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

**The Pennsylvania State University
Fiscal Year Ended June 30, 2008**

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, 2008

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Joseph J. Doncsecz
Corporate Controller

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March 31, 2009

Federal Audit Clearinghouse
1201 E. 10th Street
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To Whom It May Concern:

The Pennsylvania State University's financial, internal control and compliance reports for the fiscal year ended June 30, 2008 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

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Enclosures

Audited Financial Statements

**The Pennsylvania State University
Fiscal Year Ended June 30, 2008**

University Park, Pennsylvania

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Pennsylvania State University
University Park, PA

We have audited the accompanying consolidated statement of financial position of The Pennsylvania State University and subsidiaries (the "University") as of June 30, 2008 and 2007, and the related consolidated 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 audits.

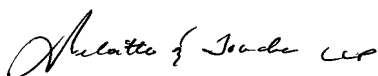
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 audit 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".

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University, as of June 30, 2008 and 2007, 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 30, 2008, 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 the *Government Auditing Standards* and should be considered in assessing the results of our audits.



September 30, 2008

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
ASSETS
JUNE 30, 2008 AND 2007
(in thousands)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Cash and cash equivalents - in short-term operating portfolios	\$ 518,227	\$ 386,578
Cash and cash equivalents - in operating investment portfolios	78,229	59,978
Short-term investments	298,037	236,297
Deposits	24,837	21,104
Accounts receivable, net of allowances of \$22,226 and \$24,139	373,950	333,058
Contributions receivable, net	39,269	42,456
Loans to students, net of allowances of \$4,601 and \$4,886	10,422	11,305
Inventories	29,916	27,916
Prepaid expenses and other assets	53,096	48,857
Investments held under securities lending program	<u>265,725</u>	<u>309,682</u>
Total current assets	<u>1,691,708</u>	<u>1,477,231</u>
Noncurrent assets:		
Deposits held by bond trustees	6,770	18,268
Contributions receivable, net	106,430	91,863
Loans to students, net of allowances of \$14,570 and \$12,564	33,192	28,793
Deferred bond costs	6,268	5,106
Total investment in plant, net	2,732,744	2,552,935
Beneficial interest in perpetual trusts	13,673	17,078
Investments	<u>3,066,609</u>	<u>3,066,165</u>
Total noncurrent assets	<u>5,965,686</u>	<u>5,780,208</u>
 Total assets	 <u>\$ 7,657,394</u>	 <u>\$ 7,257,439</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
LIABILITIES AND NET ASSETS
JUNE 30, 2008 AND 2007
(in thousands)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current liabilities:		
Accounts payable and other accrued expenses	\$ 383,612	\$ 348,112
Deferred revenue	206,519	193,148
Long-term debt	53,098	50,937
Present value of annuities payable	5,520	5,282
Accrued postretirement benefits	29,139	28,944
Liability under securities lending program	<u>265,725</u>	<u>309,682</u>
Total current liabilities	<u>943,613</u>	<u>936,105</u>
Noncurrent liabilities:		
Deposits held in custody for others	37,750	34,088
Deferred revenue	19,556	22,396
Long-term debt	969,764	860,569
Present value of annuities payable	36,018	36,907
Accrued postretirement benefits	895,198	805,618
Refundable United States Government student loans	35,442	32,894
Other liabilities	<u>130,599</u>	<u>124,499</u>
Total noncurrent liabilities	<u>2,124,327</u>	<u>1,916,971</u>
Total liabilities	<u>3,067,940</u>	<u>2,853,076</u>
Net assets:		
Unrestricted -		
Undesignated	987	950
Designated for specific purposes	1,576,579	1,453,003
Net investment in plant	<u>1,602,885</u>	<u>1,524,097</u>
Total unrestricted	3,180,451	2,978,050
Temporarily restricted	514,094	587,469
Permanently restricted	<u>894,909</u>	<u>838,844</u>
Total net assets	<u>4,589,454</u>	<u>4,404,363</u>
Total liabilities and net assets	<u>\$ 7,657,394</u>	<u>\$ 7,257,439</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(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 \$99,518	\$ 1,143,041	\$ -	\$ -	\$ 1,143,041
Commonwealth of Pennsylvania -				
Appropriations	334,230	-	-	334,230
Special contracts	104,967	-	-	104,967
Department of General Services projects	53,499	-	-	53,499
United States Government grants and contracts	394,986	-	-	394,986
Private grants and contracts	149,374	-	-	149,374
Gifts and pledges	56,084	47,530	49,871	153,485
Endowment income/(loss), net	25,034	(81,828)	9,382	(47,412)
Other investment income/(loss), net	35,818	(9,649)	266	26,435
Sales and services of educational activities	49,726	-	-	49,726
Recovery of indirect costs	118,637	-	-	118,637
Auxiliary enterprises	321,632	-	-	321,632
Hospital operations	874,977	-	-	874,977
Other sources	17,954	706	(1,280)	17,380
Net assets released from restrictions	<u>27,493</u>	<u>(27,493)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>3,707,452</u>	<u>(70,734)</u>	<u>58,239</u>	<u>3,694,957</u>
Expenses and losses:				
Educational and general -				
Instruction	906,308	-	-	906,308
Research	673,244	-	-	673,244
Public service	91,836	-	-	91,836
Academic support	283,954	-	-	283,954
Student services	134,974	-	-	134,974
Institutional support	<u>264,174</u>	<u>-</u>	<u>-</u>	<u>264,174</u>
Total educational and general	2,354,490	-	-	2,354,490
Auxiliary enterprises	281,817	-	-	281,817
Hospital operations	863,239	-	-	863,239
Write-offs and disposals of assets	5,505	-	-	5,505
Actuarial adjustment on annuities payable	<u>-</u>	<u>2,641</u>	<u>2,174</u>	<u>4,815</u>
Total expenses and losses	<u>3,505,051</u>	<u>2,641</u>	<u>2,174</u>	<u>3,509,866</u>
Increase (decrease) in net assets	202,401	(73,375)	56,065	185,091
Net assets at the beginning of the year	<u>2,978,050</u>	<u>587,469</u>	<u>838,844</u>	<u>4,404,363</u>
Net assets at the end of the year	<u>\$ 3,180,451</u>	<u>\$ 514,094</u>	<u>\$ 894,909</u>	<u>\$ 4,589,454</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 grants and contracts	136,130	-	-	136,130
Gifts and pledges	61,030	38,455	75,218	174,703
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 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(in thousands)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Increase in net assets	\$ 185,091	\$ 563,017
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Actuarial adjustment on annuities payable	4,815	10,644
Contributions restricted for long-term investment	(66,835)	(91,184)
Interest and dividends restricted for long-term investment	(24,630)	(20,955)
Net realized and unrealized (gains)/losses on long-term investments	126,706	(270,579)
Depreciation and amortization expense	193,014	169,762
Write-offs and disposals of assets	5,850	5,330
Contributions of land, buildings and equipment	(2,789)	(2,625)
Buildings and equipment provided by Pennsylvania Department of General Services	(26,377)	(1,785)
Contribution to government student loan funds	4,054	254
Provision for bad debts	22,998	23,871
Cumulative effect of adoption of new accounting principle	-	103,601
Increase in deposits	(3,732)	(2,984)
Increase in receivables	(76,697)	(69,063)
Increase in inventories	(2,000)	(824)
Increase in prepaid expenses and other assets	(28,118)	(5,428)
Increase in accounts payable and other accrued expenses	36,119	7,904
Increase in deferred revenue	10,729	49,410
Increase in accrued postretirement benefits	89,774	44,015
Net cash provided by operating activities	<u>447,972</u>	<u>512,381</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(325,180)	(254,048)
Decrease in deposits held by bond trustees	11,388	357
Advances on student loans	(13,115)	(13,465)
Collections on student loans	6,976	10,346
(Increase)/decrease in investments held under securities lending program	43,956	(89,650)
Increase/(decrease) in liability under securities lending program	(43,956)	89,650
Purchase of investments	(5,065,459)	(3,433,859)
Proceeds from sale of investments	4,917,285	3,155,047
Net cash used in investing activities	<u>(468,105)</u>	<u>(535,622)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	66,835	91,184
Interest and dividends restricted for long-term investment	24,630	20,955
Payments of annuity obligations	(5,571)	(5,327)
Proceeds from issuance of bonds	145,368	179,464
Principal payments on notes, bonds and capital leases	(61,714)	(121,303)
Proceeds related to government student loan funds, net of collection costs	485	480
Net cash provided by financing activities	<u>170,033</u>	<u>165,453</u>
Net increase in cash and cash equivalents	149,900	142,212
Cash and cash equivalents at the beginning of the year	446,556	304,344
Cash and cash equivalents at the end of the year	<u>\$ 596,456</u>	<u>\$ 446,556</u>

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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 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, 2008 and 2007. 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, as the total outstanding loans to students as of June 30, 2008 and 2007 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>2008</u>	<u>2007</u>
Interest paid	\$ 37,583,000	\$ 33,932,000
Non-cash acquisitions of land, buildings and equipment	27,651,000	3,969,000
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 \$78,229,000 and \$59,978,000 of cash and cash equivalents held in operating investment portfolios at June 30, 2008 and 2007, 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, 2008 and 2007. 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 \$13,673,000 and \$17,078,000 held by outside trustees at June 30, 2008 and 2007, 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>2008</u>	<u>2007</u>
Land	\$ 91,506,000	\$ 90,930,000
Buildings	3,472,408,000	3,197,891,000
Improvements other than buildings	445,576,000	422,692,000
Equipment	<u>844,274,000</u>	<u>805,238,000</u>
Total plant	4,853,764,000	4,516,751,000
Less accumulated depreciation	<u>(2,121,020,000)</u>	<u>(1,963,816,000)</u>
Total investment in plant, net	<u>\$ 2,732,744,000</u>	<u>\$ 2,552,935,000</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. Conditional asset retirement obligations of \$46,085,000 and \$44,248,000 are included in other noncurrent liabilities in the consolidated statement of financial position at June 30, 2008 and 2007, respectively.

Accounting Pronouncements

For the year ended June 30, 2008, the University implemented FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity, before being measured and recognized in the financial statements. The adoption of FIN 48 did not have a material impact on the University's financial statements. The University files U.S. federal tax returns. No returns are currently under examination. The statute of limitations on the University's U.S. federal information returns remain open for three years following the year they are filed.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, *Effective Date of FASB Statement No. 157* which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually, until fiscal years beginning after November 15, 2008. SFAS 157 is effective for the University in 2009. University management is currently evaluating the impact of SFAS 157.

In February 2007, SFAS 159, *Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement 115* ("SFAS 159") was issued. SFAS 159, which extends the availability of the fair value option to assets and liabilities, is effective for the University in 2009. The University does not expect the adoption of SFAS 159 to have a material impact on its financial position or results of operations.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted funds for a not-for-profit organization that is subject to an enacted version of UPMIFA of 2006. UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The FSP is effective for the University in 2009. University management is currently evaluating the impact of the FSP.

Reclassifications

Certain 2007 amounts related to private gifts, grants and contracts of \$310,833,000 have been reclassified to conform with 2008 presentation of private grants and contracts of \$136,130,000 and gifts and pledges of \$174,703,000 within the consolidated statement of activities.

3. INVESTMENTS

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

	<u>2008</u>	<u>2007</u>
Money markets	\$ 178,084,000	\$ 297,898,000
Fixed income:		
U.S. government/agency	525,362,000	397,180,000
U.S. corporate	601,413,000	358,782,000
Foreign	129,624,000	76,227,000
Other	621,133,000	679,145,000
Equities	856,545,000	1,002,935,000
Private capital	530,714,000	550,273,000
Investments held under securities lending program	<u>265,725,000</u>	<u>309,682,000</u>
Total	<u>\$3,708,600,000</u>	<u>\$3,672,122,000</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 capital consists primarily of interests in real estate, private equity, venture capital, energy and hedge fund limited partnerships. Certain 2007 amounts classified as other fixed income investments totaling \$69,168,000 have been reclassified as private capital to conform with 2008 presentation of these investment categories.

The following schedule summarizes the investment return and its classification in the consolidated statement of activities for the year ended June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 98,359,000	\$ 6,907,000	\$ 9,619,000	\$ 114,885,000
Net realized gains, including endowment spending	57,189,000	21,238,000	29,000	78,456,000
Net unrealized losses	<u>(94,696,000)</u>	<u>(119,622,000)</u>	<u>-</u>	<u>(214,318,000)</u>
Total returns	<u>\$ 60,852,000</u>	<u>\$ (91,477,000)</u>	<u>\$ 9,648,000</u>	<u>\$ (20,977,000)</u>

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>-</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>

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. Fully cash collateralized derivative securities comprised approximately 2.8% of total investments at June 30, 2008. The University directly held no derivative securities at June 30, 2007.

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, 2008 and 2007, the University held \$265,725,000 and \$309,682,000, 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 \$261,096,000 and \$303,370,000 at June 30, 2008 and 2007, 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 \$1,522,988,000 and \$1,587,197,000 at June 30, 2008 and 2007, 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>2008</u>	<u>2007</u>
Market value per unit	\$ 30.63	\$ 32.57
Annual net gains/(losses) per unit	\$ (1.94)	\$ 4.29
Average annual earnings per unit, exclusive of gains and losses	\$ 0.81	\$ 1.42

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

	<u>2008</u>	<u>2007</u>
In one year or less	\$ 51,814,000	\$ 52,568,000
Between one year and five years	67,557,000	64,024,000
More than five years	<u>89,864,000</u>	<u>76,511,000</u>
	209,235,000	193,103,000
Less allowance	(10,578,000)	(9,459,000)
Less discount	<u>(52,958,000)</u>	<u>(49,325,000)</u>
Contributions receivable, net	<u>\$ 145,699,000</u>	<u>\$ 134,319,000</u>

At June 30, 2008 and 2007, the University has received bequest intentions and certain other conditional promises to give of \$31,328,000 and \$30,748,000, 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>2008</u>	<u>2007</u>
<u>The Pennsylvania State University Bonds</u>		
Series 2008A	\$ 77,670,000	\$ -
Series 2008B	8,310,000	-
Series 2007A	90,570,000	90,570,000
Series 2007B	76,120,000	80,025,000
Series 2005	94,885,000	96,555,000
Series 2004A	58,845,000	59,930,000
Refunding Series 2003	24,350,000	26,260,000
Series of 2002	100,000,000	100,000,000
Refunding Series 2002	112,240,000	126,835,000
Refunding Series 2001	26,565,000	34,590,000
Series A of 2001	75,000,000	75,000,000
Series B of 1997	-	8,805,000
 <u>Pennsylvania Higher Educational Facilities</u>		
<u>Authority University Revenue Bonds</u>		
<u>(issued for The Pennsylvania State</u>		
<u>University)</u>		
Series 2006	4,480,000	4,650,000
Series 2004	5,015,000	5,215,000
Series 2002	5,670,000	5,965,000
 <u>Lycoming County Authority College</u>		
<u>Revenue Bonds (issued for Penn College)</u>		
Series 2008	55,000,000	-
Series 2005	14,645,000	15,225,000
Series 2003	3,315,000	6,495,000
Series 2002	29,650,000	29,995,000
Series 2000	39,370,000	39,370,000
Series 1997	-	11,300,000
Series 1993	12,519,000	11,954,000
 Total bonds payable	 <u>914,219,000</u>	 <u>828,739,000</u>
 Unamortized bond premiums	 <u>27,231,000</u>	 <u>24,704,000</u>
 <u>Note payable and capital leases</u>		
Demand note payable	10,000,000	10,000,000
Capital lease obligations	71,412,000	16,739,000
Deferred lease obligation	-	31,324,000
Total note payable and capital leases	<u>81,412,000</u>	<u>58,063,000</u>
 Total long-term debt	 <u>\$1,022,862,000</u>	 <u>\$ 911,506,000</u>

The Pennsylvania State University Bonds

- Series 2008A and 2008B – general obligation bonds issued in April 2008 for the purpose of funding various construction and renovation projects and for the current refunding of the Series 1997B Bonds, which previously refunded the Series 1992B Bonds. The University, in conjunction with the issuance of the Series 2008B bonds, legally defeased the Series B of 1997 Bonds, with an outstanding principal of \$8,105,000, by irrevocably depositing \$8,364,000 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 current refunding transaction, amounts related to the Series 1997B Bonds have been removed from the University's June 30, 2008 statement of financial position. Principal payments on the Series 2008A and 2008B bonds are due annually, in amounts ranging from \$830,000 to \$7,695,000 through August 2029. The bonds pay interest at rates ranging from 3.00% to 5.00%. The 2008A Bonds are subject to early redemption provisions, at the option of the University, beginning February 2018.
- 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 were 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 \$1,720,000 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 \$1,115,000 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 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.
- 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 \$1,995,000 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 1.51% 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 4.79% 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 \$8,425,000 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 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 (PHEFA) 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 \$175,000 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 3.65% to 5.125%, with PHEFA subsidizing the annual interest cost to the University for interest rates greater than 3.00%. The bonds 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 \$205,000 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 3.10% to 5.00%, with PHEFA subsidizing the annual interest cost to the University for interest rates greater than 3.00%. The bonds 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 \$305,000 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 3.75% to 5.00%, with PHEFA subsidizing the annual interest cost to the University for interest rates greater than 3.00%. The bonds 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 2008 – Lycoming County Authority College Revenue Bonds issued by Penn College in February 2008 for the purpose of funding various construction projects at the Penn College campus. Principal payments are due annually in amounts ranging from \$1,455,000 to \$4,140,000 through October 2037. The bonds pay interest at rates ranging from 3.50% to 5.50%.

- 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 payment is due in the amount of \$3,315,000 in November 2008. The bonds pay interest at rates ranging from 4.00% 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 \$350,000 to \$2,775,000 through May 2032. The bonds pay interest at rates ranging from 4.00% 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 refunded by the 2000 Series Bonds at par amounting to \$4,235,000. These bonds were paid in full during 2008.
- 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>
2009	\$ 37,130,000
2010	35,460,000
2011	35,335,000
2012	27,630,000
2013	29,035,000
Thereafter	749,629,000

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, 2008, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, are \$941,450,000 and \$934,952,000, respectively. At June 30, 2007, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, were \$853,443,000 and \$845,086,000, respectively. Certain bond issues have associated issuance premiums, these issuance premiums total \$27,231,000 and \$24,704,000 at June 30, 2008 and 2007, 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 (3.00% at June 30, 2008) 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 \$82,870,000 and \$26,946,000 at June 30, 2008 and 2007, 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, 2008 are as follows:

<u>Year</u>	
2009	\$ 8,378,000
2010	8,279,000
2011	8,210,000
2012	7,796,000
2013	6,905,000
Thereafter	<u>162,337,000</u>
Total minimum lease payments	201,905,000
Less imputed interest	<u>(130,493,000)</u>
Capital lease obligation	71,412,000
Current portion	<u>4,030,000</u>
Long-term portion	<u>\$ 67,382,000</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 \$1,489,000 and \$1,329,000 in investments at June 30, 2008 and 2007, 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.

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 accounted for the facility as an owned facility and therefore recognized non-cash construction costs incurred as of June 30, 2007 (included as construction in progress), together with a corresponding deferred lease obligation, as of June 30, 2007, in the amount of \$31,324,000. During 2008, TMSHMC capitalized additional costs related to the facility in the amount of \$17,276,000. In March 2008, the facility was opened and the deferred obligation in the amount of \$48,600,000 was reclassified to a capital lease obligation.

7. OPERATING LEASES

The University has certain lease agreements in effect which are considered operating leases. During the year ended June 30, 2008, the University recorded expenses of \$22,481,000 for leased equipment and \$15,619,000 for leased building space. 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.

Future minimum lease payments under operating leases as of June 30, 2008 are as follows:

<u>Year</u>	
2009	\$ 16,299,000
2010	12,801,000
2011	10,440,000
2012	7,798,000
2013	6,186,000
Thereafter	<u>40,705,000</u>
Total minimum lease payments	<u>\$ 94,229,000</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 (\$10,614,000 and \$9,866,000 for the years ended June 30, 2008 and 2007, respectively). The University's total cost for retirement benefits, included in expenses, is \$99,263,000 and \$92,863,000 for the years ended June 30, 2008 and 2007, respectively.

9. POSTRETIREMENT BENEFITS

The University sponsors a retiree medical plan covering eligible retirees and eligible dependents. For the 2008 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 Supplement 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 Supplement plan are fully insured. The retirees pay varying amounts for coverage under the medical plan. As of January 1, 2008, the monthly amounts ranged from \$10 to \$221 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

Included in unrestricted net assets at June 30, 2008 and 2007 are the following amounts that have not yet been recognized in net periodic postretirement cost: unrecognized prior service cost (benefit) of (\$194,389,000) and (\$216,018,000) and unrecognized actuarial loss of \$334,646,000 and \$319,619,000, respectively.

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>2008</u>	<u>2007</u>
Benefit obligation at beginning of year	\$ 834,562,000	\$ 822,552,000
Service cost	32,882,000	29,693,000
Interest cost	53,390,000	48,168,000
Actuarial loss	32,793,000	72,109,000
Benefits paid	(29,290,000)	(29,081,000)
Plan amendment	-	(178,478,000)
Plan assumptions	-	69,599,000
Benefit obligation at end of year	<u>\$ 924,337,000</u>	<u>\$ 834,562,000</u>

Change in plan assets:

	<u>2008</u>	<u>2007</u>
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	29,290,000	29,081,000
Benefits paid	(29,290,000)	(29,081,000)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	\$ (924,337,000)	\$ (834,562,000)
Unrecognized prior service cost (benefit)	-	-
Unrecognized net actuarial loss	-	-
Accrued postretirement benefit expense	<u>\$ (924,337,000)</u>	<u>\$ (834,562,000)</u>

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

	<u>2008</u>	<u>2007</u>
Service cost	\$ 32,882,000	\$ 29,693,000
Interest cost	53,390,000	48,168,000
Amortization of prior service cost	(21,629,000)	(21,629,000)
Amortization of unrecognized net loss	17,766,000	16,863,000
Net periodic postretirement cost	<u>\$ 82,409,000</u>	<u>\$ 73,095,000</u>

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.00% and 9.50% for the 2007-2008 and 2006-2007 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, 2008 and 2007, respectively.

If the healthcare cost trend rate assumptions were increased by 1% in each year, the accumulated postretirement benefit obligation would be increased by \$160,053,000 and \$145,204,000 as of June 30, 2008 and 2007, 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 \$17,898,000 and \$16,311,000 as of June 30, 2008 and 2007, respectively. If the healthcare cost trend rate assumptions were decreased by 1% in each year, the accumulated postretirement benefit obligation would be decreased by \$127,972,000 and \$115,930,000 as of June 30, 2008 and 2007, 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 \$13,958,000 and \$12,664,000 as of June 30, 2008 and 2007, respectively.

The postretirement benefits expected to be paid in each year for 2009–2013 are \$34,045,000, \$36,427,000, \$38,902,000, \$41,391,000 and \$43,614,000, respectively. The benefits expected to be paid in the five years from 2014–2018 are \$259,031,000.

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.

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 \$427,549,000 of which \$311,370,000 has been paid or accrued as of June 30, 2008. 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 \$280,520,000 as of June 30, 2008 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 \$15,404,000 and \$17,328,000 as of June 30, 2008 and 2007, 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 \$74,234,000 and \$72,877,000 is recorded as of June 30, 2008 and 2007, 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 \$24,648,000 and \$16,399,000 at June 30, 2008 and 2007, 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 \$11,081,000 and \$9,662,000 is recorded as of June 30, 2008 and 2007, respectively. The University has established a trust fund, in the amount of \$11,001,000 and \$9,955,000 at June 30, 2008 and 2007, 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.

12. SUBSEQUENT EVENT

On September 29, 2008, the University was notified that Wachovia Bank N.A., as Trustee (the "Trustee") of the Common Fund for Short Term Investments (the "Fund") was initiating the process of terminating the Fund. As part of this termination plan the Trustee has established procedures for an orderly liquidation and distribution of the assets of the Fund to all participants. Liquidity in the Fund was restricted based upon each participant's account value as of the close of business on September 26, 2008. The University's holdings in the Fund as of September 26, 2008 were \$465,335,000. As of September 30, 2008, the University has received 10% of the account value and fully anticipates that approximately 50% will be available for withdrawal by October 31, 2008. It is expected that 60% of the Fund will be available by December 31, 2008, 74% by September 30, 2009 and the balance of 26% thereafter. As a result, at June 30, 2008, the University designated \$298,037,000 as short-term investments within the consolidated statements of financial position based on the estimate of the timing of the liquidation of the Fund. The University's investment in the Fund at June 30, 2007 of \$236,297,000 was reclassified from cash and cash equivalents to short-term investments to conform with the 2008 presentation. The University has evaluated the impact of this termination plan and the availability of funds and has determined that the plan does not have a material impact on the University's financial statements or overall liquidity.

THE PENNSYLVANIA STATE UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Program</u>	<u>CFDA No.</u>	<u>Subcontract Expenditures</u>	<u>Expenditures</u>
<u>Research and development programs -</u>			
Direct funding	Note 2	\$67,230,104	\$386,152,169
Pass-through funds - Commonwealth of Pennsylvania	Note 3	196,387	3,313,762
Pass-through funds - Other Institutions	Note 4	1,309,817	58,234,976
Total research and development programs		68,736,308	447,700,907
<u>Student financial assistance programs (Direct funding) -</u>			
Department of Education:			
Federal Supplemental Educational Opportunity Grant	84.007	0	4,912,955
Federal Work Study Program	84.033	0	4,374,737
Federal Perkins Loan Program - Note 8	84.038	0	0
Federal Pell Grant Program	84.063	0	50,499,366
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
Total student financial assistance programs		0	59,787,058
<u>Other programs -</u>			
Cooperative Extension Service - Department of Agriculture			
-Direct funding	10.500	129,890	12,779,818
-Pass-through funds - Other Institutions - Note 7	10.500	23,346	372,137
Total		153,236	13,151,955
State Administrative Matching Grants for Food Stamp Program			
-Pass-through funds -			
Commonwealth of Pennsylvania (4000008692)	10.561	10,587,547	12,541,404
Total		10,587,547	12,541,404
Department of Defense	12.xxx	0	4,520,823
Other direct funding	Note 5	1,709,670	13,875,309
Other Pass-through funds - Commonwealth of Pennsylvania	Note 6	107,798	1,900,410
Other Pass-through funds - Other Institutions	Note 7	25,230	2,065,972
Total other programs		12,583,481	48,055,873
Total Programs		\$81,319,789	\$555,543,838

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, 2008

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, 2008 which have been financed by the United States 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:

Agriculture:

Cooperative State Research, Education and

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Extension Service	10.RD		\$ 592,549	\$ 13,724,111
Agricultural Research Service	10.RD		38,019	723,145
Department of Agriculture	10.RD		0	613,287
Animal and Plant Health Inspection Service	10.RD		21,000	720,247
Natural Resources Conservation Service	10.RD		0	57,769
Forest Service	10.RD		0	293,782
Economic Research Service	10.RD		0	153,805
Foreign Agricultural Service	10.RD		3,431	6,776
Total – Agriculture			654,999	16,292,922

Commerce:

National Oceanic and Atmospheric

Administration	11.RD		0	685,237
National Institute of Standards and Technology	11.RD		0	546,758
Department of Commerce	11.RD		0	230,406
Total – Commerce			0	1,462,401

Defense:

Department of Defense	12.RD		1,428,500	8,197,211
Department of Navy, Office of the Chief of				
Naval Research	12.RD		28,914,669	127,326,454
U.S. Army Medical Command	12.RD		0	629,413
U.S. Army Material Command	12.RD		1,033,757	5,362,015
Department of Air Force, Material Command	12.RD		2,177,910	6,873,681
Advanced Research Projects Agency	12.RD		0	8,296
Department of Army	12.RD		10,412,783	21,786,550
National Security Agency	12.RD		0	2,131,262
Total – Defense			43,967,619	172,314,882

	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	100,843
Total – Housing and Urban Development			0	100,843
<u>Interior:</u>				
Department of Interior	15.RD		13,605	575,775
National Park Service	15.RD		0	212,311
Geological Survey	15.RD		20,000	754,670
Total – Interior			33,605	1,542,756
<u>Justice:</u>				
National Institute of Justice	16.RD		246,147	552,181
Department of Justice	16.RD		0	80,465
Total – Justice			246,147	632,646
<u>Labor:</u>	17.RD		0	70,123
<u>Transportation:</u>				
Department of Transportation	20.RD		1,003,992	5,685,473
Federal Aviation Administration	20.RD		0	109,682
Total – Transportation			1,003,992	5,795,155
<u>Appalachian Research Commission:</u>	23.RD		0	62,795
<u>National Aeronautics and Space Administration:</u>	43.RD		1,824,741	13,960,745
<u>National Endowment for the Humanities:</u>	45.RD		0	159,936
<u>National Science Foundation:</u>	47.RD		2,471,668	48,857,130
<u>Environmental Protection Agency:</u>				
Office of Research and Development	66.RD		73,456	478,746
Office of Administration	66.RD		0	15,671
Office of Water	66.RD		0	9,197
Office of Prevention, Pesticides and Toxic Substances	66.RD		53,031	208,011
Total – Environmental Protection Agency			126,487	711,625
<u>Nuclear Regulatory Commission:</u>	77.RD		0	311,085
<u>Energy:</u>	81.RD		4,507,014	13,704,960
<u>Education:</u>				
Office of Postsecondary Education	84.RD		0	1,118,596
Office of Educational Research and Improvement	84.RD		80,214	1,245,191
Department of Education	84.RD		4,640,145	6,916,431
Total – Education			4,720,359	9,280,218
<u>Health and Human Services:</u>				
National Institutes of Health	93.RD		6,070,102	87,518,397
Substance Abuse and Mental Health Services Administration	93.RD		148,229	205,808
Total – Health and Human Services			6,218,331	87,724,205

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Department of Homeland Security:</u>	97.RD		0	97,488
<u>Miscellaneous:</u>	99.RD		1,455,142	13,070,254
Total Research and Development - Direct Funding			\$ 67,230,104	\$ 386,152,169

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

Agriculture:

Commonwealth of Pennsylvania	10.RD	ME 446002	\$ 0	\$ 155,211
Commonwealth of Pennsylvania	10.RD	ME 445585	0	456
Commonwealth of Pennsylvania	10.RD	ME 444206	0	311
Commonwealth of Pennsylvania	10.RD	ME 445578	0	(2,071)
Commonwealth of Pennsylvania	10.RD	ME 444204	0	205
Commonwealth of Pennsylvania	10.RD	ME 445911	1,318	76,045
Commonwealth of Pennsylvania	10.RD	ME 447780	0	55,000
Total – Agriculture			1,318	285,157

Conservation and Natural Resources

Commonwealth of Pennsylvania	10.RD	SPC 3860002	0	18,897
Commonwealth of Pennsylvania	10.RD	4500305109	18,610	18,848
Commonwealth of Pennsylvania	10.RD	3850006	0	1,493
Commonwealth of Pennsylvania	10.RD	4000007709	0	68,570
Commonwealth of Pennsylvania	10.RD	4500339191/4600009190	0	4
Commonwealth of Pennsylvania	10.RD	PDCNR	118,000	193,091
Total - Conservation and Natural Resources			136,610	300,903

Commerce:

Commonwealth of Pennsylvania	11.RD	C000016854	0	5,406
Commonwealth of Pennsylvania	11.RD	4100036695	0	27,772
Commonwealth of Pennsylvania	11.RD	C000016411	0	1,393
Total – Commerce			0	34,571

Interior:

Commonwealth of Pennsylvania	15.RD	WRCP-05107	0	8,914
Commonwealth of Pennsylvania	15.RD	WRCP-05126	0	(382)
Commonwealth of Pennsylvania	15.RD	1434-03HQRU1548	0	29,843
Total – Interior			0	38,375

Justice:

		04/05-DS/JG/IP-19/06/ST-		
Commonwealth of Pennsylvania	16.RD	16511	0	85,577
Commonwealth of Pennsylvania	16.RD	17080	0	13,881
Commonwealth of Pennsylvania	16.RD	2006-JG-06-18704	0	32,951
Total – Justice			0	132,409

Transportation:

Commonwealth of Pennsylvania	20.RD	359704	0	700
Commonwealth of Pennsylvania	20.RD	FM-2579	0	175,472
Commonwealth of Pennsylvania	20.RD	SPC 020S78	0	116,291
Commonwealth of Pennsylvania	20.RD	4500332713	0	4,891
Commonwealth of Pennsylvania	20.RD	430655	0	47,255
Total – Transportation			0	344,609

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Department of General Services</u>				
Commonwealth of Pennsylvania	39.RD	PDGS	0	(295)
Total - Department of General Services			0	(295)
<u>Environmental Protection:</u>				
Commonwealth of Pennsylvania	66.RD	4100034603	0	2,134
Commonwealth of Pennsylvania	66.RD	4100038427	0	72,923
Commonwealth of Pennsylvania	66.RD	4100020096	0	(2,421)
Commonwealth of Pennsylvania	66.RD	4500396073	0	32,916
Commonwealth of Pennsylvania	66.RD	4300007862	0	(1,436)
Commonwealth of Pennsylvania	66.RD	4300017492	0	66,920
Commonwealth of Pennsylvania	66.RD	4100030744	0	4,994
Commonwealth of Pennsylvania	66.RD	4100034415	0	29,201
Commonwealth of Pennsylvania	66.RD	4100034443	0	18
Commonwealth of Pennsylvania	66.RD	4100035580	0	131,469
Commonwealth of Pennsylvania	66.RD	4100036691	0	16,074
Commonwealth of Pennsylvania	66.RD	4100034506	0	94,506
Commonwealth of Pennsylvania	66.RD	SP3550061803/ ME4000008918	0	(870)
Commonwealth of Pennsylvania	66.RD	73 K 460-SC 30462/ 4100021880	0	345
Commonwealth of Pennsylvania	66.RD	CZM: 2007EG.02/ 4100042274	0	200,000
Commonwealth of Pennsylvania	66.RD	CZ1:2005-EG.01	29,834	130,503
Commonwealth of Pennsylvania	66.RD	4100021724	0	(1,691)
Total - Environmental Protection			29,834	775,585
<u>Education:</u>				
Commonwealth of Pennsylvania	84.RD	054-07-7201	28,625	29,972
Commonwealth of Pennsylvania	84.RD	4300021438	0	63,076
Commonwealth of Pennsylvania	84.RD	PDE	0	371,333
Commonwealth of Pennsylvania	84.RD	4500334240	0	56,387
Commonwealth of Pennsylvania	84.RD	4500365008	0	58,811
Commonwealth of Pennsylvania	84.RD	4100023040	0	143,031
Commonwealth of Pennsylvania	84.RD	062-08-0042	0	411,195
Commonwealth of Pennsylvania	84.RD	4500333196/ 4600009190	0	50,636
Commonwealth of Pennsylvania	84.RD	062-07-0043	0	14,748
Total – Education			28,625	1,199,189
<u>Health and Human Services:</u>				
Commonwealth of Pennsylvania	93.RD	PDWP 2005/2006-	0	203,286
Commonwealth of Pennsylvania	93.RD	JA/PC-01/ST-170	0	(27)
Total – Health and Human Services			0	203,259
TOTAL RESEARCH AND DEVELOPMENT PASS-THROUGH FUNDS - COMMONWEALTH OF PENNSYLVANIA			\$ 196,387	\$ 3,313,762

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
4. RESEARCH AND DEVELOPMENT - PASS-THROUGH FUNDS - OTHER INSTITUTIONS				
<u>Agriculture:</u>				
Auburn University	10.RD	----	\$ 0	\$ 6,076
Baylor College of Medicine	10.RD	2006-55215-16694	0	103,008
Cambridge Systematics	10.RD	NAS 116	0	40,900
Catie	10.RD	----	0	6,087
College of Menominee Nation	10.RD	----	0	7,478
Cornell University	10.RD	2006-34360-17178	0	8,285
Cornell University	10.RD	2006-34381-16995	0	16,967
Cornell University	10.RD	2002-30001-12096	0	(534)
Cornell University	10.RD	2006-34103-16932	0	21,112
Cornell University	10.RD	2006-0457-41	0	7,800
Cornell University	10.RD	2007-3762-18204	0	26,863
Cornell University	10.RD	2003-51110-01712	0	1,345
Cornell University	10.RD	58-1907-5-555	0	96,771
Cornell University	10.RD	2005-34103-5732	0	28,748
Great Lakes Commission	10.RD	----	0	45,780
Hartwick Soil Development	10.RD	----	0	2,922
Harvard University	10.RD	58-5000-6-0034	0	8,223
Iowa State University	10.RD	2004-35112-14249	0	(48)
Michigan State University	10.RD	2005-51100-02363	0	12,643
Mifflin County Conservation District	10.RD	NRCS 68-3A75-5-167	0	17,087
National Honey Board	10.RD	----	0	6,285
North Carolina State University	10.RD	2006-51101-03604	0	101,730
North Carolina State University	10.RD	2006-48642-03728	387	66,280
North Carolina State University	10.RD	2005-35504-16145	0	17,680
North Carolina State University	10.RD	2006-0457-01	3,494	3,575
North Carolina State University	10.RD	2006-41210-03731	0	10,157
Northern Arizona University	10.RD	2004-35111-15057	0	5,782
Pocono NE Research Conservation and Development Council	10.RD	----	0	6,003
Purdue University	10.RD	58-1935-4-430	0	30,000
Rodale Institute	10.RD	----	0	13,306
Tufts University	10.RD	2005-35102-15414	0	1,330
United Egg Producers	10.RD	NRCS 69-03A75-7-91	0	31,476
University of Arkansas	10.RD	2004-35317-14867	0	60,850
University of California Davis	10.RD	2007-35204-18391	0	343
University of Connecticut	10.RD	----	0	5,100
University of Connecticut	10.RD	2006-51110-03725	0	5,292
University of Georgia	10.RD	2007-34103-18292	0	4,933
University of Illinois	10.RD	PNW 05-JV- 11261975-257	0	20,529
University of Maine	10.RD	2005-34141-15600	0	4,349
University of Maine	10.RD	2006-34141-16855	0	12,843
University of Maryland	10.RD	2005-35605-15388	0	796
University of Maryland	10.RD	2006-38640-16700	0	9,785
University of Minnesota	10.RD	61-4256BB	0	11,600
University of Minnesota	10.RD	2004-35605-14243	0	103,868
University of Rhode Island	10.RD	2005-35215-15412	0	16,167
University of Vermont	10.RD	2007-38640-17935	0	7,060
University of Vermont	10.RD	2005-38640-15424	7,441	70,114
University of Vermont	10.RD	2006-38640-16700	0	26,793
University of Vermont	10.RD	----	0	122,857
University of Wisconsin	10.RD	2006-34558-17477	0	18,626

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Washington State University	10.RD	2005-35320-15375	0	82,038
		NFS 06-CR-		
West Virginia University	10.RD	11062759-439	0	211,429
West Virginia University	10.RD	68-3A75-2-89	0	33,676
Total – Agriculture			11,322	1,580,165
<u>Commerce:</u>				
Artificial Intelligence	11.RD	70NANB4H3043	0	27,834
Atolytics, Inc.	11.RD	50-DKNB-0-90112	0	19,020
Nature Conservancy	11.RD	N104NMF4630233	0	534
Northwest PA Industrial Research Center	11.RD	70NANB5H1121	0	248,569
Research Foundation State University of NY	11.RD	NA07OAR4170010	0	2,874
University of Arizona	11.RD	NA04NWS4620012	0	4,394
University of Michigan	11.RD	NA060AR4170017	0	10,063
University of North Carolina at Wilmington	11.RD	NA030AR4300088	0	4,322
Total – Commerce			0	317,610
<u>Defense:</u>				
3 Phoenix	12.RD	FA9550-07-C-0067	0	45,036
3 Phoenix	12.RD	----	0	23,383
Adaptive Methods, Inc.	12.RD	N68338-07-C-0012	0	(143)
Advanced Bionics, Inc.	12.RD	N00173-07-C-2047	0	65,098
Advanced Research, Inc.	12.RD	DAAB0703DB006	0	189,620
Advanced Technologies Institute	12.RD	----	91,899	296,555
Advatech Pacific Inc.	12.RD	FA9300-06-D-0003	0	(407)
Agarigen, Inc.	12.RD	----	0	130,058
Alantec Corp.	12.RD	N65538-07-M-0108	0	16,284
Alliant Techsystem, Inc.	12.RD	FA8650-07-C-5300	0	47,983
Altex Technologies	12.RD	N00014-06-C-0405	0	241,182
Altex Technologies	12.RD	W15QKN-07-C-0066	0	116,156
American Competitiveness Institute	12.RD	N00014-06-D-0090	0	201,668
American Competitiveness Institute	12.RD	N0014-01-C-0050	0	69,417
Applied Research Associates, Inc.	12.RD	F08637-03-C-6006	0	(2,000)
Applied Physical Sciences	12.RD	N68335-07-C-0221	0	25,000
Arcadis Geraghty	12.RD	----	0	1,886
Assurance Technology Corp.	12.RD	N00173-01-C-2006	0	17,702
Auburn University	12.RD	HDTRA 1-07-1-0014	0	59,246
B.F. Goodrich Aerospace	12.RD	----	0	31,530
BAE Systems	12.RD	N66001-06-C-2020	0	76,097
BAE Systems	12.RD	W911NF-05-2-0002	0	237,139
Barber Nichols	12.RD	N00014-06-C-0406	0	119,522
Barron Associates, Inc.	12.RD	N68335-07-C-0310	0	34,716
Battelle Pacific NW National Lab	12.RD	DAA019-02-D-0001	0	(648)
Bechtel Bettis, Inc.	12.RD	----	0	53,505
Bechtel Plant Machinery Inc.	12.RD	N00024-98-C-4064	0	23,849
Bell Power System	12.RD	W911W6-07-2-0003	0	25,711
Bellsoft, Inc.	12.RD	----	0	50,000
Boeing Company	12.RD	W56HZV-05-C-0724	0	157
Booz Allen & Hamilton Inc.	12.RD	W15P7T06DA401	0	114,897
Boyce Thompson Institute	12.RD	W31P4Q-07-1-0001	0	117,725
Briartek, Inc.	12.RD	----	0	15,396
CACI International inc.	12.RD	----	0	2,283
CACI International inc.	12.RD	F30602-02-C-0073	0	62,955
Calspan University of Buffalo	12.RD	W911NF-06-C-0162	0	396,704
Calspan University of Buffalo	12.RD	FA8750-06-C-0184	0	59,584

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
CDM Federal Programs Corp	12.RD	W912HQ-050C-0035	0	(3,078)
Cement Chemistry Systems LP	12.RD	W912HZ-06-C-0024	0	109,061
Center for Rotorcraft Innovation	12.RD	W911W6-05-2-0003	0	198,888
Center for Rotorcraft Innovation	12.RD	----	0	22,522
Center for Rotorcraft Innovation	12.RD	W911W6-06-2-002	0	147,107
Clemson University	12.RD	N00014-06-C-0022	0	31,889
Combustion Propulsion & Ballistics	12.RD	----	0	52,507
Computer Iface Instrumentation	12.RD	B68335-06-C-0320	0	93,694
Concurrent Technologies Corp.	12.RD	N00014-06-D-0048	0	50,584
Concurrent Technologies Corp.	12.RD	----	0	74,413
Cortana	12.RD	N00014-07-M-0511	0	5,000
DCX-Chol Enterprises, Inc.	12.RD	----	0	31,419
Duke University	12.RD	W911NF-05-1-0248	0	168,507
Dynaflow, Inc.	12.RD	N00014-06-M-0218	0	5,070
EM Photonics	12.RD	N00014-07-M-0402	0	24,160
Etrema Products, Inc.	12.RD	-----	0	130,008
Evionyx Inc.	12.RD	W31P4Q-05-C-0209	0	2,991
Ex One, LLC	12.RD	DAAD19-02-2-0015	0	17,317
Extrude Hone Corporation	12.RD	DAAD19-03-2-0011	0	(8)
Falmouth Scientific Inc.	12.RD	N00039-05-C-0033	0	(4)
Feature Based Systems Inc.	12.RD	N68335-06-C-0141	0	5,243
Feature Based Systems, Inc.	12.RD	N00014-07-C-0278	0	90,855
Federal Technology Group	12.RD	W911NF-07-2-0045	0	38,719
Fibertek, Inc.	12.RD	HQ0006-04-D-0001	0	562,963
Firan Technology Group Corporation	12.RD	W911QX-08-C-0038	0	23,895
Foster-Miller, Inc.	12.RD	----	0	940,858
Gear Research Institute	12.RD	W911NF-06-2-0034	0	9,026
Gear Research Institute	12.RD	W911W6-06-C-0062	0	23,089
General Dynamics	12.RD	N00024-03-C-6100	0	(93)
General Dynamics	12.RD	-----	38,600	2,924,021
General Opto Solutions, LLC	12.RD	W31P4Q-06-C-0489	0	121,162
George Mason University	12.RD	FA9550-07-1-0527	0	177,773
Georgia Institute of Technology	12.RD	N00014-04-1-0426	0	115,565
Georgia Institute of Technology	12.RD	W911NF-04-1-0419	0	142,127
Georgia Institute of Technology	12.RD	N00014-06-1-0897	0	229,360
Goodyear Tire	12.RD	N00014-08-1-0481	0	13,129
HC Material	12.RD	N00014-07-M-0235	0	33,399
Hexcel Corp.	12.RD	N00421-08-C-0017	0	28,066
High Performance Technologies	12.RD	G804T01BFC0061	0	2,691
Honeywell Inc.	12.RD	N00421-08-C-0017	0	17,130
Honeywell Inc.	12.RD	DAAD19-01-2-0010	0	43,042
Hontek Corp	12.RD	N00014-06-M-0274	0	(299)
Horizon Defense & Aerospace	12.RD	MDS972-01-C-0047	0	70,456
HRL Laboratories, LLC	12.RD	----	0	11,233
Impact Technologies LLC	12.RD	N00014-07-M-0411	0	24,984
Infinia Corporation	12.RD	N00014-07-M-0409	0	20,924
Infoscitex Corporation	12.RD	W911QX-07-C-0014	0	59,517
Infoscitex Corporation	12.RD	----	0	101,791
Innovative Scientific Solutions Inc.	12.RD	F33615-03-D-2329	0	151,057
Innovative Scientific Solutions Inc.	12.RD	N00014-07-M-0090	0	23,280
Intelligent Automation, Inc.	12.RD	FA9550-06-C-0101	0	25,000
Intelligent Automation, Inc.	12.RD	N00014-07-M-0183	0	20,989
Intelligent Automation, Inc.	12.RD	N68335-07-C-0293	0	26,000
Intelligent Automation, Inc.	12.RD	FA9550-07-C-0066	0	85,556
Intelligent Automation, Inc.	12.RD	W911NF-06-C-0146	0	33,000
International Business Machines, Inc.	12.RD	W911NF-06-3-0001	0	177,378
International Business Machines, Inc.	12.RD	N66001-04-C-8032	0	134,431

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Invercon LLC	12.RD	W91146-06-C-0002	0	29,791
ITT Industries	12.RD	----	0	7,477
ITT Industries	12.RD	N00173-02-C-2-25	0	99,518
ITT Industries	12.RD	N00173-03-C-2037	0	377,079
Jet Propulsion Lab	12.RD	----	0	18,702
Johns Hopkins University	12.RD	N00014-06-1-0991	0	6,921
Johns Hopkins University	12.RD	04-D-8601	0	1,375
KCF Technologies	12.RD	N00014-06-M-0286	0	1,956
KCF Technologies	12.RD	N00014-05-C-0359	0	16,337
KDH Electronics Systems, Inc.	12.RD	N00421-04-D-0072	0	57
Kennametal Ceramics Materials	12.RD	W911NF04-02-0037	0	90,751
Knolls Atomic Power Lab	12.RD	N00024-C-4011	0	2,426
Knolls Atomic Power Lab	12.RD	----	0	(1)
Kuchera Defense Systems Inc.	12.RD	W911QX-08-C-0048	0	6,776
Kuchera Defense Systems Inc.	12.RD	W91CRB-07-C-0082	0	2,833
Kuchera Defense Systems Inc.	12.RD	68665-07-C-0447	0	26,761
Kuchera Defense Systems Inc.	12.RD	FA8659-07-C	0	57,103
Kuchera Defense Systems Inc.	12.RD	W55HZV-05-C-0354	0	(778)
L-3 Communications	12.RD	DTRA01-03-D-0013	0	257
Lehigh University	12.RD	W911NF-07-2-0064	0	10,952
Lehigh University	12.RD	W911NF-06-2-0020	0	14,825
Lighting Packs, LLC	12.RD	N0001406M0309	0	9,000
Lockheed Martin	12.RD	N00039-04-C-0035	0	79,875
Lockheed Martin	12.RD	----	0	23,356
Massachusetts Institute of Technology	12.RD	----	0	120,157
Material Sciences Corp.	12.RD	W31P4Q-04-C-R031	0	27,721
Material Sciences Corp.	12.RD	----	0	(104)
McDonnell Douglas Corp.	12.RD	DAAH01-01-2-0005	0	24,992
McDonnell Douglas Corp.	12.RD	----	0	70,492
Metacomp Technologies	12.RD	----	0	15,065
Micro Analysis & Design Inc.	12.RD	05TA1-SP1-RT4	0	260,793
Mimark	12.RD	W56HZV-07-C-0392	0	60,446
Mission Research Corp.	12.RD	DASG60-98-C-0035	0	506,715
Nanopowder Enterprises	12.RD	W15QKN04C1122	0	21,714
Nantero	12.RD	----	0	74,249
National Center for Defense Manuf MAC	12.RD	W31PQ-05-D-R003	0	49,285
National Center for Defense Robotics	12.RD	N000164-05-D-6647	0	19,244
National Center for Manufacturing Sciences	12.RD	----	0	60,888
Navmar Applied Science Corporation	12.RD	N68335-C-0145	0	2,265
Newport News Shipbuilding	12.RD	N00024-98-C-4064	0	325,219
Newport News Shipbuilding	12.RD	N00024-04-G-62-2	0	(660)
Newport News Shipbuilding	12.RD	----	24,704	2,708,215
Nextgen Aeronautics Inc.	12.RD	W31P4Q-08-C-0286	0	5,014
Nextgen Aeronautics Inc.	12.RD	W31P4Q-05-C-0308	0	45,932
Nextgen Aeronautics Inc.	12.RD	----	0	83,255
nGimat Co.	12.RD	W911QX-06-C-0125	0	1,390
North Carolina A&T University	12.RD	N00030-06-C-0024	0	(206)
North Carolina A&T University	12.RD	N00030-08-C-0047	0	46,257
North Carolina A&T University	12.RD	----	0	48,724
Northrop Grumman	12.RD	N66604-02-D-1118	0	287,862
Northrop Grumman	12.RD	N00024-07-G-6226	0	6,842
Northrop Grumman	12.RD	HR0011-04-C-0003	0	147,790
Northrop Grumman	12.RD	FA8750-06-C-0051	0	117,718
Northrop Grumman	12.RD	----	71,820	1,131,541
Oceaneering International Inc.	12.RD	M00024-06-C-6269	0	48,500
Omega Piezo Technologies	12.RD	W31PHQ-05-C-0176	0	32,483
Physical Sciences Inc.	12.RD	N68335-08-C-0038	0	23,017

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Planning Systems Inc.	12.RD	N00014-06-M-0294	0	10,051
Princeton University	12.RD	FA9550-06-1-0081	0	41,685
Princeton University	12.RD	FA9550-07-1-0515	0	314,997
Princeton University	12.RD	FA9550-05-1-0365	0	247,316
Purdue University	12.RD	HDTRA1-08-1-0006	0	2,548
Purdue University	12.RD	W911NF-06-1-0377	0	54,788
Questek Innovations LLC	12.RD	N68335-06-C-0339	0	49,157
Rhombus Consultants Group	12.RD	N68335-06-C-0355	0	84,210
RLW, Inc.	12.RD	N65538-05-M-0163	0	(4)
Rutgers State University of NJ	12.RD	W911NF-06-2-0007	0	84,871
Savit Corporation	12.RD	DAAE30-03-D-1008	0	196,868
Schott Glass Technologies	12.RD	W911SR-07-C-0025	0	42,035
Science Research Laboratory	12.RD	W31P4Q-06-C-0425	0	57
Sentient Corporation	12.RD	N00014-06-M-0279	0	(82)
Sentient Corporation	12.RD	N68335-05-C-0307	0	19,377
Sierra Nevada Corporation	12.RD	DAAB0703DB006	0	12,072
Sikorsky Aircraft Company	12.RD	W911W6-05-2-0003	0	35,888
Sikorsky Aircraft Company	12.RD	HR0011-04-C-0003	0	79,617
Smiths Detection	12.RD	N00039-06-C-0032	0	150,000
Smiths Detection	12.RD	DAAB07-00-C-J613	0	540,617
Solers Inc.	12.RD	N00014-05-C-0032	0	368,796
South Carolina Research Authority	12.RD	N00014-06-D-0045	0	539,550
Southern University and A&M College	12.RD	N000014-05-1-0706	0	(813)
Spectral Sciences Incorporated	12.RD	FA8650-07-M-3724	0	31,886
Spectral Sciences Incorporated	12.RD	FA8650-08-C-3828	0	18,743
Spectrum Technology Group, Inc.	12.RD	N00167-04-D-0022	0	45,151
SRI International	12.RD	RTVGC-02-210	0	127,895
Standard Procurement System	12.RD	FA8650-07-M-2709	0	148,036
Standard Procurement System	12.RD	FA8650-07-M-2791	0	22,000
Syracuse University	12.RD	N68335-06-C-0025	0	21,389
Taitech Inc.	12.RD	FA9550-07-C-0135	0	38,079
Telka Research Inc.	12.RD	N00173-05-C-2056	0	91,930
Teledyne Science & Imaging LLC	12.RD	NBCHC060175	0	173,533
Tennessee State University	12.RD	W911NF04-2-0049	0	138,430
Texas A & M University	12.RD	W81XWH-06-01-0479	0	49,094
Ticom Geomatics	12.RD	----	0	2,018
Titan Corporation	12.RD	DTRA 01-03-D-0013	0	309,660
Triton Systems Inc.	12.RD	N00014-07-M-0366	0	10,465
TRS Ceramics Inc.	12.RD	N00014-04-C-0114	0	76,194
TRS Ceramics Inc.	12.RD	N00014-08-M-0114	0	1,987
TRS Ceramics Inc.	12.RD	N00014-08-M-0113	0	294
TRS Ceramics Inc.	12.RD	N00014-05-C-0181	0	351,457
TRS Ceramics Inc.	12.RD	N00014-07-C-0761	0	(846)
TRS Ceramics Inc.	12.RD	N00014-06-M-0226	0	119,456
TRS Ceramics Inc.	12.RD	N00014-06-C-0134	0	11,587
TRS Ceramics Inc.	12.RD	N00014-07-C-0858	0	110,000
TRS Ceramics Inc.	12.RD	N00014-07-M-0236	0	55,557
TRS Ceramics Inc.	12.RD	N00014-05-C-0371	0	6,270
TRS Ceramics Inc.	12.RD	FA8650-07-M-2752	0	33,000
UES Inc.	12.RD	N68335-07-C-0307	0	26,600
University of California	12.RD	----	0	161,547
University of California Davis	12.RD	W911NF-07-1-0318	0	64,481
University of California Santa Barbara	12.RD	N00014-06-1-0428	0	217,298
University of Colorado	12.RD	N00014-02-1-0714	0	60,427
University of Delaware	12.RD	W911QX-04OC0116	0	11,508
University of Florida	12.RD	N00014-07-1-0143	0	120,781
University of Iowa	12.RD	N00014-06-1-0420	0	95,254

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Maryland	12.RD	N00014-06-1-0530	0	61,205
University of Michigan	12.RD	N00167-04-D-0004	0	7,276
University of Oklahoma	12.RD	W911NF-07-1-0587	0	17,167
University of Pittsburgh	12.RD	DAAD19-01-1-0650	0	(18,857)
University of Rochester	12.RD	F49620-03-1-0379	0	32,515
University of Southern California	12.RD	N0014-05-1-0630	(5,943)	(8,618)
University of Texas	12.RD	W911NF-07-1-0028	0	50,035
University of Texas	12.RD	W81XWH-06-1-0145	0	6,904
University of Texas	12.RD	F33657-99-D-2051	0	64,882
University of Texas	12.RD	W911NF-07-1-0047	0	313,714
University of Washington	12.RD	HR0011-05-1-0044	0	73,382
Vanderbilt University	12.RD	N00014-07-M-0275	0	23,000
Virginia Polytechnic Institute	12.RD	DAAD 19-02-1-0275	0	4,764
Virginia Polytechnic Institute	12.RD	FA9550-07-1-0357	0	50,276
Virginia Polytechnic Institute	12.RD	W911NF-07-1-0452	0	262,957
VLOC Inc.	12.RD	FA9451-05-C-0182	0	511,201
VLOC Inc.	12.RD	FA9451-06-D-0012	0	(5,367)
Wartsila Lips, Inc.	12.RD	N00014-07-C-0087	0	7,289
Washington State University	12.RD	N00014-06-1-0874	0	64,237
Woods Hole Oceanographic	12.RD	N00014-07-1-0992	0	67,351
Wyle Laboratories	12.RD	N00421-04-C-0121	0	498
Wyle Laboratories	12.RD	HC1047-05-D-4005	0	226,229
Total – Defense			221,080	25,327,176
<u>Interior:</u>				
America View Consortium	15.RD	----	0	4,000
American Fisheries Society	15.RD	----	0	34,377
Cogniscent, Inc.	15.RD	NBCHC050065	0	26,226
Continental Shelf Association	15.RD	----	0	(177)
Menominee Indian Tribe of Wisconsin	15.RD	----	0	55,673
Northern Arizona University	15.RD	AAA060016	0	27,024
Sonoma Technology Inc.	15.RD	1435-01-01-CT-31065	0	(23,980)
TDI Brooks International Inc.	15.RD	0105CT39187	0	248,698
Universal Corporation for Atmospheric Research	15.RD	NA060AR4310119	0	43,539
Total - Interior			0	415,380
<u>Justice:</u>				
Wake Forest University	16.RD	2005-AH-FX-K011	0	2,901
Total - Justice			0	2,901
<u>Labor:</u>				
PA Plastics Initiative	17.RD	IRCNO1-918-800-0719	0	36,677
Penn College of Technology	17.RD	----	0	8,000
Total - Labor			0	44,677
<u>Transportation:</u>				
Auburn University	20.RD	01-G-022	0	55,900
Battelle Pacific NW National Lab	20.RD	DTFAC-03-C-00042	0	202,648
Cornell University	20.RD	DTOS5907G00052	0	37,392
FIGG Engineering Group	20.RD	----	0	21,215
George Washington University	20.RD	----	0	41,744
National Academy of Sciences	20.RD	----	11,687	133,411
National Biodiesel Board	20.RD	DTOS59-07-G-00051	0	4,854
Quality Engineering Solutions	20.RD	FAA-01-G-002-04-02	0	5,620
Rensselaer Polytechnic Institute	20.RD	NAS HR 5-19	0	23,009
University of New Hampshire	20.RD	----	0	53,568

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Vanasse Hangen Brustlin Inc.	20.RD	DTFH61-05-D-00024	0	68,761
Virginia Transportation Res Co.	20.RD	----	0	3,144
Washington Department of Transportation	20.RD	----	0	51,830
Total - Transportation			11,687	703,096
<u>Appalachian Regional Commission</u>				
Northwest PA Regional Planning and Development	23.RD	----	0	23,069
Total - Appalachian Regional Commission			0	23,069
<u>National Aeronautics and Space Admin.:</u>				
3 Phoenix	43.RD	NNC06CA29C	0	20,082
Bechtel Plant Machinery Inc.	43.RD	DE-AC12-00SN39357	0	(13,628)
California Institute of Technology	43.RD	NNG06GA08G	0	80,856
Combustion Propulsion & Ballistics	43.RD	NAS8-97238	0	144,469
Electrodynamic Applications Inc.	43.RD	NNX07CA24P	0	15,132
Eloret Corp.	43.RD	----	0	(523)
Georgia Institute of Technology	43.RD	NNX06AE50G	0	87,280
Innovative Management and Technology Services	43.RD	----	0	74,899
Intelligent Automation Inc.	43.RD	----	0	35,503
Jet Propulsion Lab	43.RD	NM0710965	0	123,599
Jet Propulsion Lab	43.RD	NM0710076	0	102,410
Jet Propulsion Lab	43.RD	----	0	118,456
Jet Propulsion Lab	43.RD	NM0710776	0	92,079
Jet Propulsion Lab	43.RD	NM0710860	0	5,931
Jet Propulsion Lab	43.RD	NM0710833	0	126,412
Jet Propulsion Lab	43.RD	NAS7-03001	0	39,937
Luna Innovations, Inc.	43.RD	1577-NAS-IT/PSU	0	27,046
National Institute of Building Sciences	43.RD	NASW-02039 TO#7	0	18,736
Ohio Aerospace Institute	43.RD	NAG3-2430	0	519
Orbital Technologies Inc.	43.RD	NNKO60M02C	0	59,998
QSS Group, Inc.	43.RD	----	0	9,855
Smithsonian Astrophysical Observatory	43.RD	NAS8-03060	1,205,123	2,815,316
Space Telescope SCI Institute	43.RD	NAS5-26555	0	427,576
TAO Systems	43.RD	NND07AA05C	0	79,976
Triton Systems Inc.	43.RD	NNC08CA02C	0	18,692
University of California	43.RD	NAG5-13758	0	12,694
University of Florida	43.RD	NCC3-994	0	320,668
University of Hawaii	43.RD	NNG04GL48G	0	9,268
University of Maryland	43.RD	NCC 3989	33,189	721,404
University of Minnesota	43.RD	NNG05GD51G	0	17,526
University of Texas at Austin	43.RD	NNG05GOB3G	0	55,466
University of Washington	43.RD	NNA08CN87A	0	1,196
Total - National Aeronautics and Space Admin.			1,238,312	5,648,830
<u>National Endowment for the Arts:</u>				
University of Maryland	45.RD	EE-50192-05	0	2,895
Total - National Endowment for the Arts			0	2,895
<u>National Science Foundation</u>				
Advanced Power Products, Inc.	47.RD	IPP-0637850	0	69,662
Bentley College	47.RD	----	0	202
Bigelow Lab for Ocean Sciences	47.RD	OPP-0221748	0	32,259
California Institute of Technology	47.RD	AST-0326524	0	85,840
Carnegie Institute	47.RD	----	0	211,680
Case Western Reserve University	47.RD	ECS-0609128	0	110,108
Columbia-Barnard National Science Foundation	47.RD	10S-0719259	0	66,621

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Consortium of UV for the Advancement of Hydrologic Science Inc.	47.RD	----	0	197,157
Cornell University	47.RD	0335765	0	870,456
Cornell University	47.RD	ATM-0630533	0	11,784
Cornell University	47.RD	----	0	28,784
Cornell University	47.RD	649215	0	23,129
Cornell University	47.RD	0619495	0	140,124
Expansyn Technologies, Inc.	47.RD	IPP-0739966	0	31,940
Feature Based Systems, Inc.	47.RD	----	0	49,991
Florida State University	47.RD	----	0	80,662
Georgia State University	47.RD	EEC-0601939	0	29,308
Harvard University	47.RD	DMR-0303916	0	17,615
Illumenix Corporation	47.RD	0740336	0	4,374
Iowa State University	47.RD	CMA-0424700	0	48,824
Joint Oceanographic Institution	47.RD	----	0	22,190
Kansas State University	47.RD	----	0	410,702
Lehigh University	47.RD	DMR-0409588	0	103,295
Lehigh University	47.RD	DMR-0602986	0	58,692
Massachusetts Institute of Technology	47.RD	----	0	257,413
Michigan State University	47.RD	DMR0304391	0	(2,069)
Michigan State University	47.RD	DBI-0501890	0	78,468
National Academy of Sciences	47.RD	----	0	9,268
North Carolina State University	47.RD	DB1-0605135	0	80,207
North Carolina State University	47.RD	DB1-0606017	0	176,655
Northeastern University	47.RD	----	0	54,787
Northwestern University	47.RD	OCI-0724599	0	2,585
Optema Development Corp.	47.RD	IPP-0646569	0	11,169
Oregon State University	47.RD	----	0	30,348
Portland State University	47.RD	DUE-0633754	0	29,368
R&D Imaging Technologies, Inc.	47.RD	IIP-0739757	0	15,400
Rand Corporation	47.RD	0345925	0	68,696
Rand Corporation	47.RD	SES-0624353	0	25,433
Rand Corporation	47.RD	SES-0520400	0	6,090
Rensselaer Polytechnic Institute	47.RD	CMS-0334380	0	3,803
Rensselaer Polytechnic Institute	47.RD	CMS-0324380	0	4,146
Research Foundation State University of New York	47.RD	----	0	43,719
Simmons College	47.RD	IIS-0333036	0	(151)
State University of New York	47.RD	----	0	4,068
Structured Metals Industries, Inc.	47.RD	IIP-0637900	0	2,055
Toscarora Intermediate Unit	47.RD	IIP-0740346	0	5,000
Universal Corporation for Atmospheric Research	47.RD	ATM-0301213	0	9,897
University of Arizona	47.RD	NSF EAR-9876800	0	7,865
University of Arizona	47.RD	----	0	18,324
University of California	47.RD	EAR-0120727	0	1,413
University of California	47.RD	EAR-0124727	0	2,371
University of California	47.RD	EAR-0225673	0	37,653
University of California	47.RD	ESI-0334199	0	89,259
University of Florida	47.RD	----	0	4,538
University of Georgia	47.RD	DEB0346488	0	16,732
University of Kansas	47.RD	----	0	3,000
University of Maryland	47.RD	ESI-0426253	0	277,883
University of Maryland	47.RD	----	0	100,009
University of Maryland	47.RD	BCS-0650442	0	(86)
University of Miami	47.RD	BCS-0410348	0	62,912

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Missouri	47.RD	HRD-06-781	0	86,786
University of Nebraska	47.RD	ANT-0342484	0	41,633
University of Nebraska	47.RD	CMMI-0709333	0	6,877
University of Ohio	47.RD	BCS-0643393	0	7,166
University of South Carolina	47.RD	CMS-0528873	0	21,222
University of Texas	47.RD	EF-0334952	0	38,174
University of Texas	47.RD	DEB-0733029	0	19,972
University of Wisconsin	47.RD	0514592	0	28,208
University of Wisconsin	47.RD	----	0	482,482
University of Wisconsin	47.RD	PHY-0600953	0	214,327
University of Wisconsin	47.RD	ANT-0639286	0	190,678
Virginia Polytech Institute	47.RD	DBI-04-01748	0	61,545
Total - National Science Foundation			0	5,442,697
<u>Department of Veterans Affairs:</u>				
New Mexico VA Health Care System	64.RD	----	0	38,497
Total - Department of Veterans Affairs			0	38,497
<u>Environmental Protection Agency:</u>				
Altex Technologies	66.RD	EP-D-07-079	0	13,435
Battelle Pacific NW National Lab	66.RD	68-C-00185	0	(108)
Capital Research Conservation Development Council	66.RD	----	0	38,150
Clearwater Conservancy	66.RD	2005-0001-088	0	4,588
Community Housing Res Center, Inc.	66.RD	PI-96414104	0	(5,908)
Erie County	66.RD	----	0	22,222
Mactec Inc.	66.RD	68-D-03-052	0	20,419
Mid-Atlantic Consortium				
Recycle and Economic Development	66.RD	X9-97310901	0	(15,918)
Nanopowder Enterprises, Inc.	66.RD	X-98160801	0	21,539
National Sanitation Foundation International	66.RD	----	0	15,000
Texas State Soil and Water Conservation Board	66.RD	C9-996236-14	0	50,369
University of Maryland	66.RD	2006-0113-004	0	39,725
Total - Environmental Protection Agency			0	203,513
<u>Nuclear Regulatory Commission:</u>				
Purdue University	77.RD	NRC-04-03-048	0	24,537
Total Nuclear Regulatory Commission			0	24,537
<u>Energy:</u>				
		DE-FG02-		
Agiltron, Inc.	81.RD	04ER83894-A001	0	37,319
Air Products & Chemical	81.RD	DE-FC26-97FT96052	0	65,993
Air Products & Chemical	81.RD	DE-FC26-98FT40343	0	186,850
American Water Works Research Foundation	81.RD	DE-FG02-0363619	0	121,222
Argonne National Laboratory	81.RD	W-31-109-ENG-38	0	7,181
Argonne National Laboratory	81.RD	07-C-1049	0	101,569
Argonne National Laboratory	81.RD	----	0	258,540
Battelle Pacific NW National Lab	81.RD	----	0	61,959
Battelle Pacific NW National Lab	81.RD	DE-AC07-05ID14517	0	103,459
Battelle Pacific NW National Lab	81.RD	DE-AC05-00OR2272-5	0	118,619
Battelle Pacific NW National Lab	81.RD	DE-AC05-76RL01830	29,861	628,242
Bechtel Bettis, Inc.	81.RD	----	0	986,744
Breen Energy Solutions	81.RD	DE-DF-FC26-06NT42807	0	44,069
Case Western Reserve University	81.RD	DE-FC-28-04RW12252	0	47,595
Clemson University	81.RD	DE-FC-2602NT41431	0	133,676
Colorado School of Mines	81.RD	DE-FC26-05NT15549	0	9,237

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Council for International Exchange of Scholars	81.RD	----	0	37,000
Consortium Prem. Carbon Prod. From Coal	81.RD	DE-FC26-03NT41874	(223,233)	(2,772)
Duke University	81.RD	----	0	108,179
Fuel Cell Engineering Corp.	81.RD	----	0	(25)
General Electric Company	81.RD	DE-FC26-05NT 42438	0	33,610
Georgia Institute of Technology	81.RD	DE-FG26-07NT43069	0	61,900
Illuminex Corporation	81.RD	DE-FG02-07ER86313	0	33,000
Iowa State University	81.RD	NRCS683A754137	0	103,158
KCF Technologies	81.RD	DE-FG02-04ER86189	0	79,486
Kennametal Ceramic Materials	81.RD	DE-AC05-00OR22725	0	77,543
Knolls Atomic Power Lab	81.RD	----	0	101
Knolls Atomic Power Lab	81.RD	AC12002N3957	0	(345)
Lawrence Berkeley Laboratory	81.RD	DE-AC02-05CH11231	0	174,559
Livermore Lawrence National Laboratory	81.RD	DE-AC53-07NA27344	0	27,072
Livermore Lawrence National Laboratory	81.RD	W7405ENG48	0	60,000
Livermore Lawrence National Laboratory	81.RD	DE-AC52-07NA27344	0	33,679
Los Alamos National Lab	81.RD	W-7405-ENG-36	0	19,386
Los Alamos National Lab	81.RD	DE-AC-52-06NA25396	0	77,855
Los Alamos National Lab	81.RD	----	0	34,092
Medical University of South Carolina	81.RD	DE-FG07-051D14692 IND	0	27,667
Michigan Technological University	81.RD	DE-FC02-06ER64158	3,944	37,175
National Center for Energy Management	81.RD	DE-FC36-03G013072	23,252	227,497
National Renewable Energy Lab	81.RD	DE-AC36-99G010337	0	119,057
National Renewable Energy Lab	81.RD	ADC-8-77035-01	0	1,444
National Renewable Energy Lab	81.RD	AC36-9GGO10337	0	(15)
New York State Energy Research and Development	81.RD	DE-FC26-00NT41025	26,004	26,004
NICCR	81.RD	DE-FC02-06ER64157	(94,453)	137,832
Oak Ridge National Lab	81.RD	----	0	60,557
Purdue University	81.RD	----	0	4,685
Sandia National Labs	81.RD	----	5,136	200,449
Sandia National Labs	81.RD	A0342	0	46,163
Seimens Power Generation Inc.	81.RD	----	0	37,859
Universal Display Corporation	81.RD	DE-FG02-04ER84113	0	544
University of Illinois	81.RD	DEFC03G013072	0	72,813
University of Iowa	81.RD	DE-FG36-06GO86029	0	20,000
University of Michigan	81.RD	DE-FG07-071D14894	0	87,539
University of Missouri	81.RD	DE-FG07-071D14807	0	109,122
University of Tennessee	81.RD	DE-FG07-071D14895	0	83,896
University of Texas at Austin	81.RD	DE-FC21-92-MC29061	0	43,180
UTC Fuel Cells	81.RD	DE-FC04-02AL67608	0	(15,031)
Washington Savannah River Co., LLC	81.RD	DE-AC09-96SR18500	0	36,694
		06-485Z-PSU/		
West Virginia University	81.RD	PO 50046517	0	66,058
West Virginia University	81.RD	----	0	(3,695)
Total - Energy			(229,489)	5,297,246
Education:				
Bechtel Bettis, Inc.	84.RD	----	0	123,289
Capitol Area Intermediate Unit	84.RD	----	0	27,497
Duke University	84.RD	----	0	36,298
Purdue University	84.RD	P116J070040	0	3,886
Sandia National Labs	84.RD	----	0	(619)
University of North Carolina	84.RD	R305A040056	0	289,268
Total - Education			0	479,619

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Health and Human Services:</u>				
Abiomed	93.RD	----	0	22,444
AFASCI, Inc.	93.RD	R1HL084990-01A1	0	66,866
Arizona State University	93.RD	2 R01 HD039666-05A1	0	65,622
Association of American Medical Colleges	93.RD	----	0	61,429
Asso. of Teachers Preventative Medicine	93.RD	U50/CCU300860	0	133,725
Bassett Mary Imogene Hospital	93.RD	2U50/OH07542-06	0	176,567
Baylor College of Medicine	93.RD	5R01AR04447411	0	(64)
Baylor College of Medicine	93.RD	5 R01 AR044474-12	0	54,514
Baylor College of Medicine	93.RD	R01 NS049135-03	0	21,712
Baylor College of Medicine	93.RD	R01 NS049135	0	44,890
Brown University	93.RD	R01 HL046005-03	0	20,476
Burke, WM Medical Research Institute, Inc.	93.RD	1R01CA11842-01A2	0	10,230
Case Western Reserve University	93.RD	1R901DE01532201	0	4,263
Case Western Reserve University	93.RD	1 R01 DE015322-01	0	20,363
Cincinnati Childrens Hospital Medical Center	93.RD	R01NR007615	0	53,408
Cincinnati Childrens Hospital Medical Center	93.RD	R01DA16402	0	63,809
City University of New York	93.RD	2 R01HL057093	0	67,424
Cleveland Clinic	93.RD	RR019397	0	(725)
Cleveland Clinic	93.RD	1R01EB008049-01	0	19,022
Cleveland Clinic	93.RD	U54RR019397-05	0	137,336
Cleveland Clinic	93.RD	U54RR019397-01	0	7,429
Colorado State University	93.RD	9R01HL092791	0	72,911
Colorado State University	93.RD	1 R01A152055	0	15,407
Cornell University	93.RD	P01CA094000	0	44,010
		5P01CA094000-05		
Cornell University	93.RD	/41880-7304	0	165,474
Cornell University	93.RD	5R01MH063749-05	0	110,911
Dartmouth College	93.RD	7 R01HD049783-03	0	35,564
Dartmouth College	93.RD	7 R01HD049782-02	0	19,379
Dow Chemical Co.	93.RD	----	0	25,641
Drexel University	93.RD	7 R01 AG022443-02	0	49,675
Drexel University	93.RD	1 R21 NR008798-02A2	0	(7,508)
Drexel University	93.RD	5 R01 DK066759-02	0	2,534
Drexel University	93.RD	5 R01 DK066759-05	0	35,590
Duke University	93.RD	5R01MH057448-08	0	121,814
Duke University	93.RD	R01 CA106919-04	0	47,242
Emory University	93.RD	5 R01GM059969-09	0	68,883
Emory University	93.RD	5R01HG003618-02	0	23,426
Emory University	93.RD	2R01GM059969-10	0	62,096
Endographics Inc.	93.RD	----	0	118,588
Endographics Inc.	93.RD	2R44CA091534-03	0	59,991
George Mason University	93.RD	1 R01 MH079502-02	0	52,827
George Mason University	93.RD	1 R01 MH079502-01	0	28,175
Gynecologic Oncology	93.RD	2 U10 CA27469	0	6,849
Hebrew Rehabilitation Center	93.RD	1 R01AG028423-02	0	23,496
Hebrew Rehabilitation Center	93.RD	5 R01AG024091	0	1,106
Hebrew Rehabilitation Center	93.RD	5 R01AG924091-04	0	7,258
Indiana University	93.RD	1 R01 HD41603-01A1	0	2,158
Indiana University	93.RD	R01MH05771	0	2,110
Indiana University	93.RD	R01MH057717	0	28,102
Iowa State University	93.RD	R01DA1370901A1	0	282,213
Iowa State University	93.RD	2R01DA013709-06A1	0	1,208,285
JAEB Center for Health Research	93.RD	U10 EY 14231	0	62,695
Johns Hopkins University	93.RD	1 P01AG021190	0	286,005
Johns Hopkins University	93.RD	1 P01 AG021190-04	0	246,765
Johns Hopkins University	93.RD	R01AG020688	0	9,469

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Johns Hopkins University	93.RD	R01AG020688-04	0	5,886
Johns Hopkins University	93.RD	5R21CA105696-02	0	1,511
Johns Hopkins University	93.RD	P30MH066247	0	108,407
Johns Hopkins University	93.RD	R01HD050254	0	103,355
Johns Hopkins University	93.RD	1 P01CA098252-01	0	37,133
Johns Hopkins University	93.RD	5 P01 AG021190-04	0	167,153
Johns Hopkins University	93.RD	2R01HD038384	0	88,173
Johns Hopkins University	93.RD	5P01AG021190	0	204,419
Kirkville College	93.RD	----	0	12,173
Kirkville College	93.RD	5R25AT003579-02	0	48,549
Leapfrog Group	93.RD	2U18HS013680-02	0	(4,247)
Lightening Packs LLC	93.RD	1R43HD055110-01A1	0	26,321
Mayo Foundation	93.RD	2R01-RR-11800-04-A2	0	(17,436)
Medical University of South Carolina	93.RD	2R01HS011326-03	0	56,559
Medical University of South Carolina	93.RD	R01CA075248	0	108,092
Meharry Medical College	93.RD	5U54HD44315-05	0	234,636
Michigan State University	93.RD	1R03DA021639-01	0	7,033
Moffitt HL Cancer Center and Research Institute	93.RD	1R01CA112112	0	28,719
Montana Wyoming Tribal	93.RD	2R24HS014034-04	0	37,851
Mount Sinai Medical Center	93.RD	1 R01 DD000350-01	0	12,016
Nanomech, LLC	93.RD	1R43DE01573U-01 A2	0	39
National Childhood Cancer Foundation	93.RD	5U10CA098543-04	0	158,363
National Jewish Medical & Research Center	93.RD	1R01HL090982-01	0	16,528
New York Medical College	93.RD	7 R01 CA111842-02	0	89,549
Northwestern University	93.RD	7R221CA1003833-03	0	3,358
Northwestern University	93.RD	U54 HD034449-11	0	28,315
Oregon Social Learning Center	93.RD	----	0	130,246
Pacific Institute for Research and Evaluation	93.RD	1R01 HD055838-01	0	64,348
Pennington Biomed Research Center	93.RD	1-P50-AT002776	0	100
Purdue University	93.RD	2 R01 AG018436-06	0	56,711
Purdue University	93.RD	1 R01 AG027769-01A2	0	8,798
Radiation Monitoring Devices	93.RD	1 R43 EB005646-01A1	0	10,221
Research Foundation State University of New York	93.RD	1 R01 DC009429-01	0	1,019
Rutgers State University of NJ	93.RD	1 R21 HL084367-01A1	0	89,134
Rutgers State University of NJ	93.RD	5R21 CA1119934-02	0	3,642
Rutgers State University of NJ	93.RD	1R21CA119934-01A2	0	46,311
SCI Applications International Corp	93.RD	----	0	72,956
Scripps Institute	93.RD	5 U19 AG023122-04	0	16,423
Scripps Institute	93.RD	5 R01 CA097209-05	0	(137)
Syracuse University	93.RD	R01 AT002477	0	66,142
Texas A & M University	93.RD	GM070622	0	15,671
Ticom Geomatics	93.RD	----	0	87,736
TRS Ceramics	93.RD	2 R44 EB001516-02A2	0	67,805
Tufts University	93.RD	R01 DK60021	0	11,051
University of Alabama	93.RD	2-P01-ES011617-06	0	10,073
University of Alabama	93.RD	2-P01-ES011617-04	0	130,602
University of Alabama at Birmingham	93.RD	5 U01 HL77881-03	0	22,938
University of Arkansas	93.RD	1 R01AI0605363-03	0	11,191
University of Arkansas	93.RD	7 R01 AR049038-05	0	14,575
University of California	93.RD	N01-AI-15416	0	(33)
University of California	93.RD	7R01A10600664-04	0	22,000
University of California	93.RD	1 R01 AG023845-01A1	0	27,124
University of California	93.RD	2803204-SO17:U19AG02	0	(1,783)
University of California	93.RD	R01 DE16886	0	67,967
University of California	93.RD	R01 A1059523	0	40,000

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Cincinnati	93.RD	5 R01 AI065256-01	0	167
University of Cincinnati	93.RD	1 U01 NS052220-02	0	2,725
University of Cincinnati	93.RD	5 R01 AI065256-02	0	7,983
University of Colorado	93.RD	5 R01 HL 079647-03	0	26,892
University of Colorado	93.RD	FAA 90YF0053102	0	39,241
University of Connecticut	93.RD	2 R01-DC004099-06	0	2,583
University of Connecticut	93.RD	5 R01-DC004099-07	0	60,340
University of Florida	93.RD	R01HL074730	0	27,781
University of Florida	93.RD	P41 RR016105	0	36,596
University of Florida	93.RD	----	0	7,000
University of Illinois	93.RD	R 01 NR08425-04	0	20,016
University of Illinois	93.RD	R01 NR08425-02	0	12,345
University of Iowa	93.RD	1 R01 HL083475-01A2	0	124,943
University of Kansas	93.RD	5U10HD025430	0	45,507
University of Kansas	93.RD	5U10HD025430-18	0	8,814
University of Kentucky	93.RD	5 U01 CA114622-04	0	34,575
University of Kentucky	93.RD	5 U01 CA114622-03	33,685	206,772
University of Kentucky	93.RD	5 U01 PE000002-06	0	4,999
University of Kentucky	93.RD	NOT-NS-03-016	0	3,355
University of Kentucky	93.RD	5 U01 CA114622-03S2	0	59,649
University of Kentucky	93.RD	1-R01-NS045087-02	0	33,545
University of Louisville	93.RD	7 R01 DC006698-02	0	9,609
University of Maryland	93.RD	1-R25-0H008319-01	0	23,089
University of Medicine and Dental of NJ	93.RD	R01-HGOO2655-04A1	0	9,178
University of Medicine and Dental of NJ	93.RD	1 R01-EB006521-01A1	0	25,595
University of Medicine and Dental of NJ	93.RD	1 R01 NS049176-01A2	0	39,215
University of Medicine and Dental of NJ	93.RD	1 R21 GM079255-01	0	17,595
University of Michigan	93.RD	DA001411-33	0	16,817
University of Michigan	93.RD	----	0	13,244
University of Michigan	93.RD	HD039336-06A1	0	72,402
University of Michigan	93.RD	HD044905-03	0	11,199
University of Minnesota	93.RD	R01 EB000895-06	0	140,496
University of Minnesota	93.RD	R01 EB000895-07	0	76,256
University of Minnesota	93.RD	R R01 EB000513-04	0	(1,882)
University of Minnesota	93.RD	R 01 EB000513-05	0	53,285
University of Missouri	93.RD	1-025-OH008319-01	0	29,003
University of Nebraska	93.RD	W81XWH-06-1-0019	0	40,787
University of New Mexico	93.RD	5 R01 HD038540-05R	0	(35)
University of North Carolina	93.RD	5 R01 ES012238-05	0	115,148
University of North Carolina	93.RD	5 P01 HD039667-05	0	1,553
University of North Carolina	93.RD	2 P01 HD039667-06	0	717,384
University of North Carolina	93.RD	7 R01 MH062988-05	0	77,544
University of Oklahoma	93.RD	7R01AG026607-02	0	90,705
University of Oklahoma	93.RD	R01 AG026607-03	0	89,050
University of Pennsylvania	93.RD	5-H30-MC-00038-09	0	66,346
University of Pennsylvania	93.RD	1-U01-DD-000193-01	0	29,549
University of Pennsylvania	93.RD	1-U01-DD-000193-02	0	59,249
University of Pennsylvania	93.RD	5-R01-NR-008923-02	0	11,033
University of Pittsburgh	93.RD	2 R01 OH 00752-04A1	0	21,766
University of Pittsburgh	93.RD	5 U01-CA099168-05	0	44,674
University of Pittsburgh	93.RD	1 U01 NS052478-01A2	0	10,748
University of Pittsburgh	93.RD	HHSN267200700029C	0	16,701
University of Pittsburgh	93.RD	5 R01 PH000026-02	0	7,319
University of Pittsburgh	93.RD	1 D31 HP08847-01-00	0	58,345
University of Pittsburgh	93.RD	5 P50 AG05133-24	0	18,540
University of Pittsburgh	93.RD	5 R01 PH000026-03	0	22,350

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
University of Rochester	93.RD	----	0	2,978
University of Southern California	93.RD	5 R01 AG021108-04	0	12,887
University of Southern California	93.RD	5-P41-EB002182-11	0	102,166
University of Southern California	93.RD	5 P41 EB002182	0	10,899
University of Texas at Austin	93.RD	1 R01 GM073089-01	0	177,265
University of Texas	93.RD	1 R01 HG003844 02	0	38,776
University of Texas	93.RD	1 R01 HG00384401 A1	0	9,775
University of Vermont	93.RD	1 R01 AR052536-01A2	0	61,425
University of Vermont	93.RD	1 R01 EB004051-01A1	0	90,988
University of Virginia	93.RD	2 R01 CA065622-13	0	68,730
University of Washington	93.RD	1-0R1-GM075095-01A1	0	73,909
University of Washington	93.RD	7 U19 ES011387-06	0	5,740
University of Washington	93.RD	5 R01 DA018148	0	17,651
University of Wisconsin	93.RD	5 U10 EY014351-03	0	(28)
University of Wisconsin	93.RD	5 R01 NR007889-05	0	55,660
University of Wisconsin	93.RD	1 R01EB005197-03	0	12,666
University of Wisconsin	93.RD	1 R01EB005197-01A1	0	32,564
University of Wisconsin	93.RD	5 P01 AG020166-05	0	26,115
University of Wisconsin	93.RD	5P01AG020166-06	0	61,808
University of Wisconsin	93.RD	5 K01 HD049632-02	0	18,400
University of Wisconsin	93.RD	1R01HD05014401	0	130,192
Utah State University	93.RD	N01A115435	0	235,332
Vanderbilt University	93.RD	1 R21 DA020146-01 A2	0	23,907
Vanderbilt University	93.RD	5R01A1050884-05	0	10,594
Wake Forest University	93.RD	R01NS038641	0	121,356
Wake Forest University	93.RD	R 01 CA 121303-01	0	14,699
Wake Forest University	93.RD	1 R03 HS016901-01	0	12,678
Wake Forest University	93.RD	R01 HL090567	0	3,886
Washington State University	93.RD	2 R01 DK052849-07	0	55,303
Washington University	93.RD	P01CA8939202	0	3,232
Wayne State University	93.RD	5R01DA016736-04	0	25,768
Western NY Public Health Agency	93.RD	----	0	65,400
Yale University	93.RD	5 P50 MH068789-04	0	25,069
Yale University	93.RD	5 P50 MH068789-05	0	75,328
Total - Health and Human Services			33,685	11,507,970
<u>Agency for International Development:</u>				
Virginia Polytech Institute	98.RD	EPP-A-00-04-00016-00	0	72,625
Virginia Polytech Institute	98.RD	EPP-A-00-04-00013-00	0	71,585
Total - Agency for International Development			0	144,210
<u>Miscellaneous:</u>				
Applied Signal Technology	99.RD	W913JT-05-D-00020006	0	44,970
Applied Signal Technology	99.RD	---	0	1,518
Argonne National Laboratory	99.RD	----	0	2,921
Ex One, LLC	99.RD	----	0	18,989
Fibertek, Inc.	99.RD	HQ0006-04-D-0001	2,185	2,294
Intel Optics	99.RD	NBCHC060081	0	118,366
International Rice Research Institute	99.RD	----	0	1,202
Johns Hopkins University	99.RD	04-D-8601	0	76,777
L-3 Communications Ticon Corporation	99.RD	----	0	14,940
Lockheed Martin	99.RD	----	0	125,268
Michigan State University	99.RD	CDG-G-00-02-00012-00	21,035	59,223
Midwest Research Institute	99.RD	17-32	0	222,789
Mulval Technologies, Inc.	99.RD	HQ00006-07-C07747	0	33,227
North Carolina State University	99.RD	19071-425678	0	9,127
Oceaneering International Inc.	99.RD	----	0	38,126

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Polyfuel	99.RD	70NANB7H7054	0	90,095
PPG Industries, Inc.	99.RD	----	0	143,728
Sabre Systems, Inc.	99.RD	50-YABC-2-66054	0	27,328
Total - Miscellaneous			23,220	1,030,888
Total Research and Development - Pass-Through Funds - Other Institutions			1,309,817	58,234,976
Total Research and Development			\$ 68,736,308	\$ 447,700,907

5. OTHER DIRECT FUNDING:

Agriculture:

Agricultural Research-Basic and Applied Research	10.001		\$ 0	\$ 3,841
Commodity Loan and Loan Deficiency Payments	10.051		0	125,000
Grants for Agricultural Research, Special Research Grants	10.200		26,855	26,855
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210		0	72,172
Higher Education Challenge Grants	10.217		16,779	50,269
Higher Education Multicultural Scholars Program	10.220		0	30,179
Integrated Programs	10.303		773,656	986,480
International Science and Education Grants	10.305		0	(163)
Commodity Partnerships for Risk Management	10.457		0	5,448
Cooperative Forestry Assistance	10.664		0	34,506
Urban and Community Forestry Program	10.675		0	354,299
Forest Stewardship Program	10.678		0	241,683
Rural Business Enterprise Grants	10.769		0	30,000
Soil and Water Conservation	10.902		0	3,122
Watershed Rehabilitation Program	10.916		0	49,998
Technical Agricultural Assistance	10.960		0	134,359
Cochran Fellowship Program-International Training-Foreign Participant	10.962		0	56,598
Non-Specified	10.xxx		0	310,713
Total - Agriculture			817,290	2,515,359

Commerce:

Economic Development Technical Assistance	11.303		0	150,000
Public Telecommunications Facilities Planning and Construction	11.550		0	224,685
Total - Commerce			0	374,685

Defense:

Military Medical Research and Development	12.420		0	5,891
Basic Scientific Research	12.431		0	5,000
Air Force Defense Research Sciences Program	12.800		5,000	5,000
Mathematical Sciences Grants Program	12.901		0	1,000
Total - Defense			5,000	16,891

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Interior:</u>				
Assistance to State Water				
Resources Research Institutes	15.805		0	13,635
Non-Specified	15.xxx		0	1
Total - Interior			0	13,636
<u>Justice:</u>				
National Institute of Justice Research				
Evaluation and Development Project Grants	16.560		0	16,669
Total - Justice			0	16,669
<u>Labor:</u>				
WIA Plots, Demonstrations and Research				
Projects	17.261		0	125,213
Brookwood-Sago Grant	17.603		46,696	80,579
Total - Labor			46,696	205,792
<u>Transportation:</u>				
Airport Improvement Program	20.106		0	551,490
Total - Transportation			0	551,490
<u>National Aeronautics and Space Admin.:</u>				
Non-Specified	43.xxx		0	15,708
Total - National Aeronautics and Space Admin.			0	15,708
<u>National Endowment for the Humanities:</u>				
Promotion of the Humanities - Division of				
Preservation and Access	45.149		0	216,625
Promotion of the Humanities - Public Programs	45.164		0	766
Promotion of the Humanities - Extending the				
Reach Grants to Presidentially-				
Designated Minority Institutions	45.167		0	30,287
Total - National Endowment for the Humanities			0	247,678
<u>National Science Foundation:</u>				
Engineering Grants	47.041		0	7,000
Mathematical and Physical Sciences	47.049		153,235	550,970
Geosciences	47.050		0	221,240
Biological Sciences	47.074		0	3,999
Social, Behavioral and Economic Sciences	47.075		0	17,548
Education and Human Resources	47.076		0	38,508
Non-Specified	47.xxx		0	15,550
Total - National Science Foundation			153,235	854,815
<u>Veterans Affairs:</u>				
Non-Specified	64.xxx		0	208,880
Total - Veterans Affairs			0	208,880
<u>Environmental Protection Agency:</u>				
Community Action for a Renewed				
Environment Program	66.035		0	122,173
Surveys, Studies, Investigations and Special				
Purpose Grants	66.606		0	222,175
Pesticide Environmental Stewardship				
Regional Grants	66.714		0	15,125
Surveys, Studies, Investigations, Training				
Demo and Educational Outreach	66.716		0	13,885
Total - Environmental Protection Agency			0	373,358

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Energy:</u>				
Non-Specified	81.xxx		5,000	5,000
Total - Energy			5,000	5,000
<u>Education:</u>				
TRIO - Student Support Services	84.042		0	318,055
TRIO - Talent Search	84.044		0	613,474
TRIO - Upward Bound	84.047		0	812,401
TRIO - Educational Opportunity Centers	84.066		0	632,281
Fund for the Improvement of Postsecondary Education	84.116		12,250	69,188
Rehabilitation Long-Term Training	84.129		0	55,685
Migrant Education-College Assistance Migrant Program	84.149		0	385,439
Bilingual Education - Professional Development	84.195		0	200,994
Fund for the Improvement of Education	84.215		0	26,957
TRIO - McNair Post-Baccalaureate Achievement	84.217		0	224,739
National Institute for Literacy	84.257		80,388	169,303
Faculty Development Fellowship	84.271		0	77,357
Indian Education Formula Grants to Local Education Agencies	84.299		0	98,156
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325		0	916,992
Child Care Access Means Parents in School	84.335		0	171,733
Non-Specified	84.xxx		0	19,277
Total - Education			92,638	4,792,031
<u>Health and Human Services:</u>				
Model State-Supported Area Health Education Centers	93.107		581,671	760,625
Injury Prevention and Control Research and State and Community Based Programs	93.136		8,140	371,210
Research Related to Deafness and Communication Disorders	93.173		0	55,390
Drug Abuse National Research Awards for Research Training	93.278			27,629
Drug Abuse and Addiction Research Programs	93.279		0	321,005
Mental Health National Research Service Awards for Research Training	93.282		0	188,351
Minority Health and Health Disparities Research	93.307		0	263,599
Advanced Education Nursing Traineeships	93.358		0	35,911
Cancer Research Manpower	93.398		0	215,493
Heart and Vascular Diseases Research	93.837		0	30,000
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		0	76,867
Kidney Diseases, Urology and Hematology Research	93.849		0	158,827
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		0	7,264
Microbiology and Infectious Diseases Research	93.856		0	28,996
Pharmacological Sciences	93.859		0	113,942
Aging Research	93.866		0	300,439

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Specially Selected Health Projects	93.888		0	539,148
Grants to States for Operation of Offices of Rural Health	93.913		0	135,054
Non-Specified	93.xxx		0	53,567
Total - Health and Human Services			589,811	3,683,317
Total Other Direct Funding			\$ 1,709,670	\$ 13,875,309
6. OTHER PASS-THROUGH FUNDS - COMMONWEALTH OF PENNSYLVANIA:				
<u>Agriculture:</u>				
Animal and Plant Health Inspection Service	10.025	ME 445111/41000033844	\$ 0	\$ 2,708
Animal and Plant Health Inspection Service	10.025	4500312052	0	431
Child and Adult Care Food Program	10.558	ME 442023	0	(1)
Child and Adult Care Food Program	10.558	447022	0	4,388
Total - Agriculture			0	7,526
<u>Commerce:</u>				
Economic Adjustment Assistance	11.307	C0000026761	0	5,805
Total - Commerce			0	5,805
<u>Labor:</u>				
Mine Health and Safety Grants	17.600	3560069273	0	166,015
Total - Labor			0	166,015
<u>Environmental Protection Agency:</u>				
Pollution Prevention Grants Program	66.708	ME 4100019434	0	9,566
Total - Environmental Protection Agency			0	9,566
<u>Education:</u>				
Adult Education State Grant Program	84.002	041-07-7097	0	447
Adult Education State Grant Program	84.002	041-08-8070	0	79,581
Adult Education State Grant Program	84.002	091-06-6019 4-10-14-720-1	0	124,963
Vocational Education Basic Grants to States	84.048	4500333658/4600009190	0	119
Vocational Education Basic Grants to States	84.048	4300022395	0	669,745
Vocational Education Basic Grants to States	84.048	386-08-8008	0	74,932
Vocational Education Basic Grants to States	84.048	381-07-7031	0	578
Vocational Education Basic Grants to States	84.048	381-04-4012	0	85,679
Vocational Education Basic Grants to States	84.048	381-08-8004	0	60,622
Vocational Education Basic Grants to States	84.048	381-07-7010	20,494	20,699
Vocational Education Basic Grants to States	84.048	119-08-8030	0	18,012
Vocational Education Basic Grants to States	84.048	119-07-7002	0	75
Vocational Education Basic Grants to States	84.048	119-07-7001	0	151,516
Vocational Education Basic Grants to States	84.048	381-06-6032	0	3,270
Vocational Education Basic Grants to States	84.048	381-07-7042	59,749	78,971
Vocational Education Basic Grants to States	84.048	381-08-8038	0	70,256
Vocational Education Basic Grants to States	84.048	381-07-7007	0	4,888
Even Start-State Educational Agencies	84.213	4100034974/410147201	0	(3,553)
Tech-Prep Education	84.243	386-07-7015	27,555	31,751
Tech-Prep Education	84.243	386-07-7011	0	3
Total - Education			107,798	1,472,554

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
<u>Health and Human Services:</u>				
Childhood Lead Poisoning Prevention Projects	93.197	4100039606	0	54,431
Centers for Disease Control & Prevention				
Investigations	93.283	4100038765	0	72,128
Centers for Disease Control & Prevention				
Investigations	93.283	4100032528	0	293
Health Resources and Services Administration	93.994	4000009652	0	588
Non-Specified	93.xxx	4000009255	0	97,280
Total - Health and Human Services			0	224,720
<u>Department of Homeland Security:</u>				
Disaster Grants - Public Assistance	97.036	PA EMERGENCY MGMT	0	14,069
Map Modernization Management Support	97.070	ME 445552	0	155
Total - Homeland Security			0	14,224
Total Other Pass-Through Funds - Commonwealth of Pennsylvania			\$ 107,798	\$ 1,900,410

**7. OTHER PASS-THROUGH FUNDS -
OTHER INSTITUTIONS:**

<u>Agriculture:</u>				
University of Vermont-Grants for Agricultural				
Research, Special Research Grants	10.200	2005-38640-15424	\$ 1,884	\$ 15,445
University of Vermont-Grants for Agricultural				
Research, Special Research Grants	10.200	2004-38640-14274	0	5,423
University of Vermont-Sustainable Agricultural				
Research and Education	10.215	2007-38640-17935	0	32,767
Mississippi State University-Higher Education				
Challenge Grants	10.217	2004-38411-14760	0	(1)
University of Connecticut-Integrated Programs	10.303	2006-51110-03644		25,527
University of Maryland-Integrated Programs	10.303	2004-51130-03110	0	55,136
Purdue University-Homeland Security Agricultural	10.304	2005-37620-15609	0	185
Harvard University-Cooperative Extension				
Service	10.500	2004-45043-03047	0	72,855
University of Delaware-Cooperative				
Extension Service	10.500	2004-49200-02254	0	112,852
University of Vermont-Cooperative				
Extension Service	10.500	2006-47001-03367	23,346	71,741
University of Vermont-Cooperative				
Extension Service	10.500	2007-47001-03782	0	35,958
Kansas State University-Cooperative				
Extension Service	10.500	2007-48661-03868	0	39,373
Kansas State University-Cooperative				
Extension Service	10.500	2003-48558-01716	0	20,121
Kansas State University-Cooperative				
Extension Service	10.500	2003-41520-01701	0	16,561
University of Vermont-Cooperative				
Extension Service	10.500	2005-47001-03146	0	923
Mississippi State University-Cooperative				
Extension Service	10.500	2005-45064-02312	0	1,608
North Carolina State University-Cooperative				
Extension Service	10.500	2005-48642-03345	0	145

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Cornell University-Environmental Quality Initiatives	10.912	68-3A75-4-190	0	12,000
Donya Melanson Associates-Non-Specified	10.xxx	GS-23F-0216L	0	27,500
Chesapeake Bay Foundation-Non-Specified	10.xxx	----	0	4,966
Total - Agriculture			25,230	551,085
<u>Commerce:</u>				
University of Nebraska-Non-Specified	11.xxx	MT7297/MT7146	0	25,470
Total - Commerce			0	25,470
<u>Defense:</u>				
Wyle Laboratories-Non-Specified	12.xxx	HC 1047-05-D-4005	0	36,109
Total - Defense			0	36,109
<u>Housing and Urban Development</u>				
City of Pittsburgh-Non-Specified	14.xxx	----	0	50,001
Total - Housing and Urban Development			0	50,001
<u>Labor:</u>				
Private Industry Council Lehigh Valley - Job Training Partnership Act	17.250	----	0	266,802
Central PA Workforce Development Corporation-WIA Adult Program	17.258	----	0	403,127
Community Action Partnership of Mercer County- WIA Youth Activities	17.259	----	0	12,202
Central PA Workforce Development Corporation-WIA Dislocated Workers	17.260	----	0	14,583
McKean County Redevelopment & Housing Authority-Non-Specified	17.xxx	----	0	25,139
Total - Labor			0	721,853
<u>National Aeronautics and Space Admin.:</u>				
Smithsonian Astrophysical Observatory- Non-Specified	43.xxx	NAS8-03060	0	42,670
Space Telescope Science Institute- Non-Specified	43.xxx	NAS5-26555	0	13,890
Research Triangle Institute-Non-Specified	43.xxx	NNL06AD02T	0	4,554
Total-National Aeronautics and Space Admin.			0	61,114
<u>National Science Foundation:</u>				
University of California-Geosciences	47.050	OCE0532013	0	63,105
University of New Hampshire-Geosciences	47.050	GEO-0631377	0	173,481
University of Massachusetts-Education and Human Resources	47.076	HRD 9978878	0	4,872
University of Missouri-Education and Human Resources	47.076	HRD 0450339	0	41,045
Total National Science Foundation			0	282,503
<u>Education:</u>				
Edinboro University-Office of Vocational and Adult Education	84.051	----	0	12,209
University of Minnesota-Fund for the Improvement of Postsecondary Education	84.116	P116B041277	0	51,647
University of Turabo Puerto Rico- Bilingual Education Training Grants	84.195	T195N020098	0	40,551

	CFDA No.	Pass-Through Entity Identifying No.	Subcontract Expenditures	Expenditures
Westmoreland County Community College- Tech-Prep Education	84.243	----	0	(350)
Kent State University-National Institute for Literacy	84.257	X257S060001	0	101,336
County of Blair-Twenty-First Century Community Learning Centers	84.287	----	0	2,204
Bedford Area School District - Twenty-First Century Community Learning Centers	84.287	4100025777	0	1,035
National Writing Project-State Grants for Innovative Programs	84.298	----	0	114,740
Lancaster Lebanon Intermediate Unit 13 - Early Reading First	84.359	----	0	121,735
Lancaster Lebanon Intermediate Unit 13 - Non-Specified	84.xxx	----	0	66,131
Total - Education			0	511,238
<u>Health and Human Services:</u>				
Marshfield Clinic Research Foundation- Occupational Safety and Health Program	93.262	U50-OH008107-05	0	3,682
University of Kentucky-Cancer Cause and Prevention Research	93.393	5 U10 CA 114622-03	0	8,214
Northwest Institute of Research-Child Care and Development Block Grant	93.575	----	0	11,644
Caring People Alliance-Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	----	0	4,205
Seattle Institute of Cardiac Research- Non-Specified	93.xxx	1U01HL67972-01A1	0	257
Cleveland Clinic Foundation-Non-Specified	93.xxx	RR019397	0	1,325
Total - Health and Human Services			0	29,327
<u>Miscellaneous:</u>				
Westmoreland Fayette Workforce - Non-Specified	99.xxx	----	0	70,437
Mid-Atlantic Arts Foundation Non-Specified	99.xxx	----	0	8,610
North Carolina State University-Non-Specified	99.xxx	4-98-2-23	0	86,240
National 4-H Coop Curriculum Systems- Non-Specified	99.xxx	----	0	2,431
National Center for Healthy Housing- Non-Specified	99.xxx	----	0	1,691
Total - Miscellaneous			0	169,409
Total Other Pass-Through Funds - Other Institutions			\$ 25,230	\$ 2,438,109

8. FEDERAL LOAN PROGRAMS

The University administers the following Federal loan programs:

<u>Title</u>	<u>CFDA No.</u>	Federal Capital Contribution for the Year Ended June 30, 2008	Loan Expenditures/ Disbursements	Outstanding Balance at June 30, 2008
Federal Perkins Loan Program	84.038	\$527,107	\$9,142,418	\$46,971,635
Health Professions Student Loan Program	93.342	0	0	540,599

The above expenditures for the loan programs include disbursements and expenditures such as loans to students and administrative expenditures. The Schedule includes administrative cost 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, 2008 totaled approximately \$383,535,189

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>	Balance at July 1, 2007	Endowment Expenditures	Endowment Income	Balance at June 30, 2008
Fund for the Improvement of Postsecondary Education	84.116	\$6,155,114	\$212,968	\$268,754	\$6,210,900

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
University Park, PA

We have audited the consolidated financial statements of The Pennsylvania State University and subsidiaries (the "University") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 30, 2008. 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 consolidated 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 misstatement 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.

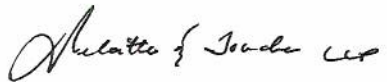
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

A handwritten signature in cursive script, appearing to read "Auditor General", followed by a small flourish.

September 30, 2008

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
University Park, PA

Compliance

We have audited the compliance of The Pennsylvania State University and subsidiaries (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, 2008. The University's major federal programs are identified in the summary of auditor's 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 of 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, 2008.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 solely intended for the information and use of the Board of Trustees, Subcommittee on Audit, management, and federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Melatta J. Jones".

March 16, 2009

THE PENNSYLVANIA STATE UNIVERSITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness identified? ☐ yes ☒ no

Significant deficiencies identified not considered to
be material weakness? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness identified? ☐ yes ☒ no

Significant deficiencies identified not considered to
be material weakness? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs- Unqualified

Any audit findings disclosed that are required to be reported
in accordance with

Circular A-133 section .510(a)? ☐ yes ☒ no

Identification of major programs

Name of Federal Program or Cluster

Research and Development Cluster
PA Food Stamp Nutrition Education Program
Smith-Lever Act
Defense Non-Specified

Dollar threshold used to distinguish between
Type A and Type B programs \$3,000,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

SECTION II—FINANCIAL STATEMENT FINDINGS

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

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The audit disclosed no findings or questioned costs as a result required to be reported in this section.