

PENNS^TATE



**Reports on the Audit of
Federal Award Programs
In Accordance with OMB Circular A-133**

The Pennsylvania State University
Fiscal Year Ended June 30, 2007

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Federal Award Programs
In Accordance with OMB Circular A-133**

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Fiscal Year Ended June 30, 2007

University Park, Pennsylvania

THE PENNSYLVANIA STATE UNIVERSITY
REPORTS ON THE AUDIT OF
FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133
FISCAL YEAR ENDED JUNE 30, 2007

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Joseph J. Doncsecz
Corporate Controller

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March 31, 2008

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

To Whom It May Concern:

The Pennsylvania State University's financial, internal control and compliance reports for the fiscal year ended June 30, 2007 are presented on the accompanying pages. The reports have been issued in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. Also enclosed are The Pennsylvania State University's corrective action plan and summary schedule of prior audit findings.

Sincerely,



Joseph J. Doncsecz
Corporate Controller

JJD:vad

Enclosures

Audited Financial Statements

**The Pennsylvania State University
Fiscal Year Ended June 30, 2007**

University Park, Pennsylvania

INDEPENDENT AUDITORS' REPORT

To The Board of Trustees of
The Pennsylvania State University

We have audited the accompanying statements of financial position of The Pennsylvania State University (the "University") as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, during the year ended June 30, 2007, the University adopted Statement of Financial Account Standard ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". As discussed in Note 2, during the year ended June 30, 2006, the University adopted Financial Accounting Standards Board Interpretation ("FIN") No. 47, "Accounting for Conditional Asset Retirements Obligations".

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University, as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the University, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the University. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 28, 2007

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
ASSETS
JUNE 30, 2007 AND 2006
(in thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current assets:		
Cash and cash equivalents - in short-term operating portfolios	\$ 622,875	\$ 428,798
Cash and cash equivalents - in operating investment portfolios	59,978	36,719
Deposits	21,104	18,121
Accounts receivable, net of allowances of \$24,139 and \$19,599	333,058	305,601
Contributions receivable, net	42,456	37,774
Loans to students, net of allowances of \$4,886 and \$5,008	11,305	11,075
Inventories	27,916	27,093
Prepaid expenses and other assets	48,857	44,609
Investments held under securities lending program	<u>309,682</u>	<u>220,032</u>
Total current assets	<u>1,477,231</u>	<u>1,129,822</u>
Noncurrent assets:		
Deposits held by bond trustees	18,268	18,625
Contributions receivable, net	91,863	72,666
Loans to students, net of allowances of \$12,564 and \$12,262	28,793	27,111
Deferred bond costs	5,106	5,606
Total investment in plant, net	2,552,935	2,426,556
Beneficial interest in perpetual trusts	17,078	15,676
Investments	<u>3,066,165</u>	<u>2,606,418</u>
Total noncurrent assets	<u>5,780,208</u>	<u>5,172,658</u>
Total assets	<u>\$ 7,257,439</u>	<u>\$ 6,302,480</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
LIABILITIES AND NET ASSETS
JUNE 30, 2007 AND 2006
(in thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Current liabilities:		
Accounts payable and other accrued expenses	\$ 348,112	\$ 347,576
Deferred revenue	193,148	165,293
Long-term debt	50,937	47,590
Present value of annuities payable	5,282	4,691
Accrued postretirement benefits	28,944	28,036
Liability under securities lending program	<u>309,682</u>	<u>220,032</u>
Total current liabilities	<u>936,105</u>	<u>813,218</u>
Noncurrent liabilities:		
Deposits held in custody for others	34,088	31,864
Deferred revenue	22,396	841
Long-term debt	860,569	773,610
Present value of annuities payable	36,907	32,106
Accrued postretirement benefits	805,618	658,909
Refundable United States Government student loans	32,894	33,104
Other liabilities	<u>124,499</u>	<u>117,482</u>
Total noncurrent liabilities	<u>1,916,971</u>	<u>1,647,916</u>
Total liabilities	<u>2,853,076</u>	<u>2,461,134</u>
Net assets:		
Unrestricted -		
Undesignated	950	938
Designated for specific purposes	1,453,003	1,215,547
Net investment in plant	<u>1,524,097</u>	<u>1,463,639</u>
Total unrestricted	2,978,050	2,680,124
Temporarily restricted	587,469	400,361
Permanently restricted	<u>838,844</u>	<u>760,861</u>
Total net assets	<u>4,404,363</u>	<u>3,841,346</u>
Total liabilities and net assets	<u>\$ 7,257,439</u>	<u>\$ 6,302,480</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Tuition and fees, net of discounts of \$91,906	\$ 1,057,691	\$ -	\$ -	\$ 1,057,691
Commonwealth of Pennsylvania -				
Appropriations	327,715	-	-	327,715
Special contracts	108,448	-	-	108,448
Department of General Services projects	7,688	-	-	7,688
United States Government grants and contracts	360,026	-	-	360,026
Private gifts, grants and contracts	197,160	38,455	75,218	310,833
Endowment income, net	116,526	163,911	10,472	290,909
Other investment income, net	127,615	11,416	153	139,184
Sales and services of educational activities	40,599	-	-	40,599
Recovery of indirect costs	109,634	-	-	109,634
Auxiliary enterprises	291,773	-	-	291,773
Hospital operations	832,328	-	-	832,328
Other sources	16,339	1,091	1,412	18,842
Net assets released from restrictions	<u>26,394</u>	<u>(26,394)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>3,619,936</u>	<u>188,479</u>	<u>87,255</u>	<u>3,895,670</u>
Expenses and losses:				
Educational and general -				
Instruction	826,097	-	-	826,097
Research	625,519	-	-	625,519
Public service	79,035	-	-	79,035
Academic support	261,816	-	-	261,816
Student services	121,785	-	-	121,785
Institutional support	<u>225,420</u>	<u>-</u>	<u>-</u>	<u>225,420</u>
Total educational and general	2,139,672	-	-	2,139,672
Auxiliary enterprises	267,671	-	-	267,671
Hospital operations	806,062	-	-	806,062
Write-offs and disposals of assets	5,004	-	-	5,004
Actuarial adjustment on annuities payable	<u>-</u>	<u>1,371</u>	<u>9,272</u>	<u>10,643</u>
Total expenses and losses	<u>3,218,409</u>	<u>1,371</u>	<u>9,272</u>	<u>3,229,052</u>
Increase in net assets before cumulative effect	401,527	187,108	77,983	666,618
Cumulative effect of adoption of new accounting principle	<u>(103,601)</u>	<u>-</u>	<u>-</u>	<u>(103,601)</u>
Increase in net assets	297,926	187,108	77,983	563,017
 Net assets at the beginning of the year	<u>2,680,124</u>	<u>400,361</u>	<u>760,861</u>	<u>3,841,346</u>
 Net assets at the end of the year	<u>\$ 2,978,050</u>	<u>\$ 587,469</u>	<u>\$ 838,844</u>	<u>\$ 4,404,363</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Tuition and fees, net of discounts of \$87,784	\$ 949,774	\$ -	\$ -	\$ 949,774
Commonwealth of Pennsylvania -				
Appropriations	312,026	-	-	312,026
Special contracts	102,279	-	-	102,279
Department of General Services projects	43,776	-	-	43,776
United States Government grants and contracts	355,396	-	-	355,396
Private gifts, grants and contracts	187,748	26,942	41,307	255,997
Endowment income, net	75,178	64,751	10,158	150,087
Other investment income, net	45,626	4,592	197	50,415
Sales and services of educational activities	40,427	-	-	40,427
Recovery of indirect costs	106,975	-	-	106,975
Auxiliary enterprises	272,703	-	-	272,703
Hospital operations	753,704	-	-	753,704
Other sources	18,280	365	276	18,921
Net assets released from restrictions	<u>23,628</u>	<u>(23,628)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>3,287,520</u>	<u>73,022</u>	<u>51,938</u>	<u>3,412,480</u>
Expenses and losses:				
Educational and general -				
Instruction	807,442	-	-	807,442
Research	616,707	-	-	616,707
Public service	74,148	-	-	74,148
Academic support	266,168	-	-	266,168
Student services	113,785	-	-	113,785
Institutional support	<u>229,027</u>	<u>-</u>	<u>-</u>	<u>229,027</u>
Total educational and general	2,107,277	-	-	2,107,277
Auxiliary enterprises	254,698	-	-	254,698
Hospital operations	719,097	-	-	719,097
Write-offs and disposals of assets	4,563	-	-	4,563
Actuarial adjustment on annuities payable	<u>-</u>	<u>1,728</u>	<u>4,748</u>	<u>6,476</u>
Total expenses and losses	<u>3,085,635</u>	<u>1,728</u>	<u>4,748</u>	<u>3,092,111</u>
Increase in net assets before cumulative effect	201,885	71,294	47,190	320,369
Cumulative effect of adoption of new accounting principle	<u>(44,372)</u>	<u>-</u>	<u>-</u>	<u>(44,372)</u>
Increase in net assets	157,513	71,294	47,190	275,997
Net assets at the beginning of the year	<u>2,522,611</u>	<u>329,067</u>	<u>713,671</u>	<u>3,565,349</u>
Net assets at the end of the year	<u>\$ 2,680,124</u>	<u>\$ 400,361</u>	<u>\$ 760,861</u>	<u>\$ 3,841,346</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(in thousands)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 563,017	\$ 275,997
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Actuarial adjustment on annuities payable	10,644	6,476
Contributions restricted for long-term investment	(91,184)	(72,616)
Interest and dividends restricted for long-term investment	(20,955)	(17,177)
Net realized and unrealized gains on long-term investments	(270,579)	(99,805)
Depreciation and amortization expense	169,762	168,340
Write-offs and disposals of assets	5,330	5,227
Contributions of land, buildings and equipment	(2,625)	(9,323)
Buildings and equipment provided by Pennsylvania Department of General Services	(1,785)	(14,027)
Contribution to government student loan funds	254	254
Provision for bad debts	23,871	15,310
Cumulative effect of adoption of new accounting principle	103,601	44,372
Increase in deposits	(2,984)	(1,713)
Increase in receivables	(69,063)	(31,688)
Increase in inventories	(824)	(9,123)
Increase in prepaid expenses and other assets	(5,428)	(11,644)
Increase in accounts payable and other accrued expenses	7,904	4,044
Increase in deferred revenue	49,410	15,500
Increase in accrued postretirement benefits	44,015	70,507
Net cash provided by operating activities	<u>512,381</u>	<u>338,911</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(254,048)	(285,405)
Decrease in deposits held by bond trustees	357	209
Advances on student loans	(13,465)	(14,177)
Collections on student loans	10,346	11,434
(Increase)/decrease in investments held under securities lending program	(89,650)	12,524
Increase/(decrease) in liability under securities lending program	89,650	(12,524)
Purchase of investments	(2,399,093)	(2,771,709)
Proceeds from sale of investments	<u>2,195,405</u>	<u>2,639,922</u>
Net cash used by investing activities	<u>(460,498)</u>	<u>(419,726)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	91,184	72,616
Interest and dividends restricted for long-term investment	20,955	17,177
Payments of annuity obligations	(5,327)	(4,732)
Proceeds from issuance of bonds	179,464	4,820
Principal payments on notes, bonds and capital leases	(121,303)	(33,411)
Proceeds related to government student loan funds, net of collection costs	<u>480</u>	<u>584</u>
Net cash provided by financing activities	<u>165,453</u>	<u>57,054</u>
Net increase/(decrease) in cash and cash equivalents	217,336	(23,761)
Cash and cash equivalents at the beginning of the year	<u>465,517</u>	<u>489,278</u>
Cash and cash equivalents at the end of the year	<u>\$ 682,853</u>	<u>\$ 465,517</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. THE UNIVERSITY AND RELATED ENTITIES

The Pennsylvania State University (“the University”), which was created as an instrumentality of the Commonwealth of Pennsylvania, is organized as a non-profit corporation under the laws of the Commonwealth. As Pennsylvania’s land grant university, the University is committed to improving the lives of the people of Pennsylvania, the nation and the world through its integrated, tri-part mission of high-quality teaching, research and outreach.

The financial statements of the University include, on a consolidated basis, the financial statements of The Milton S. Hershey Medical Center (“TMSHMC”), a not-for-profit corporation, (see Note 10 for additional information about TMSHMC) and The Corporation for Penn State and its subsidiaries (“the Corporation”). The Corporation is a non-profit member corporation organized in 1985 for the exclusive purpose of benefiting and promoting the interests of the University, the Corporation’s sole member. The Corporation’s assets and revenues consist primarily of the assets and revenues of The Pennsylvania College of Technology (“Penn College”), a wholly-owned subsidiary of the Corporation. All material transactions between the University, TMSHMC and the Corporation have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the University, as summarized below, are in accordance with 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.

Basis of Presentation

The University’s financial statements include statements of financial position, statements of activities and statements of cash flows. Net assets and the changes in net assets are classified as permanently restricted, temporarily restricted or unrestricted.

Permanently restricted net assets consist primarily of the historical amounts of endowed gifts. Additionally, contributions receivable and remainder interests, which are required by donors to be permanently retained, are included at their estimated present values.

Temporarily restricted net assets consist primarily of contributions receivable and accumulated endowment gains which can be expended, but for which restrictions have not yet been met. Such restrictions include time restrictions imposed by donors or implied by the nature of the gift or by interpretations of law.

Unrestricted net assets are all the remaining net assets of the University.

As permitted, donor-restricted gifts that are received and either spent or deemed spent within the same year are reported as unrestricted revenue. Gifts of long-lived assets are reported as unrestricted revenue. Gifts specified for the acquisition or construction of long-lived assets are reported as unrestricted net assets when the assets are placed in service.

The University maintains various funds and accounts, including endowments, funds functioning as endowments, departmental funds and related accumulated gains, in accordance with the principles of “fund accounting.” This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund. Gifts are recorded in funds and investment income is distributed to funds throughout the year. Income distributed to funds may be a combination of capital appreciation and earnings pursuant to the University’s total return investment policy.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts on the financial statements and the disclosure of contingencies and commitments. Actual results could differ from those estimates.

Revenue Recognition

Tuition revenue is recognized in the fiscal year in which the substantial portion of the educational term occurs. Revenues for auxiliary enterprises are recognized as the related goods and services are delivered and rendered. Grant revenues are recognized as the eligible grant activities are conducted. Payments received in advance for tuition, goods and services are deferred.

Unconditional contributions receivable are recognized when received and consist of written or oral promises to contribute to the University in the future. Contributions receivable are recorded with the revenue assigned to the appropriate category of restriction. Contributions receivable are recorded after discounting to the present value of the future cash flows.

TMSHMC has agreements with third-party payors that provide for payments to TMSHMC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or such estimates change.

TMSHMC has agreements with various Health Maintenance Organizations (“HMO’s”) to provide medical services to subscribing participants. Under these agreements, TMSHMC receives monthly capitation payments based on the number of each HMO’s participants, regardless of services actually performed by TMSHMC. In addition, the HMO’s make fee-for-service payments to TMSHMC for certain covered services based upon discounted fee schedules.

TMSHMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates.

Fair Value of Financial Instruments

The University has provided fair value estimates for certain financial instruments in the notes to the financial statements. Fair value information presented in the financial statements is based on information available at June 30, 2007 and 2006. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair value. The carrying values of the amounts of the University's loans to students are also reasonable estimates of their fair value, because approximately 99% of the total outstanding loans to students as of June 30, 2007 and 2006 have been made at the rates available to students for similar loans at such times. The fair value of investments is disclosed in Note 3. The fair value of the University's bonds payable is disclosed in Note 6.

Cash Flows

The following items are included as supplemental disclosure to the statements of cash flows for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Interest paid	\$ 33,932,000	\$ 34,326,000
Non-cash acquisitions of land, buildings and equipment	3,969,000	19,997,000
Non-cash construction costs/deferred lease obligation at TMSHMC	31,324,000	-

The University defines cash and cash equivalents based on the primary purpose of the investment portfolio that holds the investment. Due to the investment strategies of portfolio managers, there is \$59,978,000 and \$36,719,000 of cash and cash equivalents held in operating investment portfolios at June 30, 2007 and 2006, respectively. These assets have been separately identified as cash and cash equivalents in the statements of financial position.

Inventories

Inventories are stated at cost, generally on the first-in, first-out basis, which is lower than market.

Investments

The University's investments are reported at fair market value in the accompanying financial statements. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair values with gains and losses included in the consolidated statements of activities. The University records derivative securities at market value with changes in market value reflected in the consolidated statements of activities.

The estimated fair value amounts for marketable debt and equity securities held by the University have been reviewed by the University and determined using available market information as supplied by the various financial institutions that act as trustees or custodians for the University. For non-liquid holdings, generally investments in real estate, venture capital and energy limited partnerships, estimated fair value is determined based upon financial information provided by the limited partnerships. This financial information includes assumptions and methods that were reviewed by University management. The University believes that the estimated fair value is a reasonable estimate of market value as of June 30, 2007 and 2006. Because the limited partnerships are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material.

Beneficial Interest in Perpetual Trusts

The University receives endowment income from investments of \$17,078,000 and \$15,676,000 held by outside trustees at June 30, 2007 and 2006, respectively. The present value of expected future cash flows to the University from such investments has been recorded as permanently restricted net assets and related beneficial interest in perpetual trusts in the financial statements.

Investment in Plant

Fixed assets, including collections, are stated at cost or fair market value at date of gift. Depreciation is computed over the estimated economic lives of the assets using the straight-line method. Total investment in plant as of June 30 is comprised of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 90,930,000	\$ 87,447,000
Buildings	3,197,891,000	2,986,479,000
Improvements other than buildings	422,692,000	398,502,000
Equipment	<u>805,238,000</u>	<u>782,585,000</u>
Total plant	4,516,751,000	4,255,013,000
Less accumulated depreciation	<u>(1,963,816,000)</u>	<u>(1,828,457,000)</u>
Total investment in plant, net	<u>\$ 2,552,935,000</u>	<u>\$ 2,426,556,000</u>

Asset Retirement Obligation

Effective June 30, 2006, the University adopted Financial Accounting Standards Board ("FASB") Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"). FIN 47 provides an interpretation of Statement of Financial Accounting Standard ("SFAS") No. 143, *Accounting for Retirement Obligations*, by clarifying that conditional asset retirement obligations meet the definition of a liability even though uncertainty may exist about the timing or method of settlement. Under the provisions of FIN 47, the University is obligated to record a liability for conditional asset retirement obligations. The University performed an analysis of such obligations and determined that asbestos abatement costs represented the University's primary source of such liabilities. The University reviewed all facilities and determined the timing, method and cost of asbestos abatement using a variety of assumptions and estimates. As a result of this process, at June 30, 2006, the University recorded the cumulative effect of conditional asset retirement obligations totaling \$44,372,000. The carrying value of the liability at June 30, 2007 is \$44,248,000, which includes accretion expense of \$2,096,000.

Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an Interpretation of FASB Statement No. 109 ("FIN 48"). This interpretation establishes the accounting for uncertain tax positions, including recognition and measurement of their financial statement effects. The interpretation will be effective for the University in 2008. University management is currently evaluating the impact of FIN 48, which is not expected to be material.

Reclassifications

Certain 2006 amounts have been reclassified to conform with 2007 presentation of Commonwealth of Pennsylvania—special contracts and United States government grants and contracts within the consolidated statement of activities.

3. INVESTMENTS

Investments by major category as of June 30 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Money markets	\$ 286,910,000	\$ 243,016,000
Fixed income:		
U.S. government/agency	392,430,000	482,256,000
U.S. corporate	278,725,000	312,048,000
Foreign	66,704,000	59,013,000
Other	617,334,000	319,499,000
Equities	1,002,935,000	836,011,000
Private partnerships	481,105,000	391,294,000
Investments held under securities lending program	<u>309,682,000</u>	<u>220,032,000</u>
Total	<u>\$3,435,825,000</u>	<u>\$2,863,169,000</u>

Other fixed income investments consist of collateralized mortgage obligations, mortgage-backed securities, asset-backed securities and municipal bonds. Equity investments are comprised of domestic and foreign common stocks. Private partnerships consist primarily of interests in real estate, private equity, venture capital, energy and hedge fund limited partnerships.

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2007:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 130,700,000	\$ 4,243,000	\$ 10,625,000	\$ 145,568,000
Net realized gains, including endowment spending	38,690,000	53,757,000	-	92,447,000
Net unrealized gains	<u>74,751,000</u>	<u>117,327,000</u>	-	<u>192,078,000</u>
Total returns	<u>\$ 244,141,000</u>	<u>\$ 175,327,000</u>	<u>\$ 10,625,000</u>	<u>\$ 430,093,000</u>

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2006:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 84,869,000	\$ 3,376,000	\$ 9,756,000	\$ 98,001,000
Net realized gains, including endowment spending	45,549,000	27,618,000	599,000	73,766,000
Net unrealized gains/(losses)	<u>(9,614,000)</u>	<u>38,349,000</u>	-	<u>28,735,000</u>
Total returns	<u>\$ 120,804,000</u>	<u>\$ 69,343,000</u>	<u>\$ 10,355,000</u>	<u>\$ 200,502,000</u>

In the management of investments, the University authorizes certain of its investment managers to purchase derivative securities to attain a desired market position; and the University may directly invest in derivative securities to attain a desired market position. The University does not trade or issue derivative financial instruments other than through the investment management practices noted above. Gains and losses from derivative instruments are reported in the consolidated statements of activities. Futures contracts, which are fully cash collateralized, are marked to market daily and are included in the carrying value of the University's investments. The market value of all derivative instruments is included in the market value of the University's investments. Futures contracts have minimal credit risk because the counterparties are the exchanges themselves. The University directly held no derivative securities at June 30, 2007. Fully cash collateralized derivative securities comprised approximately 3.0% of total investments at June 30, 2006.

Through an agreement with its primary investment custodian, the University participates in lending securities to brokers. Collateral is generally limited to cash, government securities, and irrevocable letters of credit. Both the investment custodian and the security borrowers have the right to terminate a specific loan of securities at any time. The University receives lending fees and continues to earn interest and dividends on the loaned securities. At June 30, 2007 and 2006, the University held \$309,682,000 and \$220,032,000, respectively, of cash and cash equivalents as collateral deposits for the securities lending program. The collateral is included as an asset and the obligation to return such collateral is presented as a liability in the consolidated statements of financial position. The securities on loan had an estimated fair value of \$303,370,000 and \$216,174,000 at June 30, 2007 and 2006, respectively.

4. POOLED ASSETS

The University uses a "total return" approach to endowment fund investment management. This approach emphasizes total investment return (current income plus or minus realized and unrealized capital gains and losses) as the basis for endowment spending. The University has implemented an endowment income spending policy whereby a predetermined amount is paid out each fiscal year based upon a prescribed formula in accordance with Pennsylvania statutes.

Investments aggregating \$1,587,197,000 and \$1,303,476,000 at June 30, 2007 and 2006, respectively, for certain endowment funds and funds functioning as endowments are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month when the transaction takes place.

The following schedule summarizes certain information about pooled assets on a per unit basis as of June 30:

	<u>2007</u>	<u>2006</u>
Market value per unit	\$ 32.57	\$ 28.28
Annual net gains per unit	\$ 4.29	\$ 2.21
Average annual earnings per unit, exclusive of gains	\$ 1.42	\$ 0.85

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

	<u>2007</u>	<u>2006</u>
In one year or less	\$ 52,568,000	\$ 45,258,000
Between one year and five years	64,024,000	47,666,000
More than five years	<u>76,511,000</u>	<u>70,397,000</u>
	193,103,000	163,321,000
Less allowance	(9,459,000)	(7,196,000)
Less discount	<u>(49,325,000)</u>	<u>(45,685,000)</u>
Contributions receivable, net	<u>\$ 134,319,000</u>	<u>\$ 110,440,000</u>

At June 30, 2007 and 2006, the University has received bequest intentions and certain other conditional promises to give of \$30,748,000 and \$14,160,000, respectively. These intentions and conditional promises to give are not included in the consolidated financial statements.

6. LONG-TERM DEBT

The various bond issues, note payable and capital lease obligations that are included in long-term debt in the statements of financial position consist of the following:

	<u>2007</u>	<u>2006</u>
<u>The Pennsylvania State University Bonds</u>		
Series 2007A	\$ 90,570,000	\$ -
Series 2007B	80,025,000	-
Series 2005	96,555,000	98,175,000
Series 2004A	59,930,000	60,980,000
Refunding Series 2003	26,260,000	28,130,000
Series of 2002	100,000,000	100,000,000
Refunding Series 2002	126,835,000	140,760,000
Refunding Series 2001	34,590,000	42,235,000
Series A of 2001	75,000,000	75,000,000
Series A of 1997	-	86,750,000
Series B of 1997	8,805,000	9,475,000
 <u>Pennsylvania Higher Educational Facilities Authority University Revenue Bonds (issued for The Pennsylvania State University)</u>		
Series 2006	4,650,000	4,700,000
Series 2004	5,215,000	5,410,000
Series 2002	5,965,000	6,250,000
 <u>Lycoming County Authority College Revenue Bonds (issued for Penn College)</u>		
Series 2005	15,225,000	15,555,000
Series 2003	6,495,000	9,565,000
Series 2002	29,995,000	30,325,000
Series 2000	39,370,000	39,370,000
Series 1997	11,300,000	11,530,000
Series 1993	<u>11,954,000</u>	<u>11,565,000</u>
 Total bonds payable	 <u>828,739,000</u>	 <u>775,775,000</u>
 Unamortized bond premiums	 <u>24,704,000</u>	 <u>17,399,000</u>
 <u>Note payable and capital leases</u>		
Demand note payable	10,000,000	10,000,000
Capital lease obligations	16,739,000	18,026,000
Deferred lease obligation	<u>31,324,000</u>	<u>-</u>
Total note payable and capital leases	<u>58,063,000</u>	<u>28,026,000</u>
 Total long-term debt	 <u>\$ 911,506,000</u>	 <u>\$ 821,200,000</u>

The Pennsylvania State University Bonds

- Series 2007A and 2007B – general obligation bonds issued in January 2007 for the purpose of funding various construction and renovation projects and for the advance refunding of the Series 1997A Bonds. The University, in conjunction with the issuance of the Series 2007B bonds, legally defeased the Series A of 1997 Bonds, with an outstanding principal of \$84,540,000, by irrevocably depositing \$88,341,000 in an escrow fund to be used to pay the interest accrued, maturing principal on and the redemption price of the refunded bonds. As a result of the advance refunding transaction, amounts related to the Series 1997A Bonds have been removed from the University's June 30, 2007 statement of financial position. Principal payments on the Series 2007A and 2007B bonds are due annually, in amounts ranging from \$2,770,000 to \$5,955,000 through August 2027, with additional payments of \$11,115,000 due August 2028 and \$70,905,000 due August 2036. The bonds pay interest at rates ranging from 3.55% to 5.25% and are subject to sinking fund redemption beginning August 2023 and early redemption provisions, at the option of the University, beginning August 2016.
- Series 2005 – general obligation bonds issued in January 2005 for the purpose of funding various construction projects. Principal payments are due annually in amounts ranging from \$1,670,000 to \$2,745,000 through September 2019, with additional payments of \$15,990,000, \$20,550,000 and \$32,485,000 due September 2024, 2029 and 2034, respectively. The bonds pay interest at rates ranging from 3.00% to 5.00% and are subject to sinking fund redemption beginning September 2020 and early redemption provisions, at the option of the University, beginning September 2015.
- Series 2004A – general obligation bonds issued in April 2004 for the purpose of funding various construction projects. Principal payments are due annually in amounts ranging from \$1,085,000 to \$1,825,000 through September 2019, with additional payments of \$10,625,000, \$13,635,000 and \$17,515,000 due September 2024, 2029 and 2034, respectively. The bonds pay interest at rates ranging from 2.50% to 5.00% and are subject to sinking fund redemption beginning September 2020 and early redemption provisions, at the option of the University, beginning September 2014.
- Refunding Series 2003 – general obligation bonds issued in March 2003 for the purpose of refunding the Refunding Series 1993A and to pay costs associated with issuing the 2003 Refunding Bonds. Principal payments are due annually in amounts ranging from \$1,910,000 to \$2,970,000 through March 2018. The bonds pay interest at rates ranging from 3.25% to 5.25% and are subject to early redemption provisions, at the option of the University, beginning March 2013.
- Series of 2002 and Series A of 2001 – general obligation bonds issued in May 2002 for the purpose of funding a portion of the costs of the acquisition, construction, equipping, renovation and improvement of certain facilities of the University and April 2001 for the purpose of funding various construction projects, respectively. The bonds are currently paying interest on a variable rate basis; however, the University has the option to convert to another variable rate or to a fixed rate basis (such rates are generally determined on a market basis). The bonds currently pay interest at 3.71% with adjustment on a weekly basis to the rate the remarketing agent believes will cause the bonds to have a market value equal to the principal amount up to a maximum of 12%. The bondholders have the right to tender bonds at interest rate reset dates. The University, therefore, entered into standby bond purchase agreements with banks to provide liquidity in case of tender. The principal amount of the Series of 2002 bonds is due March 2032; and the principal amount of the Series A of 2001 is due April 2031. The bonds are not subject to sinking fund redemption; however, the University has the option to redeem the bonds prior to their scheduled maturity.
- Refunding Series 2002 – general obligation bonds issued in May 2002 for the purpose of refunding the Second Refunding 1992A Series (such bonds were previously issued to refund the Second Refunding 1988 Series, 1989 Series and 1991 Series Bonds). Principal payments are due annually, in amounts ranging from \$4,585,000 to \$16,540,000 through August 2016. The bonds pay interest at rates ranging from 4.73% to 5.25%. The bonds are not subject to redemption prior to maturity.

- Refunding Series 2001 – general obligation bonds issued in December 2001 for the purpose of refunding the Refunding Series 1992 Bonds (such bonds were previously issued to refund the 1986 Series and the First Refunding Series of 1988 Bonds). Principal payments are due annually, in amounts ranging from \$8,025,000 to \$9,290,000 through March 2011. The bonds pay interest at rates ranging from 5.00% to 5.25%. The bonds are not subject to optional redemption prior to maturity.
- Series B of 1997 – general obligation bonds issued in December 1997 for the purpose of funding various construction projects and for refunding the Series 1992B Bonds. Principal payments are due annually, in amounts ranging from \$700,000 to \$1,090,000 through August 2016. The bonds pay interest at rates ranging from 4.60% to 5.00%. The bonds are not subject to optional redemption prior to maturity.

Pennsylvania Higher Educational Facilities Authority University Revenue Bonds (issued for The Pennsylvania State University)

- Series 2006 – Pennsylvania Higher Educational Facilities Authority University Revenue Bonds issued by the Pennsylvania State University in April 2006 for the purpose of funding the costs of sprinkler system installation and repairs in certain of the University’s dormitories during the period 2006-2008, related design costs and payment of issuance costs. Principal payments are due annually in amounts ranging from \$170,000 to \$280,000 through September 2020, with an additional payment of \$1,610,000 due September 2025. The bonds pay interest at rates ranging from 3.55% to 5.125% and are subject to sinking fund redemption beginning September 2021 and early redemption provisions, at the option of the University, beginning September 2016.
- Series 2004 – Pennsylvania Higher Educational Facilities Authority University Revenue Bonds issued by the Pennsylvania State University in May 2004 for the purpose of funding the costs of sprinkler system installation and repairs in certain of the University’s dormitories during 2004-2005. Principal payments are due annually in amounts ranging from \$200,000 to \$325,000 through September 2019, with an additional payment of \$1,905,000 due September 2024. The bonds pay interest at rates ranging from 3.00% to 5.00% and are subject to sinking fund redemption beginning September 2020 and early redemption provisions, at the option of the University, beginning September 2014.
- Series 2002 – Pennsylvania Higher Educational Facilities Authority University Revenue Bonds issued by the Pennsylvania State University in June 2002 for the purpose of funding the costs of sprinkler system installation and repairs in certain of the University’s dormitories during the period 2002 through 2004. Principal payments are due annually in amounts ranging from \$295,000 to \$425,000 through March 2017, with an additional payment of \$2,435,000 due March 2022. The bonds pay interest at rates ranging from 3.55% to 5.00% and are subject to sinking fund redemption beginning March 2018 and early redemption provisions, at the option of the University, beginning March 2011.

Lycoming County Authority College Revenue Bonds (issued for Penn College)

- Series 2005 – Lycoming County Authority College Revenue Bonds issued by Penn College in February 2005 for the purpose of refunding \$7,765,000 of the Authority’s College Bonds, Series of 1997, funding a deposit into the debt service reserve account, funding various construction and renovation projects and payment of costs of issuance of 2005 Bonds. Principal payments are due annually in amounts ranging from \$500,000 to \$1,855,000 through January 2025. The bonds pay interest at rates ranging from 3.00% to 5.00%.
- Series 2003 – Lycoming County Authority College Revenue Bonds issued by Penn College in February 2003 for the purpose of refunding \$17,385,000 of the Authority’s College Revenue Bonds, Series of 1993 and the payment of costs of issuance of 2003 Bonds. Principal payments are due annually in amounts ranging from \$3,180,000 to \$3,315,000 through November 2008. The bonds pay interest at rates ranging from 2.35% to 4.625%.

- Series 2002 – Lycoming County Authority College Revenue Bonds issued by Penn College in May 2002 for the purpose of funding various construction projects at the Penn College campus. Principal payments are due annually in amounts ranging from \$345,000 to \$2,775,000 through May 2032. The bonds pay interest at rates ranging from 3.80% to 5.25%.
- Series 2000 – Lycoming County Authority College Revenue Bonds issued by Penn College in December 2000 for the purpose of funding various construction projects, refunding the 1996 Lycoming County Authority College Revenue Bonds, advance refunding \$4,235,000 of the 1997 Lycoming County Authority College Revenue Bonds (1997 Series Bonds), funding of a deposit to the debt service fund reserve account established under the indenture and payment of the costs of issuance of the Series 2000 Bonds. Principal payments are due annually in amounts ranging from \$30,000 to \$5,225,000 through July 2030. The bonds pay interest at rates ranging from 4.75% to 5.50%.
- Series 1997 – Lycoming County Authority College Revenue Bonds issued by Penn College in September 1997 for the purpose of funding various construction projects at the Penn College campus. Principal payments are due annually in amounts ranging from \$275,000 to \$5,010,000 through July 2018. The bonds pay interest at rates ranging from 4.90% to 5.25%. The 1997 Series Bonds were partially refunded by the 2000 Series Bonds at par amounting to \$4,235,000.
- Series 1993 – Lycoming County Authority College Revenue Bonds issued by Penn College in 1993 for the purpose of undertaking a series of capital improvement projects. Principal payments are due annually in amounts ranging from \$450,000 to \$1,302,000 through November 2015. The bonds pay interest at rates ranging from 6.00% to 6.15%.

Maturities and sinking fund requirements on bonds payable for each of the next five fiscal years and thereafter are summarized as follows:

<u>Year</u>	<u>Annual Installments</u>
2008	\$ 36,935,000
2009	37,345,000
2010	35,780,000
2011	35,600,000
2012	28,090,000
Thereafter	654,989,000

The fair value of the University's bonds payable is estimated based on current rates offered for similar issues with similar security, terms and maturities using available market information as supplied by the various financial institutions who act as trustees or custodians for the University. At June 30, 2007, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, are \$853,443,000 and \$845,086,000, respectively. At June 30, 2006, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, were \$793,174,000 and \$791,870,000, respectively. Certain bond issues have associated issuance premiums, these issuance premiums total \$24,704,000 and \$17,399,000 at June 30, 2007 and 2006, respectively and are presented within the statement of financial position as long-term debt. These issuance premiums will be amortized over the term of the respective outstanding bonds.

Note payable and capital leases

A \$10,000,000 demand note payable bearing interest at a variable rate (4.95% at June 30, 2007) is included in the current portion of long-term debt within the statements of financial position.

The University has certain lease agreements in effect which are considered capital leases that are included as long-term debt in the statements of financial position. These leases have been capitalized at the net present value of the minimum lease payments. The University has recorded fixed assets in the amount of \$26,937,000 and \$27,122,000 at June 30, 2007 and 2006, respectively, representing capitalized leases. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007 are as follows:

<u>Year</u>	
2008	\$ 2,643,000
2009	2,363,000
2010	2,146,000
2011	1,913,000
2012	1,838,000
Thereafter	<u>15,257,000</u>
Total minimum lease payments	26,160,000
Less imputed interest	<u>(9,421,000)</u>
Present value of net minimum lease payments	<u>\$ 16,739,000</u>

The University has entered into a Master Building Sublease with ADG - Hospital Drive Associates ("ADG-HDA"), a limited partnership (of which the University maintains a 75% interest, carried at \$1,329,000 and \$1,202,000 in investments at June 30, 2007 and 2006, respectively), which required ADG-HDA to construct the Centre Medical Sciences Building ("Building") and lease it to the University for an initial term of twenty-five years. The Building was constructed on land jointly owned by the University and Mount Nittany Medical Center, which has been leased by ADG-HDA for a term of sixty years. The University has subleased portions of the Building to the Mount Nittany Medical Center and other healthcare related entities. The University is required to pay an annual base rent equal to the sum of (1) the principal, interest and redemption price due on the Centre County Higher Education Authority Bonds which were issued to finance the construction of the Building, and (2) an 8% return on the landlord's equity which is included above as a capitalized lease.

During 2007, TMSHMC entered into a lease agreement for a facility currently under construction located on the Medical Center's campus. As a result of certain provisions contained within the lease and related agreements, the Medical Center has accounted for the facility as an owned facility and is therefore recognizing non-cash construction costs incurred to date (included as construction in progress), together with a corresponding deferred lease obligation, as of June 30, 2007, in the amount of \$31,324,000.

7. OPERATING LEASES

The University has certain lease agreements in effect which are considered operating leases. During the year ended June 30, 2007, the University recorded expenses of \$23,570,000 for leased equipment and \$13,541,000 for leased building space. During the year ended June 30, 2006, the University recorded expenses of \$22,075,000 for leased equipment and \$13,216,000 for leased building space.

Future minimum lease payments under operating leases as of June 30, 2007 are as follows:

<u>Year</u>	
2008	\$ 14,780,000
2009	10,195,000
2010	7,208,000
2011	5,319,000
2012	4,411,000
Thereafter	<u>27,004,000</u>
Total minimum lease payments	<u>\$ 68,917,000</u>

8. RETIREMENT BENEFITS

The University provides retirement benefits for substantially all regular employees, primarily through either contributory defined benefit plans administered by the Commonwealth of Pennsylvania State Employees' Retirement System and The Public School Employees' Retirement System or defined contribution plans administered by the Teachers Insurance and Annuity Association – College Retirement Equity Fund and Fidelity Investments. The University is billed for its share of the estimated actuarial cost of the defined benefit plans (\$9,866,000 and \$7,390,000 for the years ended June 30, 2007 and 2006, respectively). The University's total cost for retirement benefits, included in expenses, is \$92,863,000 and \$84,871,000 for the years ended June 30, 2007 and 2006, respectively.

9. POSTRETIREMENT BENEFITS

The University sponsors a retiree medical plan covering eligible retirees and eligible dependents. For the 2007 benefit plan year, this program includes a Preferred Provider Organization ("PPO") plan for retirees and their dependents who are not eligible for Medicare, a Medicare Advantage Private Fee For Service ("PFFS") plan and a Medicare Advantage HMO plan. In addition, the University provides retiree life insurance benefits of \$5,000 at no cost to the retiree. A limited number of retirees have \$10,000 of life insurance coverage; \$5,000 of which is provided by the University and \$5,000 is paid by the retiree.

Retirees are eligible for medical coverage and life insurance after they retire if:

- they are at least age 60 and have at least 15 years of regular full-time employment and participation in a University-sponsored medical plan immediately preceding the retirement date

OR

- regardless of age, if they have at least 25 years of regular full-time service. The last 10 of those 25 years of University service must be continuous and they must participate in a University - sponsored medical plan during the last 10 years immediately preceding the retirement date.

The retiree PPO medical plan and the \$5,000 life insurance coverage are self-funded programs, and all medical claims, death benefits and other expenses are paid from the unrestricted net assets of the University. The PFFS plan and the Medicare Advantage HMO plan are fully insured. The retirees contribute varying amounts for coverage under the medical plan. As of January 1, 2007, the monthly rates ranged from \$8 to \$409 depending on age and dependent coverage options selected.

Effective June 30, 2007, the University adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* – an amendment of SFAS No's. 87, 88, 106 and 132(R) ("SFAS No. 158"). The new standard requires that the funded status of the plan be fully recognized as a net asset or liability within the statements of financial position. Additionally, SFAS No. 158 requires an employer to measure the funded status of the plan as of the date of the fiscal year-end statement of financial position. The University has historically measured and continues to measure the funded status of the plan as of June 30.

The incremental effect of adopting the provision of SFAS No. 158 on the University's statement of financial position at June 30, 2007 is as follows:

	<u>Prior to Adoption</u>	<u>Effect of Adoption</u>	<u>As Reported</u>
Accrued postretirement benefits	\$ 730,961,000	\$ 103,601,000	\$ 834,562,000
Unrestricted net assets	\$ 3,081,651,000	\$ (103,601,000)	\$ 2,978,050,000

The following sets forth the plan's benefit obligation, plan assets and funded status reconciled with the amounts recognized in the University's consolidated statements of financial position at June 30:

Change in benefit obligation:

	<u>2007</u>	<u>2006</u>
Benefit obligation at beginning of year	\$ 822,552,000	\$ 805,034,000
Service cost	29,693,000	40,118,000
Interest cost	48,168,000	46,604,000
Actuarial loss	72,109,000	3,877,000
Benefits paid	(29,081,000)	(28,142,000)
Plan amendment	(178,478,000)	(44,939,000)
Plan assumptions	69,599,000	-
Benefit obligation at end of year	<u>\$ 834,562,000</u>	<u>\$ 822,552,000</u>

Change in plan assets:

	<u>2007</u>	<u>2006</u>
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	29,081,000	28,142,000
Benefits paid	(29,081,000)	(28,142,000)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	\$ (834,562,000)	\$ (822,552,000)
Unrecognized prior service cost (benefit)	-	(41,106,000)
Unrecognized net actuarial loss	-	176,713,000
Accrued postretirement benefit expense	<u>\$ (834,562,000)</u>	<u>\$ (686,945,000)</u>

Included in unrestricted net assets at June 30, 2007, are the following amounts that have not yet been recognized in net periodic postretirement cost: unrecognized prior service cost (benefit) of (\$216,018,000) and unrecognized actuarial loss of \$319,619,000.

Net periodic postretirement cost includes the following components for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 29,693,000	\$ 40,118,000
Interest cost	48,168,000	46,604,000
Amortization of prior service cost	(21,629,000)	(3,567,000)
Amortization of unrecognized net loss	<u>16,863,000</u>	<u>15,494,000</u>
Net periodic postretirement cost	<u>\$ 73,095,000</u>	<u>\$ 98,649,000</u>

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.50% and 10.00% for the 2006-2007 and 2005-2006 plan years, respectively, reduced by 0.50% per year to a fixed level of 5.00%. The weighted average postretirement benefit obligation discount rate was 6.25% for each of the years ended June 30, 2007 and 2006, respectively.

If the healthcare cost trend rate assumptions were increased by 1% in each year, the accumulated postretirement benefit obligation would be increased by \$145,204,000 and \$137,520,000 as of June 30, 2007 and 2006, respectively. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be an increase of \$16,311,000 and \$19,146,000 as of June 30, 2007 and 2006, respectively. If the healthcare cost trend rate assumptions were decreased by 1% in each year, the accumulated postretirement benefit obligation would be decreased by \$115,930,000 and \$110,796,000 as of June 30, 2007 and 2006, respectively. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be a decrease of \$12,664,000 and \$14,813,000 as of June 30, 2007 and 2006, respectively.

The postretirement benefits expected to be paid in each year for 2008–2012 are \$30,162,000, \$32,259,000, \$34,497,000, \$37,035,000 and \$39,591,000, respectively. The benefits expected to be paid in the five years from 2013-2017 are \$247,686,000.

Gains and losses in excess of 10% of the accumulated postretirement benefit obligation are amortized over the average future service to assumed retirement of active participants.

The plan amendment included in 2006 reflects changes in the premium cost sharing contributions for Medicare-eligible retirees.

10. THE MILTON S. HERSHEY MEDICAL CENTER

The University's wholly-owned subsidiary, TMSHMC, owns the assets of the clinical enterprise of the Hershey Medical Center complex. The University owns the Hershey Medical Center complex, including all buildings and land occupied by the University Hospital and operates the College of Medicine. The clinical facilities of the Hershey Medical Center complex are leased to TMSHMC and TMSHMC makes certain payments to support the College of Medicine.

11. CONTINGENCIES AND COMMITMENTS

Contractual Obligations

The University has contractual obligations for the construction of new buildings and for additions to existing buildings in the amount of \$459,618,000 of which \$294,816,000 has been paid or accrued as of June 30, 2007. The contract costs are being financed from available resources and from borrowings.

Under the terms of certain limited partnership agreements, the University is obligated to periodically advance additional funding for private equity and real estate investments. The University has unfunded commitments of approximately \$184,477,000 as of June 30, 2007 for which capital calls have not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The University maintains sufficient liquidity in its investment portfolio in the event that such calls are exercised.

Letters of Credit

The University has outstanding letters of credit in the amount of \$17,328,000 and \$17,976,000 as of June 30, 2007 and 2006, respectively. These letters of credit are used primarily to comply with minimum state and federal regulatory laws that govern various University activities. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with the issuing banks.

Self-Insurance

The University has a coordinated program of commercial and self-insurance for medical malpractice claims at TMSHMC through the use of a qualified trust and a domestic captive insurance company in combination with a self-insured retention layer and is supplementing this program through participation in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare Fund"), formerly the Pennsylvania Medical Professional Liability Catastrophe Loss Fund ("CAT Fund"), in accordance with Pennsylvania law. An estimate of the present value, discounted at 4%, of the medical malpractice claims liability in the amount of \$72,877,000 and \$71,151,000 is recorded as of June 30, 2007 and 2006, respectively.

On July 1, 2003, TMSHMC became self-insured for all medical malpractice claims asserted on or after July 1, 2003, for all amounts that are below the coverage of the TMSHMC's excess insurance policies and not included in the insurance coverage of the Mcare Fund. Under the self-insurance program, TMSHMC is required to maintain a malpractice trust fund in an amount at least equal to the expected loss of known claims. The balance of this trust fund was \$16,399,000 and \$15,419,000 at June 30, 2007 and 2006, respectively. TMSHMC intends to fund any claims due during the next year from cash flows from operations.

With approval from the Pennsylvania Department of Labor and Industry ("PA-DLI"), the University elected to self-insure potential obligations applicable to workers' compensation. Certain claims under the program are contractually administered by a private agency. The University purchased insurance coverage for excess obligations over \$600,000 per incident. An estimate of the self-insured workers' compensation claims liability in the amount of \$9,662,000 and \$7,371,000 is recorded as of June 30, 2007 and 2006, respectively. The University has established a trust fund, in the amount of \$9,955,000 and \$9,348,000 at June 30, 2007 and June 30, 2006, respectively, as required by PA-DLI, to provide for the payment of claims under this self-insurance program. TMSHMC is self-insured for workers' compensation claims and has purchased an excess policy through a commercial insurer which covers individual claims in excess of \$500,000 per incident for workers' compensation claims.

The University and TMSHMC are self-insured for certain health care benefits provided to employees. The University and TMSHMC have purchased excess policies which cover employee health benefit claims in excess of \$500,000 and \$300,000 per employee per year, respectively. The University and TMSHMC provide for reported claims and claims incurred but not reported.

Litigation and Contingencies

Various legal proceedings have arisen in the course of conducting University business. The outcome of such litigation is not expected to have a material effect on the financial position of the University.

Based on its operation of the University Hospital (see Note 10), the University, like the healthcare industry, is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government reviews of healthcare providers for compliance with regulations have increased. Although the University believes it has done its best to comply with these numerous regulations, such government reviews could result in significant repayments of previously billed and collected revenues from patient services.

THE PENNSYLVANIA STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

<u>Program</u>	<u>CFDA No.</u>	<u>Subcontract Expenditures</u>	<u>Expenditures</u>
<u>Research and development programs -</u>			
Direct funding	Note 2	\$61,553,592	\$350,401,141
Pass-through funds - Commonwealth of Pennsylvania	Note 3	15,417	1,267,987
Pass-through funds - Other Institutions	Note 4	1,175,068	57,568,870
		<hr/>	<hr/>
Total research and development programs		62,744,077	409,237,998
		<hr/>	<hr/>
<u>Student financial assistance programs (Direct funding) -</u>			
Department of Education:			
Federal Supplemental Educational Opportunity Grant	84.007	0	5,069,117
Federal Work Study Program	84.033	0	3,537,733
Federal Perkins Loan Program - Note 8	84.038	0	0
Federal Pell Grant Program	84.063	0	44,245,010
Federal Family Education Loan Program - Note 9	84.032	0	0
Department of Health & Human Services:			
Health Professions Student Loan Program - Note 8	93.342	0	0
		<hr/>	<hr/>
Total student financial assistance programs		0	52,851,860
		<hr/>	<hr/>
<u>Other programs -</u>			
Cooperative Extension Service - Department of Agriculture			
-Direct funding	10.500	111,857	13,147,748
-Pass-through funds - Other Institutions - Note 7	10.500	0	313,316
Total		<hr/>	<hr/>
		111,857	13,461,064
State Administrative Matching Grants for Food Stamp Program			
-Pass-through funds - Commonwealth of Pennsylvania (4000008692)	10.561	9,736,889	10,920,505
Total		<hr/>	<hr/>
		9,736,889	10,920,505
Airport Improvement Program- Department of Transportation			
-Direct Funding	20.106	0	3,113,244
Fund for Improvement of Postsecondary Education - Department of Education			
-Direct funding - Note 10	84.116	0	0
-Direct funding	84.116	2,538	86,508
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities - Department of Education			
- Direct funding	84.325	0	823,720
Integrated Programs - Department of Agriculture			
	10.303	936,656	1,030,471
Other direct funding			
Other Pass-through funds - Commonwealth of Pennsylvania	Note 5	625,787	14,535,292
Other Pass-through funds - Other Institutions	Note 6	65,086	2,790,781
	Note 7	2,359	2,396,251
		<hr/>	<hr/>
Total other programs		11,481,172	49,157,836
		<hr/>	<hr/>
Total Programs		\$74,225,249	\$511,247,694
		<hr/> <hr/>	<hr/> <hr/>

See notes to schedule of expenditures of federal awards.

THE PENNSYLVANIA STATE UNIVERSITY

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

1. BASIS OF PRESENTATION AND ACCOUNTING:

The purpose of the Schedule of Expenditures of Federal Awards (the "Schedule") is to present a summary of the activities of The Pennsylvania State University (the "University") for the year ended June 30, 2007 which have been financed by the U. S. Government.

For purposes of the Schedule, Federal awards have been classified into two types:

- Direct Federal Awards
- Pass-through funds received from non-Federal organizations made under Federally sponsored programs conducted by these organizations.

Subcontract expenditures represent amounts paid to a third party for effort performed in support of the University's federal awards.

Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present the financial position, results of operations or cash flows of the University.

The Schedule is prepared on the accrual basis of accounting.

**2. RESEARCH AND DEVELOPMENT -
DIRECT FUNDING:**

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Agriculture:</u>				
Cooperative State Research, Education and Extension Service	10.RD		\$898,660	\$12,411,148
Agricultural Research Service	10.RD		5,225	1,085,707
Department of Agriculture	10.RD		17,583	630,189
Animal and Plant Health Inspection Service	10.RD		183,710	737,804
Natural Resources Conservation Service	10.RD		0	213,671
Forest Service	10.RD		0	234,680
Economic Research Service	10.RD		0	112,688
Food Safety and Inspection Service	10.RD		7,184	12,436
Total – Agriculture			<u>1,112,362</u>	<u>15,438,323</u>
<u>Commerce:</u>				
National Oceanic and Atmospheric Administration	11.RD		0	860,912
National Institute of Standards and Technology	11.RD		0	485,375
Department of Commerce	11.RD		0	180,018
Total – Commerce			<u>0</u>	<u>1,526,305</u>
<u>Defense:</u>				
Department of Navy	12.RD		28,227,423	106,454,553
Department of Defense	12.RD		3,295,908	9,330,300
Department of Navy, Office of the Chief of Naval Research	12.RD		1,588,513	15,078,193
U.S. Army Medical Command	12.RD		0	522,843
U.S. Army Material Command	12.RD		790,701	4,344,168
Department of Air Force, Material Command	12.RD		334,226	4,576,653
Advanced Research Projects Agency	12.RD		28,067	204,166
Department of Army	12.RD		4,636,999	10,801,439
Office of the Secretary of Defense	12.RD		0	483,149
National Security Agency	12.RD		0	1,269,047
Total – Defense			<u>38,901,837</u>	<u>153,064,511</u>

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Housing and Urban Development:</u>				
Office of Policy Development and Research	14.RD		0	66,987
Total – Housing and Urban Development			0	66,987
<u>Interior:</u>				
Department of Interior	15.RD		4,126	416,648
National Park Service	15.RD		0	229,810
Geological Survey	15.RD		22,236	378,921
Fish and Wildlife Service	15.RD		0	37,965
Total – Interior			26,362	1,063,344
<u>Justice:</u>				
National Institute of Justice	16.RD		0	340,041
Department of Justice	16.RD		0	40,250
Total – Justice			0	380,291
<u>Labor:</u>				
	17.RD		0	128,284
<u>Transportation:</u>				
Department of Transportation	20.RD		812,884	4,622,433
Federal Aviation Administration	20.RD		0	230,123
Total – Transportation			812,884	4,852,556
<u>General Services Administration:</u>				
	39.RD		0	161,281
<u>National Aeronautics and Space Administration:</u>				
	43.RD		1,142,231	9,108,300
<u>National Endowment for the Humanities:</u>				
	45.RD		0	180,973
<u>National Science Foundation:</u>				
	47.RD		3,085,832	44,826,666
<u>Veterans Affairs:</u>				
	64.RD		0	15,690
<u>Environmental Protection Agency:</u>				
Office of Research and Development	66.RD		86,421	527,310
Office of Administration	66.RD		0	188,194
Office of Water	66.RD		0	59,737
Environmental Protection Agency	66.RD		13,750	18,776
Office of Solid Waste and Emergency Response	66.RD		0	18,856
Office of Environmental Education	66.RD		0	10,271
Total – Environmental Protection Agency			100,171	823,144
<u>Nuclear Regulatory Commission:</u>				
	77.RD		0	229,113
<u>Energy:</u>				
	81.RD		5,929,256	15,371,912
<u>Education:</u>				
Office of Postsecondary Education	84.RD		5,586	890,544
Office of Educational Research and Improvement	84.RD		18,322	747,546
Department of Education	84.RD		3,489,889	4,873,256
Office of Special Education and Rehabilitative Services	84.RD		0	146,343
Total – Education			3,513,797	6,657,689

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Health and Human Services:</u>				
National Institutes of Health	93.RD		5,276,635	82,227,863
Health Resources and Services Administration	93.RD		0	1,572,932
Administration for Children and Families	93.RD		0	213,747
Substance Abuse and Mental Health Services Administration	93.RD		159,031	238,233
Agency for Healthcare Research and Quality	93.RD		0	21,169
Food and Drug Administration	93.RD		0	229,591
Total – Health and Human Services			5,435,666	84,503,535
<u>Department of Homeland Security:</u>				
	97.RD		0	4,549
<u>Agency for International Development:</u>				
	98.RD		0	87,162
<u>Miscellaneous:</u>				
	99.RD		1,493,194	11,910,526
Total Research and Development – Direct Funding			61,553,592	350,401,141

**3. RESEARCH AND DEVELOPMENT - PASS-
THROUGH FUNDS - COMMONWEALTH OF
PENNSYLVANIA**

<u>Agriculture:</u>				
Commonwealth of Pennsylvania	10.RD	ME 446002	0	71,393
Total – Agriculture			0	71,393
<u>Commerce:</u>				
Commonwealth of Pennsylvania	11.RD	4100036695 CZM06EG.01	0	104,450
Commonwealth of Pennsylvania	11.RD	CZ-1:2004-EG.01	0	(4,528)
Commonwealth of Pennsylvania	11.RD	4100031989	14,916	72,595
Total – Commerce			14,916	172,517
<u>Interior:</u>				
Commonwealth of Pennsylvania	15.RD	4100016440	501	16,661
Commonwealth of Pennsylvania	15.RD	1434-03HQRU1548	0	96,624
Commonwealth of Pennsylvania	15.RD	WM-007-05	0	3,771
Total – Interior			501	117,056
<u>Justice:</u>				
Commonwealth of Pennsylvania	16.RD	04/05-DS/JG/IP-19/06/ST- 16511	0	123,375
Commonwealth of Pennsylvania	16.RD	2003-DS-19-15285	0	5,381
Total – Justice			0	128,756
<u>Transportation:</u>				
Commonwealth of Pennsylvania	20.RD	359704	0	2,479
Commonwealth of Pennsylvania	20.RD	ERG-03-04	0	52,409
Total – Transportation			0	54,888
<u>Environmental Protection:</u>				
Commonwealth of Pennsylvania	66.RD	4100017459	0	3,090
<u>Energy:</u>				
Commonwealth of Pennsylvania	81.RD	4100038427	0	18,751
Commonwealth of Pennsylvania	81.RD	4100026869	0	165
Commonwealth of Pennsylvania	81.RD	4100031233	0	12,315
Total – Energy			0	31,231

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Education:</u>				
Commonwealth of Pennsylvania	84.RD	062-07-0043	0	383,375
Commonwealth of Pennsylvania	84.RD	062-06-0043	0	807
Total – Education			0	384,182
 <u>Health and Human Services:</u>				
Commonwealth of Pennsylvania	93.RD	2005/2006-JA/PC-01/ST-170	0	304,874
Total – Health and Human Services			0	304,874
TOTAL RESEARCH AND DEVELOPMENT PASS-THROUGH FUNDS - COMMONWEALTH OF PENNSYLVANIA			15,417	1,267,987

**4. RESEARCH AND DEVELOPMENT -
PASS-THROUGH FUNDS - OTHER
INSTITUTIONS**

<u>Agriculture:</u>				
Baylor College of Medicine	10.RD	2006-55215-16694	0	16,339
Binational Agricultural Research Devel. Fund	10.RD	----	0	132,340
Cornell University	10.RD	2006-34360-17178	0	37,129
Cornell University	10.RD	2006-34381-16995	0	16,843
Cornell University	10.RD	2002-30001-12096	0	107,380
Cornell University	10.RD	2006-34103-16932	0	20,436
Cornell University	10.RD	2003-51110-01712	0	37,151
Cornell University	10.RD	58-1907-5-555	0	53,605
Cornell University	10.RD	2005-34103-5732	0	12,408
Cornell University	10.RD	2004-34360-14539	0	2,634
Geisinger Clinic	10.RD	59-1950-6-610	0	39,760
Geisinger Clinic	10.RD	----	0	10,590
Great Lakes Commission	10.RD	----	0	44,484
Iowa State University	10.RD	2004-35112-14249	0	8,662
Kamuela Greenhouse	10.RD	2006-33610-16809	0	10,000
Maryland Department of Natural Resources	10.RD	----	0	5,498
Michigan State University	10.RD	2005-51100-02363	0	48,842
Mifflin County Conservation District	10.RD	NRCS 68-3A75-5-167	0	62,863
Mississippi State University	10.RD	2005-45064-03212	0	14,989
Mississippi State University	10.RD	58-6406-6-039	0	48,000
National Honey Board	10.RD	----	0	5,237
North Carolina State University	10.RD	2006-51101-03604	0	22,940
North Carolina State University	10.RD	2006-48642-03728	0	50,376
North Carolina State University	10.RD	2005-48642-03345	0	13,438
North Carolina State University	10.RD	2005-35504-16145	0	9,215
North Carolina State University	10.RD	2006-0457-01	109,972	137,399
North Carolina State University	10.RD	----	0	10,000
Northern Arizona University	10.RD	2004-35111-15057	0	32,565
Omega Piezo Technologies	10.RD	2005-33610-15515	0	9,382
PPG Industries	10.RD	----	0	(211)
Rodale Institute	10.RD	RI-100-242-PENN STATE	0	19,114
Rutgers State University of New Jersey	10.RD	2001-51101-11084	0	16,500
Rutgers State University of New Jersey	10.RD	2004-34103-14523	0	46,205
Rutgers State University of New Jersey	10.RD	2001-52100-11203	0	14,024
Tufts University	10.RD	2005-35102-15414	0	6,525
U.S. Highbush Blueberry Council	10.RD	----	0	11,522
University of Arizona	10.RD	2004-35317-14867	0	58,239
University of California	10.RD	43-3AEM-1-80038	0	10,772
University of Maine	10.RD	2003-34103-13197	0	(208)
University of Maine	10.RD	2006-34141-16855	0	8,745

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Maryland	10.RD	2005-35605-15388	0	74,963
University of Maryland	10.RD	2006-38640-16700	0	15,058
University of Massachusetts	10.RD	04 CA 11242343-018-A1	0	1,551
University of Massachusetts	10.RD	2001-52102-11256	0	20,322
University of Rhode Island	10.RD	2005-35215-15412	0	11,095
University of Tennessee	10.RD	2005-35503-16127	0	(7,474)
University of Vermont	10.RD	2003-38640-12985	0	40,190
University of Vermont	10.RD	2005-38640-15424	21,591	64,609
University of Vermont	10.RD	2006-38640-16700	0	20,266
University of Wisconsin	10.RD	2001-52102-11226	0	9,302
University of Wisconsin	10.RD	2006-34558-17477	0	165,367
University of Wisconsin	10.RD	2005-34558-16344	0	9,992
Washington State University	10.RD	2005-35320-15375	0	19,532
West Virginia University	10.RD	05-CR-11060500	0	10,173
West Virginia University	10.RD	NFS 06-CR-11062759-439	0	161,627
West Virginia University	10.RD	SUB 05-107-PSU	0	476
Total – Agriculture			131,562	1,828,781
<u>Commerce:</u>				
University of Arizona	11.RD	NA04NWS4620012	0	15,066
University of Michigan	11.RD	NA060AR4170017	0	16,245
University of Michigan	11.RD	NA17RJ1225	0	1,256
University of Virginia	11.RD	NA030AR431014	0	26,125
University of Virginia	11.RD	NA16GP2913	0	25,334
Total – Commerce			0	84,026
<u>Defense:</u>				
3 Phoenix	12.RD	N00014-05-M-0163	0	(9)
Adaptive Methods, Inc.	12.RD	N68338-07-C-0012	0	26,733
Advanced Technologies Institute	12.RD	W15QKN-07-C-0066	0	7,556
Advatech Pacific Inc.	12.RD	FA9300-06-D-0003	0	134,696
Alliant Techsystem, Inc.	12.RD	FA8650-07-C-5300	0	10,014
Altex Technologies	12.RD	N00014-07-M-0011	0	21,000
Altex Technologies	12.RD	N00014-06-C-0405	0	41,790
Altex Technologies	12.RD	N00014-04-C-0284	0	(1,432)
Altex Technologies	12.RD	N00014-05-M-0217	0	10,000
Altex Technologies	12.RD	W909MY-06-C-0027	0	37,417
Altex Technologies	12.RD	W9119X-05-C-00	0	27,518
Altex Technologies	12.RD	W56HZV-06-C-0344	0	114,259
American Competitiveness Institute	12.RD	N00014-06-D-0090	0	117,933
American Competitiveness Institute	12.RD	DAA1307-03-C-H611	0	20,410
APIC Corp.	12.RD	----	0	18,430
Applied Research Association	12.RD	F08637-03-C-6006	0	41,909
Arcadis Geraughty	12.RD	----	0	175,415
ARInc.	12.RD	DAAB0703DB006	0	138,020
Aspen Aerogels Inc.	12.RD	N00014-04-C-0230	0	7,368
Assurance Technology Corp.	12.RD	N00173-01-C-2006	0	17,260
AT&T	12.RD	N6133900D0706	0	92,743
Auburn University	12.RD	F33615-01-2188	0	(77)
B.F. Goodrich Aerospace	12.RD	----	0	26,299
BAE Systems	12.RD	N66001-06-C-2020	0	128,844
BAE Systems	12.RD	W911NF-05-2-0002	0	30,431
Barber Nichols	12.RD	N00014-06-C-0406	0	30,481
Barber Nichols	12.RD	----	0	9,000
Battelle Memorial Institute	12.RD	DTFAC03-C-00042	0	155,591
Battelle Memorial Institute	12.RD	DAAD05-99-D-7014	44,583	46,812
Battelle Memorial Institute	12.RD	DAAD19-02-D-0001	0	83,727
Bechtel Plant Machinery Inc.	12.RD	N00024-98-C-4064	0	434,155
Boeing Company	12.RD	N00019-05-G-0012	0	3,304
Boeing Company	12.RD	W56HZV-05-C-0724	0	166,293

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Booz Allen & Hamilton Inc.	12.RD	W15P7T06DA401	0	335,103
CACI International inc.	12.RD	F30602-02-C-0073	0	64,737
Calspan University of Buffalo	12.RD	W911NF-06-C-0162	0	224,498
Calspan University of Buffalo	12.RD	FA8750-06-C-0184	0	56,143
Carnegie Mellon University	12.RD	NBC 1030013	0	97,876
CDM Federal Programs Corp	12.RD	W912HQ-050C-0035	0	75,989
Center for Rotorcraft Innovation	12.RD	W911W6-05-2-0003	0	346,116
Center for Rotorcraft Innovation	12.RD	----	0	107,084
Center for Rotorcraft Innovation	12.RD	W911W6-06-2-002	0	28,192
C-K Technologies	12.RD	DAAE07-03-C-L132	0	48
Clemson University	12.RD	N00014-06-C-0022	0	63,735
Clemson University	12.RD	N66001-03-C-8043	0	124,493
Computer Interface Instrumentation	12.RD	N00014-05-M-0203	0	15,594
Computer Interface Instrumentation	12.RD	B68335-06-C-0320	0	38,813
Concurrent Technologies Corp.	12.RD	----	0	10,946
Cortana	12.RD	N00421-02-C-3020	0	24,831
Cortana	12.RD	N66604-04-C-1614	0	(183)
DRS Technology	12.RD	N66604-05-C-3313	0	(198)
Duke University	12.RD	W911NF-05-1-0248	0	91,047
Dynaflow, Inc.	12.RD	N00014-06-M-0218	0	29,930
Edison Welding Institute	12.RD	N00014-02-C-0106	0	245,046
Etrema Products, Inc.	12.RD	----	0	70,195
Evionyx Inc.	12.RD	W31P4Q-05-C-0209	0	71,686
Feature Based Systems Inc.	12.RD	N68335-06-C-0141	0	40,733
Feature Based Systems, Inc.	12.RD	N00014-07-C-0278	0	53,145
Fibertek, Inc.	12.RD	HQ0006-04-D-0001	0	974,481
FuelCell Energy Inc.	12.RD	----	0	10,500
Gear Research Institute	12.RD	----	0	83,688
Gear Research Institute	12.RD	W911W6-06-C-0062	0	779
Gencorp Aerojet, Inc.	12.RD	----	0	77,869
General Dynamics	12.RD	N00024-03-C-6100	0	68,199
General Dynamics	12.RD	N00024-91-C-4355	0	83,816
General Dynamics	12.RD	----	0	4,569,896
Georgia Institute of Technology	12.RD	DAAD19-01-1-0603	0	27,507
Georgia Institute of Technology	12.RD	N00014-04-1-0426	0	232,523
Georgia Institute of Technology	12.RD	W911NF-04-1-0419	78,045	267,335
Georgia Institute of Technology	12.RD	N00014-06-1-0897	0	80,728
Harsh Environment Applied Technologies Inc.	12.RD	DAAB0701DG602	0	526
High Performance Technologies	12.RD	G804T01BFC0061	0	57,309
Honeywell Inc.	12.RD	DAAD19-01-2-0010	0	153,055
Hontek Corp	12.RD	N00014-06-M-0274	0	21,299
Image Acoustics Inc.	12.RD	N00014-07-C-0146	0	5,209
Impact Technologies LLC	12.RD	N68335-06-C-0025	0	9,647
Infoscitex Corporation	12.RD	W911QX-07-C-0014	0	15,435
Infoscitex Corporation	12.RD	----	0	83,001
Innovative Scientific Solutions Inc.	12.RD	F33615-03-D-2329	0	41,640
Innovative Scientific Solutions Inc.	12.RD	N00014-07-M-0090	0	9,707
Intelligent Automation, Inc.	12.RD	FA9550-06-C-0101	0	35,023
Intelligent Automation, Inc.	12.RD	W15P7-06-C-P204	0	16,804
International Business Machines, Inc.	12.RD	W911NF-06-3-0001	0	225,129
International Business Machines, Inc.	12.RD	N66001-04-C-8032	0	6,458
Invercon LLC	12.RD	W91146-06-C-0002	0	43,139
ITT Industries	12.RD	----	0	232,009
ITT Industries	12.RD	N00173-02-C-2-25	0	2,930
ITT Industries	12.RD	N00173-03-C-2037	0	390,004
Jet Propulsion Lab	12.RD	----	0	24,514
Johns Hopkins University	12.RD	N00014-06-1-0991	0	29,098
KCF Technologies	12.RD	W81XWH-06-C-0387	0	24,630
KCF Technologies	12.RD	N00014-05-C-0359	0	76,352
KCF Technologies	12.RD	----	0	11,566

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
KDH Electronics Systems, Inc.	12.RD	N00421-04-D-0072	0	74,501
Kennametal Inc.	12.RD	W911NF04-02-0037	0	234,447
Knolls Atomic Power Lab	12.RD	N00024-C-4011	0	106,227
Knolls Atomic Power Lab	12.RD	----	0	30,719
Ksaria Corp.	12.RD	----	0	15,694
Kuchera Defense Systems Inc.	12.RD	W55HZV-05-C-0354	0	44,741
Kuchera Defense Systems Inc.	12.RD	FA8650-06-M-5226	0	8,112
L-3 Communications	12.RD	----	0	78,294
L-3 Communications	12.RD	FA9451-04-C-0290	0	3,600
L-3 Communications	12.RD	PO TP-BRM-06117-1	0	8,377
Lehigh University	12.RD	W911NF-04-2-0015	0	24,752
Lehigh University	12.RD	W911NF-06-2-0020	0	10,175
Lighting Packs, LLC	12.RD	N0001406M0309	0	21,000
Lockheed Martin	12.RD	H98320-04-C-0674	0	46,424
Lockheed Martin	12.RD	N00039-04-C-0035	0	63,279
Lockheed Martin	12.RD	----	0	24,182
Luna Innovations, Inc.	12.RD	N00014-06-M-0291	0	21,000
Lynntech Inc.	12.RD	----	0	23
ManTech Systems Engineering Corp.	12.RD	----	0	129,022
Massachusetts Institute of Technology	12.RD	----	0	68,311
Material Sciences Corp.	12.RD	N6554-00-C-0059	0	25,003
Material Sciences Corp.	12.RD	----	0	23,383
McDonnell Douglas Corp.	12.RD	DAAH01-01-2-0005	0	115,082
Metacomp Technologies	12.RD	FA-9550-06-C-0222	0	40,000
Metamateria Partners LLC	12.RD	N00014-05-C-0535	0	28,483
Micro Analysis & Design Inc.	12.RD	05TA1-SP1-RT4	0	226,589
Mission Research Corp.	12.RD	DASG60-98-C-0035	0	712,279
Nanopowder Enterprises	12.RD	W15QKN04C1122	0	45,422
Nantero	12.RD	----	0	12,250
National Center for Defense Robotics	12.RD	N000164-05-D-6647	0	79,963
National Center for Manufacturing Sciences	12.RD	----	0	31,718
Newport News Shipbuilding	12.RD	N00024-98-C-4064	0	471,627
Newport News Shipbuilding	12.RD	N00024-04-G-62-2	0	688,080
Newport News Shipbuilding	12.RD	----	0	1,250,254
Nextgen Aeronautics Inc.	12.RD	N00014-05-C-0290	0	56
Nextgen Aeronautics Inc.	12.RD	W31P4Q-05-C-0308	0	35,840
Nextgen Aeronautics Inc.	12.RD	FA9550-06-C-0111	0	36,535
Nextgen Aeronautics Inc	12.RD	FA9550-06-C-0049	0	30,000
nGimat Co.	12.RD	W911QX-06-C-0125	0	20,610
North Carolina A&T University	12.RD	N00030-06-C-0024	0	10,206
North Carolina A&T University	12.RD	----	0	32,250
Northrop Grumman	12.RD	N00102-02-D-1900	0	43,342
Northrop Grumman	12.RD	N00024-24-G-62-2	0	67,671
Northrop Grumman	12.RD	HR0011-04-C-0003	0	171,480
Northrop Grumman	12.RD	FA8750-06-C-0051	0	113,177
Northrop Grumman	12.RD	----	0	1,939,763
Omega Piezo Technologies	12.RD	W31PHQ-05-C-0176	0	207,977
Planning Systems Inc.	12.RD	N00014-04-C-0399	0	82,647
Princeton University	12.RD	FA9550-05-1-0365	0	131,713
Purdue University	12.RD	W911NF-06-1-0377	0	60,058
Qortek, Inc.	12.RD	N00014-06-M-0307	0	16,792
Questek Innovations LLC	12.RD	N00014-05-M-0250	0	17,370
Questek Innovations LLC	12.RD	N68335-06-C-0339	0	7,270
Raytheon Co.	12.RD	04-C-0009	0	36,364
Raytheon Co.	12.RD	----	0	34,545
Rhombus Consultants Group	12.RD	N68335-06-C-0355	0	20,836
RWK Inc.	12.RD	N65538-05-M-0163	0	4,165
Rockwell Scientific Co LLC	12.RD	HR0011-06-C-0084	0	47,500
Rutgers State University of NJ	12.RD	W911NF-06-2-0007	0	106,000
Savit Corporation	12.RD	DAAE30-03-D-1008	0	3,164

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Savit Corporation	12.RD	----	0	(5,601)
Schott Glass Technologies	12.RD	W911SR-07-C-0025	0	7,965
Science Research Laboratory	12.RD	W31P4Q-06-C-0425	0	22,385
Sentient Corporation	12.RD	N00014-06-06-M-0279	0	34,982
Sentient Corporation	12.RD	N68335-05-C-0307	0	926
Sikorsky Aircraft Company	12.RD	W911W6-05-2-0003	0	110,973
Smiths Detection	12.RD	DAAB07-00-C-J613	0	367,227
Solers Inc.	12.RD	N00014-05-C-0032	0	364,506
South Carolina Research Authority	12.RD	N00014-01-2-0001	0	2,522
South Carolina Research Authority	12.RD	N00014-06-D-0045	0	357,765
South Carolina Research Authority	12.RD	N00014-06-M-0261	0	4,990
Southern University and A&M College	12.RD	N000014-05-1-0706	0	31,246
Spectrum Technology Group, Inc.	12.RD	N00167-04-D-0022	0	105,189
SRI International	12.RD	NMA401-02-9-2001	0	(218)
Stewart & Stevenson Services Inc.	12.RD	DAAE07-03-C-S023	0	(31)
Telka Research Inc.	12.RD	N00173-05-C-2056	0	308,371
Teledyne Science & Imaging LLC	12.RD	NBCHC060175	0	153,191
Tennessee State University	12.RD	W911NF04-2-0049	0	126,240
The Ex One Company	12.RD	DAAD19-02-2-0015	0	38,464
Titan Corporation	12.RD	DTRA 01-03-D0013	270,000	809,004
Toyon Research Corporation	12.RD	FA8650-05-C-1820	0	80,346
Triton Systems Inc.	12.RD	W911QX-07-C-0031	0	58,751
TRS Ceramics Inc.	12.RD	N00014-04-C-0114	0	33,806
TRS Ceramics Inc.	12.RD	N00014-04-M-0211	0	(1)
TRS Ceramics Inc.	12.RD	N00014-05-C-0181	0	3,213
TRS Ceramics Inc.	12.RD	N00014-05-C-0371	0	59,777
TRS Ceramics Inc.	12.RD	N00014-06-M-0226	0	31,607
TRS Ceramics Inc.	12.RD	N00014-06-C-0134	0	45,971
TRS Ceramics Inc.	12.RD	N00014-06-M-0139	0	35,748
TRS Ceramics Inc.	12.RD	N00014-07-M-0236	0	1,678
UES Inc.	12.RD	N68335-06-C-0264	0	24,000
Universal Display Corp.	12.RD	DAAD19-02-2-0019	0	32,091
Universal Technologies	12.RD	F33615-03-D-5204 DO009	0	58,603
University of California Berkley	12.RD	F30602-01-2-0524	0	2,887
University of California Berkley	12.RD	----	0	244,416
University of California Santa Barbara	12.RD	MDA972-01-1-0027	0	3,911
University of California Santa Barbara	12.RD	N00014-04-1-0457	0	3,886
University of California Santa Barbara	12.RD	N00014-06-1-0428	0	203,944
University of Chicago	12.RD	F49620-01-1-0335	0	10,000
University of Colorado	12.RD	N00014-02-1-0714	0	20,338
University of Delaware	12.RD	W911QX-040C0116	0	5,416
University of Florida	12.RD	W912HZ-05-C-0059	0	70,790
University of Florida	12.RD	W912HZ-05-C-0060	0	77,912
University of Florida	12.RD	N00014-07-1-0143	0	13,594
University of Iowa	12.RD	N00014-06-1-0420	0	96,357
University of Maryland	12.RD	N00014-06-1-0530	0	53,255
University of Michigan	12.RD	N00167-04-D-0004	0	54,968
University of Pittsburgh	12.RD	DAAD19-01-1-0650	0	139,707
University of Rochester	12.RD	F49620-03-1-0379	0	80,848
University of Southern California	12.RD	N0014-05-1-0630	0	20,178
University of Texas	12.RD	W911NF-07-1-0028	0	41,491
University of Texas	12.RD	W81XWH-06-1-0145	0	10,761
University of Texas	12.RD	F33615-03-D-2354	0	52,185
University of Texas	12.RD	F33657-99-D-2051	0	2,241
University of Texas	12.RD	W911NF-07-1-0047	0	158,564
University of Washington	12.RD	HR0011-05-1-0044	0	40,809
University of Washington	12.RD	----	0	11,356
Utron Inc.	12.RD	N0001405M0247	0	27,948
Virginia Polytechnic Institute	12.RD	DAAD 19-02-1-0275	0	76,728
VLOC Inc.	12.RD	FA9451-05-C-0182	0	399,208

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
VLOC Inc.	12.RD	FA9451-06-D-0012	0	255,367
Wagner Associates	12.RD	FA8650-05-C-1807	0	107,716
Warsila Lips, Inc.	12.RD	N00014-07-C-0087	0	14,878
Washington State University	12.RD	N00014-06-1-0874	0	71,843
Washington State University	12.RD	N00014-03-1-0949	0	19,554
Westinghouse	12.RD	N00024-98-C-4064	0	28,146
Woods Hole Oceanographic	12.RD	----	0	3,290
Wyle Laboratories	12.RD	DACA72-02-0037	0	58,443
Wyle Laboratories	12.RD	HC1047-05-D-4005	0	32,159
Total – Defense			392,628	26,242,418
<u>Interior:</u>				
American Fisheries Society	15.RD	----	0	9,093
Cogniscent, Inc.	15.RD	NBCHC050065	0	16,384
Continental Shelf Association	15.RD	----	0	6,254
Nominee Indian Tribe of Wisconsin	15.RD	----	0	21,065
TDI Brooks International Inc.	15.RD	0105CT39187	0	216,368
University of Maryland	15.RD	USDI-CA-1443CA309701	0	8,484
Total - Interior			0	277,648
<u>Justice:</u>				
Central Susquehanna Intermediate Unit	16.RD	----	0	19,566
Wake Forest University	16.RD	2005-AH-FX-K011	0	6,528
Total - Justice			0	26,094
<u>Labor:</u>				
ABCD Corp.	17.RD	----	0	49,433
Southcentral Employment Corporation	17.RD	P5-423-180-05-7241-01	0	31,988
Total - Labor			0	81,421
<u>State:</u>				
Council for Intern'l Exchange of Scholars	19.RD	----	0	24,033
Total - State			0	24,033
<u>Transportation:</u>				
Battelle Pacific NW National Lab	20.RD	DTFAC-03-C-00042	0	126,857
General Electric Co.	20.RD	----	0	50,000
ICF, Inc.	20.RD	----	0	24,865
Midwest Research Institute	20.RD	NCHRP 15-25	0	7,606
Midwest Research Institute	20.RD	17-32	0	101,222
Midwest Research Institute	20.RD	----	0	36,744
National Academy of Sciences	20.RD	----	8,870	105,395
National Academy of Sciences	20.RD	DOT-6100-099	7,916	38,267
Quality Engineering Solutions	20.RD	FAA-01-G-002-04-02	0	45,358
Rensselaer Polytechnic Institute	20.RD	NAS HR 5-19	0	99,244
University of New Hampshire	20.RD	DTFH61-98-X-00095	0	2,501
Vanasse Hangen Brustlin Inc.	20.RD	DTFH61-05-D-00024	0	74,792
Vanasse Hangen Brustlin Inc.	20.RD	----	0	70,662
Virginia Transportation Res Co.	20.RD	----	0	16,910
Washington Department of Transportation	20.RD	----	0	75,423
Total - Transportation			16,786	875,846
<u>Treasury:</u>				
University of California	21.RD	DUE-0231414	0	15,344
Total - Treasury			0	15,344
<u>National Aeronautics and Space Admin.:</u>				
Bechtel Plant Machinery Inc.	43.RD	DE-AC12-00SN39357	0	21
Boeing Company	43.RD	6000132079	0	108,791
California Institute of Technology	43.RD	NNG06GA08G	0	35,647

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Combustion Propulsion & Ballistics	43.RD	NAS8-97238	0	90,789
Electrodynamic Applications Inc.	43.RD	----	0	3,779
Eloret Corp.	43.RD	----	0	53,063
George Mason University	43.RD	NNG04GE61A	0	3,825
Georgia Institute of Technology	43.RD	NNX06AE50G	0	53,883
Intelligent Automation Inc.	43.RD	NNA05AA05C	0	319
Intelligent Automation Inc.	43.RD	NND05AA52C	0	(4,975)
Jet Propulsion Lab	43.RD	NM0710965	0	44,352
Jet Propulsion Lab	43.RD	NM0710076	0	10,665
Jet Propulsion Lab	43.RD	----	0	111,050
Jet Propulsion Lab	43.RD	NM0710776	0	86,724
Jet Propulsion Lab	43.RD	NM0710860	0	8,673
Jet Propulsion Lab	43.RD	NM0710833	0	14,396
Mechanical Solutions	43.RD	NND04AB83C-M	0	11,617
National Institute of Building Sciences	43.RD	NASW-02039 TO#7	0	24,045
National Institute of Building Sciences	43.RD	----	0	3,194
National Space Biomed Research Institute	43.RD	NNN-9-58-168	0	80,000
National Space Biomed Research Institute	43.RD	NNN-0-58	0	15,448
New Era Technology	43.RD	----	0	(902)
Ohio Aerospace Institute	43.RD	NAG3-2430	0	25,758
Phoenix Integration	43.RD	NNC06CA29C	0	81,249
QSS Group, Inc.	43.RD	----	0	70,178
Smithsonian Astrophysical Observatory	43.RD	NAS8-03060	336,915	1,801,825
Space Telescope SCI Institute	43.RD	HST-G0-09425.26A	0	81,565
Space Telescope SCI Institute	43.RD	NAS5-26555	0	237,084
Space Telescope SCI Institute	43.RD	HST-GO-09657.02A	0	5,888
Space Telescope SCI Institute	43.RD	----	0	212
Space Telescope SCI Institute	43.RD	HST-GO-10131.01-A	0	51,035
University of Alabama	43.RD	NNM05AA22A	0	253,956
University of California	43.RD	NAG5-13758	0	11,928
University of Florida	43.RD	NCC3-994	0	399,835
University of Hawaii	43.RD	NNG04GL48G	0	23,240
University of Minnesota	43.RD	NNG05GD51G	0	31,751
University of Texas	43.RD	NNG05GOB3G	0	44,666
University of Vermont	43.RD	NCC5 581	0	9,905
Vexcel Corp.	43.RD	NNG04CB10C	0	(568)
Total - National Aeronautics and Space Admin.			<u>336,915</u>	<u>3,883,911</u>
 <u>National Endowment for the Arts:</u>				
University of Maryland	45.RD	EE-50192-05	0	15,719
Total - Endowment for the Arts			<u>0</u>	<u>15,719</u>
 <u>National Science Foundation</u>				
Bigelow Lab for Ocean Sciences	47.RD	OPP-0221748	0	54,972
California Institute of Technology	47.RD	AST-0326524	0	95,171
Carnegie Institute of Technology	47.RD	----	0	46,306
Case Western Reserve University	47.RD	ECS-0609128	0	41,291
City College of San Francisco	47.RD	----	0	2,927
Civilian Research & Development Foundation	47.RD	UKP12616KV04	0	11,501
Civilian Research & Development Foundation	47.RD	----	0	5,400
Clemson University	47.RD	ATM-0222421	0	27,861
Consortium of Universities for the Advancement of Hydrologic Science Inc.	47.RD	EAR-0326064	0	3,891
Consortium of Universities for the Advancement of Hydrologic Science Inc.	47.RD	----	0	9,231
Cornell University	47.RD	0335765	0	841,043
Cornell University	47.RD	ATM-0630533	0	49,074
Cornell University	47.RD	----	0	41,217
Cornell University	47.RD	IBN-0343409	0	13,047
Florida State University	47.RD	----	0	75,890

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Georgia State University	47.RD	EEC-0601939	0	36,016
Harvard University	47.RD	DMR-0303916	0	29,191
Iowa State University	47.RD	CMA-0424700	0	67,561
John Hopkins University	47.RD	ECS-0224817	0	197
Joint Oceanographic Institution	47.RD	----	0	91,979
Kansas State University	47.RD	----	0	396,215
Lehigh University	47.RD	DMR-0409588	0	81,862
Lehigh University	47.RD	0349632	0	56,320
Lehigh University	47.RD	DMR-0602986	0	40,828
Louisiana Tech University	47.RD	BES-0210298	0	7,994
Massachusetts Institute of Technology	47.RD	----	0	9,066
Massachusetts Institute of Technology	47.RD	PHY-0326281	0	280,256
Michigan State University	47.RD	DMR0304391	0	103,002
Michigan State University	47.RD	DBI-0501890	0	155,794
National Academy of Sciences	47.RD	INT-0002341	0	1,386
National Academy of Sciences	47.RD	----	0	2,653
National Institute of Statistical Science	47.RD	----	0	13,922
North Carolina State University	47.RD	DB1-0605135	0	6,832
North Carolina State University	47.RD	DB1-0606017	0	43,466
Oregon State University	47.RD	----	0	18,795
Rand Corporation	47.RD	0345925	0	89,851
Rensselaer Polytechnic Institute	47.RD	CMS-0334380	0	19,393
Rensselaer Polytechnic Institute	47.RD	CMS-0324380	0	2,229
Research Foundation State University of New York	47.RD	0221934	0	43,696
Rohm & Haas Co.	47.RD	----	0	(46)
Simmons College	47.RD	IIS-0333036	0	46,299
SRI International	47.RD	EIA-0205625	0	1,684
SRI International	47.RD	REC-0231981	0	7,125
State University of New York	47.RD	EEC-9701471	0	10,358
State University of New York	47.RD	----	0	24,868
Structured Metals Industries, Inc.	47.RD	IIP-0637900	0	27,943
Thoughtventions Unlimited LLC	47.RD	OII-0610518	0	25,000
UK Astronomy Technology Center	47.RD	AST 0084699	0	85,501
University Corporation for Atmospheric Research	47.RD	ATM-0301213	0	113,868
University of Arizona	47.RD	NSF EAR-9876800	0	46,809
University of Arizona	47.RD	----	0	37,569
University of California	47.RD	CIEE 500-02-004	0	118,531
University of California	47.RD	EAR-0120727	0	66,645
University of California	47.RD	ISS0229210	0	40,098
University of California	47.RD	EAR-0225673	0	75,231
University of California	47.RD	ESI-0334199	0	85,407
University of Florida	47.RD	PHY-0122557	0	161,575
University of Georgia	47.RD	DEB0346488	0	47,563
University of Iowa	47.RD	0547244-001	0	(1)
University of Kentucky	47.RD	EIA-022196	0	4,290
University of Maryland	47.RD	ESI-0426253	0	169,139
University of Maryland	47.RD	----	0	696,766
University of Miami	47.RD	BCS-0410348	0	46,570
University of Missouri	47.RD	HRD-06-781	0	79,332
University of Nebraska	47.RD	ANT-0342484	0	67,405
University of North Carolina	47.RD	DMS-0112069	0	59,446
University of South Carolina	47.RD	CMS-0528873	0	9,739
University of Texas	47.RD	EF-0334952	0	22,837
University of Texas	47.RD	DEB-0120709	0	9
University of Wisconsin	47.RD	0514592	0	86,401
University of Wisconsin	47.RD	----	0	733,017
University of Wisconsin	47.RD	PHY-0600953	0	12,360
University of Wisconsin	47.RD	DMR-0313764	0	23,889

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Wisconsin	47.RD	0217924	0	13,806
Yale University	47.RD	BES-0329470	0	3,635
Total - National Science Foundation			0	5,967,994
<u>Department of Veterans Affairs:</u>				
New Mexico VA Health Care System	64.RD	----	0	43,122
Total - Department of Veterans Affairs			0	43,122
<u>Environmental Protection Agency:</u>				
Altex Technologies	66.RD	EP-D-06-019	0	17,457
Battelle Pacific NW National Lab	66.RD	68-C-00185	0	19,932
Capital Research Conservation Development Council	66.RD	----	0	26,996
Clearwater Conservancy	66.RD	2005-0001-088	0	10,233
Community Housing Res Center, Inc.	66.RD	PI-96414104	0	117
Institute for Local Self-Reliance	66.RD	X1-97314101-0	0	(1,330)
Mactec Inc.	66.RD	68-D-03-052	0	21,378
Nanopowder Enterprises, Inc.	66.RD	X-98160801	0	35,432
National Sanitation Foundation International	66.RD	----	0	33,439
Tetra Tech EM Inc.	66.RD	68-C-02-108, TO 113	0	(1,315)
University of Maryland	66.RD	2006-0113-004	0	3,928
Virginia Polytech Institute	66.RD	X8-97323801-0	0	17,763
Water Environmental Research Foundation	66.RD	X-83085101-2	0	96,440
Total - Environmental Protection Agency			0	280,470
<u>Nuclear Regulatory Commission:</u>				
Purdue University	77.RD	NRC-04-03-048	0	35,530
Total Nuclear Regulatory Commission			0	35,530
<u>Energy:</u>				
Advanced Research Inc.	81.RD	DE-FG02-03ER3596	0	4,204
Agiltron, Inc.	81.RD	----	0	33,410
Air Products & Chemical	81.RD	DE-FC26-97FT96052	0	77,918
Air Products & Chemical	81.RD	DEFC0402AL67613	0	23,557
Air Products & Chemical	81.RD	DE-FC26-98FT40343	0	94,615
Argonne National Laboratory	81.RD	W-31-109-ENG-38	0	153,167
Argonne National Laboratory	81.RD	----	0	193,454
AWWA Research Foundation	81.RD	----	0	56,907
Battelle Pacific NW National Lab	81.RD	----	0	18,000
Battelle Pacific NW National Lab	81.RD	DE-AC07-05ID14517	0	88,987
Battelle Pacific NW National Lab	81.RD	DE-AC05-00OR2272-5	0	98,720
Battelle Pacific NW National Lab	81.RD	DE-AC05-76RL01830	50,931	568,786
Bechtel Bettis, Inc.	81.RD	----	0	703,891
Bettis Atomic Power Lab	81.RD	----	0	199
Brookhaven National Lab	81.RD	----	0	44,645
Brookhaven National Lab	81.RD	DEAC0298CH10098	0	1,254
Case Western Reserve University	81.RD	DE-FC-28-04RW1252	0	163,696
Clemson University	81.RD	DE-FC-2602NT41431	0	114,953
Colorado School of Mines	81.RD	DE-FC26-05NT15549	0	65,926
Consortium Prem. Carbon Prod. From Coal	81.RD	DE-FC26-03NT41874	0	18,588
Dynalene, Inc.	81.RD	DE-FG-02-04ER83884	0	81,077
Euclid Technology Labs	81.RD	DE-FG02-04ER83946	0	13,404
Fuel Cell Engineering Corp.	81.RD	----	0	68,370
General Electric Company	81.RD	DE-FC26-05NT 42438	0	14,446
ION Power, Inc.	81.RD	DE-GF02-06ER84418	0	30,000
Iowa State University	81.RD	NRCS683A754137	0	163,381
KCF Technologies	81.RD	DE-FG02-04ER86189	0	130,666
Knolls Atomic Power Lab	81.RD	DE-AC-1200SN39357	0	30,408
Lawrence Berkeley Laboratory	81.RD	DE-AC02-05CH11231	0	149,269
Lawrence Berkeley Laboratory	81.RD	DE-AC03-76SF00098	0	33,229

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Los Alamos National Lab	81.RD	W-7405-ENG-36	0	128,398
Los Alamos National Lab	81.RD	DE-AC-52-06NA25396	0	70,000
Medical University of South Carolina	81.RD	DE-FG07-051D14692 IND	0	42,013
Michigan Technological University	81.RD	DE-FC02-06ER64158	17,761	40,825
National Center for Energy Management	81.RD	DE-FC36-03G013072	0	23,116
National Renewal Energy Lab	81.RD	DE-AC36-99G010337	0	87,196
New York State Energy Research and Development	81.RD	DE-FC26-00NT41025	5,131	15,648
Oak Ridge National Lab	81.RD	----	0	132,229
Picarro, Inc.	81.RD	DE-FG02-03ER83751	0	17,009
Sandia National Labs	81.RD	----	0	68,718
Sandia National Labs	81.RD	A0342	0	3,837
Sandia National Labs	81.RD	SF6432-EI	0	30,000
Seimens Power Generation Inc.	81.RD	----	0	12,094
Stripper Well Consortium	81.RD	DE-FC26-04NT42098	0	(73)
Tuscarora Intermediate Unit	81.RD	----	0	11,375
U.S. Council for Automotive Research	81.RD	AMD 304	0	6,266
UHV Technologies, Inc.	81.RD	DE-FG-02-05ER84342	0	4,999
Universal Display Corporation	81.RD	DE-FG02-04ER84113	0	71,806
University of Illinois	81.RD	DEFC03G013072	0	203,288
University of Kentucky	81.RD	4-67392-04-201	0	21,702
University of Minnesota	81.RD	DE-FC02-03ER63613	0	(41,877)
University of Minnesota	81.RD	DE-FG02-00ER63023	0	43,732
University of Minnesota	81.RD	011213-IU	0	40,929
University of Nebraska	81.RD	DE-FC-02-03ER63613	46,737	73,726
University of Pittsburgh	81.RD	DE-FC26-01NT41196	0	(10,289)
West Virginia University	81.RD	----	0	115,695
Total - Energy			120,560	4,451,489

Education:

Bechtel Plant Machinery Inc.	84.RD	----	0	122,244
Duke University	84.RD	SPS ID#121300	0	82,340
Duke University	84.RD	SPS ID#121301	0	39,331
Harrisburg School District	84.RD	----	0	76,144
Ohio State University	84.RD	R305G020075	0	2,804
Steeltown Highspire School District	84.RD	----	0	9,546
Tuscarora Intermediate Unit	84.RD	----	0	11,218
University of North Carolina	84.RD	R305A040056	0	85,983
Total - Education			0	429,610

Health and Human Services:

Asso. of Teachers Preventative Medicine	93.RD	U50/CCU300860	0	135,337
Bassett Mary Imogene Hospital	93.RD	1U50/OH07542-02/NIH	0	66,776
Bassett Mary Imogene Hospital	93.RD	2U50/OH007542-06	0	92,132
Bassett Mary Imogene Hospital	93.RD	5U50/OH07542-05	0	25,896
Baylor College of Medicine	93.RD	5R01AR04447411	0	26,435
Brown University	93.RD	1R01HL046005-14	0	43,735
Brown University	93.RD	R01 HL046005-03	0	6,699
Burke, WM Medical Research Institute, Inc.	93.RD	1R01CA11842-01A2	0	81,123
Case Western Reserve University	93.RD	R01NS049135-01	0	33,243
Case Western Reserve University	93.RD	5P01HL1870830	0	20,257
Case Western Reserve University	93.RD	1 R01 DE015322-01	0	23,655
Centre Co. Mental Health Retardation	93.RD	----	0	2,930
Cincinnati Childrens Hospital Medical Center	93.RD	R01NR007615	0	42,433
Cincinnati Childrens Hospital Medical Center	93.RD	R01DA019965	0	20,992
Cincinnati Childrens Hospital Medical Center	93.RD	1R01DA016402	0	27,404
City University of New York	93.RD	2 R01HL057093	0	10,133
City University of New York	93.RD	2R01HL057093-09A	0	28,564
Cleveland Clinic	93.RD	RR019397	0	725

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Cleveland Clinic	93.RD	1H39OT00069-02	0	14
Cleveland Clinic	93.RD	U54RR019397-01	0	132,422
Cleveland Clinic	93.RD	RR019397-01	0	102,977
Cobb/Douglas Community Service Board	93.RD	----	0	22,172
Colorado State University	93.RD	1 R01A152055	0	24,078
Columbia University	93.RD	15R01MH063749-05	0	43,720
Community Strategies	93.RD	----	0	2,542
Cornell University	93.RD	P01CA094000	0	179,866
Dartmouth College	93.RD	----	0	3,157
Dartmouth College	93.RD	7 R01HD049782-02	0	44,340
Dow Chemical Co.	93.RD	----	0	39,149
Drexel University	93.RD	1 R21 NR008798-01A2	0	2
Drexel University	93.RD	7 R01 AG022443-02	0	16,855
Drexel University	93.RD	1 R21 NR008798-02A2	0	29,817
Drexel University	93.RD	1 R21 NS0500590-1	0	12,524
Drexel University	93.RD	5 R01 DK066759-02	0	42,952
Drexel University	93.RD	5 R01 DK066759	0	21,759
Duke University	93.RD	R01DA016903	0	3,648
Duke University	93.RD	1R01CA108919-03	0	81,940
Emory University	93.RD	5 R01GM059969-09	0	91,089
Emory University	93.RD	5 R01GM059969-07	0	66,648
Endographics Inc.	93.RD	----	0	136,454
Endographics Inc.	93.RD	2R44CA091534-03	0	2
Family Communications Inc.	93.RD	6 H79SM56490-01-1	0	21,858
Family Communications Inc.	93.RD	4H79 SM56861-01-3	0	4,403
Frontier Science & Technology Research Foundation	93.RD	2U1CA021115-30	0	123,926
George Mason University	93.RD	1 R01 MH079502-01	0	35,899
Gynecologic Oncology	93.RD	2 U10 CA27469	0	116,216
Hebrew Rehabilitation Center	93.RD	----	0	23,199
Hebrew Rehabilitation Center	93.RD	5 R01AG024091	0	6,650
HME	93.RD	2R44RR015339-02-A2	0	38,171
Fred Hutchinson Cancer Research Center	93.RD	5 U19 ES011387-05S1	0	18,763
Fred Hutchinson Cancer Research Center	93.RD	5 U19 ES011387-04	0	(1,175)
Indiana University	93.RD	1 R01 HD41603-01A1	0	29,856
Indiana University	93.RD	R01MH05771	0	14,944
Iowa State University	93.RD	R01DA1370901A1	0	1,532,609
Iron Disorders Institute	93.RD	H75/CCH423960-02-1	0	130,124
John Hopkins University	93.RD	1 P01AG021190	0	612,587
John Hopkins University	93.RD	1 P01 AG021190-04	0	23,939
John Hopkins University	93.RD	R01AG020688	0	11,721
John Hopkins University	93.RD	R01AG020688-04	0	25,761
John Hopkins University	93.RD	5R21CA105696-02	0	8,416
John Hopkins University	93.RD	P30MH066247	0	86,965
John Hopkins University	93.RD	P20MH066247	0	1,633
John Hopkins University	93.RD	2R01HD038384-06A1	0	20,775
John Hopkins University	93.RD	R01HD050254	0	66,004
John Hopkins University	93.RD	1 P01CA098252-01	0	36,420
John Hopkins University	93.RD	5 P01 AG021190-03	0	223,699
Kirksville College	93.RD	----	0	20,827
Kittelson & Associates	93.RD	----	0	21,088
Leapfrog Group	93.RD	2U18HS013680-02	0	24,315
Lewin Group	93.RD	TLG04016417304	0	(3,571)
Louisiana State University	93.RD	R01 AA13543	0	(66)
Mathematica Policy Research Institute	93.RD	500-00-0033	0	17,775
Mayo Foundation	93.RD	2R01-RR-11800-04-A2	0	8,149
Medical University of South Carolina	93.RD	1 R01 HL077841-01	0	38,676
Medical University of South Carolina	93.RD	R01CA075248	0	53,165
Meharry Medical College	93.RD	5U54HD44315-04	0	264,764
Meharry Medical College	93.RD	5U54HD44315-03	0	(17,429)

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Michigan State University	93.RD	1R03DA021639-01	0	6,933
Moffitt HL Cancer Center and Research Int	93.RD	1R01CA112112	0	45,961
Nanomech, LLC	93.RD	1R43DE01573U-01 A2	0	30,516
National Childhood Cancer Foundation	93.RD	5U10CA098543-03	0	67,243
National Childhood Cancer Foundation	93.RD	5U10CA098543-04	0	32,989
Northwestern University	93.RD	7R221CA1003833-03	0	23,437
Northwestern University	93.RD	U54 HD034449-11	0	68,504
OPAP, Inc.	93.RD	STTR1R41HL082024-01A	0	18,671
Pacific Institute for Research and Evaluation	93.RD	1R01 HD055838-01	0	3,534
Pennington Biomed Research Center	93.RD	1-P50-AT002776	0	17,781
Purdue University	93.RD	2 R01 AG018436-06	0	46,259
Purdue University	93.RD	1 R01 AG027769-01A2	0	39,680
Purdue University	93.RD	7R01AG017916-03	0	7,222
Radiation Monitoring Devices	93.RD	1 R43 EB005646-01A1	0	20,279
Rutgers State University of NJ	93.RD	1 R21 HL084367-01A1	0	37,982
SCI Applications Internal Corp	93.RD	----	0	209,517
Scripps Institute	93.RD	5 R01 CA097209-04	0	866
Scripps Institute	93.RD	5 R01 CA097209-05	0	67,058
Syracuse University	93.RD	2 R01 AG12448-06A2	0	(1)
Syracuse University	93.RD	R01 AT002477	0	69,750
Texas A & M University	93.RD	GM070622	0	21,238
Ticom Geomatics	93.RD	----	0	4,744
TRS Ceramics	93.RD	----	0	5,000
TRS Ceramics	93.RD	1 R43CA119437-01	0	7,687
Tufts University	93.RD	R01 DK60021	0	22,099
University of Alabama	93.RD	1P01ES011617-01A1	0	1,930
University of Alabama	93.RD	2-P01-ES011617-04	0	154,265
University of Arkansas	93.RD	1 R01AI0605363-03	0	148,567
University of Arkansas	93.RD	7 R01 AR049038-05	0	123,201
University of California	93.RD	N01-AI-15416	0	168,635
University of California	93.RD	7R01A10600664-04	0	44,413
University of California	93.RD	1 R01 AG023845-01A1	0	44,344
University of California	93.RD	2803204-SO17:U19AG02	0	32,061
University of Cincinnati	93.RD	5 R01 AI065256-01	0	9,833
University of Cincinnati	93.RD	1 U01 NS052220-02	0	2,294
University of Cincinnati	93.RD	1 U01 NS052220-01	0	21,395
University of Colorado	93.RD	1 R01 HL 079647-02	0	25,378
University of Colorado	93.RD	FAA 90YF0053102	0	37,867
University of Connecticut	93.RD	2 R01-DC004099-06	0	96,052
University of Florida	93.RD	R01HL074730	0	7,598
University of Hawaii	93.RD	1S11N41833.01	0	1,554
University of Illinois	93.RD	5 R01 MH065429-03	0	71,964
University of Illinois	93.RD	R 01 NR08425-04	0	8,748
University of Illinois	93.RD	R01 NR08425-02	0	2,787
University of Iowa	93.RD	5P50DC02746-10	0	7,138
University of Kansas	93.RD	5U10HD025430	0	29,705
University of Kansas	93.RD	3 U10 HC025430-15S1	0	33,667
University of Kentucky	93.RD	1 U01 CA 114622-02	34,824	213,970
University of Kentucky	93.RD	5 U01 CA114622-03	0	14,808
University of Kentucky	93.RD	NOT-NS-03-016	0	16,145
University of Kentucky	93.RD	1-R01-NS045087-02	0	51,316
University of Louisville	93.RD	7 R01 DC006698-03	0	17,329
University of Medicine and Dental of NJ	93.RD	1 R01-NS049176-01A2	0	37,707
University of Medicine and Dental of NJ	93.RD	1 R21 GM079255-01	0	8,131
University of Michigan	93.RD	1 P01 HD39386	0	7,703
University of Michigan	93.RD	----	0	35,927
University of Minnesota	93.RD	R01 EB000895	0	5,260
University of Minnesota	93.RD	R R01 EB000513-04	0	48,989
University of Missouri	93.RD	1-R25-0H008319-01	0	11,764
University of New Mexico	93.RD	5 R01 HD038540-05	0	1,966

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of New Mexico	93.RD	5 R01 HD038540-05R	0	46,536
University of North Carolina	93.RD	1 R01 ES012238-04	0	147,533
University of North Carolina	93.RD	5 P01 HD039667-05	0	1,022,111
University of North Carolina	93.RD	5 P01 HD039667-04	0	9,661
University of North Carolina	93.RD	R01-MH062988-04R	0	117,646
University of North Carolina	93.RD	7 R01 MH062988-05	0	2,295
University of North Carolina	93.RD	5 P01 HD0396678-04	0	2,110
University of North Carolina	93.RD	5 P01 HD039667	0	14,538
University of Pennsylvania	93.RD	5-H30-MC-00038-08	0	57,551
University of Pennsylvania	93.RD	1-U01-DD-000193-01	0	60,279
University of Pennsylvania	93.RD	U27-CCU-318053-07	0	31,112
University of Pennsylvania	93.RD	2H30MC0003807	0	9,807
University of Pennsylvania	93.RD	1R01HL6617601	0	522
University of Pennsylvania	93.RD	1-R01-NR-008923-03	0	10,398
University of Pittsburgh	93.RD	5 D31 HP80008-04-00	0	11,051
University of Pittsburgh	93.RD	5 R01 AA005909-22	0	21,083
University of Rochester	93.RD	----	0	6,785
University of Southern California	93.RD	5 R01 AG021108-02	0	16,488
University of Southern California	93.RD	5P41EB002182	0	192,579
University of Southern California	93.RD	1 R01HD3912901	0	(116)
University of Southern California	93.RD	8P41EB002182-07	0	876
University of Texas	93.RD	1R01AR49038-04	0	(1,554)
University of Texas	93.RD	1 R01 GM073089-01	0	158,018
University of Texas	93.RD	1 R01 HG00384401 A1	0	17,019
University of Virginia	93.RD	1 R01 AR052536-01A2	0	77,413
University of Virginia	93.RD	1 R01 EB004051-01A1	0	83,169
University of Virginia	93.RD	5 R01 EB004051-02	0	(11,331)
University of Virginia	93.RD	7R01AR046560-04	0	16,424
University of Virginia	93.RD	2 R01 CA065622-13	0	37,288
University of Washington	93.RD	1-0R1-GM075095-01A1	0	82,777
University of Washington	93.RD	7 U19 ES011387-06	0	50,548
University of Washington	93.RD	7 R01DA12831	0	27,942
University of Washington	93.RD	1 R01 EB005197-01A1	0	34,638
University of Washington	93.RD	5 R01 DA018148	0	22,773
University of Wisconsin	93.RD	5U10EY014351-04	0	48,525
University of Wisconsin	93.RD	5 R01 NR007889-05	0	16,884
University of Wisconsin	93.RD	1 R01EB005197-01A1	0	11,278
University of Wisconsin	93.RD	5P01AG020166-04	11,929	52,395
University of Wisconsin	93.RD	5P01AG020166-05	0	164,938
University of Wisconsin	93.RD	1R01HD05014401	0	169,214
Utah State University	93.RD	N01A115435	0	243,282
Vanderbilt University	93.RD	5R01A1050884-04	0	9,370
Vanderbilt University	93.RD	5R01A1050884-05	0	7,251
Virginia Commonwealth University	93.RD	5 U54 HD034449-11	0	144,747
Wake Forest University	93.RD	R01 NS038641-05	0	126,553
Wake Forest University	93.RD	R01NS038641	0	682
Washington State University	93.RD	2 R01 DK052849-07	0	29,757
Washington State University	93.RD	2R01DK052849-04192	0	41,835
Washington State University	93.RD	P01CA8939202	0	15,949
Wayne State University	93.RD	5R01DA016736-04	0	8,841
Wayne State University	93.RD	1R01DA016736-03	0	33,583
Western NY Public Health Agency	93.RD	----	0	57,000
Yale University	93.RD	5 P50 MH068789-04	0	71,096
Yale University	93.RD	5 P50 MH068789-03	0	52,555
Total - Health and Human Services			46,753	11,528,716
<u>Agency for International Development:</u>				
International Rice Research Institute	98.RD	----	0	40,000
John Hopkins University	98.RD	GHSA00030001900	0	47,031
Oregon State University	98.RD	HNA-A-00-97-00059-00	0	2,184

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Virginia Polytech Institute	98.RD	EPP-A-00-04-00016-00	0	45,449
Virginia Polytech Institute	98.RD	EPP-A-00-04-00013-00	0	50,248
Total - Agency for International Development			0	184,912
Miscellaneous:				
Applied Signal Technology	99.RD	W913JT-05-D-00020006	0	62,562
Applied Signal Technology	99.RD	---	0	9,299
Combustion Propulsion & Ballistics	99.RD	HQ9996-06-C-7417	0	29,299
Fibertek, Inc.	99.RD	----	0	11,392
Fibertek, Inc.	99.RD	HQ0006-04-D-0001	93,078	198,980
Gear Research Institute	99.RD	----	0	113,231
Health Effects Institute	99.RD	GEWA00020001400	0	21,448
Intelligent Automation Inc.	99.RD	FA9550-05-C-0003	0	14,541
Lockheed Martin	99.RD	----	0	67,082
Mississippi State University	99.RD	CDG-G-00-02	4,276	21,482
Mississippi State University	99.RD	CDG-G-00-02-00012-00	6,765	54,948
National Academy of Sciences	99.RD	6300099	25,745	39,161
Navsys Corp	99.RD	FA255-02-C-0010	0	(91)
North Carolina State University	99.RD	19071-425678	0	8,872
Northrop Grumman Corp.	99.RD	----	0	69,990
Oceaneering International Inc.	99.RD	----	0	27,983
Omega Piezo Technologies	99.RD	----	0	(1,086)
Simmtec, Inc.	99.RD	W9113M-04-C-0126	0	17,357
SRI International	99.RD	RTVGC-02-210	0	312,702
Tennessee State University	99.RD	W911NF-04-2-0049	0	51,233
Ultramet	99.RD	FA865-04-C-2505	0	84,000
Virginia Polytech University	99.RD	LAG-G-00-93-00053-00	0	1,508
Virginia Polytech University	99.RD	EPP-A-00-04-00016-00	0	45,563
Virginia Polytech University	99.RD	----	0	330
Cincinnati Water Works	99.RD	----	0	30,000
Total - Miscellaneous			129,864	1,291,786
Total Research and Development - Pass-Through Funds - Other Institutions			1,175,068	57,568,870
Total Research and Development			62,744,077	409,237,998

5. OTHER DIRECT FUNDING:

Agriculture:

Agricultural Research-Basic and Applied Research	10.001		0	2,758
Grants for Agricultural Research, Special Research Grants	10.200		0	4,217
Grants for Agricultural Research, Special Research Grants	10.206		0	9,900
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210		0	38,820
Higher Education Challenge Grants	10.217		86,644	251,908
Higher Education Multicultural Scholars Program	10.220		0	17,500
International Science and Education Grants	10.305		0	94,161
Cooperative Forestry Assistance	10.664		0	24,999
Urban and Community Forestry Program	10.675		0	390,309
Forest Land Enhancement Program	10.677		0	24,457
Forest Stewardship Program	10.678		0	187,596
Rural Business Enterprise Grants	10.769		0	38,664
Soil and Water Conservation	10.902		0	72,125
Technical Agricultural Assistance	10.960		0	120,279

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Cochran Fellowship Program-International</u>				
Training-Foreign Participant	10.962		0	141,663
Non-Specified	10.xxx		0	139,995
Total - Agriculture			86,644	1,559,351
<u>Commerce:</u>				
Economic Development Technical Assistance				
	11.303		0	149,999
Public Telecommunications Facilities Planning and Construction				
	11.550		0	23,300
Total - Commerce			0	173,299
<u>Defense:</u>				
Basic and Applied Scientific Research				
	12.300		0	5,000
Mathematical Sciences Grants Program				
	12.901		0	14,000
Non-Specified	12.xxx		0	3,902,022
Total - Defense			0	3,921,022
<u>Interior:</u>				
Non-Specified	15.xxx		0	86,987
Total - Interior			0	86,987
<u>Labor:</u>				
WIA Plots, Demonstrations and Research Projects				
	17.261		0	214,980
Total - Labor			0	214,980
<u>National Aeronautics and Space Admin.:</u>				
Non-Specified	43.xxx		0	43,227
Total - National Aeronautics and Space Admin.			0	43,227
<u>National Endowment for the Humanities:</u>				
Promotion of the Humanities - Division of Preservation and Access				
	45.149		0	108,389
Promotion of the Humanities - Extending the Reach Grants to Presidentially-Designated Minority Institutions				
	45.167		0	18,502
Total - National Endowment for the Humanities			0	126,891
<u>National Science Foundation:</u>				
Mathematical and Physical Sciences	47.049		69,167	556,555
Geosciences	47.050		5,203	158,752
Computer and Info. Science Engineering	47.070		0	47,836
Biological Sciences	47.074		0	20,706
Social, Behavioral and Economic Sciences	47.075		0	8,897
Education and Human Resources	47.076		0	7,533
International Science and Engineering	47.079		0	14,640
Non-Specified	47.xxx		0	38,517
Total - National Science Foundation			74,370	853,436
<u>Veterans Affairs:</u>				
Non-Specified	64.xxx		0	217,736
Total - Veterans Affairs			0	217,736
<u>Environmental Protection Agency:</u>				
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Related to the Clean Air Act				
	66.034		0	38,606
Community Action for a Renewed Environment Program				
	66.035		0	33,174

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Water Quality Cooperative Agreements	66.463		0	70,617
Surveys, Studies, Investigations and Special Purpose Grants	66.606		0	373,919
Pesticide Environmental Stewardship Regional Grants	66.714		0	1,385
Surveys, Studies, Investigations, Training Demo and Educational Outreach	66.716		0	12,569
Non-Specified	66.xxx		0	32,222
Total - Environmental Protection Agency			0	562,492
Education:				
TRIO - Student Support Services	84.042		0	268,271
TRIO - Talent Search	84.044		0	591,236
TRIO - Upward Bound	84.047		0	750,551
TRIO - Educational Opportunity Centers	84.066		0	428,467
Rehabilitation Long-Term Training	84.129		0	97,986
Migrant Education-College Assistance Migrant Program	84.149		0	421,136
Fund for the Improvement of Education	84.215		0	1,332
TRIO - McNair Post-Baccalaureate Achievement	84.217		0	314,663
National Institute for Literacy	84.257		13,098	54,029
Indian Education Formula Grants to Local Education Agencies	84.299		0	128,687
Child Care Access Means Parents in School	84.335		0	360,781
Non-Specified	84.xxx		0	312,930
Total - Education			13,098	3,730,069
Health and Human Services:				
Model State-Supported Area Health Education Centers	93.107		451,675	604,198
Research Related to Deafness and Communication Disorders	93.173		0	27,479
Mental Health Research Grants	93.242		0	80,547
Advanced Education Nursing Grant Program	93.247		0	228
Drug Abuse and Addiction Research Programs	93.279		0	358,025
Mental Health National Research Service Awards for Research Training	93.282		0	21,530
Minority Health and Health Disparities Research	93.307		0	209,638
Advanced Education Nursing Traineeships	93.358		0	33,292
Cancer Research Manpower	93.398		0	132,970
Heart and Vascular Diseases Research	93.837		0	7,500
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		0	11,316
Kidney Diseases, Urology and Hematology Research	93.849		0	32,569
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		0	60,159
Microbiology and Infectious Diseases Research	93.856		0	30,526
Biomedical Research and Research Training	93.859		0	106,081
Ageing Research	93.866		0	473,806
Grants for Training in Primary Care in Medicine and Dentistry	93.884		0	7,183

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Specially Selected Health Projects	93.888		0	310,185
Grants to States for Operation of Offices of Rural health	93.913		0	146,546
Non-Specified	93.xxx		0	392,024
Total - Health and Human Services			<u>451,675</u>	<u>3,045,802</u>
Total Other Direct Funding			<u>625,787</u>	<u>14,535,292</u>
6. OTHER PASS-THROUGH FUNDS - COMMONWEALTH OF PENNSYLVANIA:				
<u>Justice:</u>				
Non-Specified	16.xxx	4000008674	0	7,991
Non-Specified	16.xxx	4000008694	0	6,368
Non-Specified	16.xxx	4000008673	0	11
Total - Justice			<u>0</u>	<u>14,370</u>
<u>Labor:</u>				
Non-Specified	17.xxx	RFP BWDP-2004-1/4	0	2,207,232
Total - Labor			<u>0</u>	<u>2,207,232</u>
<u>Environmental Protection Agency:</u>				
Pollution Prevention Grants Program	66.708	ME 4100019434	0	52,143
Total - Environmental Protection Agency			<u>0</u>	<u>52,143</u>
<u>Education:</u>				
Adult Education State Grant Program	84.002	091-06-6019 4-10	0	319
Adult Education State Grant Program	84.002	041-06-6068	0	(57)
Vocational Education Basic Grants to States	84.048	119-07-7002	0	71,981
Vocational Education Basic Grants to States	84.048	381-07-7042	0	58,730
Vocational Education Basic Grants to States	84.048	119-07-7001	0	57,103
Vocational Education Basic Grants to States	84.048	381-07-7007	0	40,754
Vocational Education Basic Grants to States	84.048	381-06-6025	30,413	38,210
Vocational Education Basic Grants to States	84.048	381-06-6032	0	3,984
Vocational Education Basic Grants to States	84.048	381-06-6016	0	1,742
Vocational Education Basic Grants to States	84.048	119-06-6041	0	620
Vocational Education Basic Grants to States	84.048	119-06-6042	0	246
Tech-Prep Education	84.243	386-07-7015	3,286	89,540
Tech-Prep Education	84.243	386-06-6014	31,387	34,973
Tech-Prep Education	84.243	386-07-7011	0	31,903
Tech-Prep Education	84.243	386-06-6018	0	86
Total - Education			<u>65,086</u>	<u>430,134</u>
<u>Health and Human Services:</u>				
Health Resources and Services Administration	93.994	4000009652	0	48,780
Non-Specified	93.xxx	C000018995	0	38,122
Total - Health and Human Services			<u>0</u>	<u>86,902</u>
Total Other Pass-Through Funds - Commonwealth of Pennsylvania			<u>65,086</u>	<u>2,790,781</u>

7. OTHER PASS-THROUGH FUNDS - OTHER INSTITUTIONS:	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Agriculture:</u>				
University of Vermont-Grants for Agricultural Research, Special Research Grants	10.200	2005-38640-15424	2,359	30,116
University of Vermont-Grants for Agricultural Research, Special Research Grants	10.200	2006-38640-16700	0	26,450
University of Vermont-Grants for Agricultural Research, Special Research Grants	10.200	2004-38640-14274	0	18,128
Cornell University-Grants for Agricultural Research, Special Research Grants	10.200	2004-34360-14539	0	4,996
University of Vermont-Grants for Agricultural Research, Special Research Grants	10.200	2005-38640-15424	0	3,687
Mississippi State University-Higher Education Challenge Grants	10.217	2004-38411-14760	0	5,522
Mifflin Juniata Career & Technology Center-Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226	2004-38414-14519	0	11,363
University of Maryland-Integrated Programs	10.303	2004-51130-03110	0	83,658
Purdue University-Homeland Security Agricultural	10.304	2005-37620-15609	0	13,356
Harvard University-Cooperative Extension Service	10.500	2004-45043-03047	0	54,479
University of Vermont-Cooperative Extension Service	10.500	2005-47001-03146	0	38,841
University of Delaware-Cooperative Extension Service	10.500	2004-49200-02254	0	55,907
University of Vermont-Cooperative Extension Service	10.500	2006-47001-03367	0	33,239
University of Vermont-Cooperative Extension Service	10.500	2002-47001-01329	0	19,611
Kansas State University-Cooperative Extension Service	10.500	2003-41520-01701	0	19,024
University of Vermont-Cooperative Extension Service	10.500	2003-47002-02565	0	16,903
University of Delaware-Cooperative Extension Service	10.500	2004-49200-02254	0	13,364
Cornell University-Cooperative Extension Service	10.500	2004-47001-01829	0	11,282
University of Vermont-Cooperative Extension Service	10.500	2005-47001-03146	0	10,606
Kansas State University-Cooperative Extension Service	10.500	2003-48558-01716	0	9,879
Mississippi State University-Cooperative Extension Service	10.500	2005-45064-02312	0	6,330
University of Vermont-Cooperative Extension Service	10.500	----	0	3,601
Mississippi State University-Cooperative Extension Service	10.500	----	0	2,709
University of Delaware-Cooperative Extension Service	10.500	2004-49200-02254	0	2,518
Mississippi State University-Cooperative Extension Service	10.500	----	0	939
University of Maine-Cooperative Extension Service	10.500	2003-41530-01605	0	(159)
North Carolina State University-Cooperative Extension Service	10.500	2005-48642-03345	0	14,243

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Consortium for Research on Renewable Industrial Materials-Non-Specified	10.xxx	04-111111137-094	0	13,385
National Association of State University Land Grant Corporation-Non-Specified	10.xxx	---	0	354
University of Arizona-Non-Specified	10.xxx	USDA 2001-36201-11287	0	10,528
Total - Agriculture			<u>2,359</u>	<u>534,859</u>
<u>Defense:</u>				
Carnegie Mellon-Non-Specified	12.xxx	---	0	(167)
South Central Workforce Investment Board- Non-Specified	12.xxx	---	0	56,400
Montgomery County Department of Economics-Non-Specified	12.xxx	---	0	14,529
Total - Defense			<u>0</u>	<u>70,762</u>
<u>Labor:</u>				
Private Industry Council Lehigh Valley - Job Training Partnership Act	17.250	---	0	488,602
Central PA Workforce Development Corporation-WIA Adult Program	17.258	---	0	21,021
Delaware Valley Industrial Research Center - WIA Dislocated Workers	17.260	---	0	26,214
Central PA Workforce Development Corporation-WIA Dislocated Workers	17.260	---	0	10,417
Maglev, Inc.-WIA Pilots, Demonstrations and Research Projects	17.261	EA-15057-05-60	0	24,000
McKean County Redevelopment & Housing Authority-Non-Specified	17.xxx	---	0	36,174
Total - Labor			<u>0</u>	<u>606,428</u>
<u>National Aeronautics and Space Admin.:</u>				
Smithsonian Astrophysical Observatory- Non-Specified	43.xxx	NAS8-03060	0	2,330
Space Telescope Science Institute- Non-Specified	43.xxx	HST-ED-90284.01-A	0	28,672
Space Telescope Science Institute- Non-Specified	43.xxx	5-26555	0	19,501
Tech Commercialization Center- Non-Specified	43.xxx	NAS1-01056	0	10,700
Total-National Aeronautics and Space Admin.			<u>0</u>	<u>61,203</u>
<u>National Endowment for the Humanities:</u>				
West Virginia Humanities Council-Promotion of the Humanities Federal/State Partnership of the Humanities Federal/State Partnership	45.129	---	0	7,500
Total-National Endowment for the Humanities			<u>0</u>	<u>7,500</u>
<u>National Science Foundation:</u>				
University of California-Geosciences	47.050	OCE0532013	0	62,780
University of New Hampshire-Geosciences	47.050	GEO-0631377	0	30,094
University of Massachusetts-Education and Human Resources	47.076	HRD 9978878	0	16,018
University of Missouri-Education and Human Resources	47.076	---	0	8,020
Penn College of Technology-Non-Specified	47.xxx	DUE-0302527	0	(1,340)
Total National Science Foundation			<u>0</u>	<u>115,572</u>

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Environmental Protection Agency:</u>				
Recycle North-Solid Waste Management Assistance Grants	66.808	97139001	0	1,399
Total Environmental Protection Agency			0	1,399
<u>Education:</u>				
Edinboro University-Office of Vocational and Adult Education	84.051	----	0	13,527
University of Turabo-Bilingual Education-Professional Development	84.195	T195N020098	0	48,885
St. Marys Area School District-Educational Research and Improvement	84.215	S215X020236	0	12,644
Westmoreland County Community College-Tech-Prep Education	84.243	----	0	63,233
Kent State University-National Institute for Literacy	84.257	XS257S060001	0	38,926
Capital Area Intermediate Unit-Eisenhower Professional Development State	84.281	----	0	325
Bedford Area School District - Twenty-First Century Community Learning Centers	84.287	----	0	8,513
National Writing Project-State Grants for innovative Programs	84.298	----	0	53,211
Lancaster Lebanon Intermediate Unit 13 - Early Reading First	84.359	----	0	76,243
National Writing Project -Eisenhower Professional Development State Grants	84.928	----	0	77
Association for Institutional Research-Non-Specified	84.xxx	----	0	(283)
Institute for International Education-Non-Specified	84.xxx	----	0	665
Total - Education			0	315,966
<u>Health and Human Services:</u>				
University of Kentucky-Cancer Cause and Prevention Research	93.393	1 U10 CA 114622-02	0	8,754
Association of Food and Drug Officials-Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	FSIS-C-9-2004	0	3,085
Gynecologic Oncology-Cancer Treatment Research	93.395	----	0	3,548
National Youth Sports Program-Community Services Block Grant Discretionary Awards	93.570	----	0	(380)
Community Services for Children-Child Care and Development Block Grant	93.575	----	0	16,680
Caring People Alliance-Child Care and Development Block Grant	93.575	----	0	1,200
Caring People Alliance-Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	----	0	51,172
Ohio State University-Agricultural Health and Safety Programs	93.956	1U500H008108-01	0	57,090
Seattle Institute of Cardiac Research-Non-Specified	93.xxx	1U01HL67972-01A1	0	5,578
Total - Health and Human Services			0	146,727

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Miscellaneous:</u>				
Central PA Workforce Development Corporation-Non-Specified	99.xxx	---	0	351,308
Institute for International Education-Non-Specified	99.xxx	---	0	237,956
North Carolina State University-Non-Specified	99.xxx	4-98-2-23	0	128,821
Research Trainable Institute-Non-Specified	99.xxx	NNL06AD02T	0	99,976
Georgia State University-Non-Specified	99.xxx	HRSA 250-02-0008	0	1,250
Chesapeake Bay Foundation Non-Specified	99.xxx	---	0	17,414
Mid-Atlantic Consortium Recycling & Economic Development-Non-Specified	99.xxx	---	0	3,995
National 4-H Coop Curriculum Systems-Non-Specified	99.xxx	---	0	3,431
Washington State University-Non-Specified	99.xxx	2005-41210-0337	0	5,000
Total - Miscellaneous			0	849,151
Total Other Pass-Through Funds - Other Institutions			2,359	2,709,567

8. FEDERAL LOAN PROGRAMS

The University administers the following Federal loan programs:

<u>Title</u>	<u>CFDA No.</u>	<u>Federal Capital Contribution for the Year Ended June 30, 2007</u>	<u>Loan Expenditures and Disburs.</u>	<u>Outstanding Balance at June 30, 2007</u>
Federal Perkins Loan Program	84.038	\$722,329	\$9,332,149	\$43,187,518
Health Professions Student Loan Program	93.342	0	0	630,414

The above expenditures for the loan programs include disbursements and expenditures such as loans to students and administrative expenditures. The schedule only includes administrative allowances charged to the loan program.

9. NON-CAMPUS BASED LOAN PROGRAMS:

The University participates in the following non-campus based loan programs: Federal Family Educational Loan Program (FFEL) (CFDA No. 84.032) including Federal Stafford Loans, Federal Supplemental Loans for Students and Federal Parents Loans for Undergraduate Students.

Loan disbursements under the FFEL programs for the year ended June 30, 2007 totaled approximately \$360,183,944.

10. FEDERAL ENDOWMENT:

In fiscal year 2001, the University received \$6,000,000 from the U.S. Department of Education to establish the William F. Goodling Institute for Research in Family Literacy (the "Institute") and to establish an endowment for the Institute under the Fund for Improvement of Postsecondary Education Program. The Institute will focus on developing a sound conceptual, interdisciplinary research base for guiding practice and policy in family literacy. Based on research findings, the Institute will also build the capacity of the field to provide high-quality, research-based instruction and program development in family literacy. Under the terms of the endowment agreement, annual income from the endowment's investments must be used to support the planned activities of the Institute. In addition, the endowment is restricted for this use until 2021.

The University administers the following federal endowment:

	<u>CFDA No.</u>	<u>Balance at July 1, 2006</u>	<u>Endowment Expenditures</u>	<u>Endowment Income</u>	<u>Balance at June 30, 2007</u>
Fund for the Improvement of Postsecondary Education	84.116	\$6,062,986	\$176,626	\$268,754	\$6,155,114

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
The Pennsylvania State University

We have audited the financial statements of The Pennsylvania State University (the "University"), as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated September 28 2007, which includes an explanatory paragraph relating to the adoption, during the year ended June 30, 2007, of Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" and the adoption, during the year ended June 30, 2006, of Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, Subcommittee on Audit, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 28, 2007

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
The Pennsylvania State University

Compliance

We have audited the compliance of The Pennsylvania State University (the "University") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of University management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, Subcommittee on Audit, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

March 26, 2007

THE PENNSYLVANIA STATE UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FOR THE YEAR ENDED JUNE 30, 2007

PART I - SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies or material weaknesses in internal control over financial reporting - none reported.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Significant deficiencies or material weaknesses in internal control over compliance with requirements applicable to major federal awards programs - none reported.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit of major programs disclosed no findings required to be reported by OMB Circular A-133.
7. The University's major programs were:

Name of Federal Program or Cluster	CFDA Number
Research and Development	Various
Student Financial Assistance Cluster	Various
Integrated Programs	10.303
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The University did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II - FINANCIAL STATEMENT FINDINGS SECTION

The audit disclosed no items required to be reported in this section.

PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

The audit disclosed no items required to be reported in this section.

THE PENNSYLVANIA STATE UNIVERSITY

**CORRECTIVE ACTION PLAN
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR FISCAL YEAR ENDED JUNE 30, 2007**

There were no findings or questioned costs as a result of the audit of The Pennsylvania State University's federal award programs for the year ended June 30, 2007. As such, no corrective action plan is necessary.

THE PENNSYLVANIA STATE UNIVERSITY

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR FISCAL YEAR ENDED JUNE 30, 2007

There were no findings or questioned costs as a result of the audit of The Pennsylvania State University's federal award programs for the year ended June 30, 2006 . As such, no corrective action plan is necessary.