

9:00 a.m. -

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

Will the Board of Trustees approve the minutes of the meeting of the Board held on July 9, 2010?

3. **President's State-of-the-University Video**
4. **Informational Report on Alcohol Mitigation Efforts**

Damon Sims, Vice President for Student Affairs, will offer a broad overview of a comprehensive new strategy designed to mitigate alcohol misuse among our students and the consequences of that misuse. The new strategy follows months of reconsideration of related policies, practices, and partnerships designed to address this issue. A panel representing key elements of this year's many new initiatives will join Vice President Sims to expand upon the overview. The fall semester marks the beginning of a renewed and sustained campaign to reduce the negative consequences of alcohol in our community. This discussion will serve to illustrate the breadth of that effort and the many constituencies, including student leaders, who are working together to find the improvements we seek.

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) **Recommendation for Approval of Administrative Appointment**

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

RESOLVED, That the Board of Trustees approves President Graham B. Spanier's appointment of Dr. David L. Hall as Dean of the College of Information Sciences and Technology effective September 20, 2010.

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

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

Information Items -

- a) Davey and Osmond Lab Transformer Replacement, University Park
- b) Fire Alarm Replacement in Various Buildings, University Park
- c) Mass Spectrometry Lab at Hosler Building, University Park
- d) Elevator Two-Way Communications - Final Phase, University Park
- e) Gymnasium Addition, Penn State Beaver

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)

Information Items (Continued) -

- f) East Addition Office Renovation, The Milton S. Hershey Medical Center
- g) Naming of Rooms, Portions of Buildings, and Plazas
- h) Purchase of Port Property, Penn State Harrisburg
- i) Capital Budget Request for Fiscal Year 2011-2012
- j) Status of Major Construction Programs and Borrowing
- k) Summary and Designation of Gifts Received

Action Items -

- l) Summary of Revisions to Existing Scholarships, Fellowships, Etc.
- m) Acknowledgments of Endowments and Other Major Commitments

(See Appendix I)

2) **Proposed Resolution Updating the University's Endowment Spending and Investment Policies**

In November 1986, the Board of Trustees adopted a resolution which established broad guidelines and a policy for investment of endowed and non-endowed funds of the University. Subsequent revisions to this investment policy were approved by the Board of Trustees on March 18, 1995; July 12, 1996; September 8, 2000; November 22, 2002; May 18, 2007; and September 11, 2009.

It is proposed to increase the membership of the Penn State Investment Council by adding two additional independent directors (non-University members). Additionally, it is proposed to change the terms from one year to three years (renewable), and to stagger the terms to provide for transition continuity and to formalize the requirement that at least one independent member be a member (either voting or emeriti) of the Board of Trustees.

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

WHEREAS, The Board of Trustees on November 6, 1986, adopted a resolution regarding the University's Endowment Spending and Investment Policies for Endowment and General University Funds and subsequently approved revisions on March 18, 1995; July 12, 1996; September 8, 2000; November 22, 2002; May 18, 2007; and September 11, 2009; and

WHEREAS, The Officers of the University have recommended an amendment of such policies as hereinafter set forth.

NOW, THEREFORE, BE IT RESOLVED, That the University's Endowment Spending and Investment Policies for Endowment and General University Funds be changed as follows:

- (1) That the Penn State Investment Council, comprised of the Senior Vice President for Finance and Business/Treasurer, as

5. Reports from Standing Committees (Continued)C. Committee on Finance and Physical Plant (Continued)2) Proposed Resolution Updating the University's Endowment Spending and Investment Policies (Continued)

Chairman, Executive Director, Office of Investment Management, and five to ~~seven~~ **nine** non-University members (at least one of whom shall be a member [either voting or emeriti] of the Board of Trustees), each serving ~~one-year~~ **three-year staggered**, renewable terms, is hereby authorized to administer the spending and investment policies hereinafter adopted by the Board of Trustees and to report periodically concerning the same to the President of the University and to the Committee on Finance and Physical Plant of the Board of Trustees. In such administration, the Investment Council may delegate appropriate functions to properly designated University Officers and other University Personnel.

(2) That in order to preserve the purchasing power of endowment and endowment-like funds, spending from each such fund over time should be limited to a percentage of the market value of such fund, set at a level anticipated to preserve over time the funds real (inflation adjusted) value after consideration of investment returns.

(3) That endowment and endowment-like funds should be invested to attempt to achieve a real (inflation-adjusted) total return over time sufficient to support a spending rate limited in accordance with (2) above, while providing for growth of the endowment base sufficient to accommodate an assumed rate of inflation.

(4) That endowment and endowment-like funds (e.g., the Long-Term Investment Pool) should be invested primarily by independent investment managers selected by the Investment Council. A primary investment attribute to be employed in managing the Long-Term Investment Pool shall be prudent diversification achieved through flexible yet disciplined implementation of a mix of investments and strategies. Among these shall be: Fixed Income investments (principally U.S. Treasury notes, government agency obligations, and investment grade corporate bonds), which shall comprise no less than 15% of the Long-Term Investment Pool; Equity investments (principally global market-traded equities, hedged strategies, and private equity investments); and Real Assets investments (principally real estate, timber, energy, and commodity investments). The specific construction of the portfolio with regard to strategies employed and managers utilized will be determined by, and under the overall supervision of, the Investment Council, which shall be guided by its written Investment Policies, Objectives and Guidelines. Investment processes and results shall be carefully monitored by the Investment Council to insure compliance with such policies, objectives, and guidelines. For comparative purposes, the results of other professionally-managed funds, market benchmarks, and other customized performance standards deemed appropriate shall be considered. A detailed investment report shall be made to the Board of Trustees semi-annually.

5. Reports from Standing Committees (Continued)**C. Committee on Finance and Physical Plant** (Continued)**2) Proposed Resolution Updating the University's Endowment Spending and Investment Policies** (Continued)

(5) In performing its duties delegated under this resolution, the Investment Council shall be guided solely by fiduciary principles. The Council shall consider only financial criteria in formulating investment policies or in proxy voting unless specifically directed to do otherwise in a definitive manner by the Board of Trustees.

(6) Non-Endowed University funds should be invested to provide liquidity for working capital over the annual operating cycle of the University, and to serve the interim and longer term needs of the University for plant renewals and replacements, debt service and capital additions. Non-Endowed funds will be invested in a manner that emphasizes capital preservation and meets the cash flow requirements of future University liabilities, while achieving modest growth in the principal value to accommodate future inflation. For current working capital and short-term investments, maturities of securities shall not exceed 13 months per money market fund guidelines and will generally be 90 days or less. Typical instruments include money market funds, certificates of deposit, U.S. government/agency securities, repurchase agreements, and high quality commercial paper. Intermediate and long-term asset categories will be invested principally in readily marketable investment grade securities. Non-physical derivatives are not permitted for speculative purposes. For long-term assets approved for commingling with the University's Long-Term Investment Pool (LTIP) by the Board of Trustees, such investments will follow LTIP policies overseen by the Penn State Investment Council.

(7) With the prior approval of the Chairperson, or in the absence of the Chairperson, the Vice Chairperson of the Committee on Finance and Physical Plant, the Investment Council is authorized to make interim revisions in the above-mentioned policies, subject to subsequent review and approval by the Board of Trustees of substantive revisions.

Abc Indicates deletion.

Abc Indicates addition.

3) Appointment of Non-University Employees to the Penn State Investment Council

In September 2000, Penn State's Board of Trustees established the Penn State Investment Council to provide direct oversight of the University's endowment and long-term investment program. In accordance with the foregoing resolution, the Penn State Investment Council, appointed by the Board of Trustees, includes the: Senior Vice President for Finance and Business/Treasurer of the University (Chair); Executive Director, Office of Investment Management; and five to nine non-University members (at least one of whom is a member of the Board of Trustees), with staggered terms shown below.

5. Reports from Standing Committees (Continued)C. Committee on Finance and Physical Plant (Continued)3) Appointment of Non-University Employees to the Penn State Investment Council (Continued)

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

RESOLVED, That the following eight non-University employees of the Penn State Investment Council are appointed for terms ending:

2011 - **Arthur D. Miltenberger**, Vice President and Chief Financial Officer (Retired), R. K. Mellon & Sons (Ligonier, PA)
J. David Rogers, Chief Executive Officer, J.D. Capital Management (Greenwich, CT)

2012 - **Timothy J. Crowe**, Managing Director, Anchor Point Capital LLC (Coral Gables, FL)
Edward R. Hintz, Jr., President, Hintz Capital Management, Inc. (Chatham, NJ)
Gary C. Schultz, Senior Vice President for Finance and Business/Treasurer Emeritus, The Pennsylvania State University (State College, PA)

2013 - **Carmen Gigliotti**, Managing Director, Private Equities of DuPont Capital Management (Wilmington, DE)
Colleen Ostrowski, Vice President and Treasurer, ITT Corporation (Scarsdale, NY)
Linda B. Strumpf, Chief Investment Officer, The Helmsley Charitable Trust (New York, NY)

4) Proposed Land Lease to Mount Nittany Medical Center, University Park

Mount Nittany Medical Center has requested that the University lease 1.8 acres of land, which is located adjacent to its property, for the purpose of adding parking spaces at the Medical Center to accommodate expansion of its cancer center. In consideration of the University agreeing to lease the parcel, Mount Nittany Medical Center has agreed to lease 1 acre of land it owns, which is adjacent to University property, for the purpose of construction of additional medical office and services facilities on the Medical Campus. Each parcel is shown in F&PP Appendix II, page 1.

These proposed developments are consistent with the Master Plan for the Medical Campus approved by College Township in November 2009 and shown in Appendix II, page 2. The terms of the leases are for 60 years with the property being used for their intended purposes at a total consideration of \$1.00.

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

RESOLVED, That the proposed land lease of 1.8 acres to the Mount Nittany Medical Center for a period of 60 years at a single prepaid sum of \$1.00 is approved, contingent upon Mount Nittany

5. Reports from Standing Committees (Continued)C. **Committee on Finance and Physical Plant** (Continued)4) **Proposed Land Lease to Mount Nittany Medical Center, University Park**
(Continued)

Medical Center agreeing to lease 1.0 acres of land to the University for a period of 60 years at a total prepaid sum of \$1.00.

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

(See Appendix II)

5) **Consideration of Request for 2011-2012 Appropriation for Operations**

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

RESOLVED, That the Officers of the University are authorized to submit to the Legislature, appropriate departments, and offices of the Commonwealth of Pennsylvania, a State Appropriation Request for fiscal year 2011-2012 in the amount of \$364,200,000.

(Details concerning the State Appropriation Request for 2011-2012 will be mailed to Trustees under separate cover.)

6) **Proposed Final Plans and Authorization to Award Contracts for Beaver Stadium Accessibility Renovations**

The University is planning to do renovations to Beaver Stadium that will improve accessibility as informed by Americans with Disabilities Act (ADA) guidelines. The project includes new accessible routes to new ADA seats and restrooms. The project will also include utility upgrades and secure storage.

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 Beaver Stadium Accessibility Renovations, as designed by the firm of Moody Nolan, Inc. of Columbus, OH, are approved.

BE IT FURTHER RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$10,000,000 from funds available to the University.

7) **Capital Plan Update**

Mr. Albert G. Horvath, Senior Vice President for Finance and Business/Treasurer, will provide an update for capital construction projects and/or renovations under consideration within the next five years.

5. Reports from Standing Committees (Continued)**C. Committee on Finance and Physical Plant (Continued)****8) Update on the Status of Borrowing and Remaining Debt Capacity**

In May 2007, the Board of Trustees authorized an increase in the long-term borrowing for the University. Updates are provided on an annual basis with respect to the status of borrowing and the remaining debt capacity.

9) Investment Review of Endowment and Similar Funds as of June 30, 2010

Appendix III is an informational report on the University's Endowment and Similar Funds as of June 30, 2010. A brief presentation will be made at the meeting.

(See Appendix III)

10) Photo Report on Selected Construction Projects

A photo report on the progress of selected construction projects will be presented at the meeting.

6. Legal Matters

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

7. Proposed Revision to the *Bylaws* of the Board of Trustees

Recent changes in Internal Revenue Service regulations with respect to organizations that file Form 990's require that a record be maintained and reported for all spouses, children and family members of members, or officers, of the Board of Trustees who are employed by the University and whose compensation exceeds \$10,000 per tax year. The proposed changes reflect this new reporting requirement.

Will the Board of Trustees adopt the following resolution:

RESOLVED, That *Bylaws*, Article 6., Conflict of Interest, be revised to read as follows:

ART. 6. CONFLICT OF INTEREST**(1) Disclosure of Potential Conflict of Interest by Members of the Board of Trustees:**

Members of the Board of Trustees: Members of the Board of Trustees stand in a fiduciary relationship to the University which reposes special confidence in each member. Members of the Board of Trustees shall act in good faith, with due regard to the interests of the University, and shall comply with the fiduciary principles of conduct hereinafter set forth **in addition to any other federal or state reporting requirements.**

7. Proposed Revision to the *Bylaws of the Board of Trustees* (Continued)(a) Contracts and Transactions with University:

1. 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 ~~minor~~ **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. Full disclosure shall mean disclosure of the material facts as to the relationship or interest of the member or members of the Board of Trustees, or spouse or ~~minor~~ **dependent** child of such member or members, and disclosure of the material facts as to the contract or transaction, including a sole source justification.. Approval by a majority of disinterested members of the Board of Trustees shall be valid even though the disinterested members are less than a quorum. The member or members interested in the contract or transaction may be counted in determining the presence of a quorum, may briefly state a position on the contract or transaction, and may answer pertinent questions concerning the contract or transaction, but such member or members shall not vote on the matter. The minutes of the meeting shall reflect that disclosure was made, the abstention from voting by the interested member or members and the approval by a majority of disinterested members. A record of such contracts or transactions shall be maintained in the office of the senior vice president for finance and business and shall be available for inspection by members of the Board of Trustees.
2. A contract or transaction valued at less than \$10,000 between the University and one or more members of the Board of Trustees, or any member's spouse, or between the University and any other corporation, partnership, association or organization in which one or more members of the Board, or any member's spouse or ~~minor~~ **dependent** child has a beneficial ownership of ten (10%) percent or more, shall be subject to disclosure, but shall not be subject to bidding requirements and need not be approved by the Board of Trustees. Disclosure of such contracts and transactions shall be made annually by written report to the Board of Trustees, which report shall include a certification by the appropriate officers of the University that such contracts or transactions were made in the normal course of business and were fair to the University.
3. A contract or transaction between the University and one or more members of the Board of Trustees, or any member's spouse, or between the University and any other corporation, partnership, association or other organization in which one or

7. Proposed Revision to the *Bylaws of the Board of Trustees* (Continued)

more members of the Board, or any member's spouse or ~~minor~~ **dependent** child, has a beneficial ownership of ten (10%) percent or more, which was made before any such member assumed office as a member of the Board, and which remains to be performed, in whole or in part, at the time of assumption of office as a member of the Board, shall be subject to the disclosure requirements of Section (1)(a) 2 of this Article but shall not be subject to approval by the Board of Trustees.

4. In addition, a record of all spouses, children and family members of members of the Board of Trustees who are employed by the University and whose compensation exceeds \$ 10,000 per tax year shall also be maintained in the Office of the Senior Vice President for Finance and Business and available for inspection by the members of the Board of Trustees.

- (b) Misuse of Information: No member of the Board of Trustees shall for personal gain or for the gain of others use any information not available to the public at large and obtained as a result of service to the University.
- (c) Gifts and Favors: No member of the Board of Trustees shall solicit or accept for personal use or for the use of others any gift, loan, gratuity, reward, promise of future employment or any other thing of monetary value based on any understanding that the vote, official action or judgment of the member would be influenced thereby.

(2) Disclosure of Potential Conflict of Interest by Employees of the University:

Employees of the University shall exercise the utmost good faith in all transactions touching upon their duties to the University and its property. In their dealings with and on behalf of the University, they shall be held to a strict rule of honest and fair dealings between themselves and the University. They shall not use their positions, or knowledge gained therefrom, in such a way that a conflict of interest might arise between the interest of the University and that of the individual. Employees shall disclose to the administrative head of the college or other unit in which they are employed, or other appropriate superior officer, any potential conflict of interest of which they are aware before a contract or transaction is consummated. This Bylaw shall be published to the University community at least once annually.

~~Abc~~ - deletion

Abc - addition

8. **Recommendation for Approval to Grant Honorary Degrees**

Will the Board of Trustees approve the following resolution:

RESOLVED, that the Board of Trustees approves the granting of the Honorary Doctorate of Science to Norman R. Augustine; the granting of the Honorary Doctorate of Humane Letters to Ronald Ehrenberg and to Wolf Blitzer; and the granting of the Honorary Doctorate of Laws to Linda Greenhouse at upcoming commencement ceremonies.

9. **Proposed Election of Officer**

Dr. Graham B. Spanier, Secretary of the Board of Trustees, will nominate Carmella Mulroy-Degenhart (replacing Carolyn A. Dolbin) as Assistant Secretary of the Board of Trustees, effective October 1, 2010, to serve until the annual election in January 2011.

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

1. Davey and Osmond Lab Transformer Replacement, University Park

Two new pad mounted transformers will be installed outside Davey and Osmond Lab buildings as part of a 30-building transformer replacement program. The existing dry-type service transformers have reached the end of their useful life. Both installations will be visually screened with landscaping. The cost estimate for these two transformer replacements is \$1,200,000.

(See Appendix I.1)

2. Fire Alarm Replacement in Various Buildings, University Park

Fire alarm systems will be replaced in 18 buildings across University Park campus with a cost estimate of \$3,250,000. This will be done in two phases and is part of a larger project including 60 buildings total.

(See Appendix I.2)

3. Mass Spectrometry Lab at Hosler Building, University Park

A 780 square foot Mass Spectrometry Lab housing a plasma mass spectrometer will be constructed in the Hosler Building with a cost estimate of \$1,400,000. Also included is a clean laboratory containing chemistry areas, fume hoods, and related support and storage spaces.

These renovations will provide an environmentally-controlled, contaminant-free environment in which users will prepare geological and biological samples for isotopic analysis. Penn State students and faculty are currently unable to perform these isotope measurements.

(See Appendix I.3)

4. Elevator Two-Way Communications - Final Phase, University Park

Emergency elevator phones and associated equipment will be installed in 107 elevator cars in 66 buildings on the University Park campus with a cost estimate of \$1,050,000. The installed system will include a machine room phone, a consolidator unit, and an elevator phone for each elevator car.

This work is the last phase of a campus-wide project to install emergency elevator phone systems in existing buildings.

5. Gymnasium Addition, Penn State Beaver

An approximately 4,000 square foot addition will be constructed on the east side of the existing gymnasium building at Penn State Beaver with a cost estimate of \$2,250,000. The addition will include a two story area for gym equipment and a new main entrance that will link the building to the campus main pedestrian walkway. A 500 square foot exercise studio will be included as an alternate in the bid package. The addition will become a focal point from the entrance drive into campus. The project will also include renovations to the existing lobby area, restrooms, classroom and office.

The building materials will match the existing gymnasium. A window system will maximize daylight, views to the campus and showcase the activities of the wellness center. Site improvements will include handicap parking spaces, pedestrian walkways and landscaping along the north and east side of the building, and an outdoor plaza at the new main entrance.

(See Appendix I.4)

6. East Addition Office Renovation, The Milton S. Hershey Medical Center

The Department of Emergency Medicine (DEM) academic offices, conference room for the DEM, Emergency Command Center, offices for Clinical Head Nurses, Nursing Education and the Nursing Float Pool will be

6. East Addition Office Renovation, The Milton S. Hershey Medical Center (Continued)

relocated to make way for the construction of additional Heart and Vascular Institute beds. East Addition Clinical space formerly occupied by the recently relocated Anesthesia clinic is being renovated for this purpose. The scope of the work includes renovations and refurbishment, furniture, and equipment with a cost estimate of approximately \$1,100,000.

(See Appendix I.5)

7. 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. Several Spaces within the Study Learning Center at Penn State Worthington Scranton as follows:
- 1) The Student Success Center for a commitment from David and Ann Hawk. The recognition plaque should read:
*The David and Ann Hawk Student Success Center
In appreciation for a gift from David and Ann Hawk*
 - 2) A conference room for a commitment from Penn State Worthington Scranton Alumni Society. The recognition plaque should read:
*This Leadership Conference Room
was made possible by
The Worthington Scranton Alumni Society*
 - 3) The Career Reference Area and Career Services Office for a commitment from Eric and Mary Anne Linde. The recognition plaque should read:
*The Career Reference Area and Career Services Office
were made possible by
Eric and Mary Anne Linde*
 - 4) Health Services in honor of the Scranton Family for a grant from the Willary Foundation. The recognition plaque should read:
*Health and Wellness Services
was made possible by
The Scranton Family*
 - 5) The Psychological Counseling Room for a commitment from Lynn E. Moran. The recognition plaque should read:
*The Psychological Services Room
In appreciation for a gift from
Lynn E. Moran*
- B. The basketball facility in the Physical Education Building at Penn State Hazleton for a gift from retiring athletic director Dr. Tom Caccese. The recognition plaque should read:
Dr. Thomas M. Caccese Gymnasium
- C. Several spaces in the Lasch Football Building as follows:
- 1) Graduate Assistant's Office, 222 Lasch Football Building, for a commitment from TBJ, Inc. The recognition plaque should read:
*TBJ, Inc.
Graduate Assistant's Office*

7. **Naming of Rooms, Portions of Buildings and Plazas** (Continued)

- 2) Academic Counselor's Office, 123 Lasch Football Building, for a commitment from Joe and Mary Anne Matyaz. The recognition plaque should read:
Mary Anne and Joe Matyaz
Academic Counselor's Office
- 3) Hydro Therapy Area, 109B Lasch Football Building, for a commitment from James and Joanne McCormick. The recognition plaque should read:
The McCormicks
Jim 1968 and Joanne
Hydro Therapy Area
- 4) Tutoring Room, 131 Lasch Football Building, for a commitment from James Packer. The recognition plaque should read:
Clark and Inez Packer Family
Tutoring Room
- 5) Academic Counselor's Office, 125 Lasch Football Building, for a commitment from Kent Pearce. The recognition plaque should read:
Pearce Group at Merrill Lynch
Kent Pearce Family
Academic Counselor's Office

- D. Assistant Coach's Office in the Nittany Lion Softball Park, for a commitment from Art Nagle. The recognition plaque should read:
The Nagle Family
Assistant Coach's Office

8. **Purchase of Port Property, Penn State Harrisburg**

In June 2010, the University executed an Agreement of Sale with Edward G. and Rebecca A. Port to acquire a .41 acre property, including a 1,110 square foot residence at 635 Rosedale Avenue, Middletown Borough, Dauphin County, for \$95,000. The property, which adjoins the Penn State Harrisburg Campus, provides the University future expansion opportunities and eliminates the possibility of adverse ownership. The University's intent is to raze the structure, providing expanded green space for the campus entrance. The property was inspected by University representatives and determined to be in acceptable condition. Settlement occurred on August 26, 2010.

(See Appendix I.6)

9. **Capital Budget Request for Fiscal Year 2011-2012**

Penn State has identified several projects as a priority and annually submits a list of those projects to the Commonwealth's Department of Education for further consideration by the Legislature. In order for the Governor to release funds for capital projects, the projects must have prior authorization and approval by the Legislature. The Capital Budget Request consists of those projects for which the University is seeking authorization for subsequent funding by the Governor.

For fiscal year 2011-2012, the University will submit a Capital Budget Request to the Commonwealth for authorization of \$563.4 million of which \$492.4 million is for construction projects and the remaining \$71 million is for original equipment.

(See Appendix I.7)

10. **Status of Major Construction Programs and Borrowing**

(See Appendix I.8)

11. Summary and Designation of Gifts Received by the University

Appendix I.9 is a summary and designation of gifts received by the University during the period July 1, 2009 through June 30, 2010.

(See Appendix I.9)

12. Summary of Revisions to Existing Scholarships, Fellowships, Etc. (For the period June 14, 2010 through August 20, 2010)

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 June 14, 2010, through August 20, 2010, 42 new funds totaling approximately \$2,010,250 were accepted by the University, including scholarships, fellowships, etc. All of these items conform to established University policies and regulations.

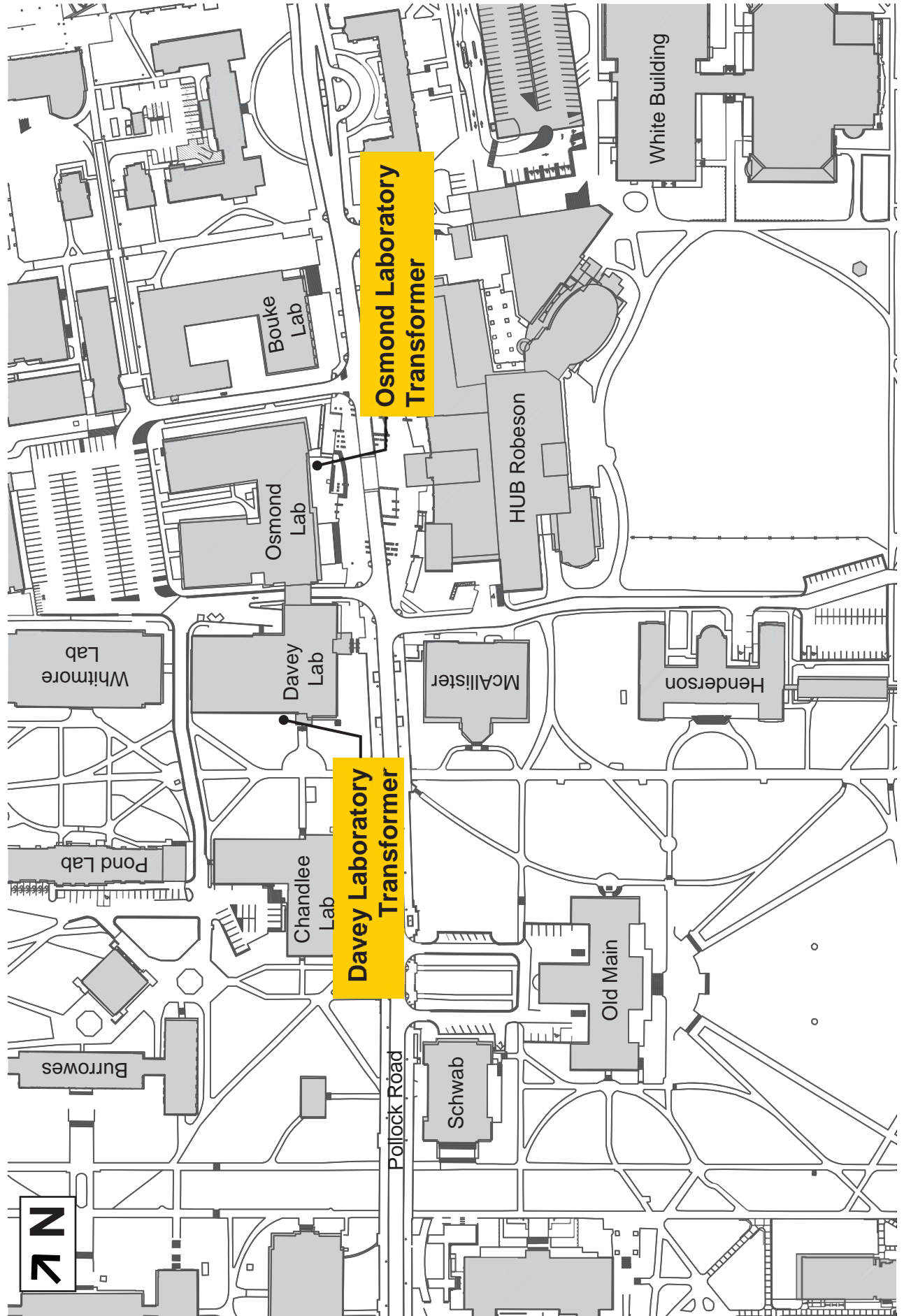
For the period May 1, 2010 through June 30, 2010, 39 major commitments were accepted by the University totaling approximately \$9,970,037.

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 September 17, 2010.

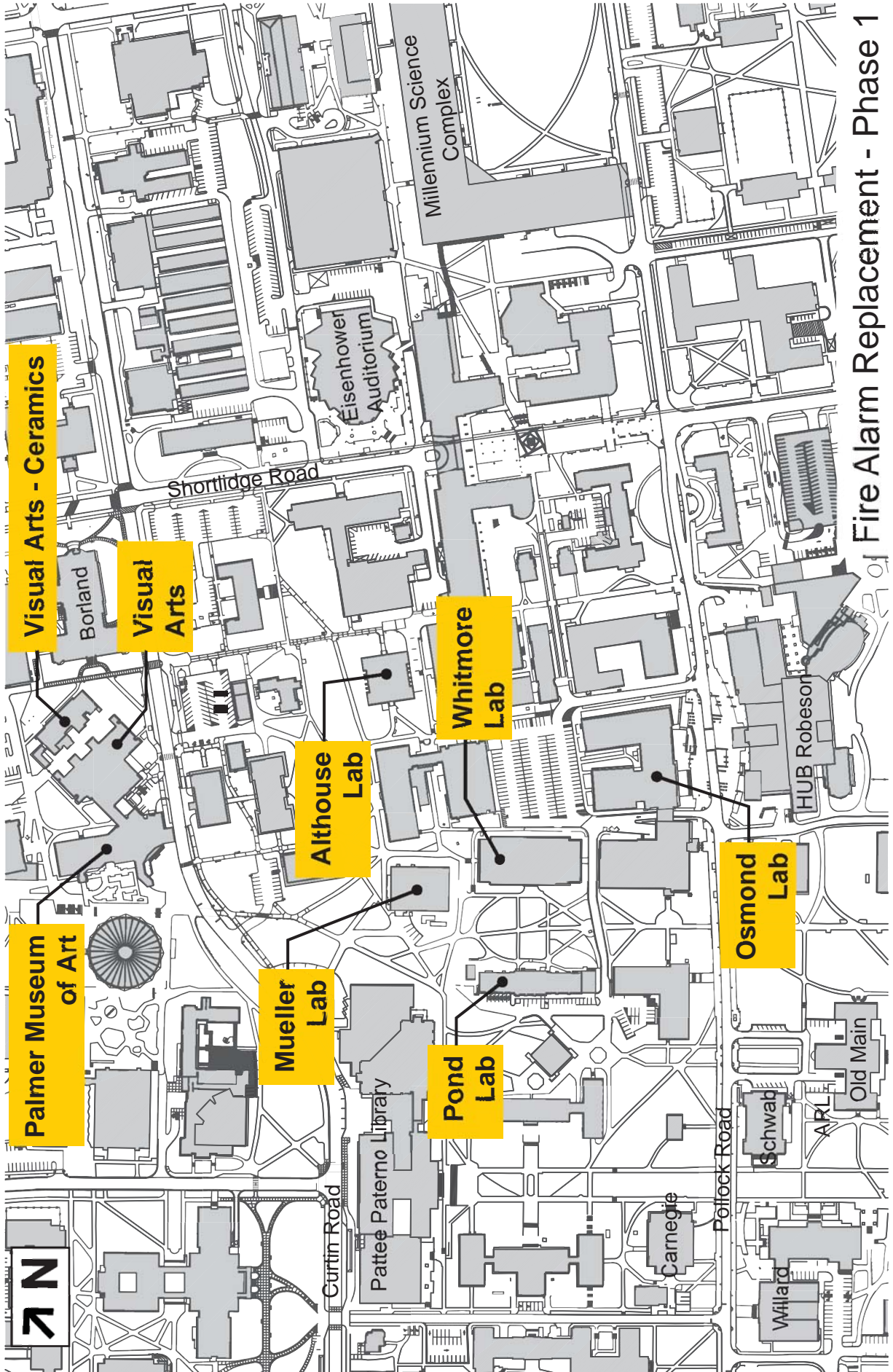
FURTHER BE IT RESOLVED, That the Officers of the University are authorized to convey the Board's appreciation to these generous benefactors who provide opportunities for many students to receive a quality education.

University Park



(Appendix I.1)

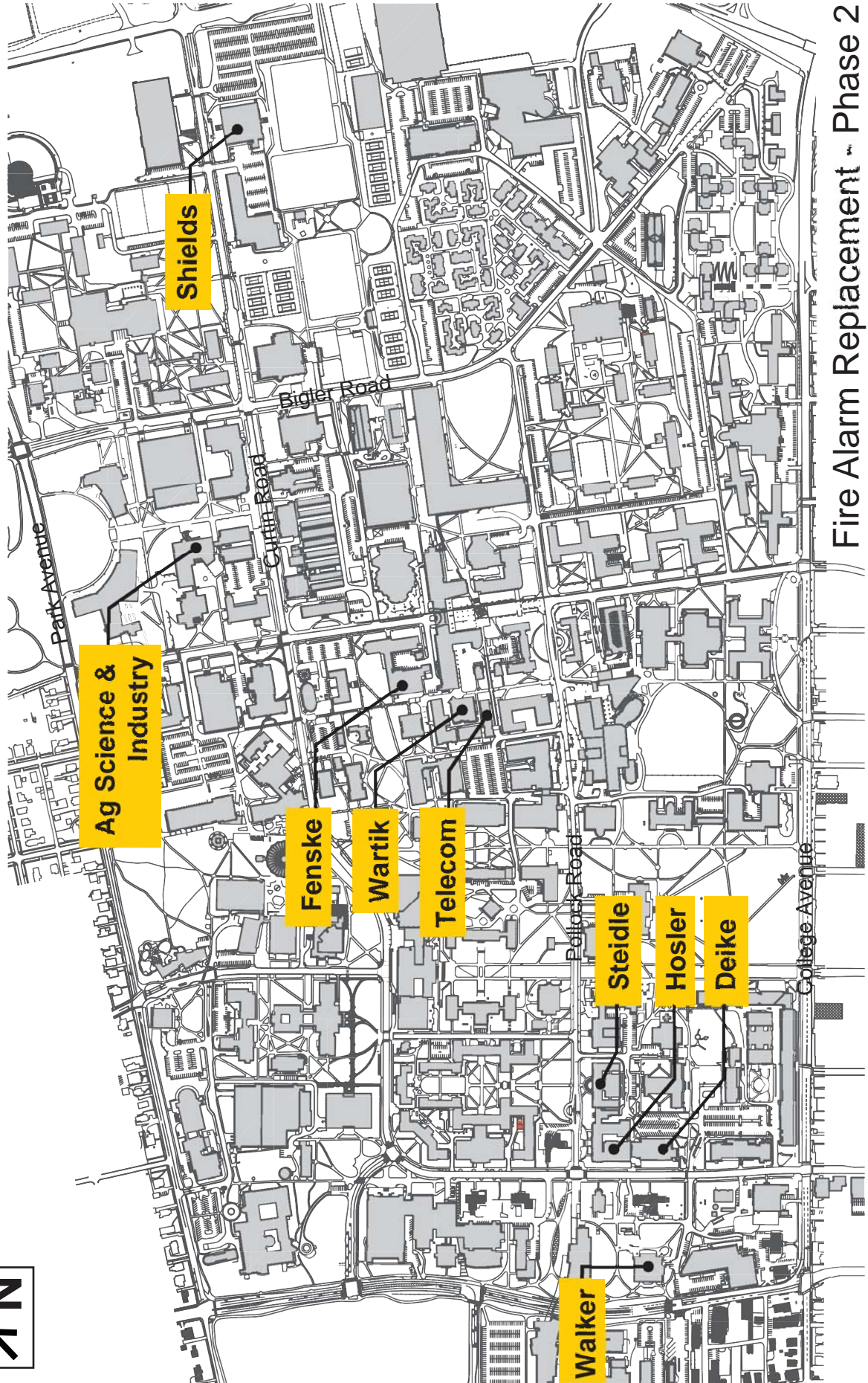
University Park



Fire Alarm Replacement - Phase 1

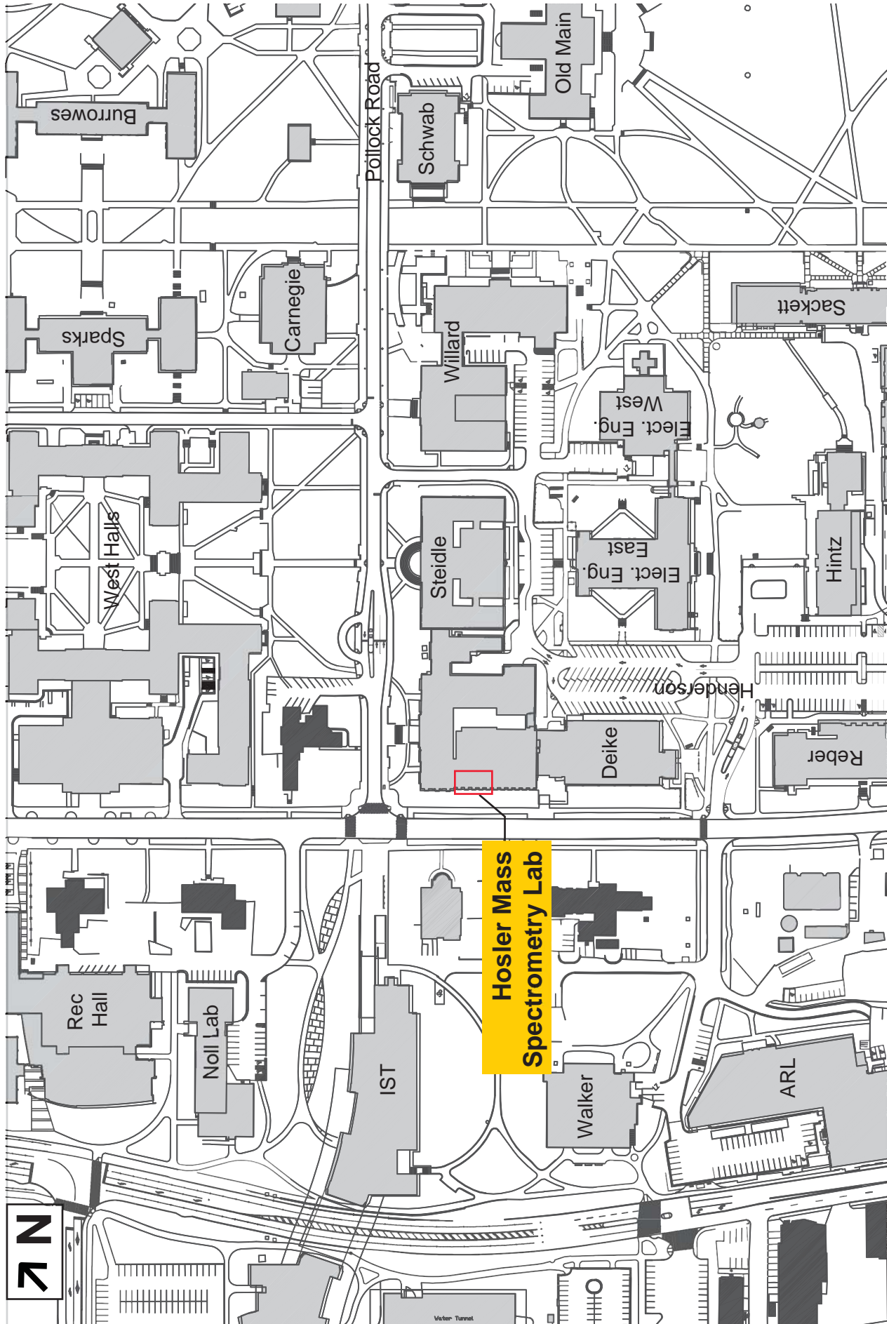
(Appendix I.2)

University Park



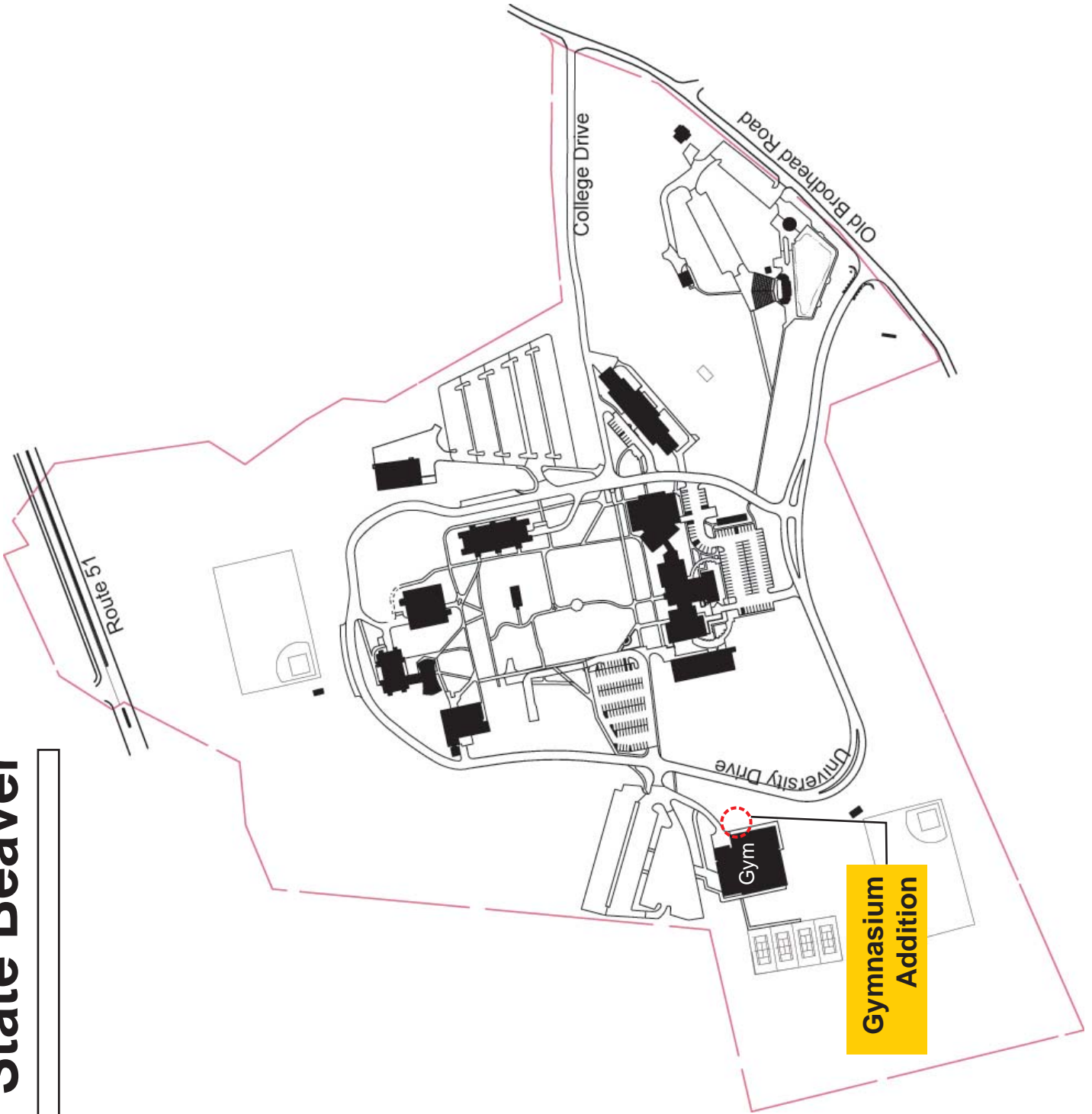
Fire Alarm Replacement - Phase 2

University Park



(Appendix I.3)

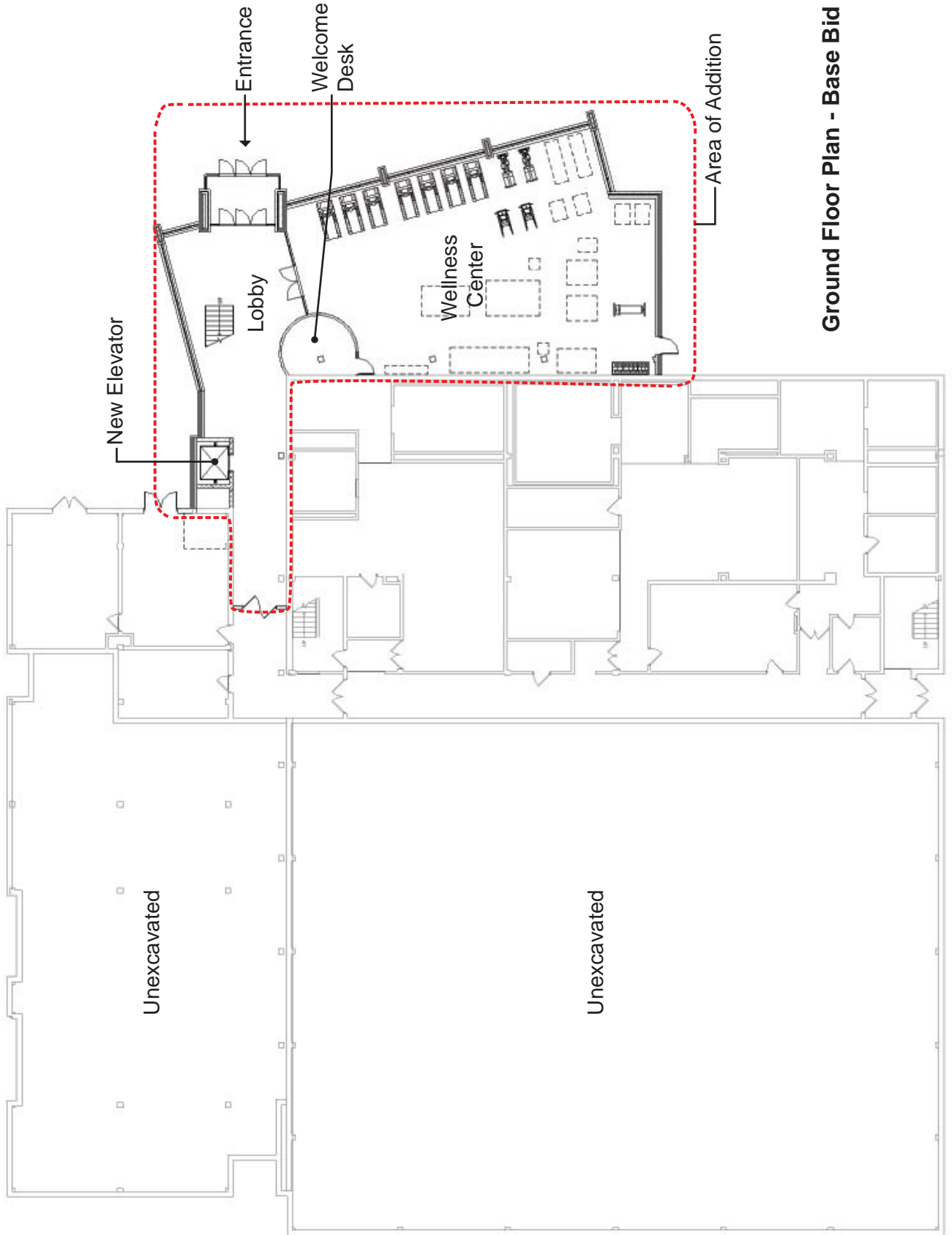
Penn State Beaver



Penn State Beaver

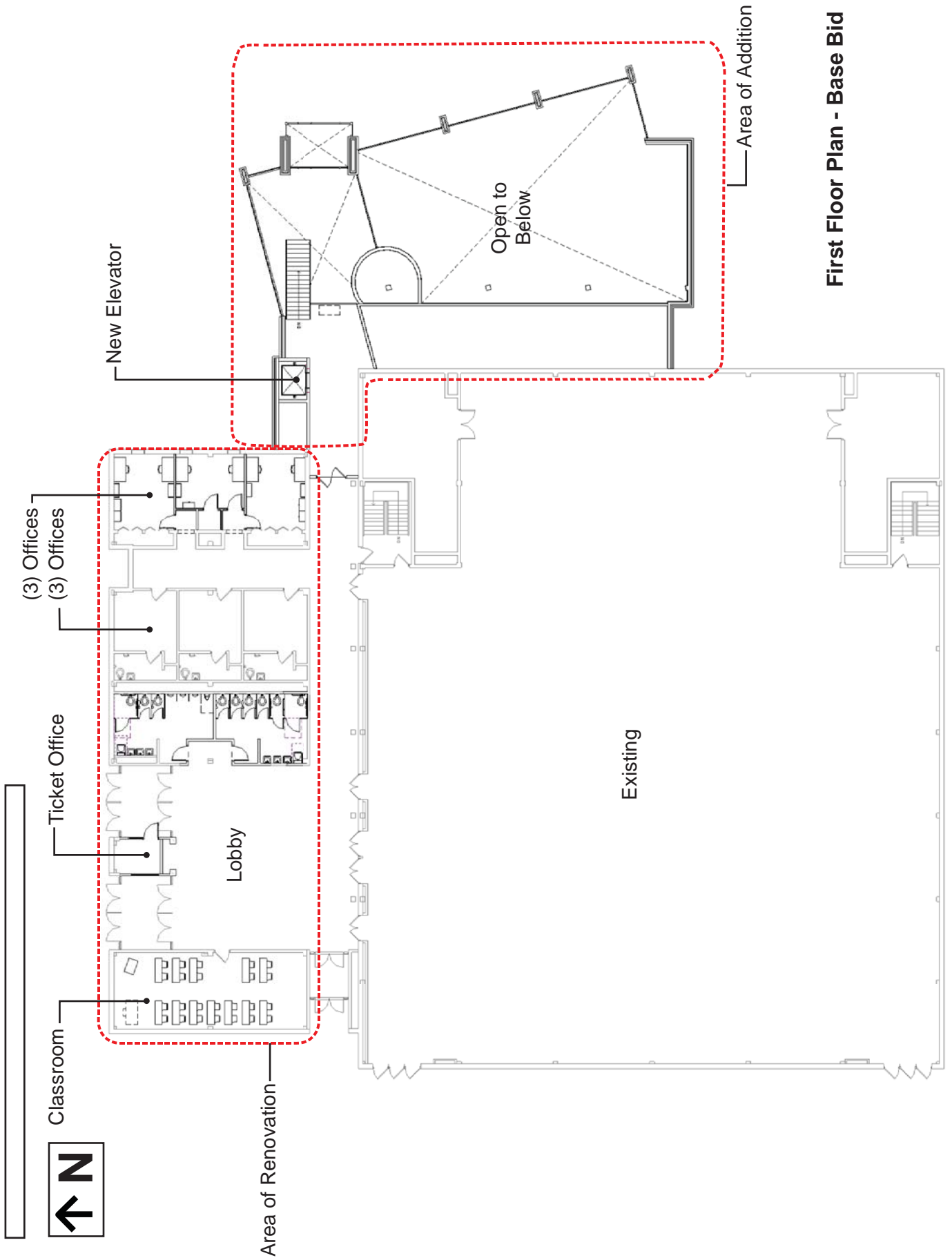


Penn State Beaver



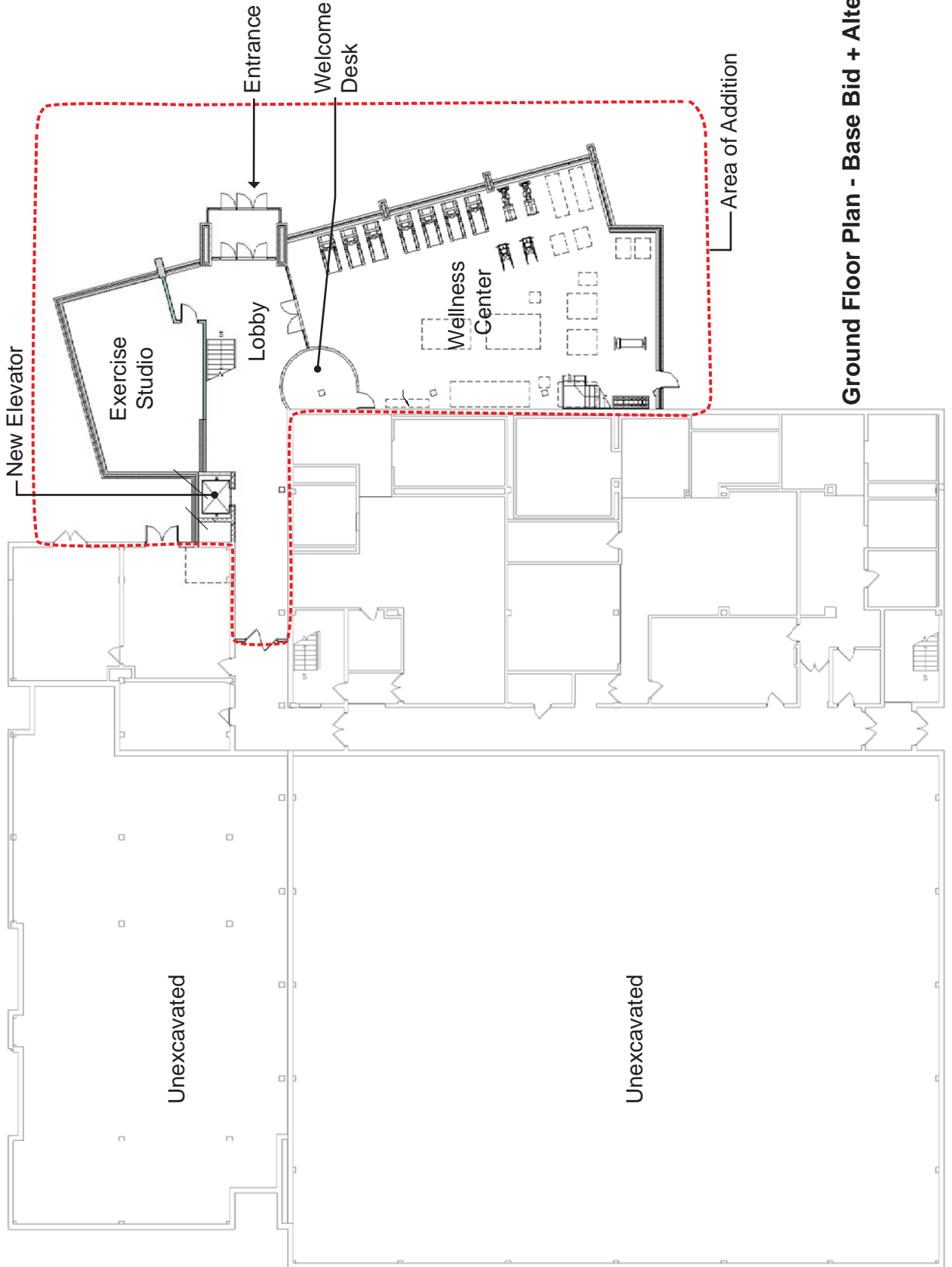
Ground Floor Plan - Base Bid

Penn State Beaver



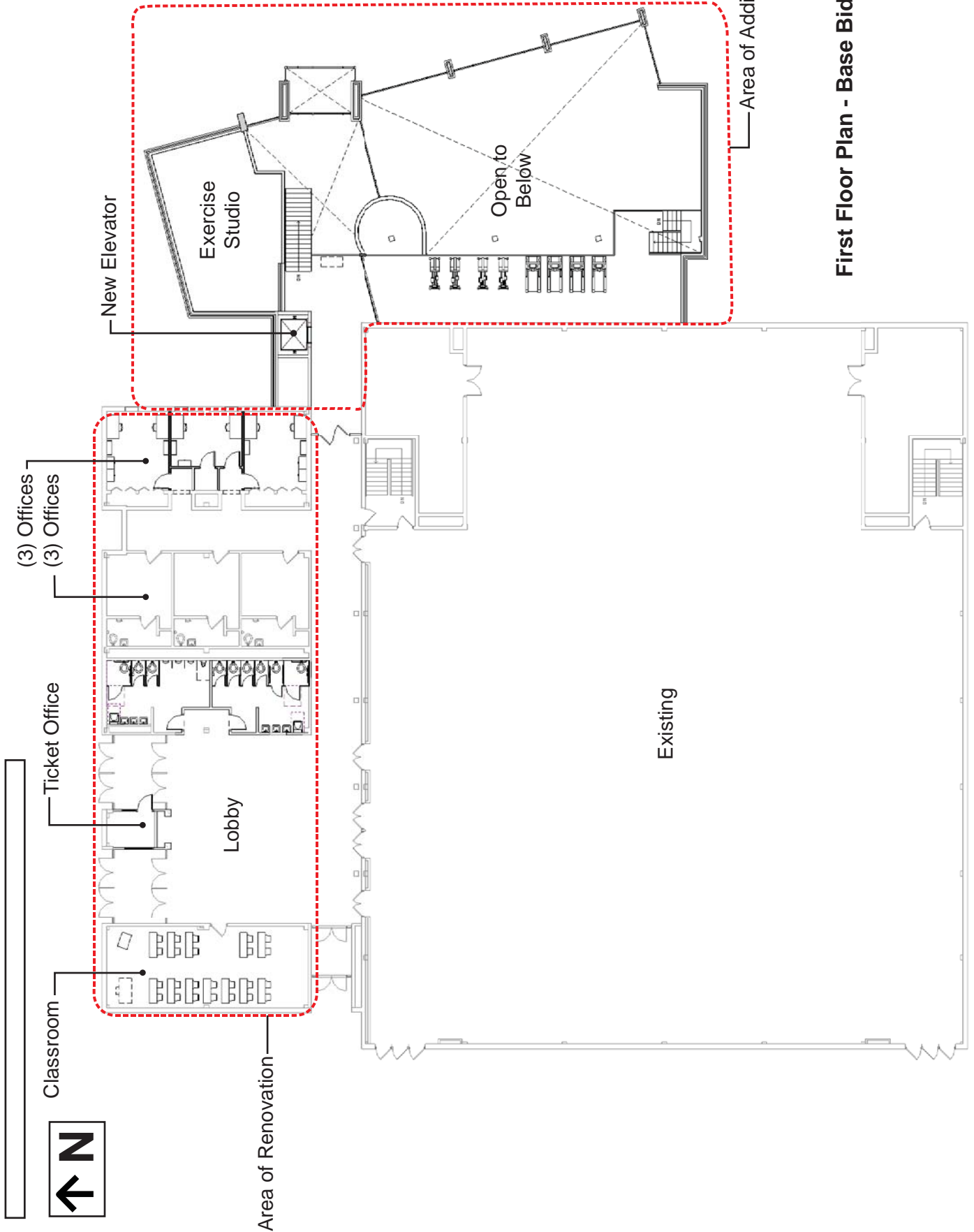
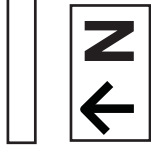
First Floor Plan - Base Bid

Penn State Beaver



Ground Floor Plan - Base Bid + Alternate

Penn State Beaver



First Floor Plan - Base Bid + Alternate

Penn State Beaver



9/17/2010

F&PP



Rendering from University Drive - Base Bid

(Appendix I.4)

Penn State Beaver



9/17/2010

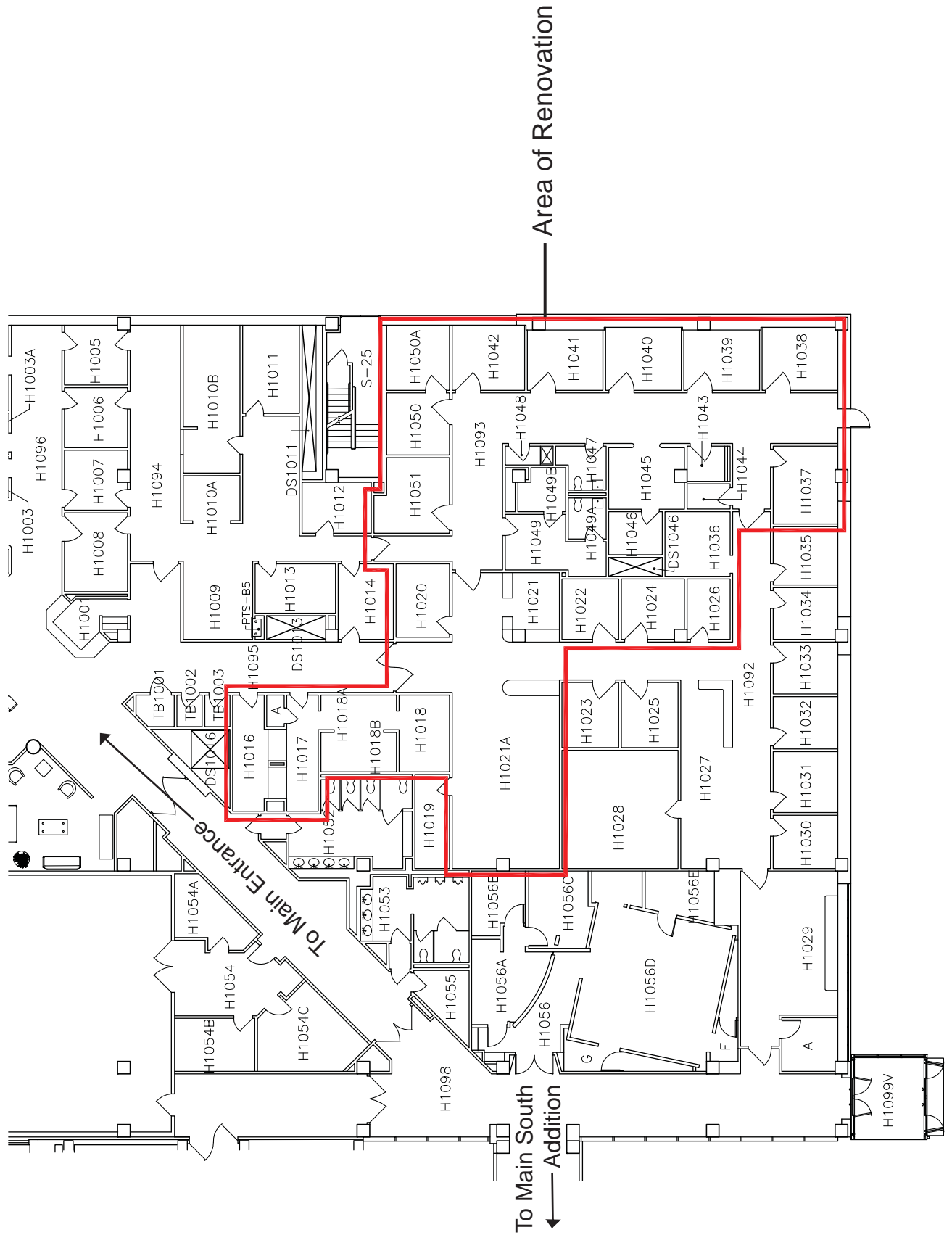
F&PP



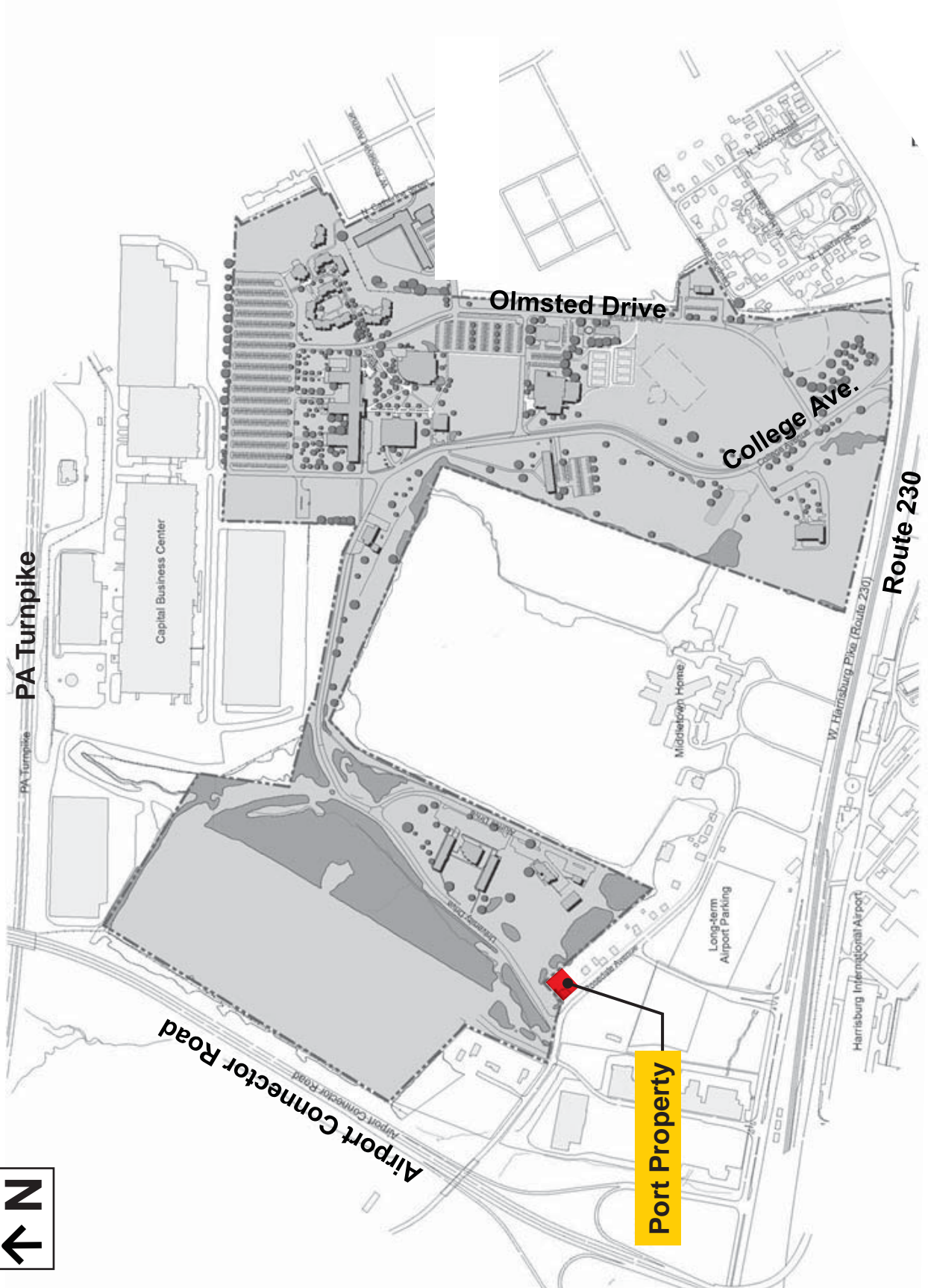
Rendering from University Drive - Base Bid + Alternate

(Appendix I.4)

The Milton S. Hershey Medical Center



Penn State Harrisburg





Penn State Harrisburg



**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2011-12**

| <u>Priority Number</u> | <u>2011-2012 Construction Projects</u> | <u>Amount Requested</u> |
|------------------------|--|----------------------------|
| 1. | <p>Additional funding for “Expansion and/or Construction of Medical Facilities” (Hershey Medical Center)</p> <p>This project was authorized by the Legislature during the 2006 session. Since then, it has become apparent that additional funds will be necessary to realize the scope of work necessitated by construction of a dedicated Children’s Hospital. The expanded scope will focus on the proposed Children’s Hospital and the facilities required to support it. The Children’s Hospital will greatly improve pediatric care by consolidating services now spread among various buildings. Services will also be enhanced in this multi-story facility. One particular improvement will be to enhance the family centered care concept. Construction of the Children’s Hospital will strengthen the Medical Center’s research and care of children’s diseases, while greatly easing the traumatic experience these young patients must endure. The facility will be attached to the Medical Center but have its own entrance. It will comply with all applicable building codes. The project will provide approximately 250,000 gsf of new hospital space. An addition to an existing parking garage (required to support the increased staffing and patient needs) and a new support services building of approximately 35,000 gsf may also be constructed with the available funds. Relocation of support staff to a new facility will allow renovation of existing hospital space for expanded medical research and patient care.</p> | <p>\$81,000,000</p> |
| 2. | <p>Research and Teaching Greenhouse Upgrades (University Park)</p> <p>The University is in dire need of improvements and upgrades to its current greenhouse facilities. The University also desires to construct an all new research greenhouse complex remote to campus and use existing on-campus greenhouses to support instructional programs except for the specialized research locations in Life Sciences. Also included in this project is the demolition of the greenhouses in the Curtin Road complex. This may be a multi-phased project.</p> | <p>\$42,200,000</p> |
| 3. | <p>Additional funding for “Renovation, Rehabilitation and Construction Costs for a Chemical Engineering Building” (University Park)</p> <p>This project was authorized by the Legislature during the 2008 session. The existing Chemical Engineering Building (Fenske Laboratory), built in 1960 and added to in 1966, does not meet the needs of the current Chemical Engineering department. There are many maintenance deficiencies within the building. In addition, it is too small and poorly arranged to support modern laboratories. At this point, it is unclear whether an addition and renovation/renewal to the existing building is appropriate or a new building will be required to satisfy projected needs and building size.</p> | <p>\$19,700,000</p> |
| 4. | <p>Additional funding for Henderson South Reconstruction (University Park)</p> <p>Henderson South is in need of major renewal. This project will address these issues and reconstruct portions of the building that cannot meet the instructional and research needs of the College of Health and Human Development. Other building deficiencies such as general circulation and handicapped access will be addressed. This request will provide additional funding authority to meet the projected cost of the project.</p> | <p>\$22,000,000</p> |
| 5. | <p>Henning Building Renovations (University Park)</p> <p>Henning Building, home of the College of Agricultural Sciences’ Veterinary, Dairy and Animal, and Poultry Sciences, was constructed in 1968. The building has not undergone any significant system upgrades since then and now is in need of renewal to bring the building up to current facility standards. The 62,139 gsf building ranked worst in overall condition among the College’s major buildings and one of the worst at University Park.</p> | <p>\$20,000,000</p> |

| <u>Priority Number</u> | <u>2011-2012 Construction Projects</u> | <u>Amount Requested</u> |
|------------------------|--|-------------------------|
| 6. | Infrastructure Improvements, Phase II (University Park) Major sections of the campus have been developed and existing utility infrastructure has not kept pace. Future campus development and expansion is planned and this project will address existing utility infrastructure needs and provide services for planned projects. Major areas of University Park require expansion of tunnel systems, utilities, mechanical and maintenance facilities, roadways and pedestrian access. This program will provide for the installation of steam, electric, chilled water, sanitary sewer, telecommunications, natural gas, purified water and other utilities as required to service zones of campus. It will also allow for wastewater treatment system improvements, and improvement/expansion of roadways and pedestrian access throughout campus. Existing systems will be upgraded and new systems installed as required. Special mechanical systems, computerized support systems and maintenance facilities and equipment will be included within this project. Other vehicular and pedestrian provisions and landscaping will be completed as appropriate. | \$40,000,000 |
| 7. | Emergency Radio Network (University Park) In conjunction with regional and county governments and emergency responders, the University needs to add emergency radio networking equipment and infrastructure. The goal of this effort is to provide a common, cross-platform network that will allow these various entities to effectively communicate with each other in the event of emergencies that require cooperative and coordinated responses. The funding will be used for both infrastructure needs and equipment purchases. | \$2,500,000 |
| 8. | Water Treatment Facility (University Park) The University Park Campus water supply sources provide the University with all of its potable water resources. The local water authorities cannot provide a backup source for the University in event of contamination of its sources. As the majority of the producing wellheads lie in a drainage hollow fed from developed lands upstream, the University plans to construct a water treatment facility that will be able to sustain potable water service to the university community and meet future DEP regulations and mitigate any pollution hazards. | \$30,000,000 |
| 9. | Power Plant Conversion (University Park) The University faces new EPA/DEP clean air regulations for coal burning plants that will directly affect its ability to continue to justify its use of coal for its steam generation. The existing coal-fired boilers will be converted to natural gas, allowing the University to meet the clean air regulations at a significantly lower cost, while at the same time, allowing the University to drastically reduce its contribution to global gases generation. | \$25,000,000 |
| 10. | Addition to the Hetzel Union Building (HUB) (University Park) The Hetzel Union Building has seen explosive use by the student body over the years. The last addition and renovation provided much needed space to accommodate the growing student population. However, continuing pressures on the student union facilities has pressed the University to plan for a further expansion of the HUB facility. The additions will provide additional study areas and meeting spaces for group studies and seminars. Renovations of existing spaces, as needed to meet new program assignments, will be included in the project. | \$25,000,000 |

| <u>Priority Number</u> | <u>2011-2012 Construction Projects</u> | <u>Amount Requested</u> |
|---|---|-------------------------|
| 11. Capital Renewal, Phase III (Central Region Campuses) | <p>The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Central Region Campuses (Altoona, Mont Alto, Harrisburg, Schuylkill, York and Dickinson School of Law-Carlisle) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.</p> <p>Additionally, existing security infrastructure and equipment are in need of replacement and upgrade to meet the security demands of today's environment. Surveillance equipment, telecommunication networks, room and building access are among the items that will be addressed.</p> | \$1,400,000 |
| 12. Capital Renewal, Phase III (Eastern Region Campuses) | <p>The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Eastern Region Campuses (Worthington Scranton, Wilkes-Barre, Hazleton, Lehigh Valley, Berks, Abington, Brandywine and Great Valley) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.</p> <p>Additionally, existing security infrastructure and equipment are in need of replacement and upgrade to meet the security demands of today's environment. Surveillance equipment, telecommunication networks, room and building access are among the items that will be addressed.</p> | \$1,400,000 |
| 13. Capital Renewal, Phase III (Western Region Campuses) | <p>The Commonwealth Campuses are not exempt from changes in technology, programs, client expectations, safety and building codes, research and instructional demands on their facilities. Limited maintenance funding has only supported component replacement of already antiquated systems, allowed piecemeal improvements and barely kept most of the older facilities acceptable for the programs and occupants. This project, phase three of a series, will continue the effort at the University's Western Region Campuses (Erie, Shenango, DuBois, Beaver, New Kensington, Greater Allegheny and Fayette) to replace, install or upgrade central heating, ventilation, mechanical and air conditioning systems in major academic, research and administrative buildings. The project will replace roof systems, upgrade or replace building structural and exterior systems, install or upgrade to current building codes, electrical and other utility services, repair major building entrances, provide new energy efficient windows and lighting systems and replace antiquated water and plumbing systems. Upgrades and modernization to interior building finishes, room configurations and rest room facilities will be completed as appropriate. Upgrades or new construction to central power or utility plants will be included as necessitated by the project.</p> <p>Additionally, existing security infrastructure and equipment are in need of replacement and upgrade to meet the security demands of today's environment. Surveillance equipment, telecommunication networks, room and building access are among the items that will be addressed.</p> | \$1,400,000 |

| <u>Priority Number</u> | <u>2011-2012 Construction Projects</u> | <u>Amount Requested</u> |
|--|---|-----------------------------|
| 14. | Capital Renewal, Phase V University Park (University Park) This project is part five of an effort to make significant comprehensive upgrades to the buildings at University Park. There are over 600 buildings at the University Park Campus that were constructed from the early 1900's through the 1970's. Limited funding for maintenance has allowed only for the support of component replacement of already antiquated systems and piecemeal improvements, leaving many of the older facilities barely acceptable for their programs and occupants. This project will allow the University to replace, install or upgrade as appropriate systems in major academic, research and administrative buildings across campus that were not addressed in the other phases of renewal. Most of the buildings have exceeded their electrical capacity and the lighting and wiring is old and deteriorating. The age and extensive use of most of the public buildings is noticeable in that flooring is damaged, ceilings are stained, paint and other interior finishes are cracked, peeling and worn, and public restrooms are dingy. This project will allow the University to address these items and will provide an opportunity to address varying safety issues and energy efficiency and conservation. Work may include connection or upgrades to central utility systems, such as chilled water, water, electric, etc. Additionally, existing security infrastructure and equipment at University Park are outdated and in need of replacement and upgrade to meet the security demands of today's environment. Surveillance equipment, telecommunication networks, room and building access are among the items that will be addressed. | \$57,800,000 |
| 15. | Chemical Ecology Lab Renovations (University Park) This 15,649 gsf facility was constructed in 1968 and is in need of replacement of major building systems. It serves the entomology research community studying such things as infectious diseases carried by insects. Due to the age of the facility, it is not adequately designed to allow advanced research in this field. | \$6,000,000 |
| 16. | Computer Building (Addition or New) (University Park) As the need for computer technology has continued to increase, the existing Computer Building, built in 1964, is no longer large enough to accommodate expanded computing power or support staff. At this point, it is unclear whether an addition to the existing building is appropriate or a new building will be required to satisfy projected computing needs and building size. | \$25,000,000 |
| 17. | New Construction or Renovation of Residence Halls (All Campuses) Existing residence halls across the University System are in need of renewal due to their ages and not meeting the current needs of the resident population. Additional residence halls are needed to accommodate the growing demand for on-campus student housing. The University has undertaken a study to determine the locations, improvements and quantities of beds required to meet the need. Campuses to benefit from this project have not been identified at this time. Both new facilities and those renovated will meet LEED certification requirements and all applicable codes. | \$50,000,000 |
| 18. | Renovations and additions of Residence Halls (University Park) Residence halls at University Park are in need of updating, including systems replacements. This project will allow the University to improve residential structures and dining facilities to meet the demands of on-campus resident students. Improvements may include rooms/suite reconfigurations, addition of air conditioning and replacement of existing systems with an emphasis toward energy reduction. Building additions, reconstruction or new structures may be required as part of this project to accommodate current housing demands for amenities and space not currently available in our older facilities. | \$60,000,000 |
| 2011-12 Total Construction Projects | | <u>\$492,400,000</u> |

THE PENNSYLVANIA STATE UNIVERSITY
 PROPOSED CAPITAL BUDGET REQUEST FOR 2011-12

| <u>Priority Number</u> | <u>2011-2012 Original Equipment</u> | <u>Amount Requested</u> |
|------------------------|--|------------------------------|
| 1. | Additional funding for Medical Facilities (Hershey Medical Center) | \$ 28,500,000 |
| 2. | Research and Teaching Greenhouse Upgrades (University Park) | \$ 2,800,000 |
| 3. | Henning Building Renovations (University Park) | \$ 3,000,000 |
| 4. | Emergency Radio Network (University Park) | \$ 400,000 |
| 5. | Capital Renewal, Phase III (Central Region Campuses) | \$ 300,000 |
| 6. | Capital Renewal, Phase III (Eastern Region Campuses) | \$ 300,000 |
| 7. | Capital Renewal, Phase III (Western Region Campuses) | \$ 300,000 |
| 8. | Capital Renewal, Phase V (University Park) | \$ 4,000,000 |
| 9. | Chemical Ecology Lab Renovations (UP) | \$ 1,200,000 |
| 10. | Computer Building (Addition or New) (University Park) | \$ 3,500,000 |
| 11. | Additional funding for Henderson South Reconstruction (UP) | \$ 5,000,000 |
| 12. | Water Treatment Facility (UP) | \$ 3,000,000 |
| 13. | Power Plant Conversion (UP) | \$ 3,000,000 |
| 14. | Addition to the Hetzel Union Building (HUB) (UP) | \$ 4,000,000 |
| 15. | New Construction or Renovation of Residence Halls (All Campuses) | \$ 5,000,000 |
| 16. | Renovations and Additions of Residence Halls (UP) | \$ 6,000,000 |
| | 2011-12 Total Original Equipment | \$ <u>71,000,000</u> |
| | 2011-12 TOTAL REQUESTED | \$ <u>563,400,000</u> |

STATUS OF MAJOR CONSTRUCTION PROGRAMS AND BORROWING (> \$5 Million)
August 31, 2010

| Campus | Project Data | | Budget Amount | Commonwealth Funding | Gift Amount | BOT Milestones | | Construction | | Notes |
|-----------------|---|--------------|---------------|----------------------|--------------|--------------------|----------------------|--------------|-----------------|---|
| | Project Name | Project Name | | | | Arch/Eng Selection | Design Plan Approval | Start Date | Completion Date | |
| Berks | Classroom / Laboratory Building | | \$25,700,000 | \$0 | \$3,000,000 | 1/10/07 | 01/10 | 04/10 | 12/11 | Construction is approximately 8% complete. |
| DuBois | Swift Building Renovation | | \$5,370,000 | \$3,950,000 | \$0 | N/A | 07/10 | 08/10 | 07/11 | Construction is approximately 5% complete. |
| Erie | Dobbins Hall Addition and Renovation | | \$7,500,000 | \$0 | \$0 | 05/04 | 07/09 | 08/09 | 08/10 | Project is substantially complete. |
| | Otto Behrend Lab Renovations | | \$6,325,900 | \$2,850,000 | \$300,000 | N/A | N/A | 04/10 | 09/10 | Construction is approximately 94% complete. |
| Hershey | Children's Hospital | | \$206,500,000 | \$14,000,000 | \$65,000,000 | 11/05 | 11/09 | 03/10 | 09/12 | Construction is approximately 9% complete. |
| | Support Services Building | | \$19,000,000 | \$0 | \$0 | 01/09 | 03/10 | 06/10 | 11/11 | Construction is approximately 5% complete. |
| | Parking Garage Phase II | | \$20,300,000 | \$0 | \$0 | 11/05 | 11/09 | 11/09 | 12/10 | Construction is approximately 85% complete. |
| | Beaver Stadium N. End Zone and ADA Renovation | | \$9,000,000 | \$0 | \$0 | N/A | 09/10 | 12/10 | 08/11 | Project in design. |
| | BioBehavioral Health Building | | \$48,100,000 | \$40,000,000 | \$0 | 01/08 | 07/10 | 12/10 | 10/12 | Project being prepared for bid in September 2010. |
| | Biological Research Laboratory | | \$23,000,000 | TBD | \$0 | 11/07 | 11/10 | 01/11 | 01/12 | Project in design. NIH Grant received. |
| | Computer Building | | \$13,900,000 | \$12,000,000 | \$0 | N/A | N/A | 05/07 | 01/11 | Construction is approximately 95% complete. |
| | East Campus Steam Plant - CT/HRSG | | \$16,300,000 | \$0 | \$0 | N/A | N/A | 04/10 | 04/11 | Construction is approximately 45% complete. |
| | Environmental Improvements BFP Installations | | \$8,120,000 | \$7,000,000 | \$0 | N/A | N/A | 06/08 | 08/12 | Project program is approximately 30% complete. |
| | Essential Services Program | | \$11,950,000 | \$0 | \$0 | N/A | N/A | 12/05 | 12/14 | |
| University Park | Gary Schultz Child Care Center at Hort Woods | | \$11,000,000 | \$0 | \$0 | 05/08 | 01/10 | 03/10 | 04/11 | Construction is approximately 30% complete. |
| | Henderson South (Phase II) | | \$56,500,000 | TBD | \$0 | 01/08 | TBD | TBD | TBD | Project in design to schematic level. |
| | Millennium Science Complex | | \$215,000,000 | \$87,600,000 | \$0 | 03/05 | 09/08 | 09/08 | 07/11 | Construction is approximately 55% complete. |
| | Moore Building Addition | | \$26,100,000 | \$22,750,000 | \$1,800,000 | 07/08 | 05/10 | 06/10 | 12/11 | Construction is approximately 5% complete. |
| | Moore Building Renovation Stage | | \$21,900,000 | \$18,900,000 | \$1,200,000 | 07/08 | 01/12 | 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 55% complete. |
| | Transformer Replacement Program | | \$9,600,000 | \$0 | \$0 | N/A | N/A | 06/07 | 12/13 | |
| | UP Airport Traffic Control Tower | | \$6,400,000 | \$0 | \$0 | N/A | 09/09 | 12/09 | 11/10 | Construction is approximately 75% complete. |

Bold - Completed, Italics - Projected

| Authorized Borrowing Status - \$(000) (excluding PCT) | |
|---|-------------|
| Borrowing Authority per May 2007 Board of Trustees | \$600,000 |
| Capital Leases, Bonds, & Notes Issued | (\$304,430) |
| Future Capitalized Leases & Anticipated Commitments | (\$5,100) |
| Estimated Authority Remaining | \$290,470 |

| Summary of University Long-Term Debt - \$(000) (excluding PCT) | |
|---|-------------|
| Estimated bonds, notes and capital leases as of June 30, 2010 (unaudited) | \$1,090,525 |

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

THROUGH JUNE 2010

| | This Year Year-To-Date (As of 6/30/10) | | Last Year Year-To-Date (As of 6/30/09) | | Change Year-To-Date (From 2009 - 2010) | | Last Fiscal Year Grand Totals (7/01/08 - 6/30/09) | |
|----------------------|--|----------------------|--|----------------------|--|---------------------|--|----------------------|
| | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars |
| ALUMNI | 128,135 | 65,090,498 | 128,461 | 63,401,843 | (326) | 1,688,655 | 128,461 | 63,401,843 |
| FRIENDS | 153,045 | 36,463,447 | 152,241 | 26,249,009 | 804 | 10,214,438 | 152,241 | 26,249,009 |
| CORPORATIONS | 13,343 | 53,555,596 | 13,898 | 44,879,001 | (555) | 8,676,595 | 13,898 | 44,879,001 |
| FOUNDATIONS | 1,344 | 31,729,019 | 1,614 | 28,669,001 | (270) | 3,060,018 | 1,614 | 28,669,001 |
| ORGANIZATIONS | 3,418 | 16,549,220 | 3,803 | 19,141,829 | (385) | (2,592,609) | 3,803 | 19,141,829 |
| TOTALS | 299,285 | \$203,387,780 | 300,017 | \$182,340,683 | (732) | \$21,047,097 | 300,017 | \$182,340,683 |

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

THROUGH JUNE 2010

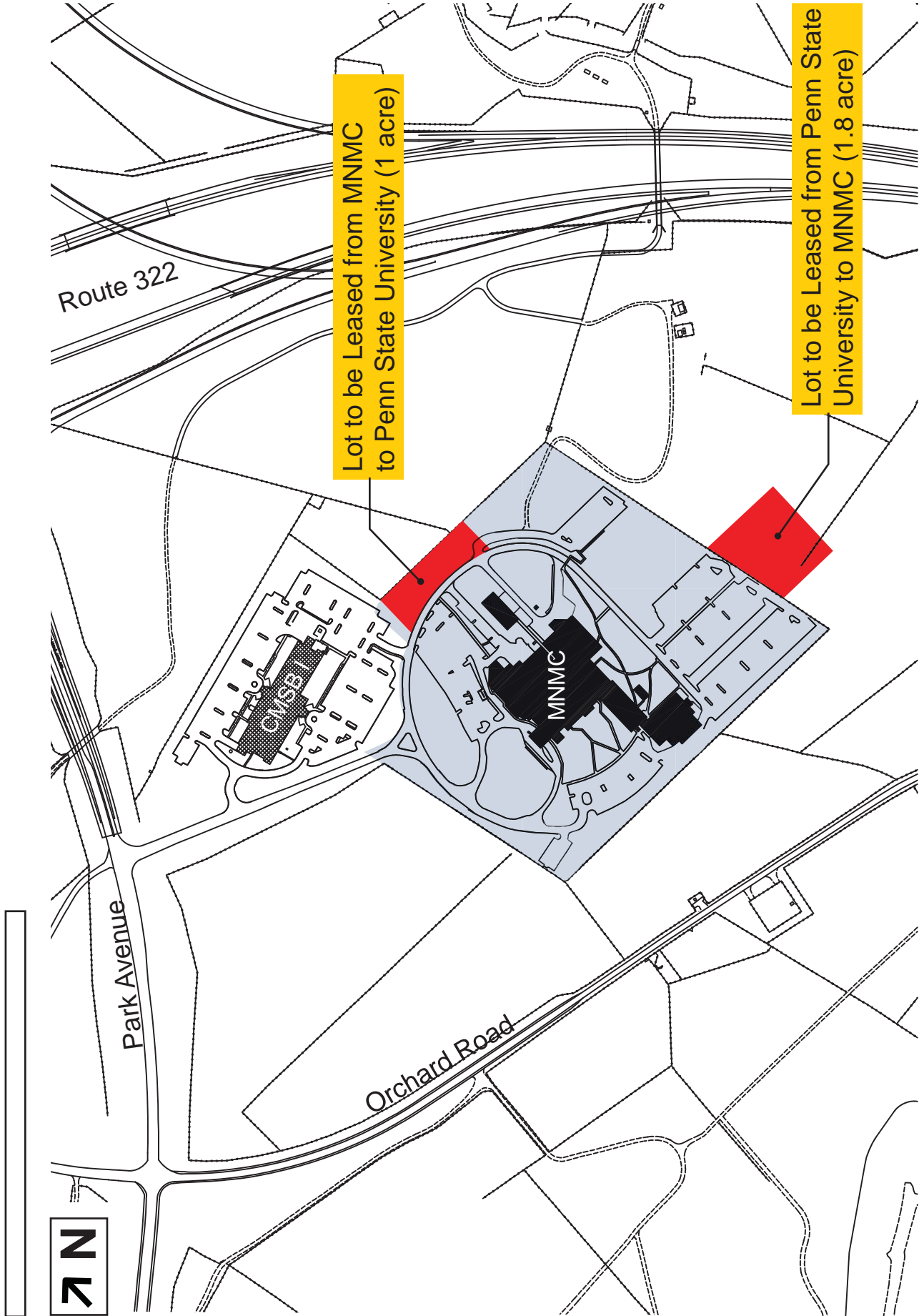
| | This Year Year-To-Date (As of 6/30/10) | | Last Year Year-To-Date (As of 6/30/09) | | Change Year-To-Date (From 2009 - 2010) | | Last Fiscal Year Grand Totals (7/01/08-6/30/09) | |
|----------------------|--|----------------------|--|----------------------|--|---------------------|--|----------------------|
| | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars |
| UNRESTRICTED | 8,355 | 1,446,407 | 8,524 | 811,727 | (169) | 634,680 | 8,524 | 811,727 |
| ACADEMIC DIVISIONS | 19,392 | 5,429,480 | 21,372 | 4,931,704 | (1,980) | 497,776 | 21,372 | 4,931,704 |
| FACULTY RESOURCES | 651 | 9,824,686 | 563 | 8,721,006 | 88 | 1,103,680 | 563 | 8,721,006 |
| RESEARCH | 4,063 | 43,849,904 | 4,190 | 32,005,008 | (127) | 11,844,896 | 4,190 | 32,005,008 |
| PUBLIC SVC & EXT | 23,450 | 4,186,130 | 22,202 | 3,748,413 | 1,248 | 437,717 | 22,202 | 3,748,413 |
| LIBRARY | 1,991 | 383,436 | 4,195 | 565,694 | (2,204) | (182,258) | 4,195 | 565,694 |
| PHYS. PLANT MAINT. | 200 | 13,016 | 143 | 18,578 | 57 | (5,562) | 143 | 18,578 |
| STUDENT AID | 46,942 | 38,897,536 | 45,872 | 45,218,071 | 1,070 | (6,320,535) | 45,872 | 45,218,071 |
| SCHOLARSHIPS | 13,930 | 22,255,371 | 13,200 | 26,864,656 | 730 | (4,609,285) | 13,200 | 26,864,656 |
| STUDENT LOANS | 37 | 4,200 | 43 | 7,350 | (6) | (3,150) | 43 | 7,350 |
| GRADUATE FELLOWSHIPS | 732 | 1,525,584 | 695 | 2,750,722 | 37 | (1,225,138) | 695 | 2,750,722 |
| ATHLETIC GRT-IN-AID | 32,243 | 15,112,381 | 31,934 | 15,595,343 | 309 | (482,962) | 31,934 | 15,595,343 |
| PROP/BLDGS/EQUIP | 8,888 | 46,855,705 | 7,964 | 30,453,004 | 924 | 16,402,701 | 7,964 | 30,453,004 |
| OTHER PURPOSES | 185,353 | 52,501,480 | 184,992 | 55,867,478 | 361 | (3,365,998) | 184,992 | 55,867,478 |
| TOTALS | 299,285 | \$203,387,780 | 300,017 | \$182,340,683 | (732) | \$21,047,097 | 300,017 | \$182,340,683 |

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

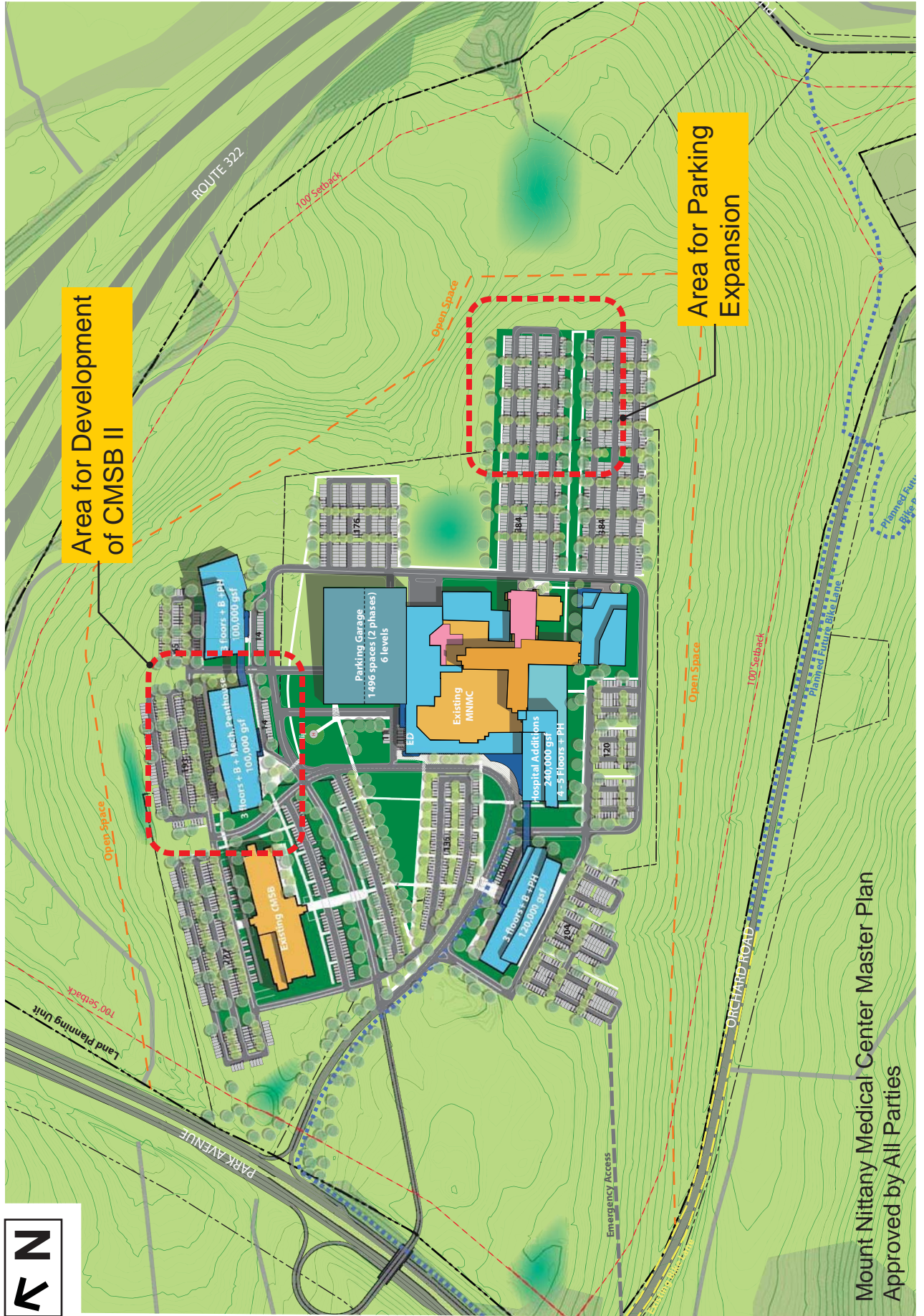
THROUGH JUNE 2010

| | This Year-To-Date (As of 6/30/10) | | Last Year-To-Date (As of 6/30/09) | | Change in YTD Totals (From 2009 - 2010) | | Last Fiscal Year Grand Totals (7/01/08 - 6/30/09) | |
|-----------------------------------|--------------------------------------|----------------------|--------------------------------------|----------------------|--|---------------------|--|----------------------|
| | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars | Gifts | Dollars |
| ABINGTON | 1,212 | 606,458 | 1,441 | 283,579 | (229) | 322,879 | 1,441 | 283,579 |
| AGRICULTURAL SCIENCES | 5,050 | 9,999,494 | 5,629 | 6,524,243 | (579) | 3,475,251 | 5,629 | 6,524,243 |
| ALTOONA | 2,043 | 2,253,351 | 1,814 | 1,598,340 | 229 | 655,011 | 1,814 | 1,598,340 |
| ARTS & ARCHITECTURE | 6,914 | 7,958,595 | 7,409 | 7,505,374 | (495) | 453,221 | 7,409 | 7,505,374 |
| BEAVER | 919 | 525,990 | 875 | 432,751 | 44 | 93,239 | 875 | 432,751 |
| BEHREND | 3,636 | 4,851,356 | 3,577 | 3,418,389 | 59 | 1,432,967 | 3,577 | 3,418,389 |
| BERKS | 859 | 307,245 | 1,026 | 1,146,064 | (167) | (838,819) | 1,026 | 1,146,064 |
| BRANDYWINE | 685 | 2,866,860 | 847 | 233,522 | (162) | 2,633,338 | 847 | 233,522 |
| COMMUNICATIONS | 1,606 | 1,931,375 | 1,710 | 1,160,373 | (104) | 771,002 | 1,710 | 1,160,373 |
| DICKINSON SCHOOL OF LAW | 989 | 7,372,746 | 1,024 | 1,182,982 | (35) | 6,189,764 | 1,024 | 1,182,982 |
| DUBOIS | 1,154 | 300,794 | 980 | 547,976 | 174 | (247,182) | 980 | 547,976 |
| EARTH & MINERAL SCIENCES | 4,048 | 13,532,715 | 3,858 | 10,001,608 | 190 | 3,531,107 | 3,858 | 10,001,608 |
| THE EBERLY COLLEGE OF SCIENCE | 5,704 | 4,643,661 | 5,767 | 6,832,104 | (63) | (2,188,443) | 5,767 | 6,832,104 |
| EDUCATION | 4,953 | 1,354,577 | 5,231 | 1,202,855 | (278) | 151,722 | 5,231 | 1,202,855 |
| EDUCATIONAL EQUITY | 411 | 659,791 | 292 | 454,303 | 119 | 205,488 | 292 | 454,303 |
| ENGINEERING | 11,220 | 22,551,098 | 11,322 | 14,250,108 | (102) | 8,300,990 | 11,322 | 14,250,108 |
| FAYETTE, THE EBERLY CAMPUS | 577 | 864,930 | 698 | 490,178 | (121) | 374,752 | 698 | 490,178 |
| GREAT VALLEY | 596 | 259,762 | 763 | 167,319 | (167) | 92,443 | 763 | 167,319 |
| GREATER ALLEGHENY | 792 | 412,996 | 866 | 501,178 | (74) | (88,182) | 866 | 501,178 |
| HARRISBURG | 3,129 | 1,788,835 | 3,569 | 3,816,655 | (440) | (2,027,820) | 3,569 | 3,816,655 |
| HAZLETON | 815 | 712,553 | 845 | 807,069 | (30) | (94,516) | 845 | 807,069 |
| HEALTH & HUMAN DEVELOPMENT | 6,011 | 6,228,665 | 6,230 | 10,170,365 | (219) | (3,941,700) | 6,230 | 10,170,365 |
| HERSHEY | 121,502 | 33,439,539 | 122,532 | 33,820,501 | (1,030) | (380,962) | 122,532 | 33,820,501 |
| INFORMATION SCIENCES & TECHNOLOGY | 471 | 1,237,756 | 561 | 1,168,928 | (90) | 68,828 | 561 | 1,168,928 |
| INTERCOLLEGIATE ATHLETICS | 36,845 | 27,769,836 | 35,080 | 27,309,641 | 1,765 | 460,195 | 35,080 | 27,309,641 |
| LEHIGH VALLEY | 497 | 119,111 | 545 | 114,202 | (48) | 4,909 | 545 | 114,202 |
| LIBERAL ARTS | 6,322 | 8,984,030 | 7,286 | 5,453,156 | (964) | 3,530,874 | 7,286 | 5,453,156 |
| MONT ALTO | 1,516 | 611,885 | 1,462 | 1,201,755 | 54 | (589,870) | 1,462 | 1,201,755 |
| NEW KENSINGTON | 746 | 660,276 | 817 | 253,870 | (71) | 406,406 | 817 | 253,870 |
| OUTREACH | 25,634 | 5,677,205 | 24,364 | 4,177,063 | 1,270 | 1,500,142 | 24,364 | 4,177,063 |
| RESEARCH & GRADUATE SCHOOL | 432 | 3,591,949 | 228 | 2,798,633 | 204 | 793,316 | 228 | 2,798,633 |
| SCHREYER HONORS COLLEGE | 1,518 | 2,411,245 | 1,361 | 1,635,554 | 157 | 775,691 | 1,361 | 1,635,554 |
| SCHUYLKILL | 956 | 312,835 | 938 | 441,940 | 18 | (129,105) | 938 | 441,940 |
| SHENANGO | 699 | 357,650 | 668 | 404,450 | 31 | (46,800) | 668 | 404,450 |
| THE SMEAL COLLEGE OF BUSINESS | 8,769 | 6,990,993 | 8,964 | 6,441,296 | (195) | 549,697 | 8,964 | 6,441,296 |
| STUDENT AFFAIRS | 3,397 | 732,474 | 3,381 | 675,149 | 16 | 57,325 | 3,381 | 675,149 |
| UNDERGRADUATE EDUCATION | 2,227 | 3,407,891 | 2,381 | 7,668,526 | (154) | (4,260,635) | 2,381 | 7,668,526 |
| UNIVERSITY LIBRARIES | 4,932 | 2,113,785 | 5,617 | 3,182,035 | (685) | (1,068,250) | 5,617 | 3,182,035 |
| UNIVERSITY WIDE | 16,332 | 11,195,532 | 14,758 | 11,122,503 | 1,574 | 73,029 | 14,758 | 11,122,503 |
| WILKES-BARRE | 1,119 | 394,800 | 1,269 | 675,362 | (150) | (280,562) | 1,269 | 675,362 |
| WORTHINGTON SCRANTON | 893 | 947,496 | 925 | 596,538 | (32) | 350,958 | 925 | 596,538 |
| YORK | 1,155 | 447,645 | 1,107 | 472,246 | 48 | (24,601) | 1,107 | 472,246 |
| TOTAL | 299,285 | \$203,387,780 | 300,017 | \$182,340,683 | (732) | \$21,047,097 | 300,017 | \$182,340,683 |

University Park



University Park



Mount Nittany Medical Center Master Plan
Approved by All Parties

Endowment & Similar Funds

Investment Review for Fiscal 2010

Submitted September 2010

This cover page provides a summary overview of the Pennsylvania State University Endowment and Similar Funds for Fiscal 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 June 30, 2010:

| <u>Fiscal 10</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|------------------|----------------|----------------|-----------------|
| 14.3% | -3.7% | 4.3% | 3.8% |

Endowment & Similar Funds Market Value (pg 3)

Penn State University's Endowment was valued at \$1,341 million as of June 30, 2010, with an additional \$98 million in Similar Funds.

Review of Investment Markets (pg 4)

The graph below compares respective returns for 12-months ending June 30, 2009 and 2010 for the S&P 500, 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, public equity returns, along with domestic real estate (REITs), rebounded strongly in 2010 and broadly outpaced year earlier results. Bond and T-Bill returns were positive in both years.

Investment Diversification and Asset Mix (pg 5)

At fiscal year-end, 55% of Endowment assets were invested in public equities (domestic and foreign), 20% in fixed income/cash, and 25% in private capital partnerships (venture capital, private buyouts, real estate, and natural resources).

Comparative Fund Performance (pg 6)

Penn State's Endowment returned 14.3% net for the year ending June 30, 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.

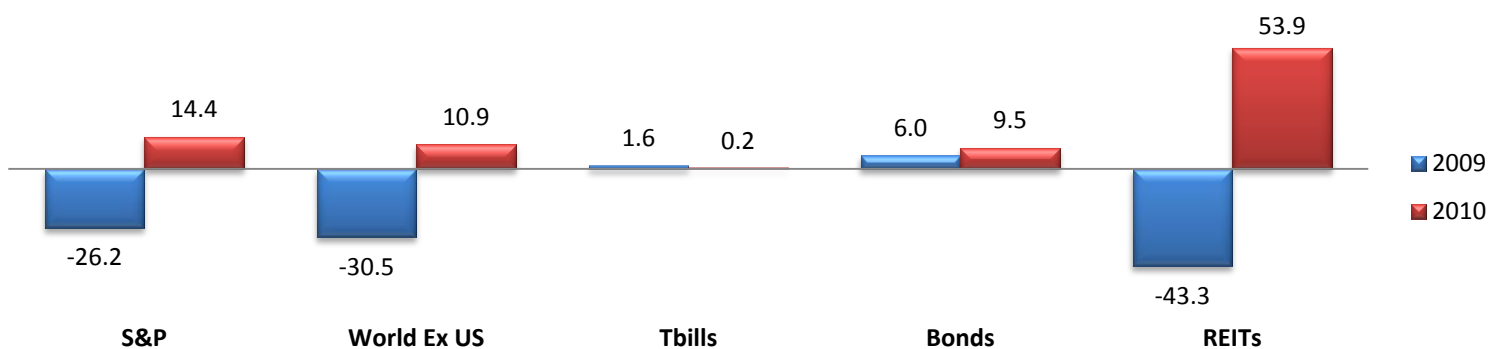
Endowment Liquidity (pg 7)

With more than 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 3.8% and 8.2% 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 Fiscal Years Ending June 30



5-Year Endowment Facts and Figures

| | Annual Periods Ending June 30 | | | | |
|--|-------------------------------|-------------|--------------|--------------|--------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Investment Performance | | | | | |
| Endowment ¹ (annualized net returns) | 14.3% | -20.1% | -1.9% | 21.2% | 13.9% |
| Market Values (\$ millions) | | | | | |
| Endowment ¹ | 1,341.5 | 1,183.9 | 1,487.9 | 1,538.7 | 1,279.6 |
| <u>Similar Funds</u> ² | <u>97.6</u> | <u>97.4</u> | <u>127.7</u> | <u>131.5</u> | <u>110.0</u> |
| Endowment and Similar Funds | 1,439.1 | 1,281.3 | 1,615.6 | 1,670.2 | 1,389.6 |
| Gifts & Other Additions (\$ mils) | 62.5 | 61.2 | 47.8 | 55.2 | 54.6 |
| Current Spending (\$ mils) | 63.4 | 65.1 | 60.4 | 58.3 | 56.9 |
| <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

October 16:

- Terminating Commonfund Emerging Markets Equity and investing proceeds in DFA Emerging Markets Equity.
- Terminating Chartwell Small Cap Growth and Mellon Small Cap Value Equity portfolios and investing proceeds in a passive Small Cap Core Equity.
- Investing \$65m in BlackRock Large Cap Value Equity.

December 16:

- Maintain Penn State's Endowment spending at a 4.5% annual rate.

February 26:

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

April 30:

- Investing \$25m with Aberdeen Asset Management in Emerging Markets Equity.
- Committing \$10m each to Oaktree Capital Management Power Opportunities Fund III and Commonfund Capital Venture Partners IX.

June 25:

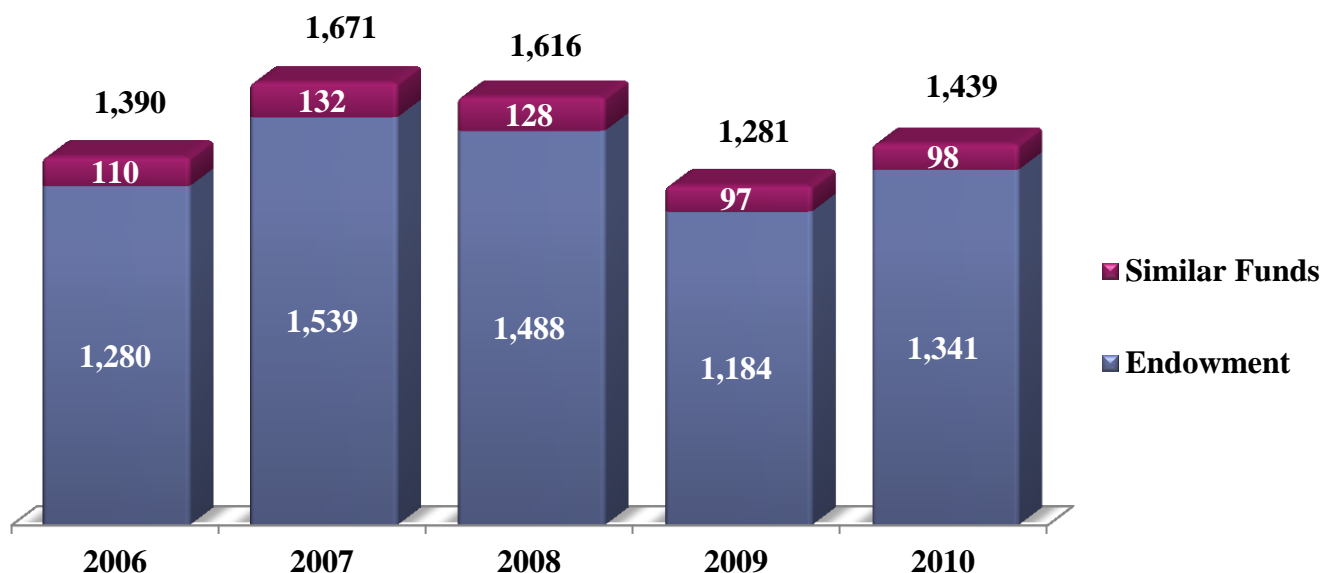
- Investing \$25m with Chilton Investment Company in Global Natural Resources Long-Short strategy.

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 June 30, 2010, Penn State's Endowment was valued at \$1,341.5 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 \$97.6 million, bringing Penn State's Endowment and Similar Funds to \$1,439.1 million. The annual market values for the University's Endowment and Similar Funds for each of the last five fiscal years ending June 30 are shown below:

Endowment and Similar Funds Market Value
Fiscal Years Ending June 30
(\$ millions)



From the graph above:

The Endowment and Similar Funds' total value increased by \$157.7 million during fiscal 2010. As seen in the table on page 2, new gifts added to the Pool over the last 12 months totaled \$62.5 million, while Endowment program support (spending) amounted to \$63.4 million.

The total Endowment's \$49.5 million increase since June 30, 2006 reflects new gift contributions and reinvested investment earnings, *after* providing cumulative program support of \$304.1 million.

Inflows of new gifts, along with positive investment returns, have resulted in a cumulative 3.56% increase in the Endowment's value, net of spending, from June 30, 2006 to June 30, 2010.

Review of Investment Markets in Fiscal 2010

Following a year of extreme double-digit losses, equities in Fiscal 2010 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 14.4% for the 12 months ending June 30, 2010, compared to -26.2% for fiscal 2009, while the large-cap biased Dow Jones Industrial Index returned 18.9% and -23.0%, respectively. Small-capitalization stocks, as measured by the Russell 2000 Index, returned 21.5% versus -25.0% last year. The Nasdaq Index performed in line with broad domestic indexes in fiscal 2010, returning 14.9% versus -20.0% in 2009.

Non-US Equities

In a reversal from fiscal 2009, equities outside the United States generally underperformed those in the US. The Morgan Stanley All Country World (ACW) Index ex-US returned 10.9% for the 12-month period ending June 30, 2010, easily surpassing its -30.5% return in fiscal 2009. Emerging market equities in less developed countries returned 23.5% over the last 12 months, well above their -27.8% return in fiscal 2009.

Fixed Income

Barclays Capital Aggregate Bond Index (various maturities of US Government and non-government domestic bonds) returned 9.5% in fiscal 2010 versus 6.0% in 2009. US Treasury Bonds continued to provide positive performance, returning 12.0% in fiscal 2010 versus 7.4% a year earlier.

Economic and Market Outlook

91-day Treasury Bills returned 0.2% in fiscal 2010 versus 1.0% one year ago. Treasury Inflation Protected Securities (TIPS) returned 9.5% in fiscal 2010 compared to -1.1% in fiscal 2009.

Real Estate

Publicly-traded Real Estate Investment Trusts (REITs) returned 53.9% for the fiscal year ended June 2010 compared to -43.3% in 2009. Privately-held real estate investment partnerships, as measured by the largely commercial property NCREIF Index, returned -9.6% in fiscal 2010 compared to -14.7% in 2009.

Alternatives

Private Equity Buyouts and Venture Capital increased as well, averaging returns of 22.5% and 6.4%, respectively, for the 12 months ending March 31, 2010 (private capital partnerships are reported on a 3-month lag). In the previous 12-month period ending March 31, 2009, Private Equity returned -24.3%, while Venture Capital lost -17.3%. By comparison, the Russell 2000 Index of small-capitalization stocks returned 62.8% for the 12 months ending March 31, 2010 and -37.5% for the year ending March 31, 2009.

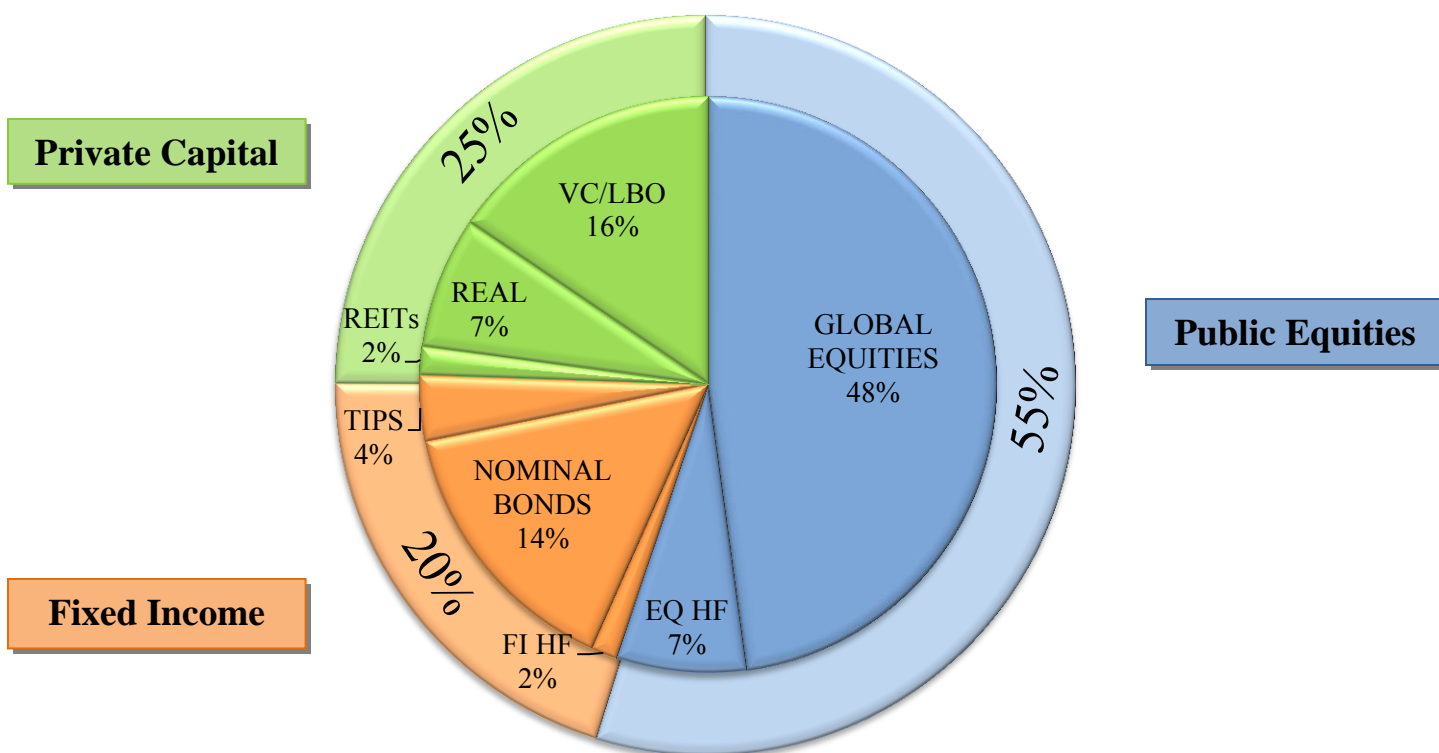
In the 12 months ending June 30, 2010, global equity markets rallied strongly and largely erased losses from the previous fiscal year, with US equities leading the world indexes. Fixed income markets provided a third consecutive year of positive returns, as the Federal Reserve continued to hold down 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 June 30, 2010 allocations of 55%, 20%, and 25%, 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):

- 55% in Public Equities includes publicly-traded US (34%) and non-US (14%) common stocks, and equity-oriented hedge funds (7%).
- 20% in Fixed Income includes 14% in nominal bonds (mostly government bonds), 3.7% in Treasury Inflation Protected Securities (TIPS), and 1.5% in an income-oriented hedge fund.
- 25% in Private Capital includes the following private partnerships: 16% 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 June 30, 2010; however, the percentages fluctuate over time depending on market trends and tactical allocations approved by the Penn State Investment Council.

The approximately 80% 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 20% invested in fixed income is intended to provide diversification and stability during times of market turbulence.

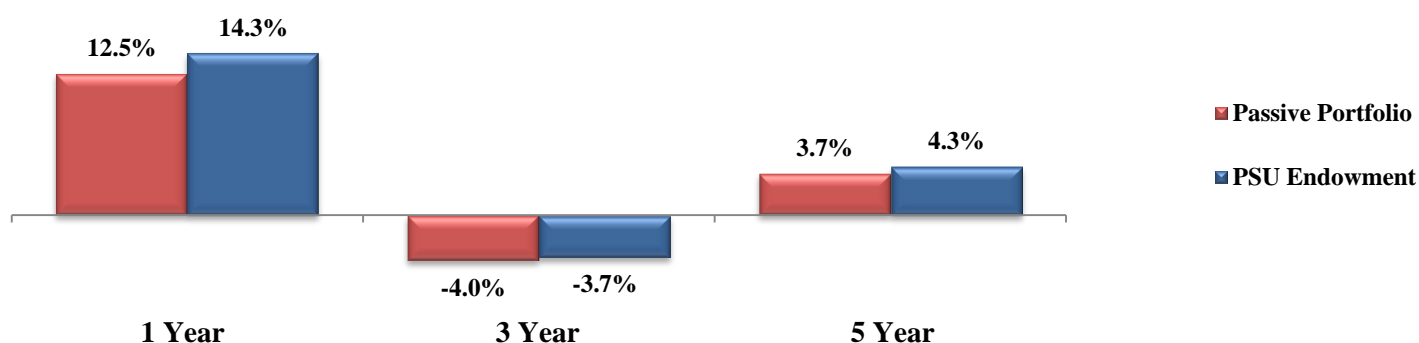
Endowment Performance Compared to Passive Portfolio

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% | 14.4 | -9.8 | -0.8 |
| Non-US Equities | MSCI ex US Index | 15 | 10.9 | -10.3 | 3.8 |
| Private Capital (non-marketable alternatives) | | | | | |
| Private Equity | CA Private Equity Composite | 15% | 22.5 | 1.7 | 12.2 |
| Venture Capital | CA Venture Capital Composite | 5 | 6.4 | -0.6 | 5.3 |
| Private Real Estate | NCREIF Index | 5 | -9.6 | -4.3 | 4.2 |
| Fixed Income/Cash | | | | | |
| Total US Bonds | Barclays Aggregate Bonds | <u>20%</u> | <u>9.5</u> | <u>7.5</u> | <u>5.5</u> |
| Total Passive Portfolio (net) | | 100% | 12.5% | -4.0% | 3.7% |

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.

Penn State Endowment vs Passive Portfolio



As shown above, Penn State's Endowment returned 14.3% net for fiscal 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 -4.0% and 3.7%, respectively.

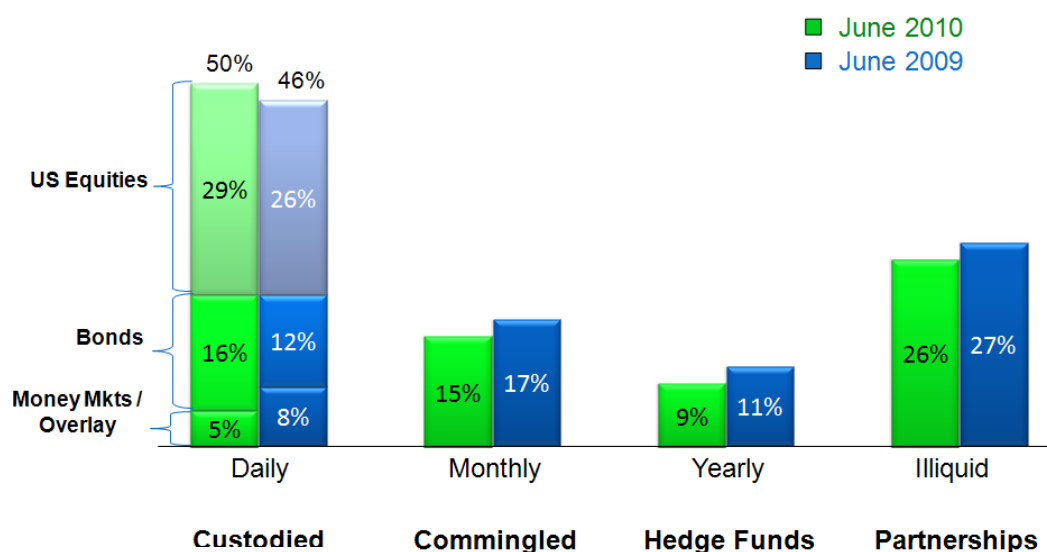
By comparison, the Endowment's actual 3- and 5-year returns performed slightly better in each period, netting -3.7% and 4.3%, respectively. Overall, this shows that the selection of investment managers augmented the Endowment's performance relative to passive benchmarks.

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 green (left) bars of each of the four pairs above for the period ending June 30, 2010:

- 50% percent of Endowment assets are invested in stocks and bonds that can be converted to cash in a matter of days. Typically, from 1% to 2% of Endowment assets are held in money market accounts, making it less likely other assets will need to be liquidated to satisfy day-to-day cash requirements.
- Commingled portfolios, primarily non-US equity portfolios, comprise 15% of Endowment assets and can be converted to cash monthly.
- 9% of Endowment assets are invested in seven hedge fund partnerships and can be at least partially converted to cash annually or in some cases quarterly.
- 26% percent of Endowment assets are invested in 90 different partnerships whose assets are conservatively considered illiquid because of uncertain timing of future cash flows.

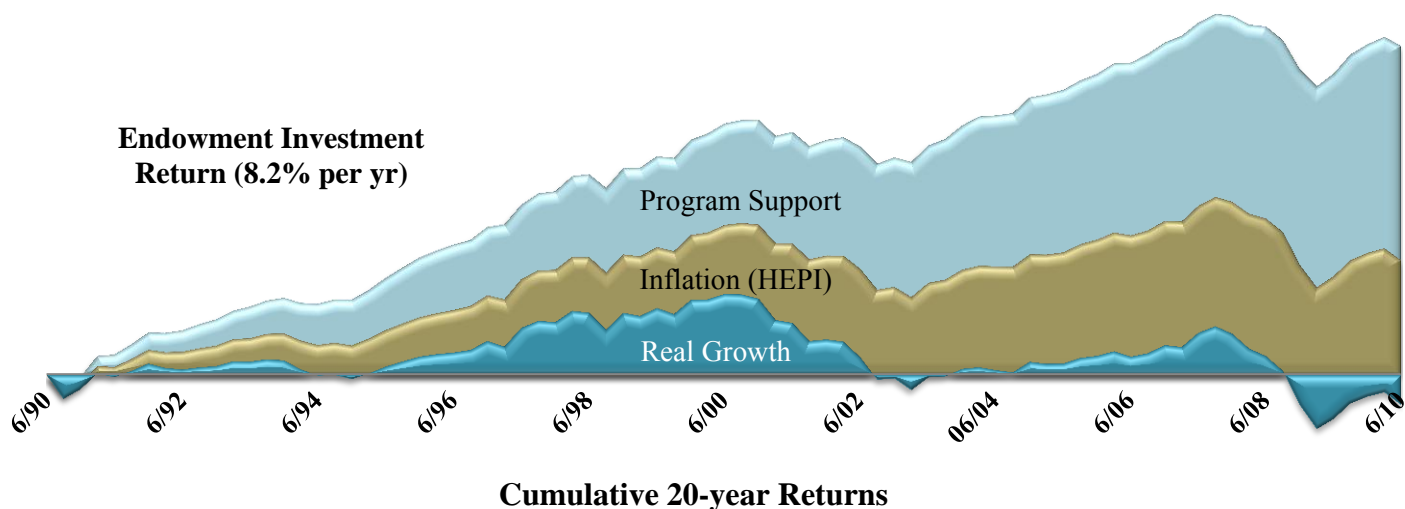
The foregoing indicates that the Endowment maintains sufficient liquidity to satisfy anticipated cash requirements.

Increased Liquidity and Investment Performance

As shown above, the liquidity profile of Penn State's Endowment changed slightly from the end of fiscal 2009 (blue bars) to the end of fiscal 2010 (green bars). Daily liquidity *increased* from 46% to 50%. Meanwhile, monthly and yearly liquidity *decreased* from 17% to 15% and from 11% to 9%, respectively. Illiquid non-marketable alternative assets *decreased* from 27% to 26%. Overall, this increased current liquidity tended to hinder the Endowment's overall investment performance (i.e., "cash drag"), especially during the last 10 months of 2009 when longer-duration bonds and stocks rallied dramatically.

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. A residual layer, which oscillates around the horizontal "intergenerational equity" line, corresponds to net *real* growth. The variability in real growth is attributable to plotting investment returns that periodically fluctuate (illustrated by the jagged lines above) alongside implicitly stable spending and inflation. 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 (last row) below:

| <u>10-Year Periods</u> <u>Ending June 30</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 | -1.6% | 6.5% | 3.8% | 3.6% | -5.2% | 2.9% | 0.2% |
| 1990 to 2000 | 17.8 | 7.8 | 12.8 | 3.4 | 14.4 | 4.4 | 9.4 |
| Diff (percentage points) | -19.4%p | -1.4%p | -9.0%p | 0.2%p | -19.6%p | -1.5%p | -9.2%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 -1.6% annualized nominal return for the 10-year period ending June 2010 trailed its 17.8% pace for the 10-year period ending June 2000 by a remarkable 19.4%p (percentage points). Over the same two periods, the respective return difference for bonds (Barclays Aggregate Bond Index) was -1.4%p and for the Endowment was -9.0%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 -9.2%p, compared to *real* differences of -19.6%p for stocks and -1.5%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 (nominal as well as real) in the most recent 10-year period, when overall investment returns were substantially lower than the prior 10-year period.