

The Pennsylvania State University
of the
Commonwealth System of Higher Education
University Park, Pennsylvania
Statement of Appropriations Earned

For The Fiscal Year Ended June 30, 2008



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Table of Contents

Introductory Section.....	2
The Pennsylvania State University	4
Financial Section.....	7
Independent Auditor’s Report.....	8
Statement of Appropriations Earned.....	10
Notes to the Financial Statement.....	12
1. Summary of Significant Accounting Policies.....	12
2. Basis for Reporting Appropriations Earned	12
Audit Adjustments.....	14
June 30, 2008, Audit Adjustments	15
Audit Report Distribution List.....	16

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Introductory Section

Introductory Section

March 8, 2010

The Honorable Edward Rendell and
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dr. Graham Spanier
President
The Pennsylvania State University
University Park, Pennsylvania 16802

Dear Governor Rendell and Dr. Spanier:

Enclosed is the independent auditor's report for the statement of appropriations earned for the Pennsylvania State University of the Commonwealth System of Higher Education for the fiscal year ended June 30, 2008. You will note that our opinion is dated February 22, 2010, which is the date that our audit work closed.

Sincerely,

JACK WAGNER
Auditor General

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Introductory Section

The Pennsylvania State University

In 1855, the Pennsylvania legislature chartered the school, which later became known as The Pennsylvania State University of the Commonwealth System of Higher Education. The Morrill Land Grant Act of 1862 allowed states to use public land for the endowment of institutions of higher learning. In 1863, the Pennsylvania legislature accepted the Morrill Land Grant Act and designated the school as the Agricultural College of Pennsylvania, the land-grant college of the Commonwealth of Pennsylvania. The college became The Pennsylvania State University in 1953.¹ Today, as part of the Commonwealth System of Higher Education, The Pennsylvania State University receives approximately 9 percent of its unrestricted fund revenues from the Commonwealth² and is one of four state-related universities.³

The university has a broad mission of teaching, research and public service.⁴ In meeting its mission, the university has evolved into an organization that includes or controls 15 academic colleges.⁵ According to management personnel from the university's Budget Office, the university offers studies in 375 baccalaureate, 123 associate, 239 master, 117 doctoral, one medical, and two law degree programs at the university's main campus in University Park, Pennsylvania and at the other campuses:

*Campuses*⁶

Penn State Abington	Penn State Hazleton
Penn State Altoona	Penn State Lehigh Valley
Penn State Beaver	Penn State Mont Alto
Penn State Berks	Penn State New Kensington
Penn State Brandywine	Penn State Schuylkill
Penn State Dubois	Penn State Shenango
Penn State Erie, the Behrend College	Penn State Wilkes-Barre
Penn State Fayette, The Eberly Campus	Penn State Worthington Scranton
Penn State Greater Allegheny	Penn State York
Penn State Harrisburg	

¹ <http://www.psu.edu/ur/about/historyshort.html>, accessed February 5, 2010.

² <http://www.controller.psu.edu/Divisions/ControllersOffice/docs/FinStmts/2008Finstmts.pdf>, accessed February 5, 2010.

³ <http://www.psu.edu/ur/about/mission.html>, accessed February 5, 2010.

⁴ Ibid.

⁵ <http://www.psu.edu/ur/cmpcoll.html>, accessed February 5, 2010.

⁶ Ibid.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Introductory Section

Colleges⁷

College of Agricultural Sciences	College of Information Sciences and Technology
College of Arts and Architecture	College of the Liberal Arts
Smeal College of Business	College of Medicine
College of Communications	School of Nursing ⁸
College of Earth and Mineral Sciences	Eberly College of Science
College of Education	Graduate School
College of Engineering	Schreyer Honors College
College of Health and Human Development	

The university also maintains the following Special Mission Units:⁹

- Penn State Great Valley
- School of Graduate Professional Studies
- Penn State Hershey Medical Center
- Pennsylvania College of Technology
- Penn State Dickinson School of Law
- Penn State School of International Affairs
- Penn State World Campus
- Division of Undergraduate Studies.

Control of the university is vested in a 32-member board of trustees that includes the Governor of the Commonwealth, the President of the university, and the Commonwealth's Secretary of Education, Secretary of Agriculture, and Secretary of Conservation and Natural Resources as ex officio members. For the remaining 27 board members, the Governor appoints six members; the board elects six members from business and industry; agricultural societies within the Commonwealth elect six members; and the alumni elect nine members. These 27 members serve three-year staggered terms.¹⁰ The board of trustees meets six times a year.¹¹

The university, as one of the four state-related universities, receives an annual appropriation from the Commonwealth. This annual appropriation is used to supplement the university's

⁷ <http://www.psu.edu/ur/cmppcoll.html>, accessed February 5, 2010.

⁸ The School of Nursing became an independent academic unit effective July 1, 2008.

⁹ <http://www.psu.edu/ur/cmppcoll.html>, accessed February 5, 2010.

¹⁰ <http://www.psu.edu/trustees/selection.html>, accessed February 5, 2010.

¹¹ <http://www.psu.edu/trustees/meetings.html>, accessed February 5, 2010.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Introductory Section

education and general program operations. The university received non-preferred appropriations amounting to \$334,230,000 for the fiscal year ended June 30, 2008.¹²

The Corporation for Penn State

The Corporation for Penn State is a non-profit corporation organized in 1985 to promote the interests of the university.¹³ At June 30, 2008, The Corporation for Penn State consisted of five non-profit and three for-profit subsidiary corporations:

- Ben Franklin Technology Center of Central and Northern Pennsylvania, Inc. (non-profit)
- Nittany Healthcare Systems, Inc. (for profit)
- Nittany Insurance Company (for-profit)
- Nittany Title Corporation (non-profit)
- Pennsylvania College of Technology (non-profit)
- Penn State Research Foundation (non-profit)
- Recycling Markets Center, Inc. (non-profit)
- Research Park Management Corporation (for-profit)

Enrollment Statistics

The university provided educational services for the 2005-06, 2006-07, and 2007-08 academic years, as follows:¹⁴

	2005-06	2006-07	2007-08
Full-time equivalent students			
Undergraduate	63,049	66,698	68,404
Graduate	<u>6,899</u>	<u>6,944</u>	<u>6,846</u>
Total	<u>69,948</u>	<u>73,642</u>	<u>75,250</u>
Full-time equivalent instructional faculty	4,239	4,248	4,314
Degrees conferred	15,512	15,521	15,312

¹² <http://www.controller.psu.edu/Divisions/ControllersOffice/docs/FinStmts/2008Finstmts.pdf>, accessed February 5, 2010.

¹³ Ibid.

¹⁴ <http://jsg.legis.state.pa.us/2009%20instructional%20output.pdf>, accessed February 8, 2010.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Financial Section

Financial Section

Independent Auditor's Report

The Honorable Edward Rendell and
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dr. Graham Spanier
President
The Pennsylvania State University
University Park, Pennsylvania 16802

Dear Governor Rendell and Dr. Spanier:

We have audited the accompanying statement of appropriations earned of The Pennsylvania State University of the Commonwealth System of Higher Education for the year ended June 30, 2008. The statement of appropriations earned is the responsibility of the university's management. Our responsibility is to express an opinion on the statement of appropriations earned based on our audit.

We conducted our audit in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States, which includes auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the statement of appropriations earned is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of appropriations earned. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of appropriations earned. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement was prepared to present the non-preferred appropriations earned pursuant to the legislative requirements prescribed in Act 10A of 2007, as discussed in Note 2, and is not intended to be a complete presentation of university's financial position or results of operations in conformity with accounting principles generally accepted in the United States of America.

The Honorable Edward Rendell
Dr. Graham Spanier
Page 2

In our opinion, the accompanying statement of appropriations earned presents fairly, in all material respects, the earned appropriations of The Pennsylvania State University of the Commonwealth System of Higher Education for the fiscal year ended June 30, 2008, pursuant to Act 10A of 2007, in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

JACK WAGNER
Auditor General

February 22, 2010

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Financial Section

The Pennsylvania State University
Statement of Appropriations Earned

June 30, 2008

	Education and General	Agricultural Research	Agricultural Extension Services	Disadvantaged Students
<u>Computation of Eligible Costs</u>				
Instruction	\$ 645,803,013	\$ 0	\$ 0	\$ 0
Organized Research	100,925,118	29,018,987	0	0
Public Service	40,676,298	0	25,233,969	0
Academic Support	201,284,365	10,575,987	5,082,530	0
Student Services	104,657,822	0	0	4,487,298
Institutional Support	170,071,889	8,295,845	3,986,756	0
Plant Operation/Maintenance	147,320,532	7,299,825	0	0
Student Aid	<u>43,351,106</u>	<u>0</u>	<u>0</u>	<u>4,066,873</u>
Total Unrestricted Expenses	\$1,454,090,143	\$55,190,644	\$34,303,255	\$8,554,171
Mandatory Transfers	414,611	0	0	0
Retirement of Indebtedness	0	0	0	0
Other Unrestricted Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Eligible Costs	<u>\$1,454,504,754</u>	<u>\$55,190,644</u>	<u>\$34,303,255</u>	<u>\$8,554,171</u>
<u>Computation of Appropriations Earned</u>				
Reported Costs	\$1,454,504,754	\$55,190,644	\$34,303,255	\$8,554,171
Less Audit Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Eligible Costs	<u>\$1,454,504,754</u>	<u>\$55,190,644</u>	<u>\$34,303,255</u>	<u>\$8,554,171</u>
Maximum Appropriations (Note 2)	<u>\$ 260,519,000</u>	<u>\$26,779,000</u>	<u>\$31,781,000</u>	<u>\$ 457,000</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$ 260,519,000</u>	<u>\$26,779,000</u>	<u>\$31,781,000</u>	<u>\$ 457,000</u>

Notes to the Statement of Appropriations Earned are an integral part of this report.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Financial Section

The Pennsylvania State University
Statement of Appropriations Earned
June 30, 2008

	Penn College Operations	Penn College Debt Service
<u>Computation of Eligible Costs</u>		
Instruction	\$26,337,970	\$ 0
Organized Research	0	0
Public Service	0	0
Academic Support	13,231,472	0
Student Services	4,714,401	0
Institutional Support	29,446,142	0
Plant Operation/Maintenance	9,250,912	0
Student Aid	<u>152,572</u>	<u>0</u>
Total Unrestricted Expenses	\$83,133,469	\$ 0
Mandatory Transfers	7,344,426	0
Retirement of Indebtedness	0	10,658,537
Other Unrestricted Costs	<u>0</u>	<u>0</u>
Eligible Costs	<u>\$90,477,895</u>	<u>\$10,658,537</u>
<u>Computation of Appropriations Earned</u>		
Reported Costs	\$90,477,895	\$10,658,537
Less Audit Adjustments	<u>0</u>	<u>0</u>
Total Eligible Costs	<u>\$90,477,895</u>	<u>\$10,658,537</u>
Maximum Appropriations (Note 2)	<u>\$13,274,000</u>	<u>\$1,420,000</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$13,274,000</u>	<u>\$1,420,000</u>

Notes to the Statement of Appropriations Earned are an integral part of this report.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Financial Section

Notes to the Financial Statement

1. Summary of Significant Accounting Policies

The Pennsylvania State University of the Commonwealth System of Higher Education follows the recommendations for accounting and reporting included in the *Audit and Accounting Guide for Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants. In addition, the university uses the descriptions and classifications of unrestricted expenditures and transfers identified in Part 5 of the *College and University Business Administration's Administrative Service* published by the National Association of College and University Business Officers.

Fund Accounting. The university has not altered the way in which it administers its various funds, which include unrestricted, restricted, research, student loan, endowment, and plant funds, and will continue to maintain its accounts in accordance with the principles of fund accounting. This is the method by which resources are classified for accounting purposes into funds that are grouped in accordance with specified activities or objectives. Separate accounts are maintained for each fund, and funds with similar characteristics are combined into fund groups. The annual appropriations from the Commonwealth are primarily classified as unrestricted funds.

Accrual Basis. The statement of appropriations earned has been prepared on the accrual basis of accounting. Under this system, revenues are recorded when earned and expenses are recognized when incurred.

2. Basis for Reporting Appropriations Earned

The statement of appropriations earned has been prepared in accordance with the requirements of Act 10A of 2007. The appropriations are made on the basis of costs incurred; however, transfers between categories may be made if the amount transferred does not exceed five percent of the amount appropriated to the original category.

Reimbursable costs include unrestricted current fund direct and indirect expenses and mandatory transfers attributable to the applicable program. The respective

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Financial Section

appropriations are considered earned when reimbursable costs equal or exceed the amounts appropriated by the Commonwealth.

Act 10A of 2007 provided appropriations of \$334,230,000 to the university for the fiscal year ended June 30, 2008. The specific appropriations for the university were allocated in the following categories and amounts:

Appropriation Category	State Appropriation	Internal Transfer	Final Allocation
Education and General	\$263,499,000	\$(11,361,700)	\$252,137,300
Medical Education		8,381,700	8,381,700
Agricultural Research	25,595,000	1,184,000	26,779,000
Agricultural Extension Services	30,384,000	1,397,000	31,781,000
Recruitment and Retention of Disadvantaged Students	454,000	3,000	457,000
Penn College of Technology	12,909,000	365,000	13,274,000
Debt Service Related to Former Williamsport Area Community College	<u>1,389,000</u>	<u>31,000</u>	<u>1,420,000</u>
Total Appropriations	<u>\$334,230,000</u>	<u>\$ 0</u>	<u>\$334,230,000</u>

Medical Education is included in Education and General. The university moved funds to this area as part of the internal transfers.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Audit Adjustments

Audit Adjustments

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Audit Adjustments

The university's annual appropriation from the Pennsylvania General Assembly provides the Auditor General with the right, with respect to the monies appropriated by the Commonwealth, to audit and disallow expenditures made for the purposes inconsistent with the appropriation. Testing of university expenditures for the fiscal year ended June 30, 2008, consisted of selecting a sample of 93 transactions totaling \$80,936 to determine if expenditures were incurred to support the stated purpose of the appropriation.

June 30, 2008, Audit Adjustments

No exceptions were noted in the sample of 93 transactions totaling \$80,936.

The Pennsylvania State University
Statement of Appropriations Earned
For the Fiscal Year Ended June 30, 2008

Audit Report Distribution List

Audit Report Distribution List

The Honorable Edward G. Rendell
Governor

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Senate of Pennsylvania

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Senate of Pennsylvania

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Dr. Graham Spanier
President

Joseph J. Doncsecz
Corporate Controller

Board of Trustees

This report is a matter of public record and is accessible at www.auditorgen.state.pa.us or by contacting the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. Telephone: 717-787-1381.