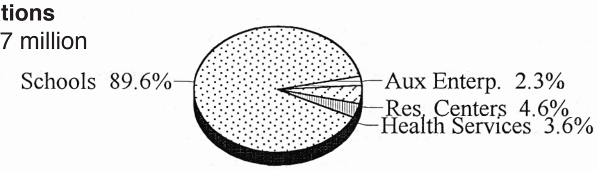
Library: The existing library algorithm distributed the cost of each of the 12 campus libraries to the schools thought to be the primary users. The distribution of the Van Pelt - Dietrich library was based on the percentage of checkouts in a year. The allocated cost team concluded that due to a lack

FY 1994 Allocated Cost Budget

Administrative Budget
$148.7 million



Allocations
$148.7 million



of reliable information, the seemingly random assignment of departmental libraries which probably did not reflect actual use, and the archaic use of checkout data in an environment where periodical and electronic use of the Library are growing rapidly, the distribution algorithm should be redesigned. The revised algorithm does not break down the library budget by departmental library. Instead, it distributes the budget as a whole. The model is based on the premise that faculty and students at the University are the primary users of the Library. Therefore, after special arrangements are accounted for, half the total library budget is distributed based on the number of paid academic staff, and the other half based on the number of course units taught. In this way, the algorithm assigns the cost of the library to the schools and centers whose faculty and students benefit from the materials and services.

Operations & Maintenance: Although the existing utility algorithm was based on actual utility costs, the non-utility (housekeeping and maintenance) algorithm was in no way linked to the actual cost of maintaining a building. Instead, the non-utility algorithm was based on building quality factors and space factors that made the allocation model complex and extremely difficult for schools to understand and plan future costs. The goal for the team therefore was to simplify the algorithm and link allocated cost directly to the actual cost of each building. The revised algorithm uses the four-year average utility and non-utility costs of each building to calculate the percentage of the total O&M budget that is related to each building. This percentage is then applied to the projected O&M budget to assign a cost to each building. In this way, the actual cost of a building over the past four years determines the cost for the fifth year. The cost of the building is then distributed to the schools and centers occupying the building.

Net Space Charge: The space charge, which goes largely toward funding deferred maintenance on campus, previously consisted of four components: direct space charge, indirect space charge, building use credit, and space subvention. The sum of all these pieces was referred to as the net space charge. The team found all of these pieces, some of which were paper transactions only, to be complicated and irrelevant to the distribution of allocated costs. Therefore, to simplify the space charge distribution, the revised algorithm eliminates the building use credit and the space subvention. Only the net budget amount is distributed. The distribution of this budget was previously based on the insured value of each building on campus as maintained by the Office of Risk Management. The revised model keeps building value as the basis for distribution. The model uses each building's value as a proportion of the total to apply a space charge to each building. The charge is then distributed to the occupants of that building.

Regulatory Issues and University Police: The regulatory issue budgets examined consisted of Environmental Health and Safety, Radiation Safety, and University Lab Animal Resources (ULAR). In the case of Environmental Health and Safety and Radiation Safety, the team recommended that the Provost look for ways in which these budgets can be direct charged to the users instead of being included as a part of the allocated cost algorithms. This was because services performed by these offices can be quantified and assigned to particular schools and centers. The team recommended keeping as is the ULAR algorithm, which distributes cost based on a school's actual expenditure on animal care.

The Public Safety budget was previously distributed to the schools and centers based on the net square feet they occupied in University buildings. Since the University police officers do not patrol the interior of buildings, this algorithm did not seem appropriate to the team. Also, in addition to the $6 million public safety budget distributed through allocated costs, the schools and centers spend an additional $3 million directly on security. There appeared to be no relationship between this direct spending by the centers and the amount they are charged through allocated costs. The guiding philosophy to the revised algorithm is that the schools and centers that commit direct resources to increase the safety of their buildings should receive some offset in their allocated cost for public safety. Using Public Safety's incident reports, the revised algorithm divides the budget into building safety and campus safety portions. The campus safety portion is distributed using the General Administration and General Expense algorithm. The building safety portion is distributed based on the average number of incidents in buildings over the past four years. In this way, if a school invests resources to increase security in its buildings, the number of incidents for that building should decrease and that school should experience a decline in its allocation related to building safety.

General Administration and General Expense:

This category includes all administrative accounts funded through allocated costs except Development, Radiation Safety, University Lab Animal Resources, and the building related portion of Public Safety. In the previous method of distributing GA and GE costs, there were over 20 separate algorithms which measured the schools and centers in terms of total direct cost, number of faculty, number of employees, number of research proposals processed by the Office of Research Administration, and so on. The problems with this methodology were its complexity and its non predictability. The schools and centers did not understand what behavior on their part drove which allocations. Furthermore, they could not predict the impact of their programmatic decisions, or in fact the impact of the overall administrative budget increases, on their allocated costs. For these reasons, as well as the fact that this way of calculating allocated costs was perceived as being a disincentive for growth (as a center grew, it attracted a larger share of allocated cost), a revised methodology was proposed by the team.

The revised model only has one algorithm. While allocating the budget in the aggregate may not be precise, however the benefits of this algorithm, simplicity and predictability, outweighed this concern. This model divides administrative costs into two categories: that related to sponsored program activity, and that related to all other activity. This methodology was chosen because it allows schools to track allocated costs closely with indirect cost recoveries from sponsored program, and therefore aids them in strategic planning and out year projections. Additionally, the proposed algorithm separates the increase in a center's allocated cost related to ongoing administrative activity from that related to special programmatic enhancements to the administrative budget. This allows the schools and centers to focus on and discuss the costs and benefits related to the budgetary additions.

The recommended algorithm changes have been implemented for the FY 1994 budget. The schools and centers were held harmless to the effects of the new algorithm in the first year as subvention was used to rebalance the effects on increased or decreased allocated cost.

Government Issues

In closing the FY 1994 budget and as we look forward, there are issues being discussed at various levels of government that we must watch closely. While the full effect of changes that may result from legislative action is difficult to assess, we attempt to monitor the potential for impact.

Federal Government

The Clinton record in Arkansas, the rhetoric of the Clinton campaign, and Clinton's passion for education, all held great promise for major investments in colleges generally and in research universities in particular. Indeed, he appeared to be more likely than any President since Lyndon Johnson to be called the "Education President". However great his professed support for higher education, President Clinton is constrained by the staggering federal deficit and by other commitments, such as health care reform.

The National Service Trust concept is likely to start on a small-scale basis, and is not going to be a panacea for our student aid problems. It is, however, likely to be promising in that it will emphasize and seed ongoing efforts, such as ours, to build academically-based community service programs. Some of these examples include the West Philadelphia Improvement Corps, the Turner School Development Program, and the Bridging Program in the Graduate School of Education.

Clinton has proposed a transition to a full-scale direct lending program that, when fully phased in, will save about $1.3 billion per year nationally in loan subsidies that now go to private lenders. These funds will be freed up for need-based aid in the form of expanded Pell Grants. That's the good news. The bad news is that the Pell Grant program is so deeply in the red—a $2.0 billion shortfall estimated this year—that we might expect Clinton to propose eliminating the SEOG program that now provides Penn undergraduates with about $2.5 million in grant aid.

The federal budget constraints are such that the University should not expect massive new investments in research programs, or in the research infrastructure. Modest increases in the major research programs at the National Institutes of Health (NIH) and the National Science Foundation (NSF), for which Penn faculty compete effectively, are likely to be the order of the day. We should continue to be wary of potential further incursions on our ability to recover indirect costs associated with federally sponsored research dollars, since Clinton's budget plan during the campaign suggested cutting such reimbursements by 25%.

In the area of tax policy, we are well positioned to see restoration of the full deductibility of gifts of appreciated property, but that is a small matter in a huge package of tax increases that will be the major battleground of Clinton's economic reform. Indeed, the difficulty Clinton is experiencing getting his economic stimulus package adopted by the Congress suggests that tradeoffs on his tax reform proposals may be necessary.

While we do not know what to expect in terms of a health care reform plan, in the short-term Clinton needs to stem the tide of exponentially growing Medicare and Medicaid expenditures. One way he is likely to achieve this is to propose reductions in the growth of base payments for the Medicare DRG system and, more importantly for Penn, to ratchet back on the special indirect medical education adjustment that compensates major teaching hospitals like HUP for their greater intensity of services to patients. Clinton has proposed to cut this adjustment by more than 25% in order to save $2.0 billion over four years.

Commonwealth of Pennsylvania

Aside from the issues pertaining to Penn's Commonwealth appropriation, there are other issues being discussed by the Legislature that may have a direct impact on the University. One such issue focuses on the tax exempt status of Pennsylvania's colleges, universities, hospitals, and other non-profit institutions. The premise for this debate is the growing number and the growing dollar volume of commercial activities that non-profit organizations engage in. At present, the focus is on seeking greater clarity on the tax codes and the laws governing non-profits. Recent court cases, however, suggest that the courts tend to be more restrictive in their interpretation of the law and have revoked the tax exempt status of some organizations.

A plan being discussed presently to address the tax issues is the creation of a municipal service charge applied to non-profits. The basis for this charge would be an assessment of 25% of the property value of the institution. With Penn's property value currently at about $1.6 billion, this would result in a significant ongoing cost. Penn, as well as the other independent colleges and universities in Pennsylvania, are monitoring these debates closely.

The proposed "Right to Know" legislation that surfaced a couple of years ago continues to be debated. This law would require any institutions receiving state funds to fully disclose salary and contract information. Although the public institutions and Penn State, Temple, and Pitt, are mostly concerned with this, the restoration of Commonwealth support means that we should pay close attention to these developments as well.

A more recent proposal being discussed is the "Employee Trip Reduction Program". The impetus behind this issue is the requirement that the five county area reduce its ozone levels and emissions produced by automobile exhaust. The goal is to reduce the number of single occupant cars used for daily commuting to work by 1997. Firms that fail to meet targets may be fined for non-compliance. Unfortunately, Penn has been included in the Center City district which has the toughest standards to meet. While Penn is in a somewhat favorable position, due largely to our van pool program and participation in the commuter pass program with SEPTA that allows employees to purchase SEPTA rail and city division passes through payroll deduction at a 10% discount, depending upon what standards are set, additional incentives may be needed to discourage inefficient commuting habits.

In the arena of health care, there are several issues that are currently being debated by the Commonwealth that may impact the Penn Medical Center. One important issue centers around Governor Casey's goal to reduce the cost of the Medical Assistance Program by cutting reimbursements to hospitals that provide services to these patients. We are currently in the process of negotiating a settlement of our rates for FY 1994 and FY 1995 in order to obviate the need for the more draconian cuts proposed in the governor's original budget. Until these negotiations are finalized, the outlook for Medical Assistance reimbursement will remain uncertain.

Another area in which the Commonwealth is seeking to reduce the reimbursement costs to hospitals is Workers Compensation. The move here would be to shift from a full cost reimbursement basis to one that would reimburse hospitals according to the Medicare fee schedule. Legislative efforts to achieve a compromise on this difficult issue have, so far, been unsuccessful; but legislators will be pressing for final resolution in the months ahead. Again, until a compromise solution is hammered out, it is difficult to ascertain the full impact on HUP.

A third area that concerns the Medical Center is the issue of Managed Care/Welfare Reform. One of the goals of this plan is to reduce the cost of the Medical Assistance Program by maximizing the number of welfare recipients enrolled with managed care organizations. Given the controversial nature of welfare reform and the much larger issues that must be debated in the context of health care reform, it is unlikely that a final decision will be reached by next year. However, the magnitude of this issue requires close monitoring.

City of Philadelphia

A significant issue currently under negotiation with the City is whether or not Penn must comply with a decision by Licenses and Inspections that would require a payment to the City for a room charge assignable to the rooms in the residence halls. The City is seeking a retroactive payment back to 1970 of about $1.6 million. If a retroactive payment is settled, the current annual cost of this charge is estimated to be $85,000 to $100,000.

Other issues of importance center around the University's plans for specific sites and facilities. As planning for the Revlon Center continues, the potential for the diversion of street traffic must be reviewed with the Streets Department. Starting construction of the Institute for Advanced Science and Technology will require City approvals as the project moves forward including demolition of Smith Hall. Finally, the long range plan of the Medical Center includes utilization of the Civic Center site. This too, will require negotiation with the City.

Project Cornerstone

Project Cornerstone is sponsored by the Provost and the Executive Vice President and led by the Vice President of Finance and the Vice Provost for Information Systems and Computing. It consists of a series of "building blocks" or objectives designed to further the goal of delivering excellence in administrative services at reduced cost to allow for the redeployment of resources to the academic mission of the University. The accomplishments for FY 1993 and plans for FY 1994 are grouped based on four overall objectives of the project:

The first objective is to develop Information Technology Principles, Models and Standards. The principles are basic beliefs about the way information technology should be used to support the business requirements of the University. They have been reviewed and validated through discussions with key school administrators and members of Penn's information technology community. A second process of review and validation is currently underway with Penn's senior management.

Three models, or architectures, have been developed and are in various stages of review and validation through discussions with representatives from the schools and members of the University's business and Information Technology communities. The models are representations which:

1. describe the University's administrative data and work activities and the relationships and interactions between the two (Information Architecture).
2. describe the data stores and business systems that are needed to support the work activities (Business Systems Architecture).
3. provide a blueprint for the hardware (including desktop), software and telecommunications infrastructure that will be needed to support the next generation of administrative systems at Penn (Technical Architecture).

The second objective of Project Cornerstone is to facilitate the re-engineering of selected University administrative processes. Under the leadership of the Division of Finance, the Procurement/Payable process was selected as the initial effort. A team led by representatives from the Division of Finance with school representation and assisted by Cornerstone consultants produced a set of recommendations for a re-engineered process. Confirmation of the re-engineering recommendations is underway with a broad set of school representatives.

The third objective is to define the business requirements for a Financial Management Information System. This effort, led by the Division of Finance with participation from Cornerstone team members is expected to be completed by the end of June 1993 and will result in a set of high level requirements to support the full range of financial operations as well as provide information for management and strategic planning.

The fourth, and final, objective is the development of a long range plan for Administrative Information and Systems. A plan to acquire an integrated set of administrative systems to support administrative work activities and make information available for management and planning is expected to begin during the summer 1993.

A number of initiatives planned for FY 1994 build upon the principles and architecture work completed in FY 1993, including the integration of information and systems. This initiative will require the completion and acceptance of a long-range plan for integrating administrative information and acquiring a new generation of administrative systems that provide decision-support information and increase operational effectiveness. This plan will also identify and prioritize with scope and timetables:

- specific business applications to be replaced or modified as complimentary to business re-engineering priorities set by appropriate functional management and reflective of technical implementation considerations.
- bases of current and historical information to be developed or modified and access strategies.
- those organizational considerations that would facilitate and provide focus for successful implementations of re-engineered work activities as well as the ongoing efforts to re-engineer other work processes.

Once the priorities and timetables are finalized, the business requirements for a new financial system to support financial activities and to provide access to financial information for operations, decision-making and planning must be ratified. This would then be followed by the acquisition and/or development and implementation of the first business application(s) and supporting technical infrastructure assuming Project Cornerstone recommendations are accepted.

Choices regarding the acquisition of hardware and software must be made. The University intends to establish a bounded set of supported hardware and software for networking, data management, application development and desktop computing that will allow full participation in Penn's next generation of administrative systems. These choices must be built on Cornerstone principles and models and be guided by standards that will be developed in consultation with the Penn community. In addition, Penn will begin to establish the mechanisms to provide or coordinate support as appropriate.

Facilitating the implementation issues associated with the recommendations of the Procurement/Disbursement re-engineering team will begin under the leadership of the Division of Finance and in active consultation with school management. As Penn moves forward to re-engineer other processes that are deemed to have high priority by the appropriate functional management, management will look to identify cost efficiencies and structure the implementation in a way that will allow for modular and progressive implementation.

Conclusion

The Fiscal Year 1994 budget document as drafted reflects the efforts of many organizations and individuals—the Academic Planning and Budget Committee, the Deans, Directors, and senior budget officers throughout the University, as well as senior University Officials. It demonstrates, as with previous University of Pennsylvania budgets, the ability of the Penn community–its students, faculty and staff–to work collectively for the best interest of the University. With only partial restoration of our Commonwealth appropriation and the necessity to maintain a balanced FY 1994 budget in tight economic times, the University, its schools and centers have had to make difficult programmatic choices. These choices have been made all the more complex by the realization that attracting and retaining high quality faculty is getting more competitive, today's students have greater expectation for University support services, and fewer private and/or public organizations are willing to provide external funding to write-down the cost of operating and maintaining our physical plant.

Penn has not bowed to these pressures, but has chosen solutions that we believe will assure our strength and vitality in the coming years. This budget reflects our commitment to Health Service and a recognition that we must invest in our hospital and allied Health Service's schools and programs if we are to compete in the Delaware Valley marketplace. Through the Offices of the Provost and Institutional Planning, Penn is undertaking an examination of the undergraduate educational experience with a commitment to address identified programmatic weaknesses. In the area of International education, under the leadership of Arts and Sciences, Penn is proposing a whole new initiative to expand students' international opportunities both here and abroad. We are also investing in facilities through our ResNet program with the expressed goal of providing student and faculty access to new educational and communication technologies. Similarly, with Project Cornerstone, Penn is making a long-term commitment to new technologies that will expand and promote our ability to administer and manage our individual parts more efficiently.

Our commitment to make these investments should not obscure the difficulties encountered in achieving an FY 1994 balanced budget. As one reads the individual school and center write-ups, we see multiple schools and centers that we must monitor closely during the coming fiscal year to insure they stay within projected resource targets. With this realization and the recognition, based on a reading of the schools and centers Five-Year Plans, that the tension for additional resources will not abate in the near term, one can conclude that the FY 1995 budget process may not differ dramatically from the FY 1994 process just completed. Therefore, as the budget document underscores, the University senior leadership has already begun a process for determining how Penn can continue to make strategic investments during this period of constrained resources through a process of reallocation and prioritization. It is our belief that without such a process Penn will not be able to compete with many of our peer institutions in the years ahead.

Schedule A: Operating Budget FY 1993 and 1994 (in thousands of dollars)

	FY 1993 Budget	FY 1993 Projection	FY 1994 Budget	Pct Change to Projection
UNRESTRICTED REVENUES				
Tuition and Fees	309,432	314,844	333,415	5.9%
Commonwealth Appropriation	313	22,060	29,404	33.3%
Investment Income	14,898	14,851	14,839	-0.1%
Gifts	11,562	11,971	14,415	20.4%
Indirect Cost Recoveries	68,564	71,048	74,302	4.6%
Sales and Services	106,801	103,872	108,773	4.7%
Other Sources	15,826	19,698	24,085	22.3%
TOTAL REVENUES	**527,396**	**558,344**	**599,233**	**7.3%**
EXPENDITURES				
Salaries and Wages	229,388	230,319	252,758	9.7%
Employee Benefits	64,011	63,985	75,156	17.5%
Total Compensation	**293,399**	**294,304**	**327,914**	**11.4%**
Current Expense				
Energy	33,143	33,143	31,184	-5.9%
Debt Service	19,059	19,059	19,228	0.9%
Deferred Maintenance	5,120	5,120	5,570	8.8%
Current Expense & Equipment	167,192	186,566	196,873	5.5%
Total Current Expense	**224,514**	**243,888**	**252,855**	**3.7%**
Student Aid				
Undergraduate	33,201	32,144	36,001	12.0%
Graduate and Professional	27,464	28,060	29,166	3.9%
Total Student Aid	**60,665**	**60,204**	**65,167**	**8.2%**
TOTAL EXPENDITURES	**578,578**	**598,396**	**645,936**	**7.9%**
Excess Revenues (Expenditures)	(51,182)	(40,052)	(46,703)	
TRANSFERS FROM HEALTH SERVICES	31,633	40,052	46,703	
NET CHANGE	(19,549)	0	0	
RESTRICTED REVENUES & EXPENDITURES				
Grants & Contracts	183,558	188,683	200,402	6.2%
Endowments	35,332	38,369	39,970	4.2%
Gifts	34,075	34,960	38,727	10.8%
Other Restricted	33,591	40,053	40,336	0.7%
TOTAL REVENUES & EXP	**286,556**	**302,065**	**319,435**	**5.8%**
NET CHANGE	0	0	0	
TOTAL UNRESTRICTED & RESTRICTED REVENUES	813,952	860,409	918,668	6.8%
EXPENDITURES	865,134	900,461	965,371	7.2%
TRANSFERS	31,633	40,052	46,703	
NET CHANGE	(19,549)	0	0	
HEALTH SERVICES				
HOSPITAL OF THE U OF P				
REVENUES	452,748	533,752	529,236	-0.8%
EXPENDITURES	464,930	452,862	592,595	30.9%
Excess Revenues (Expenditures)	(12,182)	80,890	(63,359)	
TRANSFERS (TO) UNRESTRICTED	(21,343)	(29,578)	(34,079)	
NET CHANGE *	(33,525)	51,312	(97,438)	
CLINICAL PRACTICES OF THE U OF P				
REVENUES	191,447	192,391	211,322	9.8%
EXPENDITURES	191,249	190,405	214,504	12.7%
Excess Revenues (Expenditures)	198	1,986	(3,182)	
TRANSFERS (TO) UNRESTRICTED	(10,290)	(10,474)	(12,624)	
NET CHANGE *	(10,092)	(8,488)	(15,806)	
TOTAL UNIVERSITY				
REVENUES	1,458,147	1,586,552	1,659,226	4.6%
EXPENDITURES	1,521,313	1,543,728	1,772,470	14.8%
TRANSFERS	0	0	0	
NET CHANGE	(63,166)	42,824	(113,244)	

* HUP and CPUP budgets have been adjusted to conform to GAAP for universities. See Footnote to Schedule B, next page.

Schedule B: Operating Budget FY 94 by Summary of Centers (in thousands of dollars)

	Schools	Resource Centers	Admin Service Centers	General University Resources	Auxiliary Enterprises	Total Unrestricted	Restricted	Health Services Hospital U of P	Health Services Clinical Practices	Total University
REVENUES										
Direct										
Tuition										
Undergraduate	128,714	286		34,432		163,432	1,500			164,932
Grad /Prof'l	107,544	29		26,866		134,439	757			135,196
Total Tuition	236,258	315		61,298		297,871	2,257			300,128
Special Fees	11,632	1,916	21,996			35,544				35,544
Commonwealth Appropriation				29,404		29,404				29,404
Investment Income	3,018	577		10,990	254	14,839	39,970	21,385	3,861	80,055
Gifts	6,706	2,618	841	4,250		14,415	38,727	165		53,307
Grants and Contracts							200,402			200,402
Indirect Cost Recoveries										
Sponsored Programs	52,048	502		7,750		60,300				60,300
Other	9,713	630	2,559	1,100		14,002				14,002
Sales & Services	22,288	4,518	10,933		71,034	108,773	3,835	507,686	207,461	827,755
Other Sources	21,271	410	1,444	271	689	24,085	34,244			58,329
Total Direct Rev	362,934	11,486	37,773	115,063	71,977	599,233	319,435	529,236	211,322	1,659,226
General University Resources										
Program Special	16,990	576		(17,566)		0				0
Program Regular	61,246	14,175		(75,421)		0				0
Financial Aid						0				0
University Bank	66	(26)		(40)		0				0
Total Gen Univ Resources	7,302	14,725		(93,027)		0				0
TOTAL REVENUES	**441,236**	**26,211**	**37,773**	**22,036**	**71,977**	**599,233**	**319,435**	**529,236**	**211,322**	**1,659,226**
EXPENDITURES										
Direct										
Salaries & Wages										
Academic	94,780	510	487	303		96,080	77,319		75,942	249,341
Administrative	29,355	8,955	40,067		2,833	81,210	30,860		39,722	151,792
Clerical	18,982	5,442	10,662		2,705	37,791	13,497			51,288
Service	995	729	15,242		5,985	22,951	2,548	168,219		193,718
Limited Service	8,512	1,786	2,455		1,973	14,726	3,417			18,143
Total Salaries & Wages	152,624	17,422	68,913	303	13,496	252,758	127,641	168,219	115,664	664,282
Employee Benefits	44,449	5,210	21,531	97	3,869	75,156	30,968	57,574	25,126	188,824
Current Expense										
Energy			24,175		7,009	31,184		11,990		43,174
Debt Service			12,884		6,344	19,228		10,583		29,811
Insurance			3,291		470	3,761		5,182	8,892	17,835
Deferred Maintenance			5,570			5,570				5,570
Other Curr Exp & Equip	102,832	14,917	32,566	10,745	37,392	198,452	119,821	334,835	63,694	716,802
Student Aid										
Undergraduate	35,310	90		601		36,001	18,677			54,678
Graduate & Professional	18,876	0		10,290		29,166	22,328			51,494
Total Student Aid	54,186	90		10,891		65,167	41,005			106,172
Total Direct Expenditures	354,091	37,639	168,930	22,036	68,580	651,276	319,435	588,383	213,376	1,772,470
Allocated Costs										
Student Services										
General Administration										0
& General Expense	59,094	4,903	(71,276)		2,686	(4,593)		3,557	1,036	0
Operation & Maintenance	46,323	7,565	(54,311)		76	(347)		266	81	0
Space	3,919	753	(5,570)		635	(263)		252	11	0
Library	24,512	(24,649)				(137)		137		0
Total Allocated Costs	133,848	(11,428)	(131,157)		3,397	(5,340)		4,212	1,128	0
TOTAL EXPENDITURES	**487,939**	**26,211**	**37,773**	**22,036**	**71,977**	**645,936**	**319,435**	**592,595**	**214,504**	**1,772,470**
Excess Revenues										
(Expenditures)	(46,703)	0	0	0	0	(46,703)	0	(63,359)	(3,182)	(113,244)
TRANSFERS	46,703					46,703		(34,079)	(12,624)	0
NET CHANGE *	0	0	0	0	0	0	0	(97,438)	(15,806)	(113,244)

* HUP and CPUP budgets have been adjusted to conform to GAAP for universities. See Footnote.

*** Footnote to Schedule B**

Separate budgets for HUP and CPUP have been presented to the Medical Center Trustees in accordance with generally accepted accounting principles (GAAP) for providers of health care services.

We have converted these budgets to reflect GAAP for universities. The primary differences resulting from the change in accounting, which is summarized at right, requires capital additions and renovations to plant and retirement of long-term debt to be treated as reductions to fund balance, while depreciations is not considered an expense of operations.

In addition, the schedule reflects the budgeted transfer of accumulated Health Services surpluses of $46,703 for Medical School programs in FY 1994. We anticipate additional transfers in the future to complete these programs. The projected accumulated surpluses at June 30, 1993, for HUP and CPUP are $233,273 and $83,942, respectively.

(in 000's)	**HUP**	**CPUP**	**TOTAL**
FY 1994 budgeted surplus reported in accordance with Health Care GAAP	$55,159	$4,936	$60,095
Adjustments to conform to University GAAP:			
Capital equipment & renovations	(143,905)	(10,089)	(153,994)
Retirement of long-term debt	(3,690)	0	(3,690)
Depreciation & amortization	31,485	1,971	33,456
Amortization of post-retirement benefit obligation (FAS #106)	(2,408	0	2,408)
FY1994 budget surplus/deficit in accordance with university GAAP	(63,359)	(3,182)	66,541)
Transfer of accumulated surplus for Medical School programs	(34,079)	(12,624)	(46,703)
FY 1994 Net Change	**($97,438)**	**($15,806)**	**($113,244)**

Schedule C: Operating Budget by Centers FY 94 (in thousands of dollars)

REVENUES

	University		Health	General University Resources	Subvention			Univ
	Unrestricted	Restr.	Services	Special	Regular	Fin Aid	Bank	Total
SCHOOLS								
Annenberg School	781	7,080			364		2	8,227
Arts and Sciences	113,566	52,464			24,221		52	190,303
Dental Medicine	22,209	5,613		773	4,273		(41)	32,827
Education	8,761	4,865			1,198			14,824
Engineering	24,261	19,431			6,651		(9)	50,334
Fine Arts	10,236	2,740			3,934			16,910
Law	14,090	2,442			2,382		46	18,960
Medicine	68,534	132,782		3,458	372		26	205,172
Nursing	10,380	6,242			1,598		64	18,284
Social Work	3,350	574			1,383		(18)	5,289
Veterinary Med	21,669	12,858		12,759	5,406		(56)	52,636
Wharton	65,097	43,806			9,464			118,367
TOTAL	**362,934**	**290,897**		**16,990**	**61,246**	**0**	**66**	**732,133**
RESOURCE CENTERS								
Annenberg Center	2,155	588			1,321		(26)	4,038
Inst of Contemp Art	776	326			307			1,409
Intercoll Athletics	4,569	607			4,805			9,981
Interdisciplinary	830	14,165			3,889			18,884
Library	482	3,420						3,902
Morris Arboretum	1,163	681		400	232			2,476
Museum	1,511	2,714		176	3,621			8,022
TOTAL	**11,486**	**22,501**		**576**	**14,175**	**0**	**(26)**	**48,712**
ADMIN. SERVICE CENTERS								
Student Services	20,962	1,552						22,514
Gen.Adm/Gen.Exp.	16,811	2,852						19,663
Operation & Maint								0
Space								0
TOTAL	**37,773**	**4,404**						**42,177**
GEN. U.RESOURCES	115,063			(17,566)	(75,421)		(40)	22,036
AUXILIARY ENTERPRISES								
Residences	29,681	1,633						31,314
Dining	13,170							13,170
Bookstore	23,484							23,484
Parking	5,642							5,642
TOTAL	**71,977**	**1,633**						**73,610**
UNRESTRICTED	599,233			0	0	0	0	599,233
TRANSFERS (FROM)	0							0
TOTAL	**599,233**			**0**	**0**	**0**	**0**	**599,233**
RESTRICTED		319,435						319,435
UNRSTR & RSTR	599,233	319,435	0	0	0	0	0	918,668
HEALTH SERVICES *								
HOSPITAL U OF P			529,236					529,236
TRANSFERS (TO)			0					0
SUBTOTAL			529,236					529,236
CLINICAL PRACTICES			211,322					211,322
TRANSFERS (TO)			0					0
SUBTOTAL			211,322					211,322
TOTAL			**740,558**					**740,558**
TOTAL UNIVERSITY	**599,233**	**319,435**	**740,558**	**0**	**0**	**0**	**0**	**1,659,226**

EXPENDITURES & TRANSFERS

	University		Health	Admin	Allocated Costs		
	Unrestricted	Restr.	Services	Svc Ctrs	Space	Library	Total
SCHOOLS							
Annenberg School	140	7,080		738	8	261	8,227
Arts and Sciences	98,370	52,464		28,416	1,115	9,938	190,303
Dental Medicine	20,330	5,613		5,735	213	936	32,827
Education	7,443	4,865		1,756	39	721	14,824
Engineering	21,576	19,431		7,261	231	1,835	50,334
Fine Arts	10,149	2,740		2,974	160	887	16,910
Law	12,393	2,442		3,909	137	79	18,960
Medicine	84,207	132,782		29,544	1,136	4,206	251,875
Nursing	8,903	6,242		2,282	60	797	18,284
Social Work	3,713	574		570	17	415	5,289
Veterinary Med	30,349	12,858		8,295	401	733	52,636
Wharton	56,518	43,806		13,937	402	3,704	118,367
TOTAL	**354,091**	**290,897**		**105,417**	**3,919**	**24,512**	**778,836**
RESOURCE CENTERS							
Annenberg Center	2,594	588		795	61		4,038
Inst of Contemp Art	796	326		251	36		1,409
Intercoll Athletics	7,240	607		2,023	111		9,981
Interdisciplinary	3,329	14,165		1,293	31	66	18,884
Library	18,716	3,420		6,459	345	(25,038)	3,902
Morris Arboretum	1,563	681		230	2		2,476
Museum	3,401	2,714		1,417	167	323	8,022
TOTAL	**37,639**	**22,501**		**12,468**	**753**	**(24,649)**	**48,712**
ADMIN. SERVICE CENTERS							
Student Services	20,962	1,552					22,514
Gen.Adm/Gen.Exp.	88,087	2,852		(71,276)			19,663
Operation & Maint	54,311			(54,311)			0
Space	5,570				(5,570)		0
TOTAL	**168,930**	**4,404**		**(125,587)**	**(5,570)**		**42,177**
GEN. U.RESOURCES	22,036						22,036
AUXILIARY ENTERPRISES							
Residences	27,349	1,633		1,878	454		31,314
Dining	12,708			338	124		13,170
Bookstore	23,242			233	9		23,484
Parking	5,281			313	48		5,642
TOTAL	**68,580**	**1,633**		**2,762**	**635**		**73,610**
UNRESTRICTED	651,276			(4,940)	(263)	(137)	645,936
TRANSFERS (FROM)	46,703			0	0	0	46,703
TOTAL	**604,573**			**(4,940)**	**(263)**	**(137)**	**599,233**
RESTRICTED		319,435					319,435
UNRSTR & RSTR	604,573	319,435	0	(4,940)	(263)	(137)	918,668
HEALTH SERVICES *							
HOSPITAL U OF P			588,383	3,823	252	137	592,595
TRANSFERS (TO)			(34,079)	0	0	0	(34,079)
SUBTOTAL			622,462	3,823	252	137	626,674
CLINICAL PRACTICES			213,376	1,117	11	0	214,504
TRANSFERS (TO)			(12,624)	0	0	0	(12,624)
SUBTOTAL			226,000	1,117	11	0	227,128
TOTAL			**848,462**	**4,940**	**263**	**137**	**853,802**
TOTAL UNIVERSITY	**604,573**	**319,435**	**848,462**	**0**	**0**	**0**	**1,772,470**

* **Footnote to Schedule C: Medical Center FY 94 Budget** According to GAAP for Universities
Separate detailed budgets for the School of Medicine (including the Clinical Practices of the University of Pennsylvania—CPUP) and the Hospital of the University of Pennsylvania (HUP) have been presented to the Medcical Center Trustees. The presentation at right combines the separate detailed budgets for purposes of displaying the total Medical Center enterprise. It is not intended to display a consolidated Medical Center Budget as certain intert-entity transactions have not been eliminated. The separate budgets for HUP and CPUP are presented in accordance with generally accepted accounting principles (GAAP) for universities.

Revenue (in 000s)	Academic	Hlth.Svcs.	Total
School of Medicine	$205,172	$211,322	$416,494
HUP	0	529,236	529,236
	205,172	740,558	945,730
Transfers	46,703	(46,703)	0
	251,875	693,85	945,730

Expenses (in 000s)		Academic	Hlth.Svcs.	Total
School of Medicine		251,875	214,504	466,379
HUP		0	592,595	592,595
		251,875	807,099	592,595
Net Change	School	0	(15,806)	(15,806)
	HUP	0	(97,438)	(97,438)
		$0	**($113,244)**	**($113,244)**