

**The Pennsylvania State University**  
**of the**  
**Commonwealth System of Higher Education**  
**University Park, Pennsylvania**  
**Non-Preferred Appropriations**

**For The Fiscal Year Ended June 30, 2009**





**The Pennsylvania State University  
of the  
Commonwealth System of Higher Education  
University Park, Pennsylvania  
Non-Preferred Appropriations**

**For The Fiscal Year Ended June 30, 2009**



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**Introductory Section**

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**Introductory Section**

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May 18, 2011

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

and

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

Dear Governor Corbett and Dr. Spanier:

Enclosed is the independent auditor's report for the statement of non-preferred appropriations earned for the Pennsylvania State University of the Commonwealth System of Higher Education for the fiscal year ended June 30, 2009. You will note that our opinion is dated April 4, 2011, which is the date that our audit work closed.

Sincerely,

**JACK WAGNER**  
Auditor General

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**Introductory Section**

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**The Pennsylvania State University**

In 1855, the Pennsylvania legislature chartered the school that 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.<sup>1</sup> Today, as part of the Commonwealth System of Higher Education, The Pennsylvania State University receives approximately 8 percent of its unrestricted fund revenues from the Commonwealth<sup>2</sup> and is one of four state-related universities.<sup>3</sup>

The university has a broad mission of teaching, research and public service.<sup>4</sup> In meeting its mission, the university has evolved into an organization that includes or controls 15 academic colleges.<sup>5</sup> According to management personnel from the university's Budget Office, the university offers studies in 383 baccalaureate, 123 associate, 237 master, 118 doctoral, one medical, and two law degree programs at the university's main campus in University Park, Pennsylvania and at the other campuses:

*Campuses*<sup>6</sup>

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	

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<sup>1</sup> <http://www.psu.edu/ur/about/historyshort.html>, accessed March 3, 2011.

<sup>2</sup> <http://www.controller.psu.edu/Divisions/ControllersOffice/docs/FinStmts/2009Finstmts.pdf>, accessed March 3, 2011.

<sup>3</sup> <http://www.psu.edu/ur/about/mission.html>, accessed March 3, 2011.

<sup>4</sup> Ibid.

<sup>5</sup> <http://www.psu.edu/ur/cmpcoll.html>, accessed November 16, 2010.

<sup>6</sup> Ibid.



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*Colleges<sup>7</sup>*

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
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:<sup>8</sup>

- 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.<sup>9</sup> The board of trustees meets six times a year.<sup>10</sup>

The university, as one of the four state-related universities, receives annual non-preferred appropriations from the Commonwealth. The annual non-preferred appropriations are used

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<sup>7</sup> <http://www.psu.edu/ur/cmppcoll.html>, accessed November 16, 2010.

<sup>8</sup> Ibid.

<sup>9</sup> <http://www.psu.edu/trustees/selection.html>, accessed March 3, 2011.

<sup>10</sup> <http://www.psu.edu/trustees/meetings.html>, accessed November 8, 2010.

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**Introductory Section**

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to supplement the university's education and general program operations. The university received non-preferred appropriations amounting to \$318,072,500 for the fiscal year ended June 30, 2009.<sup>11</sup>

*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.<sup>12</sup> At June 30, 2009, 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)
- Penn State Hershey Health System, 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)

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<sup>11</sup> <http://www.controller.psu.edu/Divisions/ControllersOffice/docs/FinStmts/2009Finstmts.pdf>, accessed March 3, 2011.

<sup>12</sup> Ibid.

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**Introductory Section**

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*Enrollment Statistics*

The university provided educational services for the 2006-07, 2007-08, and 2008-09 academic years, as follows:<sup>13</sup>

	2006-07	2007-08	2008-09
Full-time equivalent students			
Undergraduate	66,698	68,404	70,584
Graduate	<u>6,944</u>	<u>6,846</u>	<u>7,590</u>
Total	<u>73,642</u>	<u>75,250</u>	<u>78,174</u>
Full-time equivalent instructional faculty	4,248	4,314	4,377
Degrees conferred	15,521	15,312	15,898

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<sup>13</sup> <http://jsg.legis.state.pa.us/resources/documents/ftp/publications/2010-16-2010%20INSTRUCTIONAL%20OUTPUT.pdf>, accessed March 4, 2011.

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**Financial Section**

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**Financial Section**

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## **Independent Auditor's Report**

The Honorable Tom Corbett            and  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

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

Dear Governor Corbett and Dr. Spanier:

We have audited the accompanying statement of non-preferred appropriations earned of The Pennsylvania State University of the Commonwealth System of Higher Education for the year ended June 30, 2009. The statement of non-preferred appropriations earned is the responsibility of the university's management. Our responsibility is to express an opinion on the statement of non-preferred appropriations earned based on our audit.

We conducted our audit in accordance with auditing principles generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the statement of non-preferred 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 non-preferred 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 non-preferred appropriations earned. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying statement of non-preferred appropriations earned was prepared pursuant to the legislative requirements prescribed in Act 7A of 2008. The statement of non-preferred appropriations earned is not intended to present fairly in conformity with accounting principles generally accepted in the United States of America the entire financial position of The Pennsylvania State University of the Commonwealth System of Higher Education and the results of its operations.

The Honorable Tom Corbett  
Dr. Graham Spanier  
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In our opinion, the accompanying statement of non-preferred appropriations earned presents fairly, in all material respects, the non-preferred appropriations of The Pennsylvania State University of the Commonwealth System of Higher Education for the fiscal year ended June 30, 2009, pursuant to Act 7A of 2008, in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

**JACK WAGNER**  
Auditor General

April 4, 2011

May 2011  
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**Financial Section**

**The Pennsylvania State University**  
**Statement of Non-Preferred Appropriations Earned**

**June 30, 2009**

	Education and General	Agricultural Research	Agricultural Extension Services	Disadvantaged Students
<u>Computation of Eligible Costs</u>				
Instruction	\$ 704,176,459	\$ 0	\$ 0	\$ 0
Organized Research	105,352,854	32,172,971	0	0
Public Service	33,235,191	0	24,892,626	0
Academic Support	229,685,344	12,037,658	5,435,650	0
Student Services	117,394,559	0	0	4,595,314
Institutional Support	170,346,424	8,266,507	3,732,773	0
Plant Operation/Maintenance	146,186,480	7,172,319	0	0
Student Aid	<u>46,914,679</u>	<u>0</u>	<u>0</u>	<u>4,121,657</u>
Total Unrestricted Expenses	<u>\$1,553,291,990</u>	<u>\$59,649,455</u>	<u>\$34,061,049</u>	<u>\$8,716,971</u>
Mandatory Transfers	454,303	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>\$1,553,746,293</u>	<u>\$59,649,455</u>	<u>\$34,061,049</u>	<u>\$8,716,971</u>
<u>Computation of Appropriations Earned</u>				
Reported Costs	\$1,553,746,293	\$59,649,455	\$34,061,049	\$8,716,971
Less Audit Adjustments	0	0	0	0
Total Eligible Costs	<u>\$1,553,746,293</u>	<u>\$59,649,455</u>	<u>\$34,061,049</u>	<u>\$8,716,971</u>
Maximum Appropriations (Note 2)	<u>\$ 248,423,940</u>	<u>\$25,242,360</u>	<u>\$29,957,960</u>	<u>\$ 429,760</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$ 248,423,940</u>	<u>\$25,242,360</u>	<u>\$29,957,960</u>	<u>\$ 429,760</u>

**Notes to the Statement of Non-Preferred Appropriations Earned are an integral part of this report.**

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**June 30, 2009**

	Penn College Operations	Penn College Debt Service
<u>Computation of Eligible Costs</u>		
Instruction	\$26,759,374	\$ 0
Organized Research	0	0
Public Service	0	0
Academic Support	13,638,681	0
Student Services	5,333,222	0
Institutional Support	31,135,521	0
Plant Operation/Maintenance	9,178,419	0
Student Aid	<u>463,957</u>	<u>0</u>
Total Unrestricted Expenses	\$86,509,174	\$ 0
Mandatory Transfers	7,625,976	0
Retirement of Indebtedness	0	12,022,340
Other Unrestricted Costs	<u>0</u>	<u>0</u>
Eligible Costs	<u>\$94,135,150</u>	<u>\$12,022,340</u>
<u>Computation of Appropriations Earned</u>		
Reported Costs	\$94,135,150	\$12,022,340
Less Audit Adjustments	<u>0</u>	<u>0</u>
Total Eligible Costs	<u>\$94,135,150</u>	<u>\$12,022,340</u>
Maximum Appropriations (Note 2)	<u>\$12,681,820</u>	<u>\$1,336,660</u>
Appropriations Earned (Lesser of Eligible Costs or Maximum Appropriation)	<u>\$12,681,820</u>	<u>\$1,336,660</u>

**Notes to the Statement of Non-Preferred Appropriations Earned are an integral part of this report.**



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**Financial Section**

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**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 non-preferred 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 non-preferred appropriations earned has been prepared in accordance with the requirements of Act 7A of 2008. The non-preferred 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.

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Reimbursable costs include unrestricted current fund direct and indirect expenses and mandatory transfers attributable to the applicable program. The respective non-preferred appropriations are considered earned when reimbursable costs equal or exceed the amounts appropriated by the Commonwealth.

Act 7A of 2008 provided non-preferred appropriations of \$318,072,500 to the university for the fiscal year ended June 30, 2009. The specific non-preferred appropriations for the university were allocated in the following categories and amounts:

Non-Preferred Appropriation Category	Non-Preferred Appropriation	Internal Transfer	Final Allocation
Education and General	\$251,403,940	\$(14,035,000)	\$237,368,940
Medical Education		11,055,000	11,055,000
Agricultural Research	24,058,360	1,184,000	25,242,360
Agricultural Extension Services	28,560,960	1,397,000	29,957,960
Recruitment and Retention of Disadvantaged Students	426,760	3,000	429,760
Penn College of Technology	12,316,820	365,000	12,681,820
Debt Service Related to Former Williamsport Area Community College	<u>1,305,660</u>	<u>31,000</u>	<u>1,336,660</u>
<b>Total Appropriations</b>	<b><u>\$318,072,500</u></b>	<b><u>\$ 0</u></b>	<b><u>\$318,072,500</u></b>

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

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**Audit Adjustments**

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**Audit Adjustments**

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**Audit Adjustments**

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The university's annual non-preferred 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, 2009, consisted of selecting a sample of 100 transactions, including 97 transactions totaling \$277,073,467 and three closing entries totaling (\$2,780,317,628), to determine if expenditures were incurred to support the stated purpose of the non-preferred appropriation.

**June 30, 2009, Audit Adjustments**

No exceptions were noted in the sample of 100 transactions.

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**Audit Report Distribution List**

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**Audit Report Distribution List**

The Honorable Tom Corbett  
Governor

The Honorable Robert M. McCord  
State Treasurer  
Pennsylvania Treasury Department

The Honorable Ronald J. Tomalis  
Secretary of Education  
Pennsylvania Department of Education

John Kaschak  
Director of Audits  
Office of Comptroller Operations  
Office of the Budget

**The Pennsylvania State University**  
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](http://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.*