

8:30 a.m. -

1. **Roll Call**
2. **Approval of the Minutes of Previous Meetings**

Will the Board of Trustees approve the minutes of the meeting of the Board held on January 21, 2011?

3. **President's Report**

9:30 a.m. -

4. **Economic Forecast**

Richard B. Hoey, chief economist of BNY Mellon and The Dreyfus Corporation, is responsible for monitoring all aspects of the economic environment for BNY Mellon and Dreyfus including the U.S. economy, the global economic trends and currency impacts. He will share a glimpse into the future with respect to the global and U.S. economic outlook as we continue to navigate uncertain times.

10:15 a.m. - **Break**

10:30 a.m. -

5. **Reports from Standing Committees**

Discussion of action and/or information items by the Standing Committees for consideration by the Board of Trustees:

- A. **Committee on Campus Environment** - Rodney P. Hughes, Chair
- B. **Committee on Educational Policy** - David M. Joyner, Chair

- 1) **Discussion of Consent Agenda Items Provided for Information or Approval of the Committee on Educational Policy:**

Information Items -

- a) Information on Undergraduate Programs
- b) Information on Graduate Programs

(See Appendix I)

- 2) **Proposed Reorganization and Renaming of the Insurance and Real Estate Department in The Mary Jean and Frank P. Smeal College of Business**

The Mary Jean and Frank P. Smeal College of Business (Smeal College) seeks to reorganize its Department of Insurance and Real Estate (IRE) with a restructuring of majors, minors and courses offered by the department. This will be accomplished under a new department name of Risk Management (RM) that reflects faculty expertise in research and teaching and current industry focus on risk and mitigation.

A faculty task force along with department planning and consultation produced a plan that leverages faculty contributions to teaching and research while growing its undergraduate presence in the Smeal College. The proposed reorganization has been endorsed by the Academic and Administrative Services Review Core Council, which considered the changes as part of its review of the Smeal College of Business.

5. Reports from Standing Committees (Continued)B. Committee on Educational Policy (Continued)2) Proposed Reorganization and Renaming of the Insurance and Real Estate Department in The Mary Jean and Frank P. Smeal College of Business
(Continued)

Maintaining sight of current University efforts to manage scarce resources, the following priorities have been identified:

- Establish a new major in Risk Management (RM) grounded in faculty contributions to research and pedagogy that is attractive to students and offers career opportunities. Offer Options in Actuarial Science, Enterprise Risk Management, and Real Estate. Merge actuary studies into this new major by closing the current Actuarial Science (ACTSC) major
- Update (or drop) all Insurance (INS) and Real Estate (REST) courses and align these under a new Risk Management (RM) prefix. Establish new courses with an integrative focus in risk and mitigation
- Update the International Business (IB) and Legal Environment of Business (LEBUS) minors. Close the inactive Insurance (INS) and Real Estate (REST) minors
- Rename the Insurance and Real Estate Department to the Department of Risk Management (RM) reflecting the changes being proposed

The reorganization looks beyond traditional boundaries to strengthen a cross-disciplinary department that enjoys a rich tradition and recognition that dates back to 1953. In its 2008-13 Strategic Plan, the Smeal College emphasized that its students would graduate from the Smeal College with the professional skills necessary to build the foundation for a successful career. These changes will provide that foundation by organizing a curriculum of current, relevant and rigorous courses to provide students with the skills and perspectives to become well-rounded business citizens. The new major along with the minors and courses will prepare students for a variety of careers in risk mitigation, global business, and complex business operations. The renaming of the department captures these changes under a heading that is in the mainstream of today's enterprise thinking and management.

The proposal for the restructuring and renaming of the department was favorably reviewed by the faculty task force; the Dean of the Smeal College; and was unanimously approved by the University Faculty Senate Council at its meeting of February 22, 2011.

Will the Committee on Educational Policy recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the Board of Trustees approves the reorganization and renaming of the Insurance and Real Estate Department in The Mary Jean and Frank P. Smeal College of Business to the Department of Risk Management effective July 1, 2011.

C. **Committee on Finance and Physical Plant** - Linda B. Strumpf, Chair

The following agenda item was presented to the Trustees as a white sheet item at the meeting.

Conflict of Interest - Approval of Extension of Contract with Occupational Athletics, Inc.

The Bylaws of the University, Article 6(1), provide that, "No member of the Board of Trustees, any member's spouse or any corporation, partnership, association or other organization in which one or more members of the Board of Trustees, or any member's spouse or dependent child has a beneficial ownership of ten (10%) percent or more, shall enter into any contract or transaction valued at \$10,000 or more with the University unless the contract has been awarded through an open and public bidding process, in accordance with University Purchasing Policy, or has been fully disclosed to the Board of Trustees and approved by the affirmative votes of a majority of the disinterested members of the Board of Trustees. "

Occupational Athletics, Inc., (OAI) specializes in the field of occupational athletics that utilizes the athletic model of preventative care for American workers. By designing and implementing aggressive, customized human maintenance systems, this will help to alleviate the current healthcare crisis demonstrating how to keep workers healthy. Trustee David M. Joyner owns an interest of 10% or more in Occupational Athletics Group, LLC, which does business with OAI.

In May 2010, the Board of Trustees approved that the University, through the Office of the Senior Vice President for Finance & Business, enter into an agreement with OAI to develop a pilot program focused on the development of a wellness strategies manual designed to provide instruction for the prevention and elimination of certain types of injuries commonly experienced by employees performing manually-intensive tasks. The pilot program has proven to be beneficial and it is now recommended that the contract be continued. It is expected that there will be demonstrated positive changes in employee morale, employee participation in the Physical Readiness programs, and employee utilization of an on-site occupational athletic trainer. It is recommended that the contract be extended for a term beginning March 21, 2011 through December 31, 2011 at a cost-not-to-exceed \$60,000 and transaction approval by the Board of Trustees is required.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the transaction whereby the University, through the Office of the Senior Vice President for Finance & Business, contract with Occupational Athletics, Inc. (OAI), for continuation of the program utilizing OAI's Human Maintenance System for the period of March 21, 2011 through December 31, 2011 at a cost-not-to-exceed \$60,000 is approved.

1) **Discussion of Consent Agenda Items Provided for Information or Approval of the Committee on Finance and Physical Plant:**

Information Items -

- a) Intramural Fields, University Park
- b) Shortlidge Road Reconstruction, University Park
- c) Track and Field Facility, Penn State Erie, The Behrend College
- d) Soccer/Lacrosse Facility, Penn State Erie, The Behrend College
- e) Convenience Store, Penn State Erie, The Behrend College
- f) Mont Alto Hall Renovation and Window Replacement, Penn State Mont Alto

5. **Reports from Standing Committees** (Continued)C. **Committee on Finance and Physical Plant** (Continued)1) **Discussion of Consent Agenda Items Provided for Information or Approval of the Committee on Finance and Physical Plant:** (Continued)

- g) University Physician Center Suite 700/800 Renovation, The Milton S. Hershey Medical Center
 - h) Naming of Rooms, Portions of Buildings, and Plazas
 - i) Status of Major Construction Programs and Borrowing
 - j) Investment Review of Endowment and Similar Funds
 - k) Summary and Designation of Gifts Received by the University
- Action Items -
- l) Summary of Revisions to Existing Scholarships, Fellowships, Etc.
 - m) Acknowledgments of Endowments and Other Major Commitments

(See Appendix II)

[The report and recommendations provided by the Subcommittee on Architect/Engineer Selection are reflected in Action Items C.2, C.3, C.4.]

2) **Proposed Appointment of an Architect, Hetzel Union Building Addition and Renovation, University Park**

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for the Hetzel Union Building Addition and Renovation at University Park.

RESOLVED, That the Officers of the University are authorized to appoint the firm of GUND Partnership of Cambridge, Massachusetts as architects for the Hetzel Union Building Addition and Renovation at University Park.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

3) **Proposed Appointment of an Architect, Cedar Building Renovation University Park**

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for the Cedar Building Renovation at University Park.

RESOLVED, That the Officers of the University are authorized to employ the firm of Kling Stubbins of Philadelphia, Pennsylvania as architects for the Cedar Building Renovation at University Park.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

5. Reports from Standing Committees (Continued)C. Committee on Finance and Physical Plant (Continued)4) Proposed Appointment of an Architect, South Halls Renovation, University Park

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for the South Halls Renovation at University Park.

RESOLVED, That in view of the special nature of this project, the interview process has been conducted by the University's Office of Physical Plant.

FURTHER BE IT RESOLVED, That the Officers of the University are authorized to appoint Barton Malow of Baltimore, Maryland to design and build the South Halls Renovation at University Park.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured; individual phases of the project will be brought to the Board of Trustees for approval when designed and costs have been established.

[The approval of Action Items C.5, C.6, C.7, C.8, and C.9 reflect editorial amendments made at the meeting.]

5) Proposed Final Plans and Authorization to Award Contracts, Pattee Library Renovation, University Park

The University is planning to renovate Pattee Library at University Park. This project will renew 36,450 square feet of library space with technology-rich collaborative spaces, computer technology services, and classical library reference and research resources.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the final plans for the Pattee Library Renovation as designed by the firm of WTW Architects of Pittsburgh, Pennsylvania, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$7,000,000.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

5. Reports from Standing Committees (Continued)C. **Committee on Finance and Physical Plant** (Continued)6) **Proposed Final Plans and Authorization to Award Contracts, South Frear HVAC Upgrade and Renovation, University Park**

The University is planning to upgrade HVAC systems and renovate portions of South Frear at University Park. The scope of work includes HVAC modifications and cosmetic upgrades to perimeter offices, fire alarm upgrades, passenger and freight elevator replacement and renovation of the third floor labs and offices.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the final plans for the South Frear HVAC Upgrade and Renovations as designed by the firm of Stantec, Inc. of Endicott, New York, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$6,110,000.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

7) **Proposed Final Plans and Authorization to Award Contracts, East Campus Steam Line, University Park**

The University is planning to construct approximately 5,000 feet of high pressure steam, condensate, compressed air and re-use water lines extending from the East Campus Steam Plant. These new services will support existing systems located near Nittany Apartments and the Millennium Science Complex. The new system will improve distribution from the existing gas fired East Campus Steam Plant.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the final plans for the East Campus Steam Line as designed by the firm of Woolpert, Inc. of Cincinnati, Ohio, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$13,500,000.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

5. Reports from Standing Committees (Continued)C. **Committee on Finance and Physical Plant** (Continued)8) **Proposed Final Plans and Authorization to Award Contracts, West Campus Chilled Water Plant Upgrades, University Park**

The West Campus Chilled Water Plant needs to be upgraded for increased capacity due to new construction at the University Park campus. The plant arrangement will be reconfigured with the installation of cooling tower, chiller, and pumping upgrades. An upgrade to the plant electrical service, acoustical screen wall and replacement roof are also included in the scope of the project. The project budget includes installation of 1,100 feet of larger underground chilled water piping to deliver the added capacity to the central system.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the final plans for the West Campus Chilled Water Upgrades as designed by the firm of Trefz Engineering, Inc. of Horsham, Pennsylvania, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$11,900,000.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design, with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

9) **Proposed Final Plans and Authorization to Award Contracts, Port Sky Café Addition and Renovation, Penn State Altoona**

The University is planning to construct a 5,700 square foot, 100-seat dining addition and servery renovation to Port Sky Café in the Housing and Food Services Building at Penn State Altoona. The scope of the work includes HVAC and electrical upgrades and a new sprinkler system for the entire building.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the final plans for the Port Sky Café Renovations as designed by the firm of WTW Architects of Pittsburgh, Pennsylvania, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$5,400,000.

FURTHER BE IT RESOLVED, That due to the uncertainty of the appropriation of the Commonwealth of Pennsylvania at this time, the Board of Trustees approves the project and authorizes the President of the University to move forward with the project design,

5. Reports from Standing Committees (Continued)C. Committee on Finance and Physical Plant (Continued)9) Proposed Final Plans and Authorization to Award Contracts, Port Sky Café Addition and Renovation, Penn State Altoona (Continued)

with the understanding that such authorization will only occur when the financial environment is clarified, and all funding is fully secured.

10) Proposed Sale of 25 Acres of Mellon Property, University Park

The Board of Trustees approved the acquisition of property from the Richard King Mellon Foundation and Mellon Family Trust in July 1999. The property was comprised of six separate tracts of land with a combined acreage of almost 1,100 acres, with a large portion of that acreage being tillable. The price of \$3.8 million was established at 50% of Mellon's acquisition cost. It was determined that the properties were not of a direct strategic importance to the University, but they could be of great importance to the community.

Of the six parcels, the largest single parcel is located along Whitehall Road and Route 45 between Boalsburg and Pine Gove Mills contained 565 acres. A study conducted by Centre Region Parks and Recreation identified a regional need for more soccer, baseball, basketball and tennis facilities, as well as picnic and pavilion areas. It was determined by an Ad Hoc Regional Park Committee, created by the Centre Region Council of Governments (COG), that undeveloped property owned by the University along Whitehall Road was an appropriate location for such facilities.

At its March 2008 meeting, the University's Board of Trustees approved the sale of 75 acres of the undeveloped property along Whitehall Road to the Centre Region Council of Governments and Ferguson Township for purposes of developing a regional park for the community, along with an option to buy an additional 25 acres adjoining the 75-acre parcel. Conditions of the option to buy stipulated that the value of the property would be determined through an appraisal and would require approval of the University's Board of Trustees at the time of the transaction. The Board of Trustees at the same meeting also approved the sale of 59 acres to the State College Borough Water Authority for purposes of conservation.

Ferguson Township has exercised the option to buy the property. An appraisal of the property indicated a current value of \$375,000.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

RESOLVED, That the Board of Trustees approves the sale of 25 acres in Ferguson Township, Centre County, Pennsylvania, to the Centre Region Council of Governments and Ferguson Township in the amount of \$375,000, subject to a deed restriction defining its public use.

FURTHER BE IT RESOLVED, That the Officers of the University are authorized and directed to take such steps as are necessary to make effective these resolutions.

6. Legal Matters

Cynthia A. Baldwin, Vice President and General Counsel, will present an informational report on University legal matters and/or normally considered by a Standing Committee of the Board.

7. Report on The Corporation for Penn State

A report on the activities of The Corporation for Penn State is included as Appendix III. Dr. Graham B. Spanier, President and Chief Executive Officer of the Corporation, will be available to answer any questions.

(See Appendix III)

8. Election of Directors of The Corporation for Penn State

According to the *Bylaws* of The Corporation for Penn State, the members of the Corporation shall meet annually for the purpose of electing directors.

Will the Board of Trustees adopt the following resolution:

RESOLVED, That the following persons be elected to the Board of Directors of The Corporation for Penn State:

Rodney A. Erickson
Steve A. Garban
Edward R. Hintz, Jr.
Albert G. Horvath
Rodney P. Hughes

David M. Joyner
Harold L. Paz
Graham B. Spanier
Linda B. Strumpf
John P. Surma

9. Proposed Resolutions in Recognition of Stanley G. Schaffer

Will the Board of Trustees adopt the following resolutions:

RESOLVED, That the Board of Trustees of The Pennsylvania State University expresses deepest regret and sympathy to the family of Stanley G. Schaffer on the passing of Mr. Schaffer on January 28, 2011; and

BE IT RESOLVED, That the Board of Trustees recognizes Mr. Schaffer's loyalty and dedication to The Pennsylvania State University in having served as a member of its Board for twelve years, with the status of Trustee Emeritus being conferred upon Mr. Schaffer in January 1992; and

BE IT RESOLVED, That the official and permanent minutes of the Board of Trustees record for all time the Board's sincere respect and deep appreciation of Trustee Emeritus Stanley G. Schaffer for his wisdom and steadfast commitment to the betterment of The Pennsylvania State University; and

BE IT FURTHER RESOLVED, That, in addition to the permanent recording, a copy of this resolution be appropriately transmitted to the family on behalf of the members of the Board of Trustees.

10. **Proposed Resolutions in Recognition of William A. Schreyer**

Will the Board of Trustees adopt the following resolutions:

RESOLVED, That the Board of Trustees of The Pennsylvania State University expresses deepest regret and sympathy to the family of William A. Schreyer on the passing of Mr. Schreyer on January 22, 2011; and

BE IT RESOLVED, That the Board of Trustees recognizes Mr. Schreyer's loyalty and dedication to The Pennsylvania State University in having served as a member of its Board for twelve years, with the status of Trustee Emeritus being conferred upon Mr. Schreyer in September 1998; and

BE IT RESOLVED, That the official and permanent minutes of the Board of Trustees record for all time the Board's sincere respect and deep appreciation of Trustee Emeritus William A. Schreyer for his wisdom and steadfast commitment to the betterment of The Pennsylvania State University; and

BE IT FURTHER RESOLVED, That, in addition to the permanent recording, a copy of this resolution be appropriately transmitted to the family on behalf of the members of the Board of Trustees.

11. **Announcements by the Chairman of the Board of Trustees**

1. Information on Undergraduate Programs**A. Penn State Altoona****1) Bachelor of Science in Rail Transportation Engineering: New Program**

This new major provides disciplinary knowledge in engineering design and focuses on maintenance and management skills required by the rail industry. The program provides study in the major areas associated with the design, operation, and maintenance of rail systems, including the engineering of rail and track structures, basic rail operating practices and safety, wheel/track dynamics, construction and maintenance of railroad infrastructure, and basic railroad communications signals. The new program will become effective Summer 2011.

B. College of Engineering**1) Research Intensive Option in the Bachelor of Science in Chemical Engineering: New Option**

The Research Intensive Option recognizes the importance of enriched undergraduate research experiences within the Chemical Engineering curriculum. The new option will become effective Summer 2011.

C. College of Health and Human Development**1) Therapeutic Recreation Option in the Bachelor of Science in Recreation, Park, and Tourism Management: Drop of Option**

The discontinuation of the option reflects a continuing enrollment decline in the program. The Bachelor of Science in Recreation, Park, and Tourism Management will continue to be offered. Per administrative policy P3, the option was discontinued Fall 2010.

D. College of the Liberal Arts**1) Global and International Studies: Change in Name from International Studies**

The name change reflects recognition of complex global relations among nations and geographic regions. The change emphasizes the importance of global perspective, foreign language study, and educational and working experience abroad. This is a concurrent only major. The name change will become effective Summer 2011.

2. Information on Graduate Programs**A. Graduate Programs in Pharmacology; Biochemistry and Molecular Biology; Microbiology and Immunology; and Cell and Molecular Biology in the College of Medicine: Drop of Programs**

The proposal to drop the Graduate Programs in Pharmacology; Biochemistry and Molecular Biology; Microbiology and Immunology; and Cell and Molecular Biology at the Penn State College of Medicine was approved by the Graduate Council at its January 19, 2011 meeting.

The College of Medicine's Task Force on the Organization of Graduate Education concluded that an *integrated* Graduate Degree Program in Biomedical Sciences with various Options will improve student recruitment, increase program efficiency, provide increased flexibility and choices to students, and promote competitiveness for training grant applications. These enhancements will better position both our students and our graduate program for success in the future.

The Graduate Council previously had approved (on November 17, 2010) the creation of the Graduate Program in Biomedical Sciences (Ph.D. and M.S.) with options in Biochemistry and Molecular Genetics, Translational Therapeutics, and Virology and Immunology; this proposal included the elimination of the four existing graduate programs in order to engage their faculty and pool their resources in support of the newly created graduate program.

1. Intramural Fields, University Park

As part of a strategy to meet student demand for fitness and recreation facilities at Penn State, fields currently used for grazing north of Park Avenue will be converted to intramural playing fields. The fields will be used for football parking during the fall football season. The project will include grading, drainage, topsoil, and irrigation improvements at a cost estimate of \$3,600,000. The project will be completed before the Fall 2011 semester.

(See Appendix II.1)

2. Shortlidge Road Reconstruction, University Park

The University is planning to install chilled water piping from Pollock Road to McKean Road. This will allow South Halls to eventually be connected to the University's central chilled water system. The project scope will also include reconstruction of Shortlidge Road from Pollock Road to College Avenue with storm water system upgrades, concrete sidewalks, paving, new lighting, and landscaping. The cost estimate for this project is \$4,400,000.

(See Appendix II.2)

3. Track and Field Facility, Penn State Erie, The Behrend College

The University intends to construct a new NCAA level running track at Penn State Erie, The Behrend College, for a cost estimate of \$1,600,000. There are currently over 3,000 students per year involved in athletic, instructional, and recreational activities on outdoor athletic fields at the Behrend campus. The track and field facility will include throw areas and berm seating.

(See Appendix II.3)

4. Soccer/Lacrosse Facility, Penn State Erie, The Behrend College

The University intends to construct a new multi-purpose athletic field sufficient for NCAA level soccer and lacrosse at Penn State Erie, The Behrend College, for a cost estimate of \$2,800,000. There are currently over 3,000 students per year involved in athletic, instructional, and recreational activities on outdoor athletic fields at the Behrend campus. The soccer/lacrosse facility will include restrooms, concessions, bleachers and berm seating. The existing parking lot will be modified to accommodate ADA parking spaces.

(See Appendix II.4)

5. Convenience Store, Penn State Erie, The Behrend College

The University intends to construct a 2,840 square foot, single story convenience store addition on the south side of the Reed Union Building at Penn State Erie, The Behrend College, at a cost estimate of \$1,200,000. This amenity is currently unavailable to the students and will provide them the opportunity to purchase food, toiletries and sundries at a central location on campus. The project will include site improvements such as lighting, patio, walkways, site furnishings, and landscaping.

(See Appendix II.5)

6. Mont Alto Hall Renovation and Window Replacement, Penn State Mont Alto

The University intends to complete a renovation to Mont Alto Hall, a three-story student housing facility built in 1962. The scope of the work will include high-efficiency upgrades to electrical and lighting systems, window replacements, and the HVAC system. Restrooms will be renovated and ceiling tiles will be installed in specific locations. The cost estimate for this project is \$1,406,800.

(See Appendix II.6)

7. University Physician Center Suite 700/800 Renovation, The Milton S. Hershey Medical Center

The University intends to complete a renovation to the 700 and 800 suites in the easternmost section of the University Physician Center at The Milton S. Hershey Medical Center. This 12,500 square foot renovation will create two new offices, one scheduling area, two restrooms, four exam rooms, one optical dispensary, one optical shop, additional waiting room space, and five pediatric exam lanes. The cost estimate for this project is \$1,994,108.

(See Appendix II.7)

8. Naming of Rooms, Portions of Buildings and Plazas

The Facilities Naming Committee has made certain recommendations to the President on the naming of rooms, portions of buildings and plazas. In accordance with the Policy on Naming University Facilities, the Board of Trustees is hereby informed that the President has approved the following naming actions:

- A. The Division of Undergraduate Studies (DUS) Advising Center Suite, C112 Smith Building at Penn State Altoona, for a commitment from Christopher Gable. The recognition plaque should read: *Wilbur K. Kraybill Academic Advising Center*
- B. The Strength Staff Office, 110B Lasch Football Building, for a commitment from Paul and Lynne Anderson. The recognition plaque should read: *Paul and Lynne Anderson Strength Staff Office*
- C. Several spaces in the Nittany Lion Softball Park as follows:
 - 1) Head Coach's Office in the Nittany Lion Softball Park, for a commitment from Peter and Ann Tombros. The recognition plaque should read: *Peter and Ann Tombros Head Coach's Office*
 - 2) Softball Office Complex in the Nittany Lion Softball Park, for a commitment from the James M. and Margaret V. Stine Foundation. The recognition plaque should read: *Stine Family Softball Office Complex*
 - 3) Media Center in the Nittany Lion Softball Park, for a commitment from James M. and Margaret V. Stine Foundation. The recognition plaque should read: *Stine Family Media Center*
 - 4) Player's Lounge and Locker Room in the Nittany Lion Softball Park, for a gift annuity from George and Frances Vanden. The recognition plaque should read: *Fran Vanden Penn State Player's Lounge and Locker Room*

9. Status of Major Construction Programs and Borrowing

(See Appendix II.8)

10. Investment Review of Endowment and Similar Funds

Appendix II.9 is a report of the University's endowment and similar funds as of December 31, 2010.

(See Appendix II.9)

11. Summary and Designation of Gifts Received by the University

Appendix II.10 is a summary of gifts received during the period July 1, 2010 through January 31, 2011.

(See Appendix II.10)

12. **Summary of Revisions to Existing Scholarships, Fellowships, Etc. (For the period December 20, 2010 through February 18, 2011)**

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolution:

RESOLVED, That the conditions governing certain existing scholarships, fellowships, awards, and similar funds previously established at the University be revoked and that the Officers of the University are authorized to put into effect the revised regulations as requested by the donors.

13. **Acknowledgments of Endowments and Other Major Commitments**

The Committee on Finance and Physical Plant is advised that for the period December 20, 2010, through February 18, 2011, 50 new funds totaling approximately \$2,698,000 were accepted by the University, including scholarships, fellowships, etc. All of these items conform to established University policies and regulations.

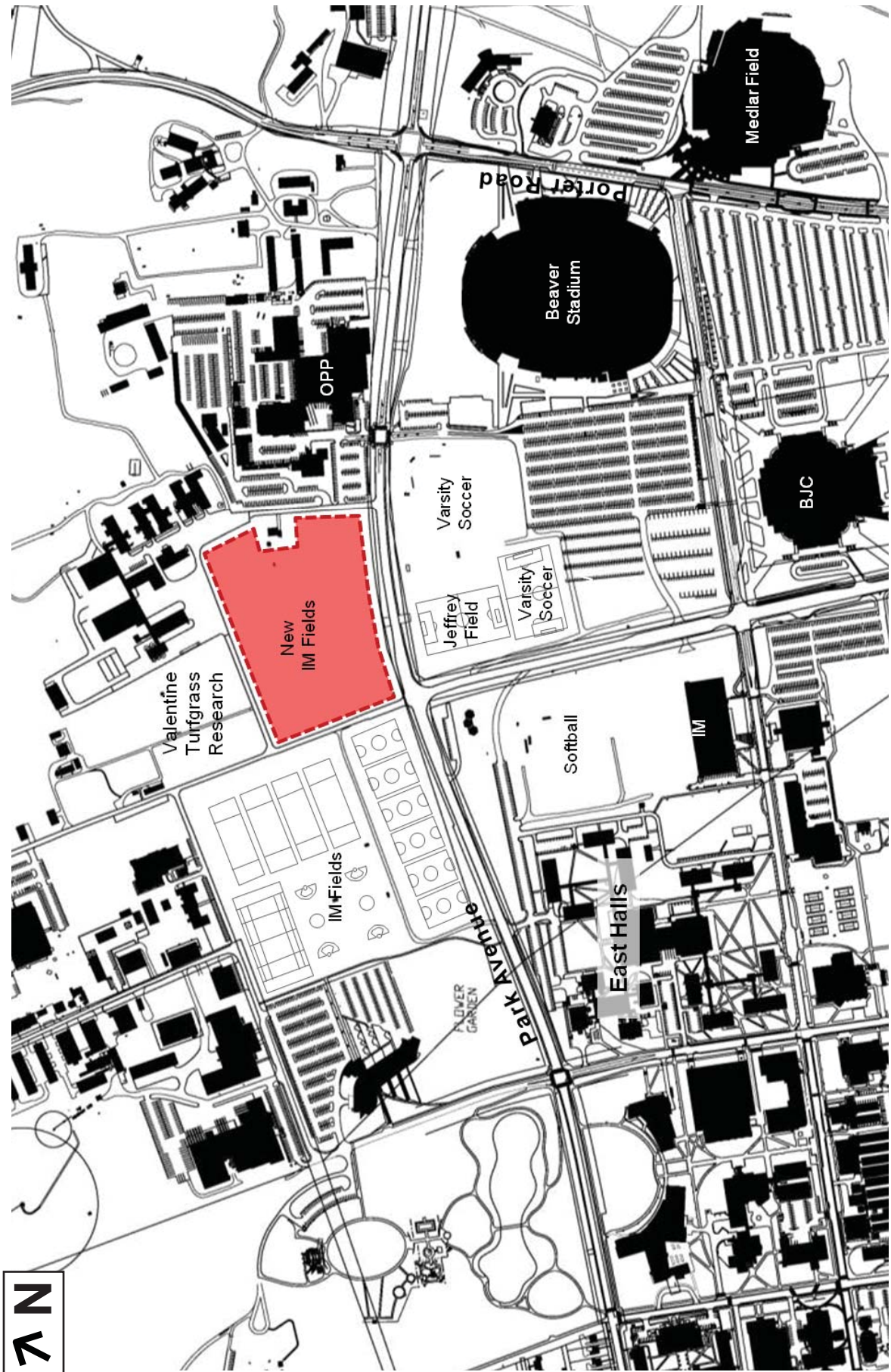
For the period November 1, 2010 through December 31, 2010, 61 major commitments were accepted by the University totaling approximately \$33,654,783.

Will the Committee on Finance and Physical Plant recommend to the Board of Trustees adoption of the following resolutions:

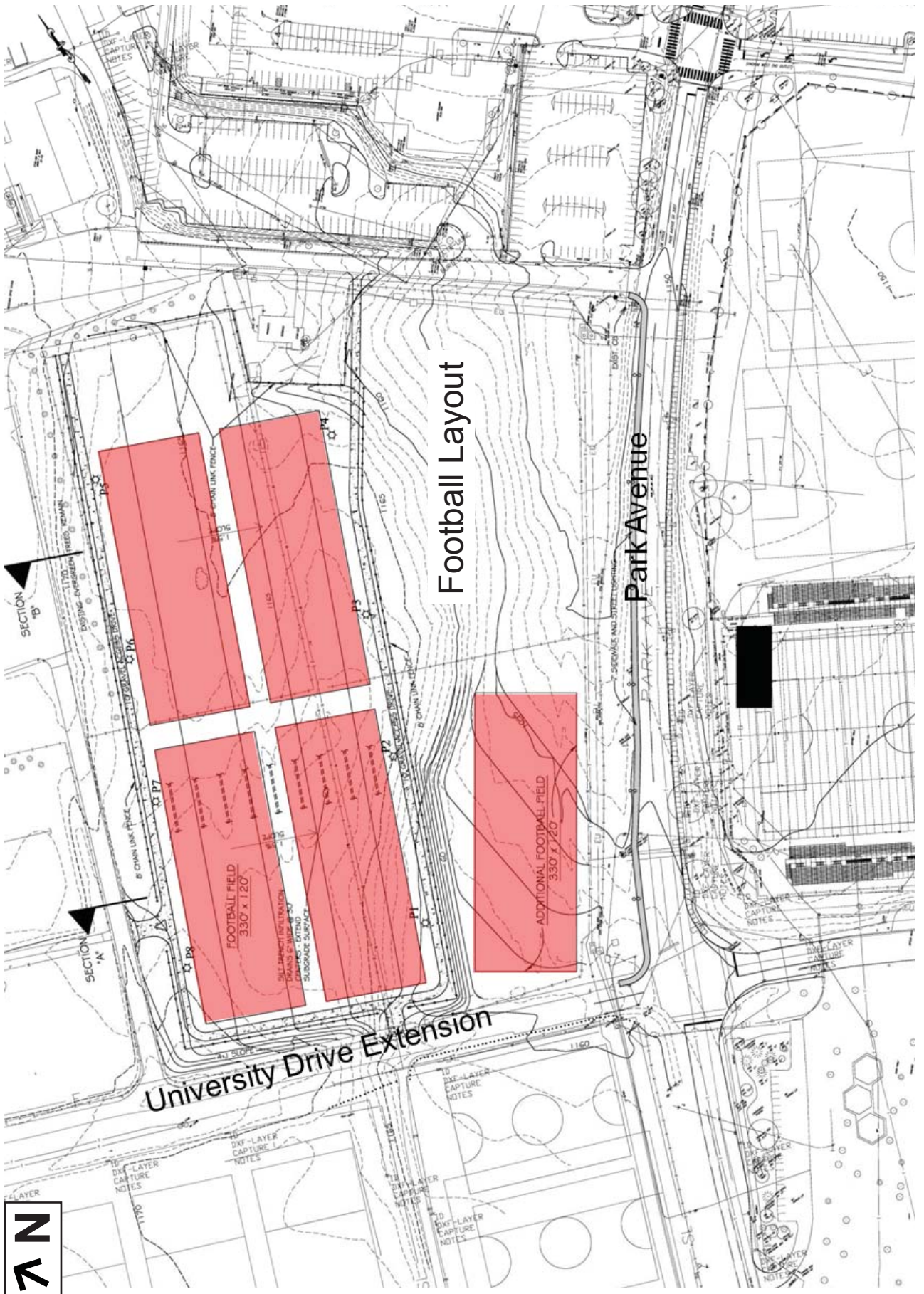
RESOLVED, That the Board of Trustees gratefully acknowledges the generous contributions of the many friends of the University in support of endowments, funds, and other major commitments as reported to the Committee on Finance and Physical Plant at its meeting of March 18, 2011.

FURTHER BE IT RESOLVED, That the Officers of the University are authorized to convey the Board's appreciation to these generous benefactors who provide opportunities for many students to receive a quality education.

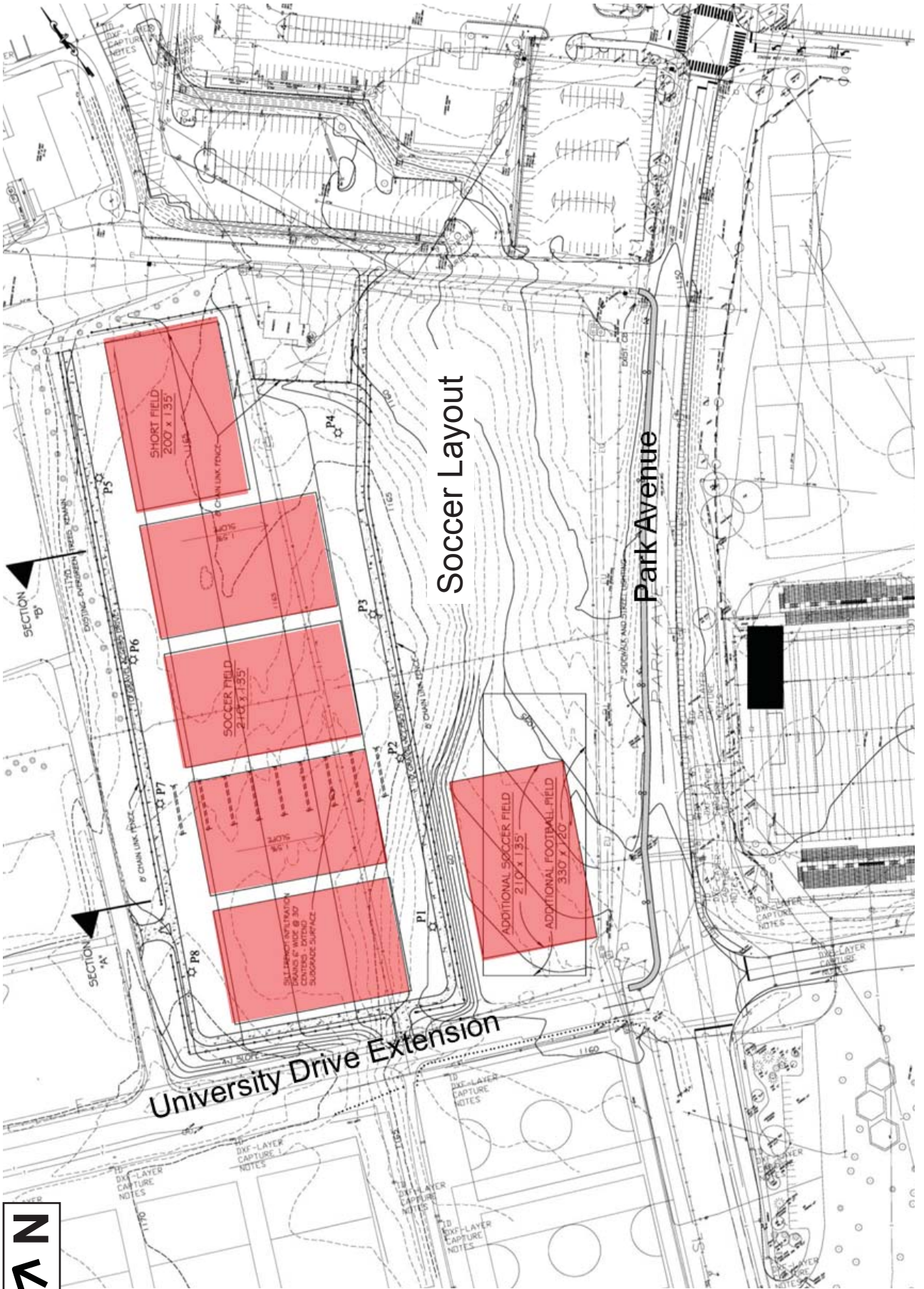
University Park



University Park

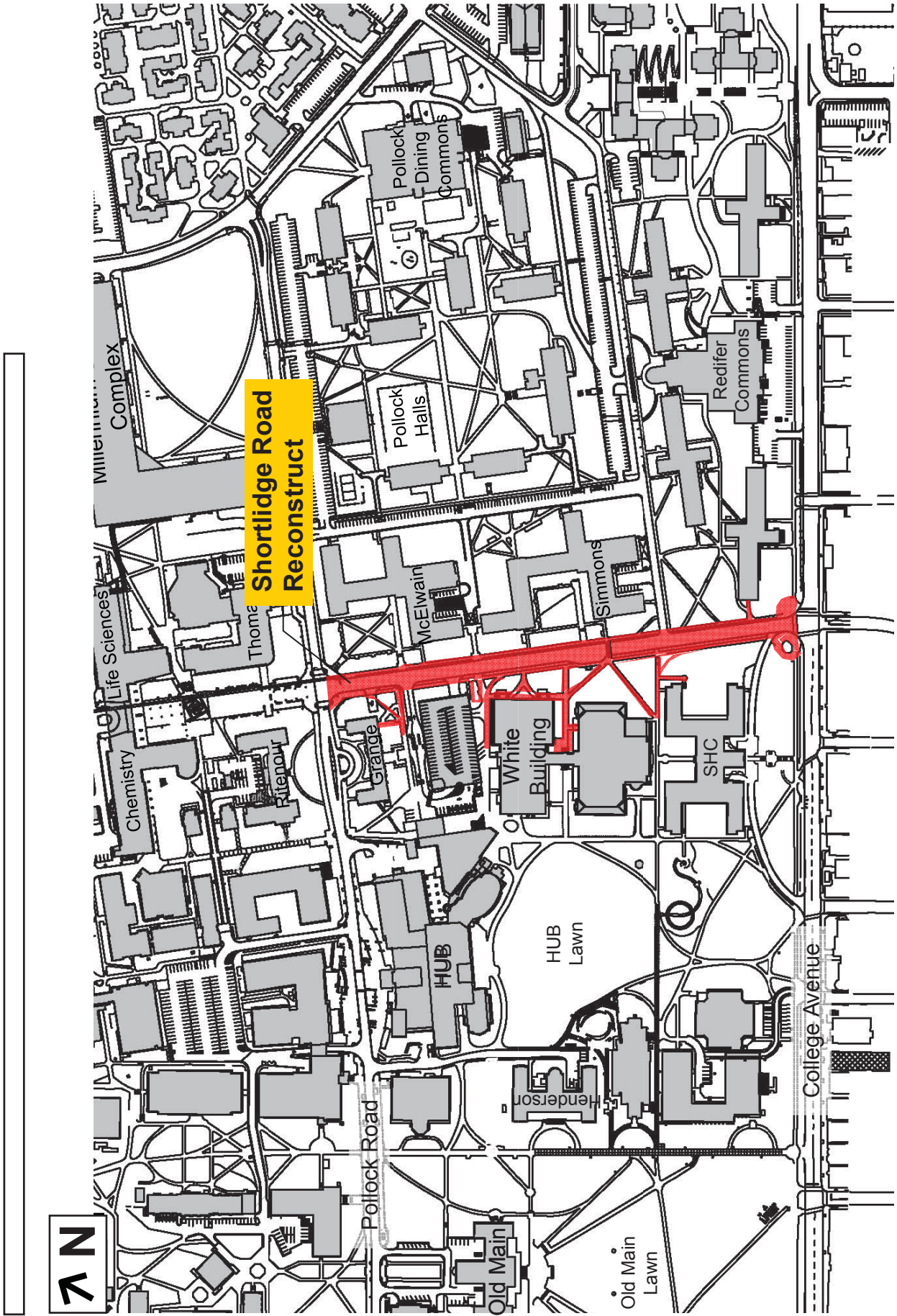


University Park

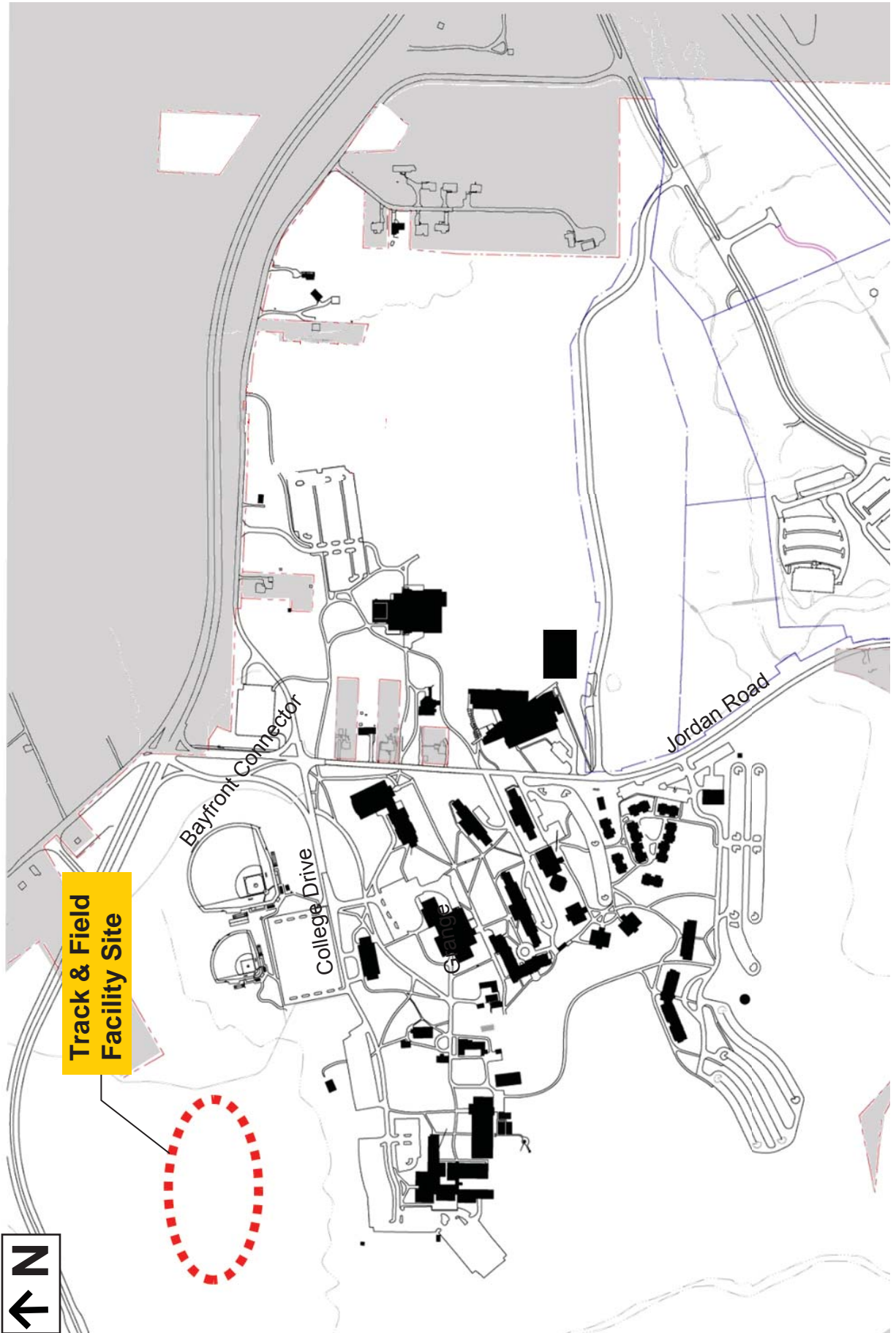


Soccer Layout

University Park



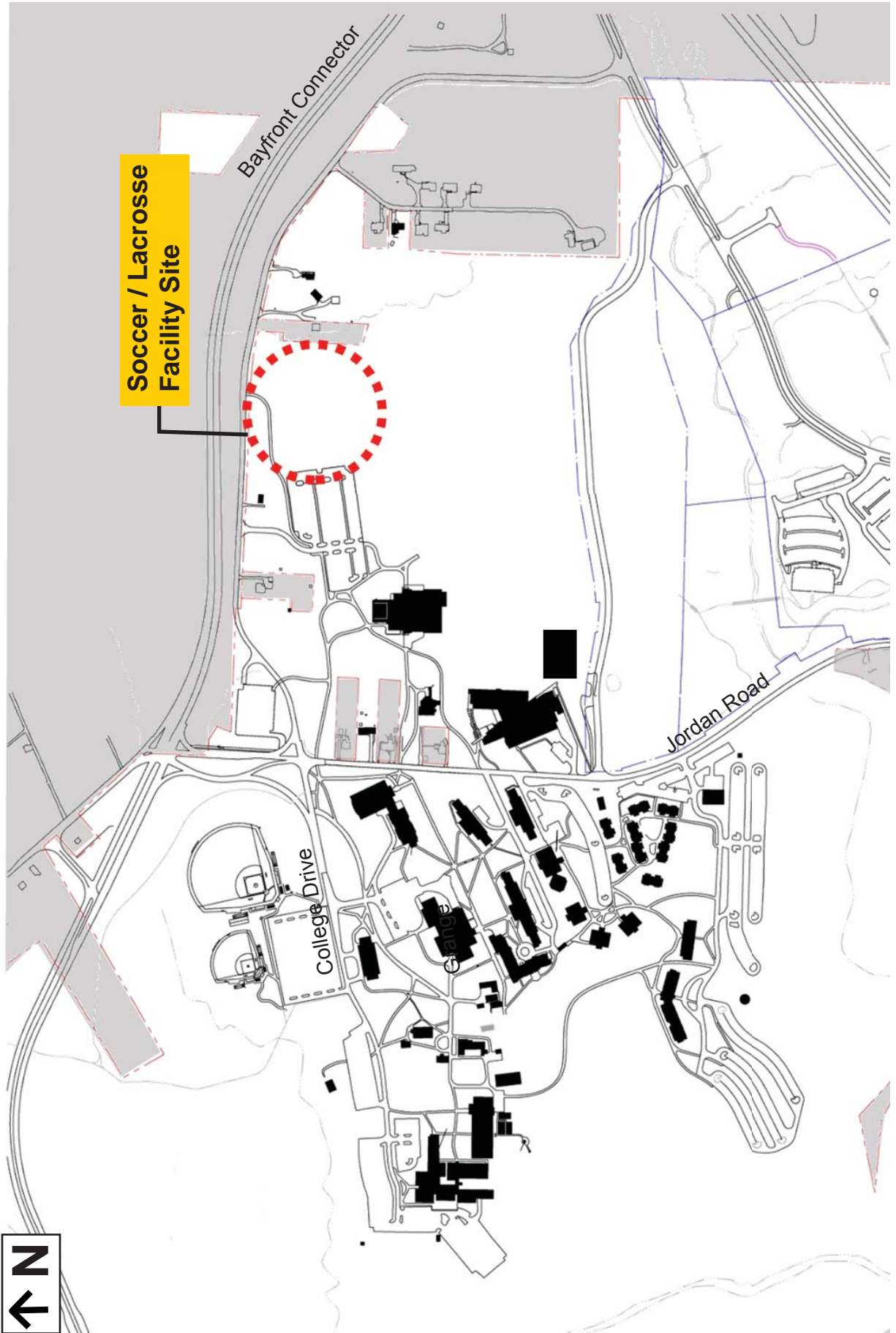
Penn State Erie, The Behrend College



Penn State Erie, The Behrend College



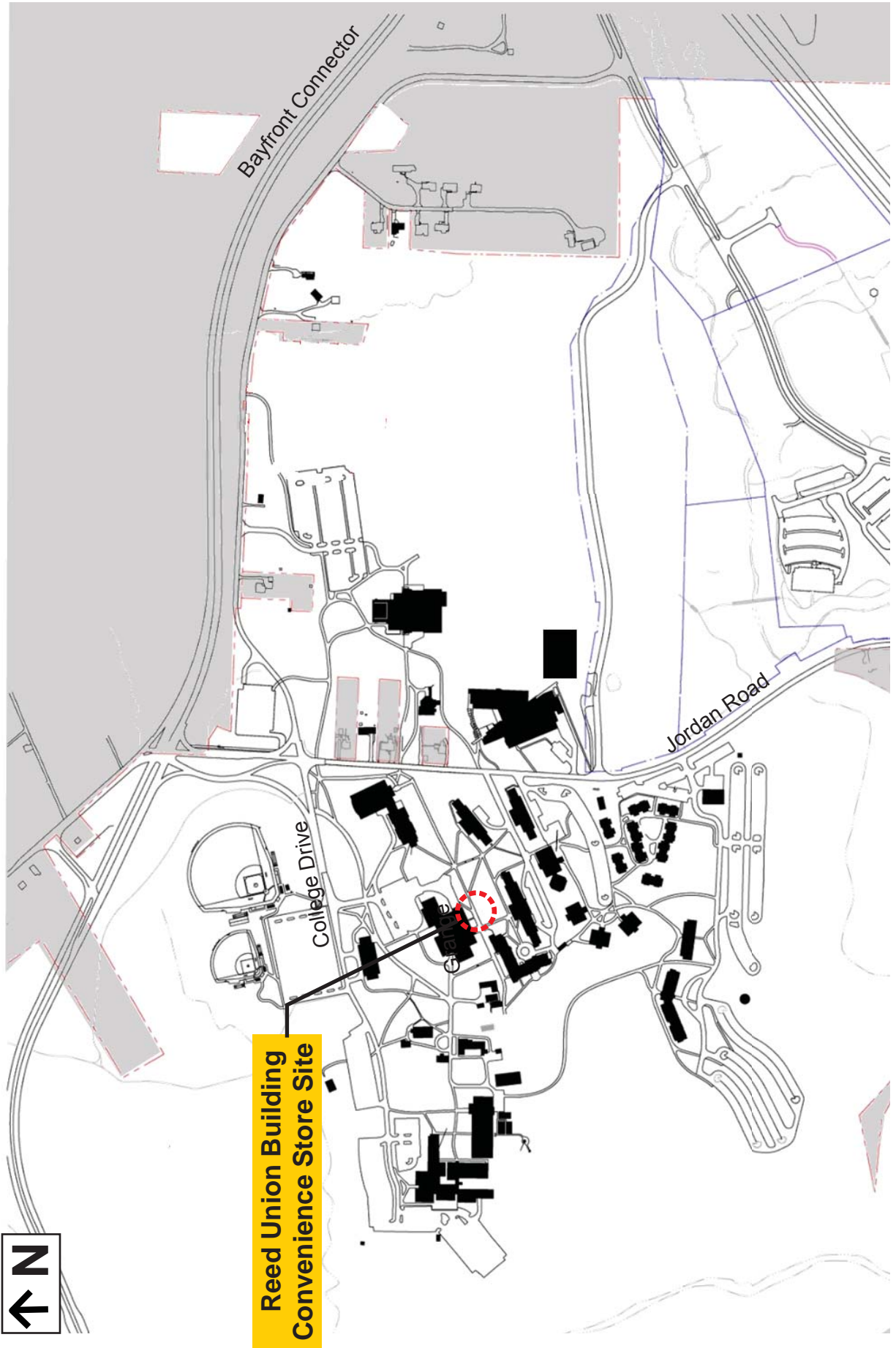
Penn State Erie, The Behrend College



Penn State Erie, The Behrend College

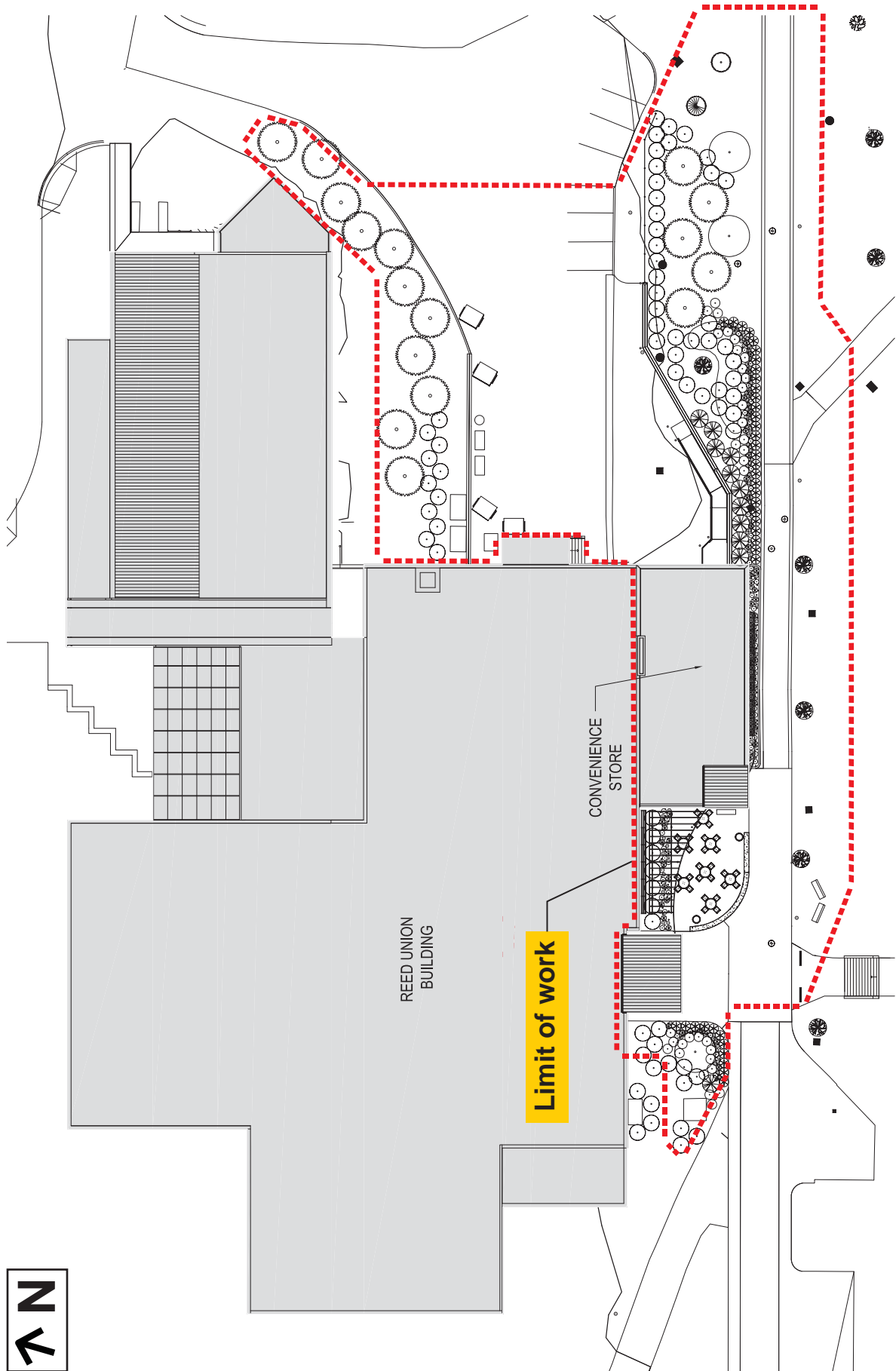


Penn State Erie, The Behrend College

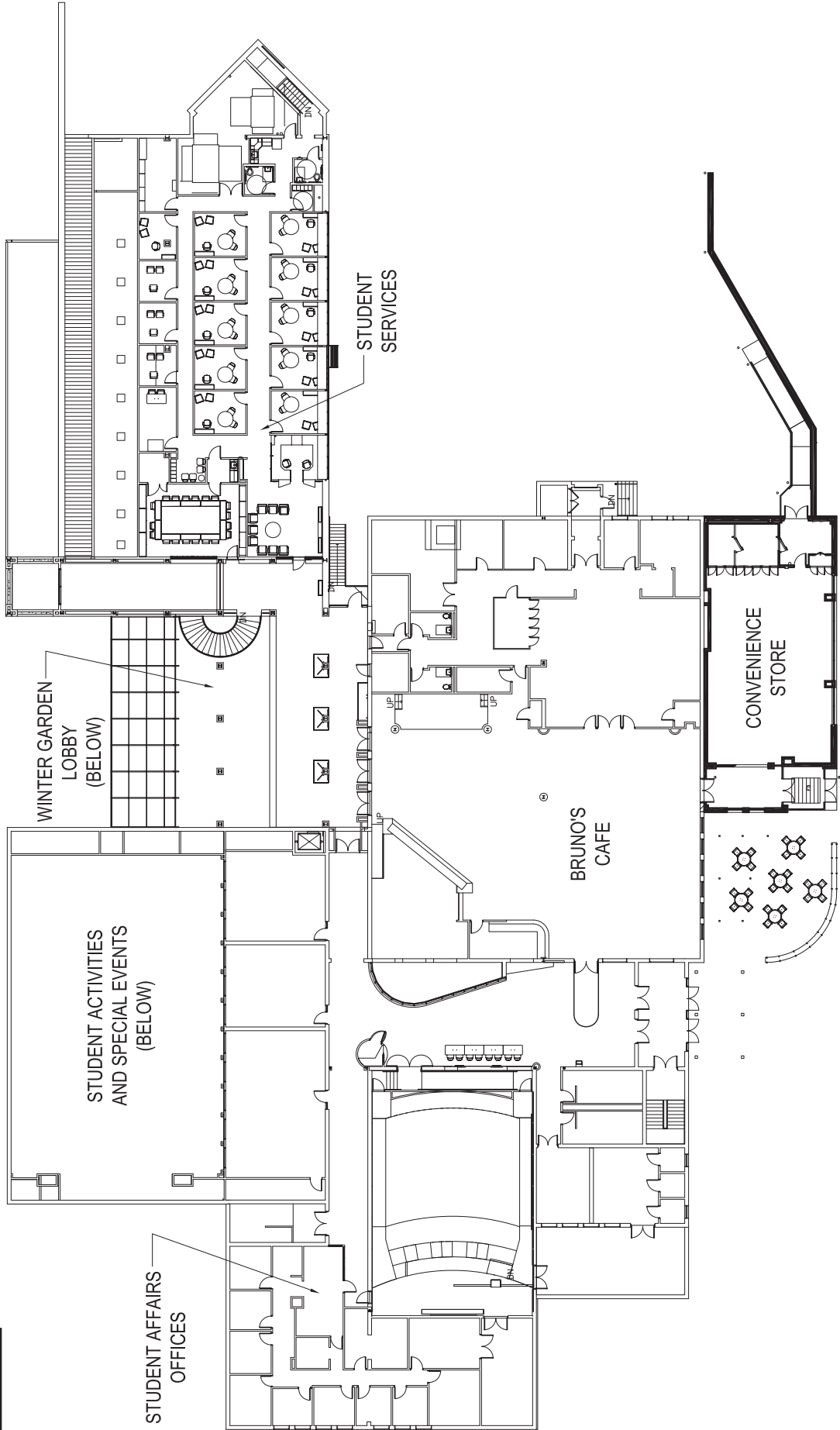


(Appendix II.5)

Penn State Erie, The Behrend College



Penn State Erie, The Behrend College



Penn State Erie, The Behrend College

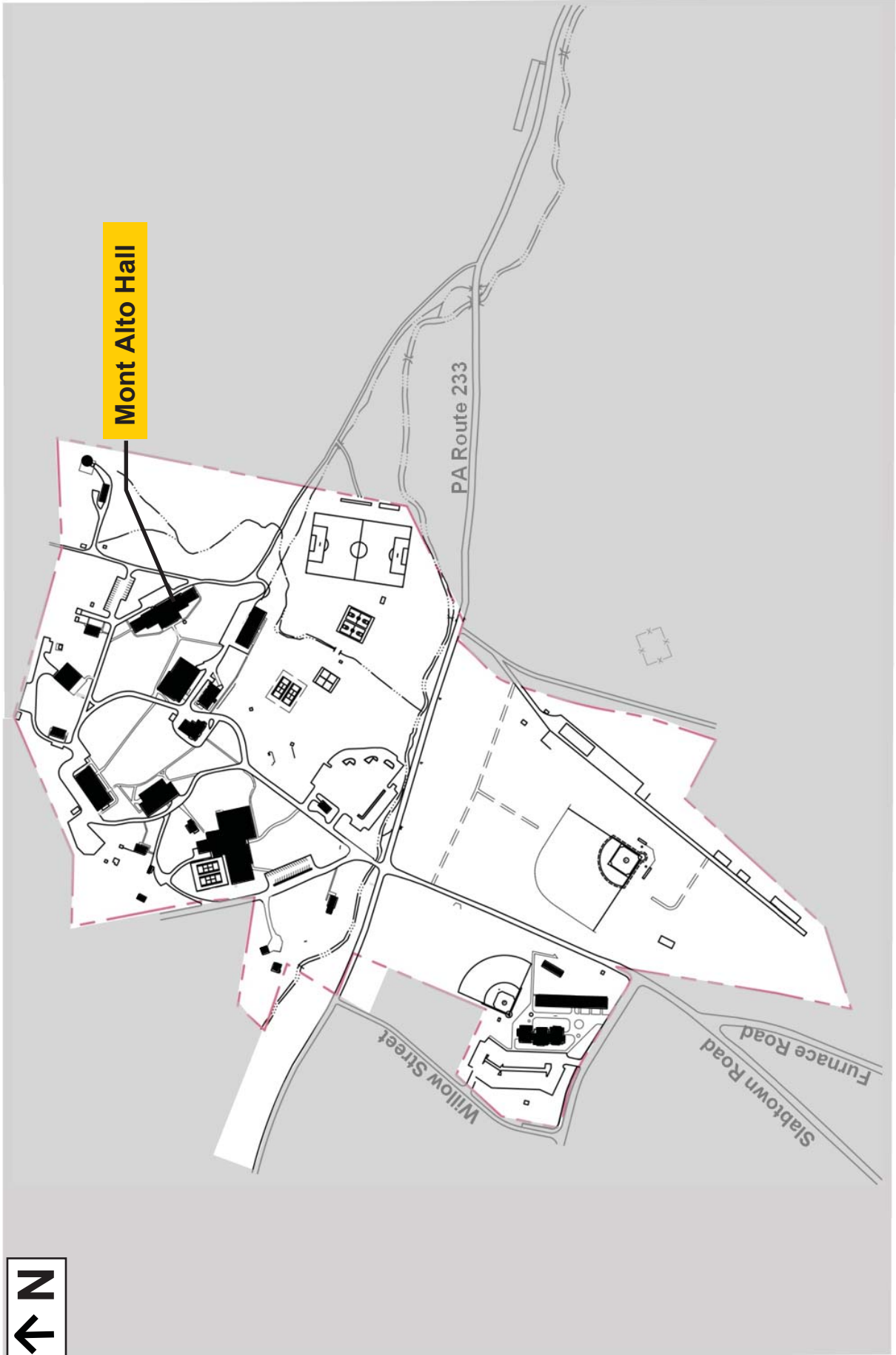
Entrance Canopy

Convenience Store

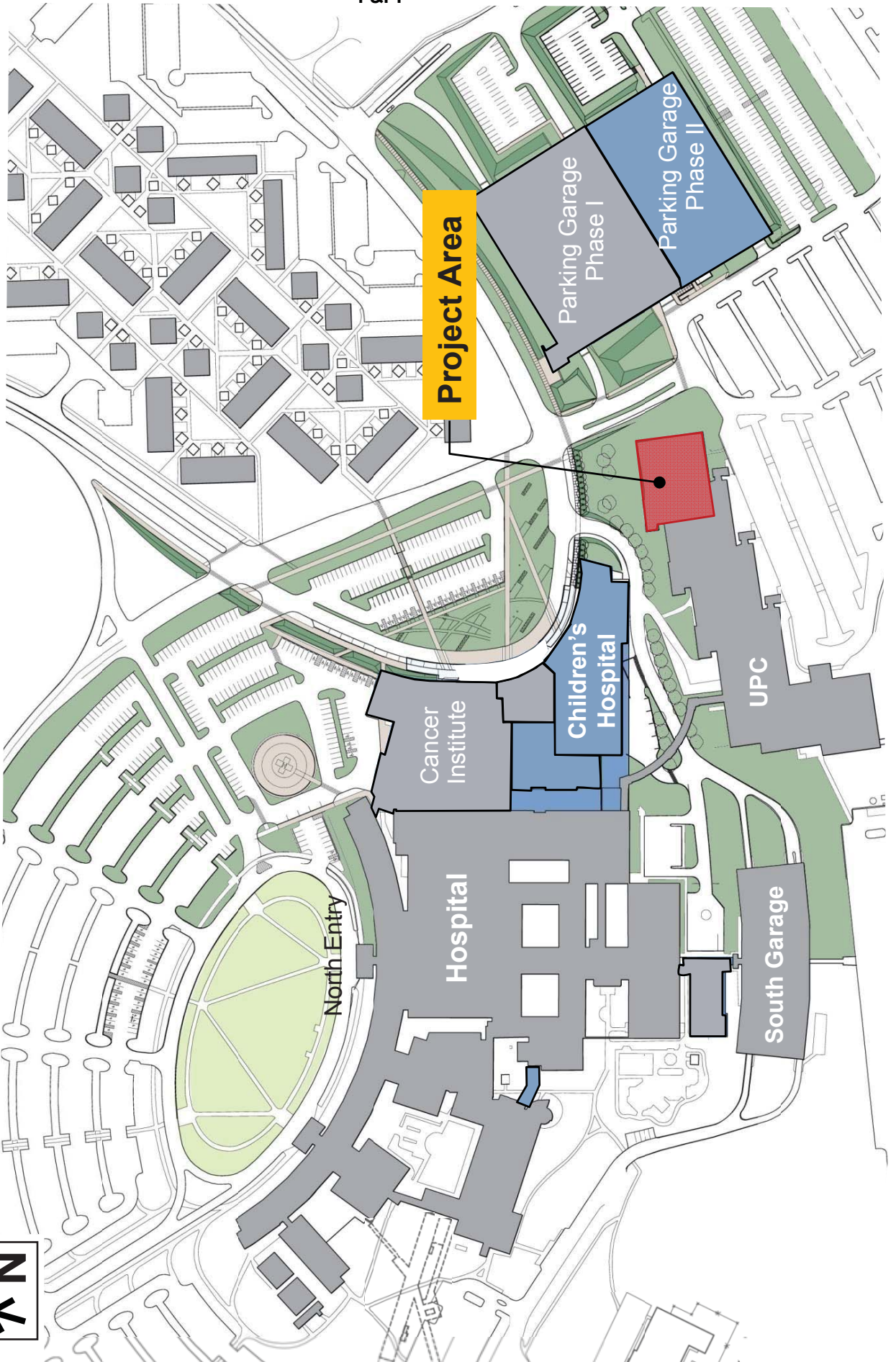


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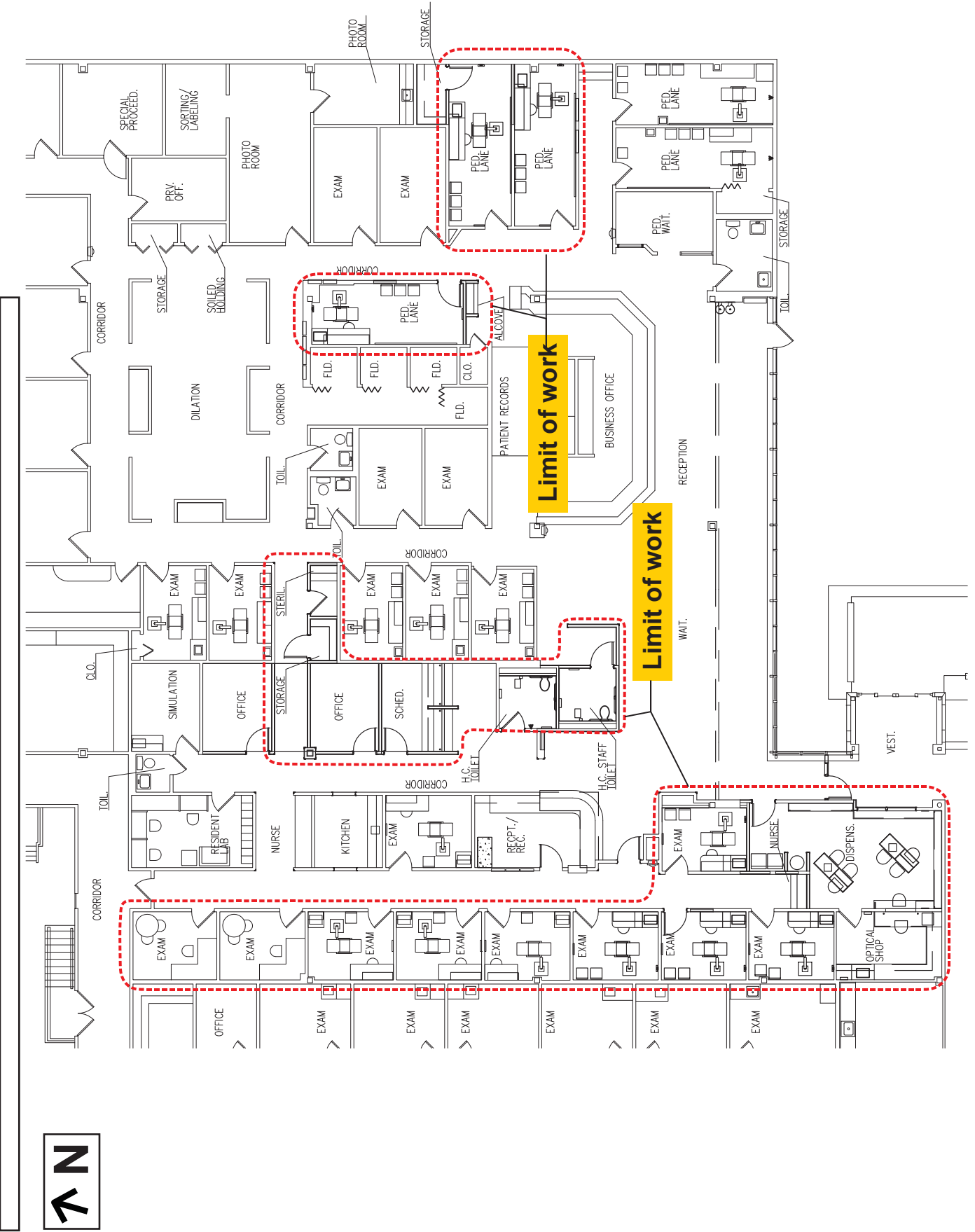
Penn State Erie, Mont Alto



The Milton S. Hershey Medical Center



The Milton S. Hershey Medical Center



STATUS OF MAJOR CONSTRUCTION PROGRAMS AND BORROWING (> \$5 Million)
February 28, 2011

Campus	Project Data				BOT Milestones			Construction		Notes
	Project Name	Budget Amount	Commonwealth Funding	Gift Amount	Arch/Eng Selection	Design Plan Approval	Start Date	Completion Date		
Berks	Classroom / Laboratory Building	\$25,700,000	\$0	\$3,000,000	11/07	01/10	04/10	12/11	Construction is approximately 45% complete.	
DuBois	Swift Building Renovation	\$5,370,000	\$3,950,000	\$0	N/A	07/10	08/10	07/11	Construction is approximately 45% complete.	
Hershey	Children's Hospital	\$206,500,000	\$14,000,000	\$65,000,000	11/05	11/09	03/10	10/12	Construction is approximately 25% complete.	
	Support Services Building	\$19,000,000	\$0	\$0	01/09	03/10	06/10	11/11	Construction is approximately 40% complete.	
	Beaver Stadium N. End Zone and ADA Renovation	\$8,260,100	\$0	\$0	N/A	09/10	12/10	08/11	Construction is approximately 30% complete.	
	BioBehavioral Health Building	\$48,100,000	\$40,000,000	\$0	01/08	07/10	12/10	10/12	Construction is approximately 5% complete.	
	Biological Research Laboratory	\$23,000,000	\$0	\$0	11/07	11/10	04/11	09/12	Project being prepared for construction. NIH approval pending.	
	East Campus Steam Plant - CTHRSG	\$18,300,000	\$0	\$0	N/A	N/A	04/10	06/11	Construction is approximately 85% complete.	
	Environmental Improvements BFP Installations	\$8,120,000	\$7,000,000	\$0	N/A	N/A	06/08	08/12	Project program is approximately 45% complete.	
	Essential Services Program	\$11,950,000	\$0	\$0	N/A	N/A	12/05	12/14	Project program is approximately 58% complete.	
	Gary Schultz Child Care Center at Hort Woods	\$11,000,000	\$0	\$0	05/08	01/10	03/10	06/11	Construction is approximately 65% complete.	
	Henderson South (Phase II)	\$56,500,000	TBD	\$0	01/08	TBD	TBD	TBD	Project in design.	
University Park	Ice Arena	\$92,500,000	\$0	\$75,000,000	11/10	01/12	01/12	09/13	Project in design.	
	IM Building Addition	\$24,000,000	\$0	\$0	01/11	09/12	10/12	01/14	Project in design.	
	Millennium Sciences Complex	\$215,000,000	\$82,550,000	\$0	03/05	09/08	09/08	07/11	Construction is approximately 80% complete.	
	Moore Building Addition	\$26,100,000	\$23,190,000	\$1,800,000	07/08	05/10	06/10	12/11	Construction is approximately 40% complete.	
	Moore Building Renovation Stage	\$21,900,000	\$20,050,000	\$1,200,000	07/08	11/11	02/12	08/13	Project in design.	
	Nittany Lion Softball Park	\$10,200,000	\$0	\$525,000	11/04	03/10	03/10	03/11	Construction is approximately 98% complete.	
	Steam Production Modifications	\$25,000,000	\$0	\$0	01/11	03/12	04/12	04/14	Project in design.	
	Transformer Replacement Program	\$9,600,000	\$0	\$0	N/A	N/A	06/07	12/13	Project program is approximately 30% complete.	
	Water Filtration Plant	\$30,000,000	\$25,000,000	\$0	01/11	05/12	06/12	06/13	Project programming complete.	

Summary of University Long-Term Debt - \$(000) (excluding PCT)	Authorized Borrowing Status - \$(000) (excluding PCT)
Total bonds, notes and capital leases as of June 30, 2010	Borrowing Authority per May 2007 Board of Trustees
Bonds, notes, and capital leases issued year to date fiscal year 2010/11	Capital Leases, Bonds, & Notes Issued
Year to date principal payments and premium amortizations	Future Capitalized Leases & Anticipated Commitments
Total bonds, notes and capital leases as of February 28, 2011	Estimated Authority Remaining
\$1,088,673	\$600,000
\$2,344	(\$306,774)
(\$44,372) *	(\$2,130)
\$1,046,645	\$291,096

* Related interest expense totals approximately \$36,545



Endowment & Similar Funds

Investment Review for Calendar 2010

Submitted March 2011

This cover page provides a summary overview of the Pennsylvania State University Endowment and Similar Funds for calendar Year 2010. The second page summarizes Endowment-related data that is discussed on the remaining pages, along with in depth Endowment performance analysis.

Executive Overview

Endowment Performance

Annualized *net* investment returns for the Penn State University Endowment (adjusted for the impact of gifts and spending, and after external investment management expenses) are shown below for periods ending December 31, 2010:

<u>Calendar 10</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
14.1%	-0.3%	5.6%	5.1%

Endowment & Similar Funds Market Value (pg 3)

Penn State University's Endowment was valued at \$1,546 million as of December 31, 2010, with an additional \$116 million in Similar Funds.

Review of Investment Markets (pg 4)

The graph below compares respective returns for 12-months ending December 31, 2009 and 2010 for the S&P500, MSCI All Country World (ACW) ex-US, 91-day US Treasury Bills, Barclays Aggregate Bond, and publicly-traded Real Estate Investment Trusts (REITs) Indexes. As shown below, both US and non-US public equity returns for 2010 lagged their especially strong 2009 performances, while domestic real estate (REITs) repeated the previous year's stellar performance. For both years, bonds were modestly positive while T-Bill returns were negligible.

Investment Diversification and Asset Mix (pg 5)

At calendar year-end, 60% of Endowment assets were invested in public equities (domestic and foreign), 17% in fixed income/cash, and 23% in private capital partnerships (venture capital, private buyouts, real estate, and natural resources).

Comparative Fund Performance (pg 6)

Penn State's Endowment returned 14.1% net for the year ending December 31, 2010 versus 12.5% for the Passive Policy Portfolio, largely due to strong public equity manager performance relative to passive benchmarks. The Endowment's 3- and 5-yr relative performance was slightly better than respective passive benchmarks.

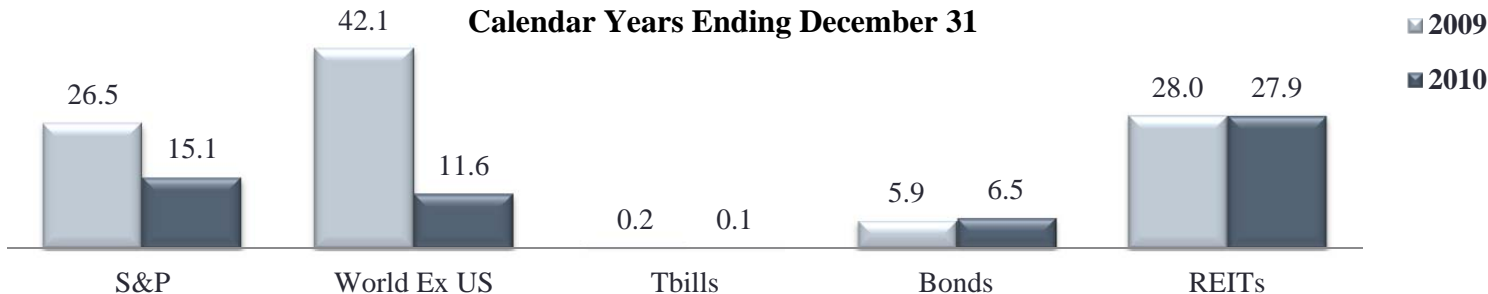
Endowment Liquidity (pg 7)

With approximately one-half of its assets convertible to cash in a matter of days, the Endowment maintains adequate liquidity to satisfy anticipated cash requirements.

Endowment Performance and Spending (pg 8)

The Penn State Endowment's average annual net returns of 5.1% and 9.0% over the last 10 and 20 years, respectively, have allowed the Endowment to maintain inflation-adjusted spending while achieving long-term intergenerational equity.

**Investment Market Returns
Calendar Years Ending December 31**



5-Year Endowment Facts and Figures

	Annual Periods Ending December 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<i>Investment Performance</i>					
Endowment ¹ (annualized net returns)	14.1%	13.0%	-22.7%	13.9%	16.2%
<i>Market Values</i> (\$ millions)					
Endowment ¹	1,545.8	1,356.5	1,216.4	1,579.9	1,397.9
<u>Similar Funds</u> ²	<u>116.5</u>	<u>103.2</u>	<u>90.4</u>	<u>116.9</u>	<u>109.9</u>
Endowment and Similar Funds	1,662.3	1,459.7	1,306.8	1,696.8	1,507.8
Gifts & Other Additions (\$ mils)	71.4	63.4	63.6	42.8	59.7
Current Spending (\$ mils)	62.5	64.3	62.4	60.6	56.0
<p>1) Endowment assets over which Penn State's Office of Investment Management (OIM) has investment responsibility, as approved by the Penn State Investment Council (PSIC).</p> <p>2) Similar Funds — includes donor-restricted and deferred gifts, plus funds in transit to Endowment.</p>					

Penn State Investment Council (PSIC) Meetings

February 26:

- Investing \$50 million with JKMilne Asset Management in Core Fixed Income.

June 25:

- Investing \$25 million with Chilton Investment Company in Global Natural Resources Long-Short Strategy.
- Committing \$10 million each to Oaktree Capital Management Power Opportunities Fund III L.P. and Commonfund Capital Venture Partners IX L.P.

August 13:

- Committing \$15 million to Wellspring Capital Partners V, L.P.

October 29:

- Maintain Penn State's Endowment spending at a 4.5% annual rate.
- Committing \$10 million to Yorktown Energy IX, L.P.
- Committing \$15 million to EnCap Energy VIII, L.P.

December 12:

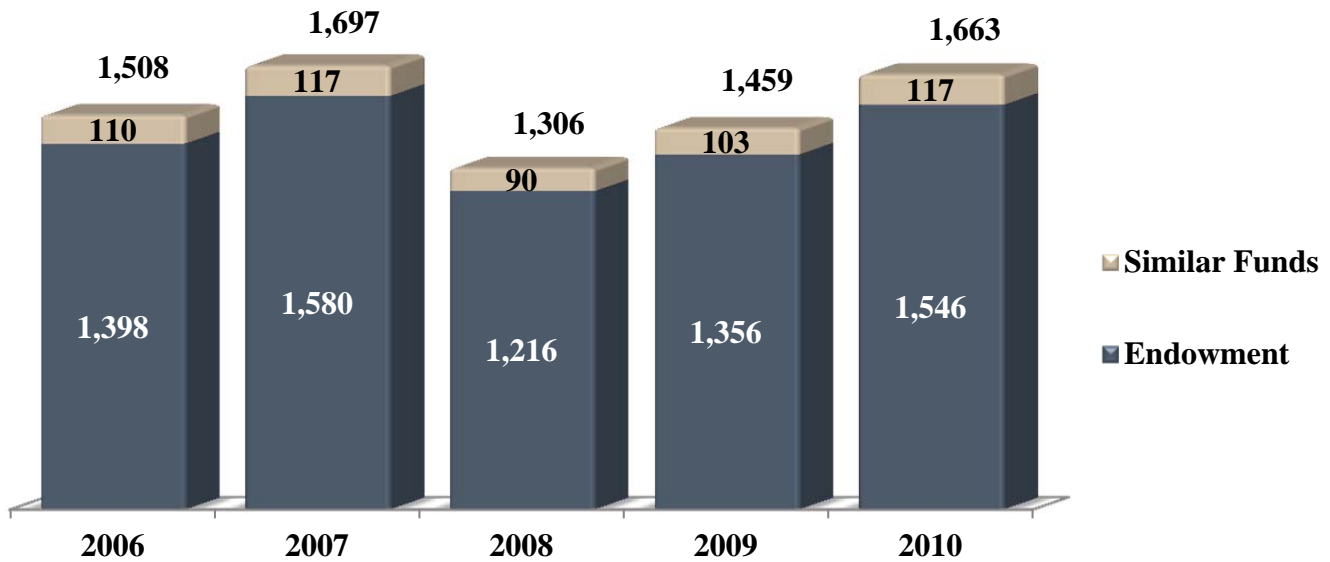
- Committing \$15 million to Oaktree Real Estate Opportunities Fund V, L.P.

Please note that commitments made to Limited Partnerships (LPs) are not immediately invested and are called (paid in) over several years until commitment is satisfied, except as noted.

Endowment and Similar Funds Market Value

As of December 31, 2010, Penn State’s Endowment was valued at \$1,545.8 million. Non-pooled assets — charitable remainder trusts, charitable gift annuities, and other life income funds in addition to some donor restricted funds, as well as cash in transit to the Endowment — accounted for an additional \$116.5 million, bringing Penn State’s Endowment and Similar Funds to \$1,662.3 million. The annual market values for the University’s Endowment and Similar Funds for each of the last five calendar years ending December 31 are shown below:

**Endowment and Similar Funds Market Value
Calendar Years Ending December 31
(\$ millions)**



From the graph above:

The Endowment and Similar Funds’ total value increased by \$203.6 million during calendar 2010. As seen in the table on page 2, new gifts added to the Pool over the last 12 months totaled \$71.4 million, while Endowment program support (spending) amounted to \$62.5 million.

The total Endowment’s \$154.3 million increase since December 31, 2006 reflects new gift contributions and reinvested investment earnings, *after* providing cumulative program support of \$305.8 million.

Inflows of new gifts, along with positive investment returns, have resulted in a cumulative 10.23% increase in the Endowment’s value, net of spending, from December 31, 2006 to December 31, 2010.

Review of Investment Markets in Calendar 2010

Following a year of strong double-digit gains, equities in calendar 2010 again handily outperformed fixed income returns, while non-US indexes generally lagged domestic equity markets. The performance of investment markets that directly impact Penn State University's Endowment is discussed below.

US Equities

The S&P 500 returned 15.1% for the 12 months ending December 31, 2010, compared to 26.5% for calendar 2009, while the large-cap biased Dow Jones Industrial Index returned 14.1% and 22.7%, respectively. Small-capitalization stocks, as measured by the Russell 2000 Index, returned 26.9% versus 27.2% last year. The Nasdaq Index's 16.9% return was comparable to the broad domestic indexes in calendar 2010, but much less than its 2009 return of 43.9%.

Non-US Equities

Equities outside the United States generally underperformed those in the US as the Morgan Stanley All Country World (ACW) Index ex-US returned 11.6% for the 12-month period ending December 31, 2010. This was well below its calendar 2009 return of 42.1%. Emerging market equities in less developed countries returned 19.2% over the last 12 months, well below their 79.0% return in calendar 2009.

Fixed Income

Barclays Capital Aggregate Bond Index (various maturities of US Government and non-government domestic bonds) returned 6.5% in calendar 2010 versus 5.9% in 2009. US Treasury Bonds returned 9.4% in calendar 2010 versus -3.6% a year earlier.

For calendar 2010, 91-day Treasury Bills earned 0.1% versus 0.2% one year ago and Treasury Inflation Protected Securities (TIPS) returned 6.3% in calendar 2010 compared to 11.4% in calendar 2009.

Real Estate

Publicly-traded Real Estate Investment Trusts (REITs) returned 27.9% for the calendar year ended December 2010 compared to 28.0% in 2009. Privately-held real estate investment partnerships, as measured by the largely commercial property NCREIF Index, returned 5.8% in calendar 2010 compared to -22.1% in 2009.

Alternatives

Private Equity Buyouts and Venture Capital increased as well, averaging returns of 18.0% and 8.3%, respectively, for the 12 months ending September 30, 2010 (private capital partnerships are reported on a 3-month lag). In the previous 12-month period ending September 30, 2009, Private Equity returned -9.9%, while Venture Capital lost -12.9%. By comparison, the Russell 2000 Index of small-capitalization stocks returned 13.3% for the 12 months ending September 30, 2010 and -9.5% for the year ending September 30, 2009.

Economic and Market Outlook

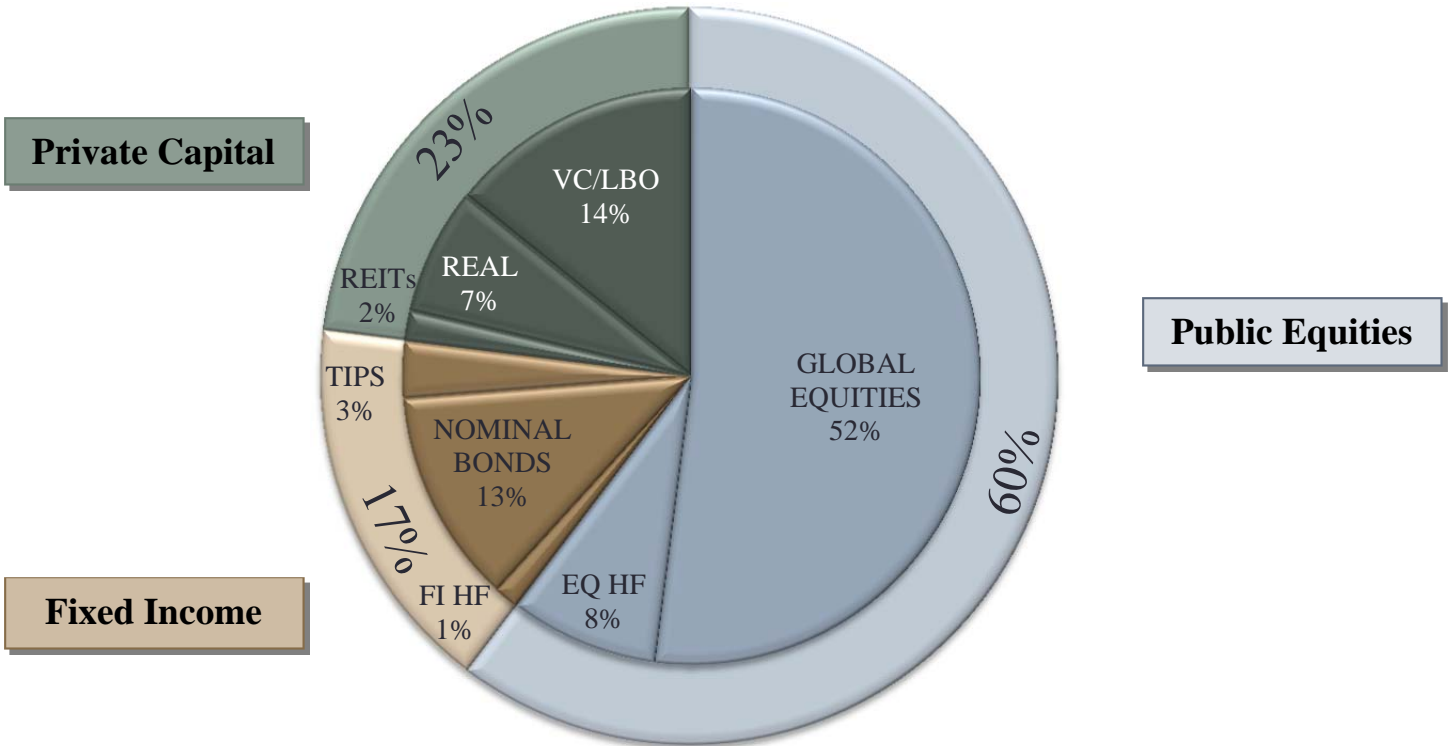
In the 12 months ending December 31, 2010, global equity markets continued the rally that began in March of 2008. However, unlike 2009, US equities lead the world indexes. Fixed income markets provided a fourth consecutive year of positive returns, as the Federal Reserve continued to hold down interest rates to alleviate credit market distress brought on by the decline in housing prices and the accompanying deleveraging. Looking ahead, expectations for domestic corporate profits have brightened in the face of improving credit concerns and a recovering economy.

Penn State's well-diversified endowment portfolio — consisting of public equities, private partnerships, bonds, and hedge funds in addition to inflation-sensitive "real assets" — continues to be the most appropriate investment approach for long-term growth and sustainable spending.

Investment Diversification and Asset Mix

Asset allocation is a primary determinant of investment performance and risk control. The Endowment’s asset mix combines three very broad asset categories - public equities, private capital, and fixed income - to maximize potential returns, while tempering volatility. Reflecting a desire to support generous spending and the need to preserve purchasing power in light of changing market conditions, the Penn State Investment Council (PSIC) regularly reviews the Endowment’s investment policy.

In the graph below, the three macro categories – public equities, fixed income, and private capital – are shown in the outermost ring with their December 31, 2010 allocations of 60%, 17%, and 23%, respectively.



At a more granular level, the Endowment’s diversified portfolio includes a variety of asset classes that comprise the three macro categories, as shown by the slices within the inner pie (percentages are rounded):

- 60% in Public Equities includes publicly-traded US (37%) and non-US (15%) common stocks, and equity-oriented hedge funds (8%).
- 17% in Fixed Income includes 13% in nominal bonds (largely US government bonds), 3% in Treasury Inflation Protected Securities (TIPS), and 1% in an absolute-return hedge fund.
- 23% in Private Capital includes the following private partnerships: 14% private equity (venture capital, leveraged buy-outs, distressed-debt), and 9% in real assets (private and public real estate, and energy).

The individual asset classes above represent market values as of December 31, 2010; however, the percentages fluctuate over time depending on market trends and allocations approved by the Penn State Investment Council.

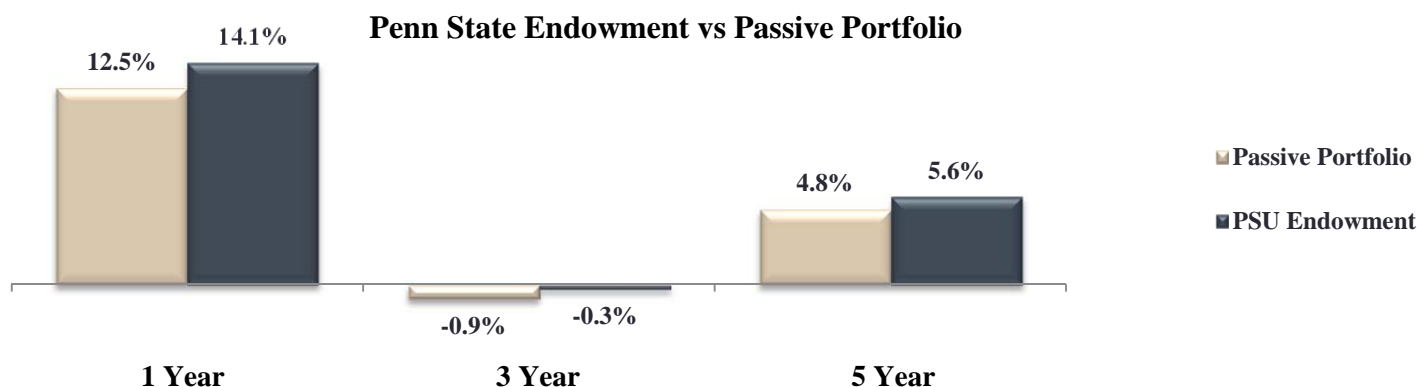
The approximately 83% currently allocated to public equities and private capital is intended to take advantage of capital growth and purchasing power protection offered by equity-type investments. On the other hand, the 17% invested in fixed income is intended to provide diversification and stability during times of market turbulence.

Endowment Performance Compared to Passive Portfolio

The Endowment's investment performance is measured against a hypothetical *Passive Portfolio*, comprised of three broad asset categories: Public Equities, Private Capital, and Fixed Income. This passive portfolio serves as a blended benchmark against which the performance of the actual, actively-managed Endowment is monitored. In the table below, the respective static weightings of the three major asset categories, along with respective sub categories, are associated with corresponding market benchmarks to generate *Passive Portfolio* returns over 1-, 3-, and 5-year horizons:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Weighting</u>	- Annualized Benchmark Returns -		
			<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
Public Equities (listed on stock exchanges)					
US Equities	S&P 500 Index	40%	15.1	-2.9	2.3
Non-US Equities	All Country World ex US Index	15	11.6	-4.6	5.3
Private Capital (non-marketable alternatives)					
Private Equity	CA Private Equity Composite	15%	18.0	0.9	10.4
Venture Capital	CA Venture Capital Composite	5	8.3	-2.1	4.6
Private Real Estate	NCREIF Index	5	5.8	-4.6	3.7
Fixed Income/Cash					
Total US Bonds	Barclays Aggregate Bonds	<u>20%</u>	<u>6.5</u>	<u>5.9</u>	<u>5.8</u>
Total Passive Portfolio (net)		100%	12.5%	-0.9%	4.8%

Note: the above categories / sub-categories are very broad and are assumed to be constant over the entire 5-yr period, much like a traditional balanced portfolio. As shown on the previous page, the actual endowment portfolio is comprised of several separate portfolios whose periodic weights vary as a result of fluctuating market returns.



As shown above, Penn State's Endowment returned 14.1% net for calendar 2010, surpassing the 12.5% return of the Passive Portfolio. For the trailing 3- and 5-years, the Passive Portfolio would have realized annualized returns of -0.9% and 4.8%, respectively.

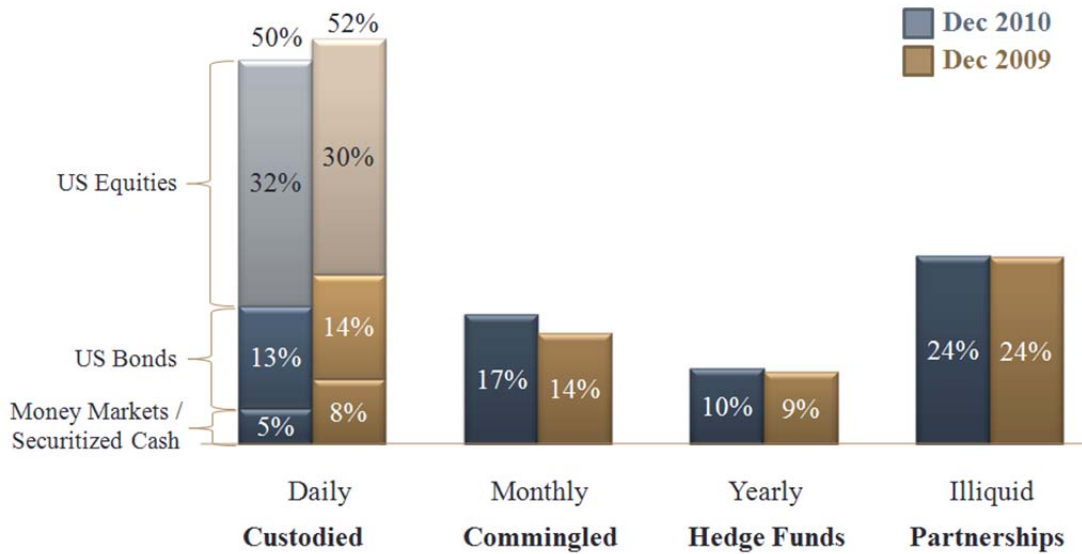
By comparison, the Endowment's actual 3- and 5-year returns outperformed in each period, netting -0.3% and 5.6%, respectively. Overall, this shows that the Endowment's investment managers augmented the performance relative to passive benchmarks.

The Passive Portfolio provides a guidepost to help achieve long-term results that are consistent with the twin objectives of purchasing-power preservation, along with stable endowment spending. The Endowment's performance varies from the *static* Passive Portfolio as a consequence of several factors, including but not limited to the following: timing of cash-flows into and out of the Endowment, tactical shifts in asset mix, and individual investment manager performance.

Endowment Liquidity

The financial crisis that erupted in 2008 was characterized, among other considerations, by lack of liquidity. Many institutions were unable to meet current obligations due to lack of available cash. This was exacerbated by their inability to readily convert some assets to cash because of reduced trading volumes in some financial instruments.

In the graph below, Endowment assets are classified according to how quickly they can be converted to cash. Most securities listed on exchanges or traded over-the-counter, and held at our custodian bank in separately managed accounts, can be liquidated on a daily basis (typically 1- and 3-day settlement for bonds and stocks, respectively). Commingled portfolios, i.e., collectively-managed investment pools of publicly-traded securities, are eligible for purchase or sale once a month. Hedge fund partnerships are typically open for at least partial liquidation once a year, with some having more and/or less frequent liquidity “windows.” Non-marketable partnerships are considered illiquid primarily because of the inability to determine with certainty future cash flows.



Observations from the blue (left) bars of each of the four pairs above for the period ending December 31, 2010:

- 50% percent of Endowment assets are invested in stocks and bonds that can be converted to cash in a matter of days. Of this, 1% to 2% is held in money market accounts, along with another 4% to 5% in “securitized cash” (i.e., fully collateralized equities/treasuries futures), making it less likely other assets will need to be liquidated to satisfy day-to-day cash requirements.
- Commingled portfolios, primarily non-US public equity portfolios, comprise 17% of Endowment assets and can be converted to cash monthly or less.
- 10% of Endowment assets are invested in six hedge fund partnerships and can be at least partially converted to cash annually or in some cases quarterly.
- 24% percent of Endowment assets are invested in 90 different partnerships whose assets are conservatively considered illiquid because of uncertain timing of future cash flows.

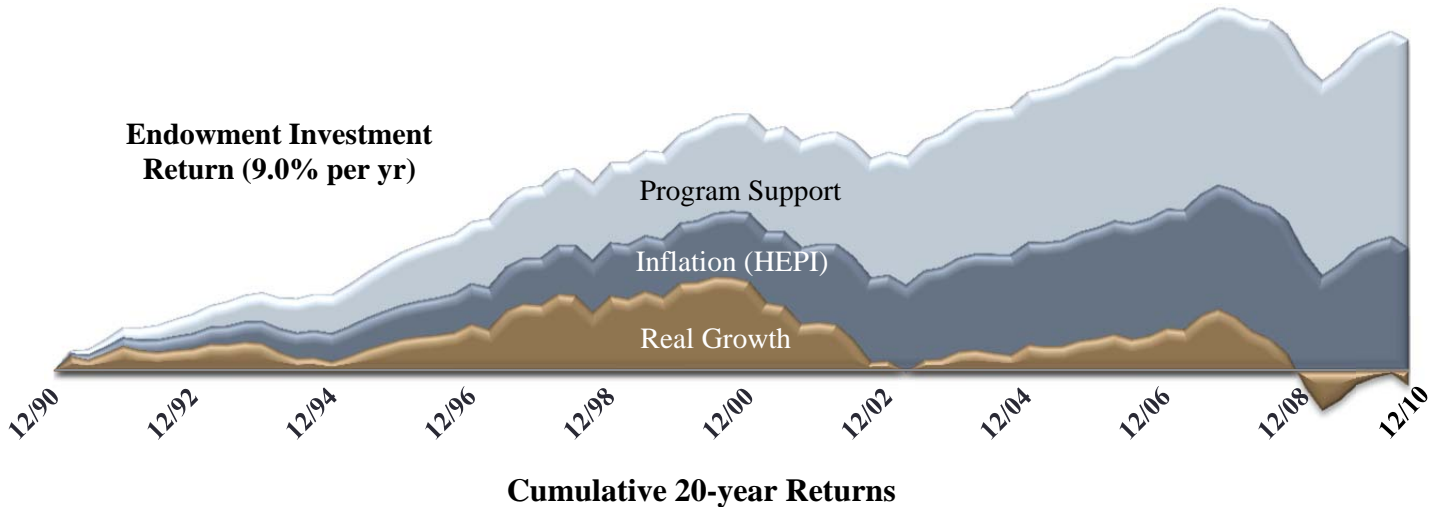
The foregoing indicates that the Endowment maintains sufficient liquidity to satisfy anticipated cash requirements.

Increased Liquidity and Investment Performance

As shown above, the liquidity profile of Penn State’s Endowment changed slightly from the end of calendar 2009 (tan bars) to the end of calendar 2010 (blue bars). Daily liquidity *decreased* from 52% to 50%. Meanwhile, monthly and yearly liquidity *increased* from 14% to 17% and from 9% to 10%, respectively. Illiquid non-marketable alternative assets remained the same at 24% of Endowment assets. Overall, this decreased current liquidity helped the Endowment take advantage improving equity markets worldwide.

Long-Term Endowment Growth and Spending

In the chart below, the top line represents the cumulative net investment return of the Penn State Endowment over the last 20 years. The layers illustrate investment return apportioned to program support (spending) and inflation (as measured by the Higher Education Price Index [HEPI]), with the remaining residual representing net, real (inflation-adjusted) growth.



The Endowment’s primary investment goal is to earn a long-term rate of return sufficient to support *current* spending and to preserve *future* purchasing power. This two-pronged objective is illustrated by apportioning total nominal (i.e., before adjusting for inflation) investment return (top line above) into layers, representing program support and inflation, along with a residual layer corresponding to net *real* growth. Because investment returns periodically fluctuate (illustrated by the jagged lines above), real growth, which nets out program support and inflation from total endowment return, oscillates across the horizontal “intergenerational equity” line. While market fluctuations have caused the growth layer to swing positive and negative, “intergenerational equity” has been achieved on balance.

Two Very Different Decades of Market Performance

The variable nature of investment returns is characterized in the below table which bifurcates the last 20 years into two consecutive 10-year periods, whose respective investment returns differed widely. The 10 years ending June 2000 (second row) benefitted from an extended equity bull market, while the 10 years ending June 2010 (first row) suffered two large sell-offs in equities, as shown by the S&P 500’s significant return disparities (left column, last row) below:

<u>10-Year Periods</u> <u>Ending December 31</u>	<u>Annual Nominal Returns</u>			<u>HEPI</u>	<u>Annual Real Returns</u>		
	<u>S&P 500</u>	<u>Bond Index</u>	<u>Endowment</u>		<u>S&P</u>	<u>Bonds</u>	<u>Endowment</u>
2000 to 2010	1.4%	5.8%	5.1%	3.4%	-2.0%	2.4%	1.7%
1990 to 2000	17.5	8.0	9.0	3.4	14.1	4.6	5.6
Diff (percentage points)	-16.1%p	-2.2%p	-4.0%p	0.0%p	-16.1%p	-2.2%p	-3.9%p

As shown by the negative differentials in the last row above, investment returns for the most recent 10 years lagged those for the previous 10 years in *every* instance. Owing to the severity of two bear markets, the S&P 500’s 1.4% annualized nominal return for the 10-year period ending December 2010 trailed its 17.5% pace for the 10-year period ending December 2000 by a remarkable 16.1%p (percentage points). Over the same two periods, the respective return difference for bonds (Barclays Aggregate Bond Index) was -2.2%p and for the Endowment was -4.0%p, net of fees.

On an inflation-adjusted basis relative to HEPI (boxed column in above table), the Endowment’s net *real* return difference was -3.9%p, compared to *real* differences of -16.1%p for stocks and -2.2%p for bonds (last row of the right three columns above). Over the past decade, decreased public equity exposure along with increased “alternative investments” has enabled the Endowment to outperform stocks (both nominal and real) for the 10 years ending December 2010, when overall investment returns were substantially lower than the prior 10-year period.

THE PENNSYLVANIA STATE UNIVERSITY
 OFFICE OF UNIVERSITY DEVELOPMENT
 YEAR TO DATE REPORT - ALL SOURCES
 TYPE DONOR REPORT (GIFTS)

THROUGH JANUARY 2011

	This Year Year-To-Date (As of 1/31/11)		Last Year Year-To-Date (As of 1/31/10)		Change Year-To-Date (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09 - 6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
ALUMNI	72,527	94,942,014	70,566	42,295,798	1,961	52,646,216	128,378	65,258,580
FRIENDS	72,721	15,283,112	70,372	20,256,885	2,349	(4,973,773)	153,323	36,533,747
CORPORATIONS	6,411	28,729,484	6,138	29,497,113	273	(767,629)	13,346	53,539,160
FOUNDATIONS	980	19,793,712	734	25,674,231	246	(5,880,519)	1,343	31,800,701
ORGANIZATIONS	1,690	6,698,172	1,424	7,496,966	266	(798,794)	3,220	16,518,610
TOTALS	154,329	\$165,446,494	149,234	\$125,220,993	5,095	\$40,225,501	299,610	\$203,650,798

THE PENNSYLVANIA STATE UNIVERSITY
 OFFICE OF UNIVERSITY DEVELOPMENT
 YEAR TO DATE REPORT - ALL SOURCES
 PURPOSE OF GIFT

THROUGH JANUARY 2011

	This Year Year-To-Date (As of 1/31/11)		Last Year Year-To-Date (As of 1/31/10)		Change Year-To-Date (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09-6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
UNRESTRICTED	5,355	669,069	5,000	1,136,167	355	(467,098)	8,354	1,446,757
ACADEMIC DIVISIONS	10,461	3,810,941	11,309	3,657,648	(848)	153,293	19,398	5,360,180
FACULTY RESOURCES	279	16,112,620	304	5,498,728	(25)	10,613,892	654	11,827,681
RESEARCH	1,777	21,102,887	1,692	32,273,926	85	(11,171,039)	4,070	43,942,086
PUBLIC SVC & EXT	12,945	1,609,750	13,196	2,166,799	(251)	(557,049)	23,456	4,187,259
LIBRARY	1,033	177,205	1,271	235,480	(238)	(58,275)	1,992	386,313
PHYS. PLANT MAINT.	95	17,929	125	6,247	(30)	11,682	200	13,016
STUDENT AID	26,699	31,799,387	19,993	21,022,675	6,706	10,776,712	46,941	39,897,817
SCHOLARSHIPS	9,534	18,724,855	8,308	14,384,365	1,226	4,340,490	13,944	23,292,023
STUDENT LOANS	16	962,938	17	2,775	(1)	960,163	37	4,200
GRADUATE FELLOWSHIPS	436	1,909,293	424	925,023	12	984,270	733	1,528,081
ATHLETIC GRT-IN-AID	16,713	10,202,301	11,244	5,710,512	5,469	4,491,789	32,227	15,073,513
PROP/BLDGS/EQUIP	3,536	51,783,689	3,043	30,249,465	493	21,534,224	8,902	47,135,072
OTHER PURPOSES	92,149	38,363,017	93,301	28,973,858	(1,152)	9,389,159	185,643	49,454,617
TOTALS	154,329	\$165,446,494	149,234	\$125,220,993	5,095	\$40,225,501	299,610	\$203,650,798

THE PENNSYLVANIA STATE UNIVERSITY
OFFICE OF UNIVERSITY DEVELOPMENT
YEAR TO DATE REPORT - ALL SOURCES
DEVELOPMENT OFFICER'S GOAL REPORT

THROUGH JANUARY 2011

	This Year-To-Date (As of 1/31/11)		Last Year-To-Date (As of 1/31/10)		Change in YTD Totals (From 2010 - 2011)		Last Fiscal Year Grand Totals (7/01/09 - 6/30/10)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
ABINGTON	814	341,115	745	277,718	69	63,397	1,212	606,458
AGRICULTURAL SCIENCES	3,279	5,196,904	3,345	7,576,105	(66)	(2,379,201)	5,054	10,001,794
ALTOONA	1,666	941,806	900	494,407	766	447,199	2,045	2,264,223
ARTS & ARCHITECTURE	4,659	6,470,275	4,380	4,743,547	279	1,726,728	6,916	7,963,645
BEAVER	604	126,138	563	223,799	41	(97,661)	918	525,990
BEHREND	2,192	1,710,102	2,033	3,017,976	159	(1,307,874)	3,637	4,861,258
BERKS	901	233,219	540	134,923	361	98,296	861	307,295
BRANDYWINE	442	144,098	436	92,408	6	51,690	686	2,866,895
COMMUNICATIONS	1,115	1,251,358	1,084	1,115,012	21	136,346	1,607	1,931,400
DICKINSON SCHOOL OF LAW	609	393,329	601	5,980,593	8	(5,587,264)	989	7,372,746
DUBOIS	679	191,624	758	143,491	(79)	48,133	1,157	319,894
EARTH & MINERAL SCIENCES	2,598	11,341,923	2,719	9,455,525	(121)	1,886,298	4,058	13,961,403
THE EBERLY COLLEGE OF SCIENCE	3,878	3,632,455	3,976	3,264,573	(98)	367,882	5,705	4,653,661
EDUCATION	3,358	774,346	3,582	878,524	(224)	(104,178)	4,948	1,349,337
EDUCATIONAL EQUITY	447	400,453	250	166,612	197	233,841	411	642,281
ENGINEERING	7,540	7,621,636	7,895	16,715,266	(355)	(9,093,630)	11,246	22,673,202
FAYETTE, THE EBERLY CAMPUS	311	216,995	338	779,106	(27)	(562,111)	577	864,930
GREAT VALLEY	358	68,086	395	111,060	(37)	(42,974)	596	259,762
GREATER ALLEGHENY	689	197,836	511	166,002	178	31,834	792	412,996
HARRISBURG	2,373	667,683	1,991	536,068	382	131,615	3,135	1,790,035
HAZLETON	568	186,713	555	446,728	13	(260,015)	816	716,659
HEALTH & HUMAN DEVELOPMENT	3,893	6,645,728	4,129	3,949,188	(236)	2,696,540	6,013	6,318,732
HERSHEY	45,329	18,216,780	49,160	20,503,211	(3,831)	(2,286,431)	121,795	33,551,278
INFORMATION SCIENCES & TECHNOLOGY	324	972,418	305	1,021,480	19	(49,062)	471	1,237,756
INTERCOLLEGIATE ATHLETICS	19,936	61,576,559	12,919	12,355,418	7,017	49,221,141	36,848	29,875,868
LEHIGH VALLEY	370	80,404	315	62,713	55	17,691	497	119,111
LIBERAL ARTS	4,271	12,539,447	4,554	8,456,614	(283)	4,082,833	6,324	10,984,055
MONT ALTO	823	590,180	893	457,906	(70)	132,274	1,518	613,122
NEW KENSINGTON	485	253,036	458	351,164	37	(98,128)	747	661,666
OUTREACH	13,963	2,016,240	14,330	3,445,288	(367)	(1,429,048)	25,638	5,678,092
RESEARCH & GRADUATE SCHOOL	237	733,366	296	2,339,184	(59)	(1,605,818)	432	3,591,949
SCHREYER HONORS COLLEGE	1,114	4,114,272	981	2,146,044	133	1,968,228	1,520	2,421,245
SCHUYLKILL	593	331,391	539	234,591	54	96,800	956	312,835
SHENANGO	410	192,633	443	299,570	(33)	(106,937)	709	357,700
THE Smeal COLLEGE OF BUSINESS	6,151	5,472,902	6,265	3,236,752	(114)	2,236,150	8,768	7,013,603
STUDENT AFFAIRS	2,410	414,763	1,901	497,927	509	(83,164)	3,396	732,474
UNDERGRADUATE EDUCATION	1,913	3,839,843	1,584	2,612,880	329	1,226,963	2,223	3,389,891
UNIVERSITY LIBRARIES	3,429	1,105,186	3,480	1,326,207	(51)	(221,021)	4,933	2,116,662
UNIVERSITY WIDE	7,724	3,056,223	7,224	3,844,428	516	(788,205)	16,288	5,643,919
WILKES-BARRE	639	251,971	702	1,216,953	(63)	(964,982)	1,119	1,289,800
WORTHINGTON SCRANTON	552	496,811	503	308,111	49	188,700	894	947,521
YORK	657	438,547	646	235,921	11	202,626	1,155	447,645
TOTAL	154,329	\$165,446,494	149,234	\$125,220,993	5,095	\$40,225,501	299,610	\$203,650,798

ANNUAL REPORT OF THE CORPORATION FOR PENN STATE

The Corporation for Penn State is a Pennsylvania non-profit corporation organized in 1985 and is tax-exempt under the Federal Internal Revenue Code. Its Board of Directors is elected annually by the Board of Trustees and the current membership includes:

Marianne E. Alexander
 Rodney A. Erickson
 Steve A. Garban
 Samuel E. Hayes, Jr.
 Edward R. Hintz, Jr.

Albert G. Horvath
 Harold L. Paz
 Graham B. Spanier
 Linda B. Strumpf
 John P. Surma

The Chair of the Board of Trustees serves as Chair of the Board of Directors; and the University President serves as President and Chief Executive Officer.

The Corporation has two principal purposes—it acts as a holding company for a number of affiliates and subsidiaries engaged in activities, which for a variety of reasons, the University cannot or should not do directly.

These include the following three for-profit subsidiaries and affiliates:

1. The Nittany Insurance Company is a captive insurance company incorporated in the State of Vermont, organized for the purpose of providing access to the reinsurance market for various insurance programs.
2. The Research Park Management Corporation is responsible for the administration of the development of Innovation Park.
3. Penn State Hershey Health System was organized for the purpose of investing in joint ventures with healthcare organizations.

There are six non-profit subsidiaries and affiliates:

1. The Penn State Research Foundation is a corporate vehicle for the patenting, licensing and commercialization of intellectual property created by the faculty of the University. The proceeds of these activities are used to support research and technology transfer at the University.
2. The Ben Franklin Technology Center of Central and Northern Pennsylvania is a non-profit corporation which receives funding from the Commonwealth of Pennsylvania Department of Community and Economic Development and exists as a means to help create and preserve jobs in Pennsylvania.
3. The Pennsylvania College of Technology has been a subsidiary and part of Penn State since 1989.
4. The Nittany Title Corporation was organized in 1985 for the exclusive purpose of holding title to property, collecting income from those holdings and distributing the net revenues to The Corporation.
5. The Recycling Markets Center receives its funding from the Commonwealth and was organized in 2005 for the purpose of aiding corporations throughout the Commonwealth to overcome technical barriers to the use of recyclable materials.
6. The Pennsylvania State University Philanthropic Fund was organized in 2010 for the purpose of receiving gifts and grants from foundations.

The Board of Directors receives reports from each of these subsidiaries and the affiliates at least once each year.

The second principal purpose of The Corporation for Penn State is that it can, under certain circumstances, accept gifts on behalf of the University that cannot be made directly to the University. This continues to be an important vehicle for the accomplishment of University objectives.