

**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, 2007**





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**Introductory Section**

August 7, 2008

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

and 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 of The Pennsylvania State University of the Commonwealth System of Higher Education for the fiscal year ended June 30, 2007. You will note that our opinion is dated June 18, 2008, which is the date that our audit work ended.

Sincerely,

**JACK WAGNER**  
Auditor General



**The Pennsylvania State University**

The Pennsylvania Legislature chartered the school, which later became known as The Pennsylvania State University of the Commonwealth System of Higher Education in 1855. On April 1, 1863, the State Legislature, accepting the provisions of the Morrill Land Grant Act of 1862, which allowed states to use free public land for the endowment of institutions of higher learning, designated the school as the Agricultural College of Pennsylvania, the land-grant college of the Commonwealth of Pennsylvania. This act established the University as a state institution whose physical plant is public state property and activities are defined by the State Constitution or by the statutes enacted by the State Legislature. The college became The Pennsylvania State University in 1953. 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 Commonwealth and is one of four state-related universities.

The University has a broad mission of teaching, research, and public service. In meeting its mission, the University has evolved into an organization that includes or controls 13 academic colleges and offers studies in 364 baccalaureate, 120 associate, 223 master, and 109 doctoral degree programs at the University's main campus in University Park, Pennsylvania and at the other campuses:

**Campuses<sup>1</sup>**

Penn State Abington	Penn State Hazleton
Penn State Altoona	Penn State Lehigh Valley
Penn State Berks	Penn State Mont Alto
Penn State Beaver	Penn State New Kensington
Penn State Brandywine <sup>2</sup>	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	

**Colleges<sup>3</sup>**

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

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<sup>1</sup> Information obtained on May 5, 2008, from Penn State Web site:[www.psu.edu/ur/cmpcoll.html](http://www.psu.edu/ur/cmpcoll.html).

<sup>2</sup> Previously Penn State Delaware County, the Board of Trustees of The Pennsylvania State University approved the name change on November 2, 2007.

<sup>3</sup> Information obtained on May 5, 2008, from Penn State Web site:[www.psu.edu/ur/cmpcoll.html](http://www.psu.edu/ur/cmpcoll.html).

## *Introductory Section*

The University also maintains the following Special Mission Units:<sup>4</sup>

- Penn State Great Valley School of Graduate Professional Studies.
- Penn State Hershey College of Medicine.
- Penn State Hershey Medical Center.
- Pennsylvania College of Technology.
- Penn State School of International Affairs (opened July 1, 2007).
- Penn State Dickinson School of Law.
- Penn State World Campus – global online access to a Penn State education.
- 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. Of the remaining 27 board members, the Governor appoints six members and a non-voting representative, the Board elects six members from business and industry, further delegates from agricultural societies elect six and the alumni elect nine. These 27 members serve three-year staggered terms. The board of trustees meets six times a year.

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 education and general program operations. The University received non-preferred appropriations amounting to \$327,715,000 for the fiscal year ended June 30, 2007.

### *The Corporation for Penn State*

The Corporation for Penn State is a non-profit corporation established to promote the interests of the University. This is accomplished through the Corporation itself or through its controlled corporations and affiliates. At June 30, 2007, the Corporation 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)
- Pennsylvania State Research Foundation (non-profit)
- Recycling Markets Center, Inc. (non-profit)
- Research Park Management Corporation (for-profit)

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<sup>4</sup> Ibid.

**Introductory Section**

Enrollment Statistics	2004-05 <sup>5</sup>	2005-06 <sup>6</sup>	2006-07 <sup>7</sup>
Full-Time Equivalent Students (FTE's):			
Penn State University:			
Undergraduate	63,515	63,049	66,698
Graduate	<u>7,168</u>	<u>6,899</u>	<u>6,944</u>
Total FTE's	<u>70,683</u>	<u>69,948</u>	<u>73,642</u>
Full-Time Equivalent Instructional Faculty:			
Penn State University	4,238	4,239	4,248
Degrees Conferred:			
Penn State University	15,746	15,514	15,822

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<sup>5</sup> Source: Joint State Government Commission, "Instructional Output and Faculty Salary Costs of the State-Related and State-Owned Universities," January 2006.

<sup>6</sup> Source: Joint State Government Commission, "Instructional Output and Faculty Salary Costs of the State-Related and State-Owned Universities," February 2007.

<sup>7</sup> Source: Joint State Government Commission, "Instructional Output and Faculty Salary Costs of the State-Related and State-Owned Universities," February 2008.



**Financial Section**

## Independent Auditor's Report

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

and 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 fiscal year ended June 30, 2007. The statement of appropriations 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 pursuant to the legislative requirements of Act 10A of 2006, as discussed in Note 2, and is not intended to be a presentation of The Pennsylvania State University of the Commonwealth System of Higher Education's financial position or results of operations in conformity with accounting principles generally accepted in the United States of America.

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, 2007, pursuant to Act 10A of 2006, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Commonwealth of Pennsylvania and The Pennsylvania State University of the Commonwealth System of Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

**JACK WAGNER**  
Auditor General

June 18, 2008

**Financial Section**

**The Pennsylvania State University  
Statement of Appropriations Earned**

**June 30, 2007**

	<b>Education and General</b>	<b>Agricultural Research</b>	<b>Agricultural Extension Services</b>	<b>Disadvantaged Students</b>
<b><u>Computation of Eligible Costs</u></b>				
Instruction	\$ 584,425,650	\$ 0	\$ 0	\$ 0
Organized Research	89,138,824	27,844,731	0	0
Public Service	30,338,320	0	25,087,830	0
Academic Support	184,508,696	9,702,742	5,498,419	0
Student Services	94,496,530	0	0	4,204,019
Institutional Support	152,877,253	7,452,173	4,223,051	0
Plant Operation/ Maintenance	146,261,827	7,359,218	0	0
Student Aid	<u>39,733,643</u>	<u>0</u>	<u>0</u>	<u>4,083,943</u>
Total Unrestricted Expenses	\$1,321,780,743	\$52,358,864	\$34,809,300	\$8,287,962
Mandatory Transfers	777,275	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>\$1,322,558,018</u>	<u>\$52,358,864</u>	<u>\$34,809,300</u>	<u>\$8,287,962</u>
<b><u>Computation of Appropriations Earned</u></b>				
Reported Costs	\$1,322,558,018	\$52,358,864	\$34,809,300	\$8,287,962
Less Audit Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Eligible Costs	<u>\$1,322,558,018</u>	<u>\$52,358,864</u>	<u>\$34,809,300</u>	<u>\$8,287,962</u>
Maximum Appropriations (Note 2)	<u>\$ 255,352,000</u>	<u>\$26,278,000</u>	<u>\$31,184,000</u>	<u>\$ 457,000</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$ 255,352,000</u>	<u>\$26,278,000</u>	<u>\$31,184,000</u>	<u>\$ 457,000</u>

Notes to the financial statement are an integral part of this report.



The Pennsylvania State University  
Statement of Appropriations Earned

June 30, 2007

	Penn College Operations	Penn College Debt Service
<u>Computation of Eligible Costs</u>		
Instruction	\$31,216,970	\$ 0
Organized Research	0	0
Public Service	0	0
Academic Support	6,275,459	0
Student Services	4,448,037	0
Institutional Support	27,292,583	0
Plant Operation/ Maintenance	8,544,555	0
Student Aid	<u>223,259</u>	<u>0</u>
Total Unrestricted Expenses	\$78,000,863	\$ 0
Mandatory Transfers	6,753,795	0
Retirement of Indebtedness	0	9,926,991
Other Unrestricted Costs	<u>0</u>	<u>0</u>
Eligible Costs	<u>\$84,754,658</u>	<u>\$9,926,991</u>
<u>Computation of Appropriations Earned</u>		
Reported Costs	\$84,754,658	\$9,926,991
Less Audit Adjustments	<u>0</u>	<u>0</u>
Total Eligible Costs	<u>\$84,754,658</u>	<u>\$9,926,991</u>
Maximum Appropriations (Note 2)	<u>\$13,024,000</u>	<u>\$1,420,000</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$13,024,000</u>	<u>\$1,420,000</u>

Notes to the financial statement are an integral part of this report.

## **Financial Section**

### **Notes to the Statement of Appropriations Earned**

#### **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 *Industry Audit 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 fund, and will continue to maintain its accounts in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds that are 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 classified as unrestricted funds.

##### **Accrual Basis:**

The accounts in the Statement of Appropriations Earned are recorded on the accrual basis of accounting. Under this method, 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 2006. Reimbursable costs include unrestricted current fund direct and indirect expenses and transfers attributable to the applicable program. The respective appropriations are considered earned when reimbursable costs equal or exceed the amounts appropriated by the Commonwealth.

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.

## *Financial Section*

Act 10A of 2006 provided for appropriations of \$327,715,000 to the University for the fiscal year ended June 30, 2007. The specific appropriations for The Pennsylvania State University were allocated into the following categories and amounts:

Appropriation Category	State Appropriation	Internal Transfer	Final Allocation
Education and General	\$258,332,000	\$(9,359,600)	\$248,972,400
Medical Education		6,168,600	6,168,600
Central Pennsylvania Psychiatric Institute		58,000	58,000
Children's Hospital		153,000	153,000
Agricultural Research	25,094,000	1,184,000	26,278,000
Agricultural Extension Services	29,787,000	1,397,000	31,184,000
Recruitment and Retention of Disadvantaged Students	454,000	3,000	457,000
Penn College of Technology	12,659,000	365,000	13,024,000
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>\$327,715,000</u>	<u>\$ 0</u>	<u>\$327,715,000</u>

Medical Education, Central Pennsylvania Psychiatric Institute, and Children's Hospital are included in Education and General. The University moved funds to these areas as part of their internal transfer.



**Audit Adjustments**

## **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 purposes inconsistent with the appropriation. Testing of University expenditures for the fiscal year ended June 30, 2007, consisted of selecting a sample of 42 invoices totaling \$4,111,059 to determine if expenditures were incurred to support the stated purpose of the appropriation.

### **June 30, 2007, Audit Adjustments**

No exceptions were noted in the sample of 42 invoices totaling \$4,111,059.

## *Audit Report Distribution List*

This report was initially distributed to the following:

### Commonwealth of Pennsylvania

The Honorable Edward G. Rendell  
Governor

The Honorable James J. Rhoades  
Chair  
Senate Education Committee  
Senate of Pennsylvania

The Honorable Raphael J. Musto  
Democratic Chair  
Senate Education Committee  
Senate of Pennsylvania

The Honorable James R. Roebuck, Jr.  
Chair  
House Education Committee  
Pennsylvania House of Representatives

The Honorable Jess M. Stairs  
Republican Chair  
House Education Committee  
Pennsylvania House of Representatives

The Honorable Gibson E. Armstrong  
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Services  
Office of the Budget

The Pennsylvania State University  
Dr. Graham B. Spanier  
President

Joseph J. Doncsecz  
Corporate Controller

Board of Trustees

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our Web site at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us)