

PENNS^TATE



Meetings of the Board of Trustees

September 20, 2013

Agenda

1:30 p.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 July 12, 2013?

3. **President's Report**
4. **Public Comment**

3:00 p.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 Academic Affairs and Student Life** - James S. Broadhurst, Chair

- 1) **Renaming of the Department of Bioengineering to the Department of Biomedical Engineering in the College of Engineering**

It is proposed to rename the Department of Bioengineering to the Department of Biomedical Engineering to assist in aligning the department with similar departments around the nation and to serve to alleviate some confusion with the Department of Biological Engineering, which is the College of Agricultural Sciences. This recommendation also supports the College of Engineering Core Council review report suggesting that "this change in name more accurately reflects the major instructional and research thrusts of the department and captures those areas with greatest future potential for the unit."

The proposal was favorably approved by the University Faculty Senate Council at its meeting of August 20, 2013.

Will the Board of Trustees adopt the following resolution:

RESOLVED, That the Department of Bioengineering in the College of Engineering be renamed to the Department of Biomedical Engineering effective September 20, 2013.

- 2) **Renaming of the Asian Studies Program to the Department of Asian Studies in the College of the Liberal Arts**

It is proposed to rename the Asian Studies Program to the Department of Asian Studies in order to recognize tenure granting status. Currently the program hires jointly with other units that have their own strategic and hiring priorities, which may be somewhat different than those of Asian Studies, yet currently Asian Studies cannot recruit tenure line faculty without such a partnership with another department. There are no financial implications as the Asian Studies Program currently has a budget supporting faculty and operations.

The proposal was favorably approved by the University Faculty Senate Council at its meeting of August 20, 2013.

Will the Board of Trustees adopt the following resolution:

RESOLVED, That the Asian Studies Program in the College of the Liberal Arts be renamed to Department of Asian Studies effective September 20, 2013.

3) Renaming of the School of Nursing to the College of Nursing

It is proposed to rename the School of Nursing to the College of Nursing to reflect the status of an independent academic unit that has demonstrated excellence in its academic enterprise, seen considerable growth in its graduate programs and research productivity, and has demonstrated a continued commitment to outreach. In addition, over the last five years, the unit has become independent from the College of Health and Human Development in terms of financial support.

The proposal for renaming of the school carries with it the support of Hal Paz and Ann Crouter, the academic leaders at the University who work most closely with the school. The proposal was favorably approved by the University Faculty Senate Council at its meeting of August 20, 2013.

Will the Board of Trustees adopt the following resolution:

RESOLVED, That the School of Nursing be renamed to the College of Nursing effective September 20, 2013.

B. Committee on Audit and Risk – Linda B. Strumpf, Vice Chair

C. Committee on Finance, Business and Capital Planning - Mark H. Dambly, Chair

1) Discussion of Consent Agenda Items Provided for Information or Approval:

Information Items -

- a) Cyber Health Initiative at Millennium Science Complex, University Park
- b) Residence Hall Surveillance Cameras, University Park
- c) Theatre Building Mechanical Upgrades, University Park
- d) Naming of Rooms, Portions of Buildings, and Plazas
- e) Status of Major Construction Programs and Borrowing
- f) Capital Budget Request for Fiscal Year 2014-2015
- g) Summary and Designation of Gifts Received by the University

Action Items -

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

(See Appendix I)

2) 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. 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). The terms are staggered as follows:

- 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 (Retired), The Helmsley Charitable Trust (New York, NY)
- 2014 - **J. David Rogers**, Chief Executive Officer, J.D. Capital Management (Greenwich, CT)
Gary Glynn, President and Chief Investment Officer (Retired), US Steel and Carnegie Pension Fund (New York, NY)
- 2015 - **Blake Gall**, President, MicroPlusPlus Investment Management (Boalsburg, PA)
Edward R. Hintz, Jr., President, Hintz Capital Management, Inc. (Morristown, NJ)

It is proposed to re-appoint Carmen Gigliotti, Colleen Ostrowski, and Linda B. Strumpf to membership with terms expiring in 2016. In addition, it is proposed to appoint Joseph B. Markovich to membership with a term expiring in 2015. Mr. Markovich is Managing Director, J.P. Morgan Private Bank (New York, NY).

Will the Board of Trustees adopt the following resolution:

RESOLVED, That Carmen Gigliotti, Colleen Ostrowski, and Linda B. Strumpf, non-University employees, are appointed to the Penn State Investment Council for terms ending in 2016.

RESOLVED, That Joseph B. Markovich, non-University employee, is appointed to the Penn State Investment Council for a term ending in 2015.

3) **Conflict of Interest - Approval of Leases with PSRP Developers, Inc., Innovation Park**

Article VIII, Section 8.05 (a) of the *Bylaws* of the University, provides that, "A contract or transaction between the University and a Trustee, family member or an entity in which the Trustee or family member has a beneficial interest of ten percent (10%) or more and the contract is valued at \$10,000 or more must be approved by the Board of Trustees in accordance with this Section." Further, "The interested Trustee shall leave the meeting during discussion and voting. The Board shall determine by a majority vote of the disinterested Trustees whether the transaction or arrangement is in the University's best interests, the price and value provided are fair and reasonable to the University and whether to approve the transaction or arrangement."

Trustee Ira Lubert, who joined the Board of Trustees in September 2007, has a beneficial ownership of more than 10 percent of PSRP Developers, Inc. which owns 101 Innovation Boulevard (Lubert Building) and 103 Innovation Boulevard at Innovation Park. It is proposed that the University enter into a lease agreement for office space in 101 Innovation Boulevard with PSRP Developers, Inc. The proposal is that the University leases 4,196 square feet with base rent and common area maintenance fees totaling \$106,578 per year, beginning in September 2013 and continuing for 5 years, with three 5-year renewal options.

By way of background, the University currently has five leases with PSRP Developers, Inc. for space in 101 and 103 Innovation Boulevard. Four of these leases were executed prior to September 2007, but were renewed in August 2008

and March, November and December of 2012. The fifth lease was executed in December 2007 and renewed in June 2012. In aggregate, the five current leases are for 31,891 square feet with base rent and common area maintenance fees of \$787,338 per year.

The terms of each of the existing leases and the proposed lease, are within a reasonable price range, considering the quality of the space and the amenities provided at Innovation Park. With regard to the proposed lease, six different properties were considered and evaluated based on the amount of square footage available, quality of the space, cost per square foot, and fit-out costs required for University occupancy. Fit-out costs outweighed lower costs per square foot on four of the properties. The remaining two properties were in move-in condition, and Suite 201 in the Lubert Building was selected, because it most closely matched the required square footage of 3,000 to 5,000 square feet.

Will the Board of Trustees adopt the following resolutions:

RESOLVED, That the current leases in 101 and 103 Innovation Boulevard with PSRP Developers, Inc., totaling 31,891 square feet at a current annual cost of \$787,338 are hereby ratified.

FURTHER BE IT RESOLVED, that the proposed lease in 101 Innovation Boulevard with PSRP Developers, Inc. for 4,196 square feet at an initial annual cost of \$106,578 is hereby approved.

4) **Consideration of Request for 2014-2015 Appropriations for Operations**

Will the Board of Trustees adopt 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 2014-2015 in the amount of \$299,685,000.

5) **Report on the Proposed Five-Year Capital Plan for the University**

A plan will be provided for capital construction projects and/or renovations under consideration for the next five years.

6) **Borrowing Authority for The Pennsylvania State University**

Will the Board of Trustees adopt the following resolutions:

WHEREAS, the University and its affiliated organization, The Milton S. Hershey Medical Center (the "Medical Center"), have studied their capital needs and plan to make capital expenditures for projects of the University and the Medical Center included or to be included as part of the capital improvement programs of the University and the Medical Center and consisting of, among other things, land and interests in land, land improvements, buildings, infrastructure, building improvements, renovations, fixtures, equipment, furnishings, information technology assets, and other capital assets and projects serving University or Medical Center purposes at various locations (collectively, the "Projects"), or to reimburse their other funds for capital expenditures previously made in respect of the Projects, in an amount approximately equal

to Seven Hundred Fifty Million (\$750,000,000) Dollars during the period until June 30, 2018; and

WHEREAS, the University may be required to provide its guaranty of obligations issued by the Medical Center for the payment of costs of capital projects of the Medical Center; and

WHEREAS, it is in the financial interests of the University and the Medical Center to pay for depreciable assets over a period which does not exceed the useful lives of such depreciable assets or such longer period as is permitted by Federal tax law; and

WHEREAS, depending on the stage of development of the Projects, it may be in the financial interests of the University and the Medical Center to incur obligations for the payment of the cost of the Projects at one time or in part from time to time; and

WHEREAS, the specific timing of University borrowing or guarantees by the University of indebtedness of the Medical Center in light of trends in the financial markets can make a significant difference to the University, the Medical Center and their constituents in the cost of borrowing for capital projects; and

WHEREAS, the decisions as to price, timing, interest rates, terms, serialization and tax exempt or taxable status of such borrowing of the University and the form of any guarantees by the University of indebtedness of the Medical Center can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone a financing until the next scheduled meeting of the University's Board of Trustees; and

WHEREAS, it may be advantageous to refund or otherwise refinance certain outstanding obligations of the University from time to time or, prior to, concurrently with or subsequent to the issuance of obligations of the University, to enter into agreements relating to bond insurance, letters of credit or other credit or liquidity facilities (collectively, "Credit Enhancement") or agreements relating to interest rate swaps or other forms of interest rate hedge or similar agreements associated with such obligations (collectively, "Hedge Agreements") and such decisions can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone such actions until the next scheduled meeting of the Board of Trustees; and

WHEREAS, the University may from time to time issue its obligations directly or indirectly through other qualified governmental entities, and rate subsidies or other benefits may be available if the University's obligations are issued through certain Commonwealth of Pennsylvania public authorities and the proceeds of such obligations are loaned by the issuing public authorities to the University or to the Medical Center (with such loans to the Medical Center guaranteed by the University, if appropriate), and decisions regarding the form of such obligations and borrowing can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone such actions until the next scheduled meeting of the Board of Trustees.

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University acknowledges that decisions regarding the form of University obligations and borrowing of the University and as to the other aspects of such obligations and borrowing described in the recitals to these resolutions may be most effectively made from time to time by officers of the University as hereafter described and that, for purposes of these resolutions, the term "officers of the University" shall mean the persons holding the positions of the President, the Senior Vice President for Finance and Business/Treasurer, the Associate Vice President for Finance and Corporate Controller, or any two of them, acting from time to time pursuant to the authority granted by these resolutions.

FURTHER RESOLVED, that officers of the University are authorized to cause the University (1) to borrow, through the issuance of bonds, notes, leases, installment sale agreements or other forms of debt obligations, including as part of a line of credit or other credit facility, in one or more series or sub-series, fixed rate or variable rate, taxable or tax-exempt, secured or unsecured, senior or subordinate, in a single issuance or from time to time, and (2) to guaranty or become surety for indebtedness of the Medical Center, in an aggregate principal amount not to exceed Seven Hundred Fifty Million Dollars (\$750,000,000) (collectively, the "Obligations"), with such Obligations to be issued and sold at such price in a competitive, negotiated or invited sale and to be of such tenor and otherwise to contain or have the benefit of such terms and provisions, including, without limitation, provisions for redemption or mandatory or optional tender for purchase, maturity, collateral security, covenants, representations and warranties and events of default, as the officers of the University shall deem to be necessary or appropriate to the University.

FURTHER RESOLVED, that the officers of the University are authorized to execute, in the name and on behalf of the University, agreements, contracts and instruments of every nature and description which are necessary or appropriate to accomplish the foregoing or in connection with the issuance of the Obligations, including without limitation securities disclosure documents, trust indentures, mortgages, deeds of trust, security and pledge agreements, guarantees, loan agreements, bond purchase agreements, letter of credit reimbursement agreements, issuing and paying agency agreements, dealer agreements, refunding escrow agreements, leases, installment sale agreements, interest rate management agreements, investment contracts, tax compliance agreements and other agreements and documents of every nature and description that are necessary or appropriate to accomplish the foregoing or in connection with the issuance and delivery of the Obligations.

FURTHER RESOLVED, that the officers of the University are authorized to cause the Obligations to be issued directly by the University and also by and through any appropriate public authorities of the Commonwealth of Pennsylvania having jurisdiction, including, without limitation, The Pennsylvania Higher Educational Facilities Authority and the Centre County Higher Education Authority, with the proceeds of such indebtedness of

such public authorities being loaned to the University, or to the Medical Center, as the case may be.

FURTHER RESOLVED, that the officers of the University are authorized to refund or otherwise refinance the Obligations and other outstanding indebtedness of the University from time to time and, prior to, concurrently with or subsequent to the issuance of indebtedness of the University, to execute any agreements (including any amendments or supplements thereto or thereof) which are required in connection with Credit Enhancement or Hedge Agreements, all on such terms and conditions as the officers of the University shall deem necessary or appropriate.

FURTHER RESOLVED, that it is hereby declared to be the official intent of the University, as referred to in Section 1.150-2 of the Treasury Regulations promulgated under the Internal Revenue Code of 1986, as amended ("Code"), that the University be reimbursed from the proceeds of the Obligations authorized hereby in a maximum principal amount of \$750,000,000 for expenditures for or in respect of the Projects paid from other available funds of the University on or after the date which is sixty days prior to the effective date of these resolutions (except for certain expenditures which are not subject to such time limitation under U.S. Treasury Regulation §1.150-2), provided that the issuance of the Obligations providing such reimbursement in any particular case occurs not later than eighteen months after the latest of (i) the date on which the earliest expenditure subject to U.S. Treasury Regulation §1.150-2 is paid, (ii) the date on which the particular Project is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or U.S. Treasury Regulations promulgated thereunder and, in implementation hereof, the officers of the University may approve specific capital expenditures to be reimbursed from the proceeds of Obligations later to be issued, and the funds from which such capital expenditures shall be paid, as required by the said Treasury Regulations.

FURTHER RESOLVED, that the borrowing of the University or guarantees of indebtedness of the Medical Center under these resolutions, shall be limited to capital projects approved by the University's Board of Trustees prior to June 30, 2018.

FURTHER RESOLVED, that the authority to borrow of the University or the Medical Center for refunding or refinancing existing indebtedness of the University or the Medical Center shall not be limited in principal amount by this resolution and shall not be taken into account when calculating the \$750,000,000 amount of indebtedness authorized by this resolution.

FURTHER RESOLVED, that the officers of the University are hereby authorized and directed to execute and deliver such other agreements and documents and to take such other action as may be necessary or appropriate in order to effectuate the foregoing resolutions.

7) **Proposed Appointment of an Architect, Data Centers, University Park and The Milton S. Hershey Medical Center**

The Subcommittee on Architect/Engineer Selection will make a report and recommendation on the appointment of an architect for the Data Centers at University Park and The Milton S. Hershey Medical Center.

8) **Final Plans and Authorization to Award Contracts, Centralized Biological Laboratory Cagewash Addition, University Park**

The University intends to construct a new approximately 7,000 square foot single story cagewash facility at the rear of the Central Biological Laboratory. This addition will allow needed modernizations to the campus' primary research animal husbandry support space. The project will include state-of-the-art sanitation equipment along with new materials processing docks and supply storage. This facility will expand capacity to serve growing research needs for decades to come, and will reduce the water, steam and electricity consumption involved in the year-round activities of animal care staff.

Will the Board of Trustees adopt of the following resolutions:

RESOLVED, That the final plans for the Centralized Biological Laboratory Cagewash Addition, as designed by the firm of Payette Associates of Boston, Massachusetts, are approved.

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

9) **Investment Review of Endowment and Similar Funds as of June 30, 2013**

Appendix II is an information report on the University's Endowment and Similar Funds as of June 30, 2013. A brief presentation will be made at the meeting.

(See Appendix II)

10) **Proposed Revision to Agreement of Sale of Whitehall Road Property, University Park**

At its May 2012 meeting, the Board of Trustees approved the sale of a 15.26-acre parcel and an adjoining 25.13-acre parcel, being Lot 3 and Lot 4 in the Penn State University Whitehall Road 6 Lot Final Subdivision Plan, located in Ferguson Township, Centre County, Pennsylvania, to Springton Pointe, LP, a Pennsylvania Limited Partnership, which is a wholly owned subsidiary of Toll Bros., Inc. for \$13,500,000.

As background, these parcels were part of an acquisition of approximately 1,100 acres of land at various locations throughout Centre County, Pennsylvania, from the Mellon Family Trust and the Richard King Mellon Foundation in 1999. The 1,100 acres included six (6) tracts of land, comprised of sixteen (16) separately deeded parcels.

One of the tracts, located along and between West Whitehall Road and Route 45, included six (6) separately deeded parcels which contained 564.77 acres. A subdivision plan entitled, Penn State University Whitehall Road 6 Lot Final Subdivision Plan, was developed to accommodate the sale of a number of parcels. Two adjoining parcels, Lots 3 and 4, identified in the subdivision plan were rezoned to Multi-Family Residential (R-4) in Ferguson Township and engineering

studies were completed to establish initial site infrastructure plans consistent with zoning and Ferguson Township requirements.

Since the Board of Trustee approval in May 2012, Toll Bros. has reviewed various site development plans with Ferguson Township, each aimed at creating facilities that fully utilize the site's potential. Also, detailed civil engineering analysis considered the site's topography and other characteristics, along with the municipal requirements established at the time of the subdivision. Despite much work having been completed to ensure utilities and other municipal services are available to the site, Toll Bros. has indicated that the current acreage cannot be developed to justify the \$13,500,000 purchase price, unless additional acreage is provided to accommodate storm water facilities. As a result, Toll Bros. has offered to maintain the purchase price, if the University adds an adjoining 5.5 acres to the 40.39 acres, currently shown in the Agreement of Sale, for a total of 45.89 acres. The 5.5 acres is zoned agricultural and the University has no strategic need for the property.

Will the Board of Trustees adopt the following resolutions:

WHEREAS, The Board of Trustees at its May 2012 meeting approved the sale of a 15.26-acre parcel and an adjoining 25.13-acre parcel, being Lots 3 and 4 in the Penn State University Whitehall Road 6 Lot Final Subdivision Plan, located in Ferguson Township, Centre County, Pennsylvania, to Springton Pointe, LP, a Pennsylvania Limited Partnership, which is a wholly owned subsidiary of Toll Bros., Inc. for \$13,500,000.

WHEREAS, Toll Bros., Inc. has since indicated the need for an additional 5.5 acres adjoining Lots 3 and 4, to accommodate storm water facilities to fully develop the site and justify the current sale's price.

RESOLVED, That Board of Trustees approves the addition of 5.5 acres to the existing Agreement of Sale for a 15.26-acre parcel and an adjoining 25.13-acre parcel, being Lots 3 and 4 in the Penn State University Whitehall Road 6 Lot Final Subdivision Plan, for a total of 45.89 acres, located in Ferguson Township, Centre County, Pennsylvania, to Springton Pointe, LP, a Pennsylvania Limited Partnership, which is a wholly owned subsidiary of Toll Bros., Inc. for \$13,500,000.

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.

11) Photo Report on Selected Construction Projects

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

- D. Committee on Governance and Long-Range Planning - Keith W. Eckel, Chair**
- E. Committee on Legal and Compliance - Ira M. Lubert, Chair**
- F. Committee on Outreach, Development and Community Relations - Joel N. Myers, Chair**

6. **Report on Freeh Advisory Council and Trustee Response Team**

A report will be given by David J. Gray, Senior Vice President for Finance and Business/Treasurer.

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

1. Cyber Health Initiative at Millennium Science Complex, University Park

The University intends to build out 3,000 square feet of existing unoccupied space on the third floor of the Millennium Sciences Complex for a Cyber Health Initiative. The area will serve as collaboration space for Computational Science and Biomedical researchers. The project includes a low profile access floor with under floor power and data distribution, an integrated touch screen video wall, multiple conference rooms, work stations, collaboration areas, and energy efficient air handling and lighting systems. The cost estimate for this project is \$1,500,000.

(See Appendix I.1)

2. Residence Hall Surveillance Cameras, University Park

The University intends to install approximately 450 internet protocol-based video surveillance cameras in 60 residence hall and commons buildings at the University Park Campus. Cameras will monitor ground floor entrance lobbies, exit stairwells, elevators, and commons service desks.

A minimum of 30 days of video will be stored in networked video recorders (NVRs) in the Housing and Food Services building data center. The NVRs and related software will use American Dynamics technology and will be compatible with existing Police Services and Access Control and Electronic Systems infrastructure.

Video cameras will not be monitored real-time and will be used primarily for investigative purposes and as a deterrent to criminal behavior. The cost estimate for this project is \$1,800,000.

3. Theatre Building Mechanical Upgrades, University Park

The University intends to replace existing mechanical systems piping and aged, inefficient mechanical systems and equipment in the Theatre Building at University Park. The existing aged piping is weak, severely corroded and clogged in many places. Leaks occur with increasing frequency leading to emergency repairs and disruptive conditions for occupants.

The project scope includes pipe replacement, demolition, insulation, air handlers, ductwork, pumps, fan coil units and other mechanical systems equipment. Mechanical systems controls and technology will be upgraded. These improvements will contribute to decreased energy consumption in the building, less frequent emergency repairs and maintenance calls and greater occupant comfort. The cost estimate for this project is \$3,400,000.

(See Appendix I.2)

4. 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. Name the Seminar and Art Study Room/Print Area (Room 202), Palmer Museum of Art, in recognition of gifts-in-kind received from Drs. Albert and Lorraine Kligman. The recognition plaque should read:

*“Print and Drawing Study Room
In recognition of Drs. Albert and Lorraine Kligman”*

- B. Name the Hydrotherapy area, Pegula Ice Arena, in recognition of a commitment from Joe and Sandy DeLauter. The recognition plaque should read:
*“Joe and Sandy DeLauter in Memory of Lettie DeLauter
Hydrotherapy”*
- C. Name the Men’s Director of Operations Office, Pegula Ice Arena, in recognition of a commitment from Ira Kleinman. The recognition plaque should read:
*“Kleinman Family
Men’s Director of Operations Office”*
- D. Name the Assistant General Manager’s office, Pegula Ice Arena, in recognition of a commitment from Regina Izzo. The recognition plaque should read:
*“Regina A. Izzo
Assistant General Manager’s Office”*
- E. Name the Press Suite, Pegula Ice Arena, in recognition of a commitment from Erick Goldberg. The recognition plaque should read:
*“The Nelson L. Goldberg
Press Suite”*
- F. Name the Equipment Manager’s Office, Pegula Ice Arena, in recognition of a commitment from Ryan and Stacy Givens. The recognition plaque should read:
*“Ryan and Stacy Givens
Equipment Manager’s Office”*
- G. Name the Athletic Administrator’s Office, Pegula Ice Arena, in recognition of a commitment from Clifford Coldren. The recognition plaque should read:
*“Brookline
Athletic Administrator’s Office”*
- H. Name the Visiting Coaches Booth, Pegula Ice Arena, in recognition of a commitment from George and Ann Strachan. The recognition plaque should read:
*“George and Ann Strachan
Visiting Coaches Booth”*
- I. Name the Shooting Gallery, Pegula Ice Arena, in recognition of a commitment from Richard and Sharon Dandrea. The recognition plaque should read:
*“Dandrea Family
Shooting Gallery”*
- J. Revise the text of the recognition plaque of the Men’s Ice Hockey Head Coach’s Office, Pegula Ice Arena, named by John and Karen Davis in honor of Joe Battista. The revised plaque should read:
*“In honor of Coach Joe Battista
Penn State Hockey
Head Coach’s Office”*
- K. Name the Graduate Assistant’s Office (Room 225), Lasch Football Building, in recognition of a commitment from Howie and Pam Haldeman. The recognition plaque should read:
*“Haldeman Family
Graduate Assistant’s Office”*

- L. Name an Academic Graduate Assistant’s Office (Room 126), Lasch Football Building, in recognition of a commitment from Robert W. Boarman. The recognition plaque should read:

*“Robert W. Boarman
Academic Graduate Assistant’s Office”*

5. Status of Major Construction Programs and Borrowing

(See Appendix I.3)

6. Capital Budget Request for Fiscal Year 2014-2015

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 2014-2015, the University will submit a Capital Budget Request to the Commonwealth for authorization of \$756.2 million of which \$655.6 million is for construction projects and the remaining \$100.6 million is for original equipment.

(See Appendix I.4)

7. Summary and Designation of Gifts Received by the University

(See Appendix I.5)

8. Summary of Revisions to Existing Scholarships, Fellowships, Etc. (For the period June 17, 2013 through August 23, 2013)

Will the Committee on Finance, Business and Capital Planning 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.

9. Acknowledgments of Endowments and Other Major Commitments

The Committee on Finance, Business and Capital Planning is advised that for the period June 17, 2013, through August 23, 2013, 54 new funds totaling approximately \$4,306,583 were accepted by the University, including scholarships, fellowships, etc. All of these items conform to established University policies and regulations.

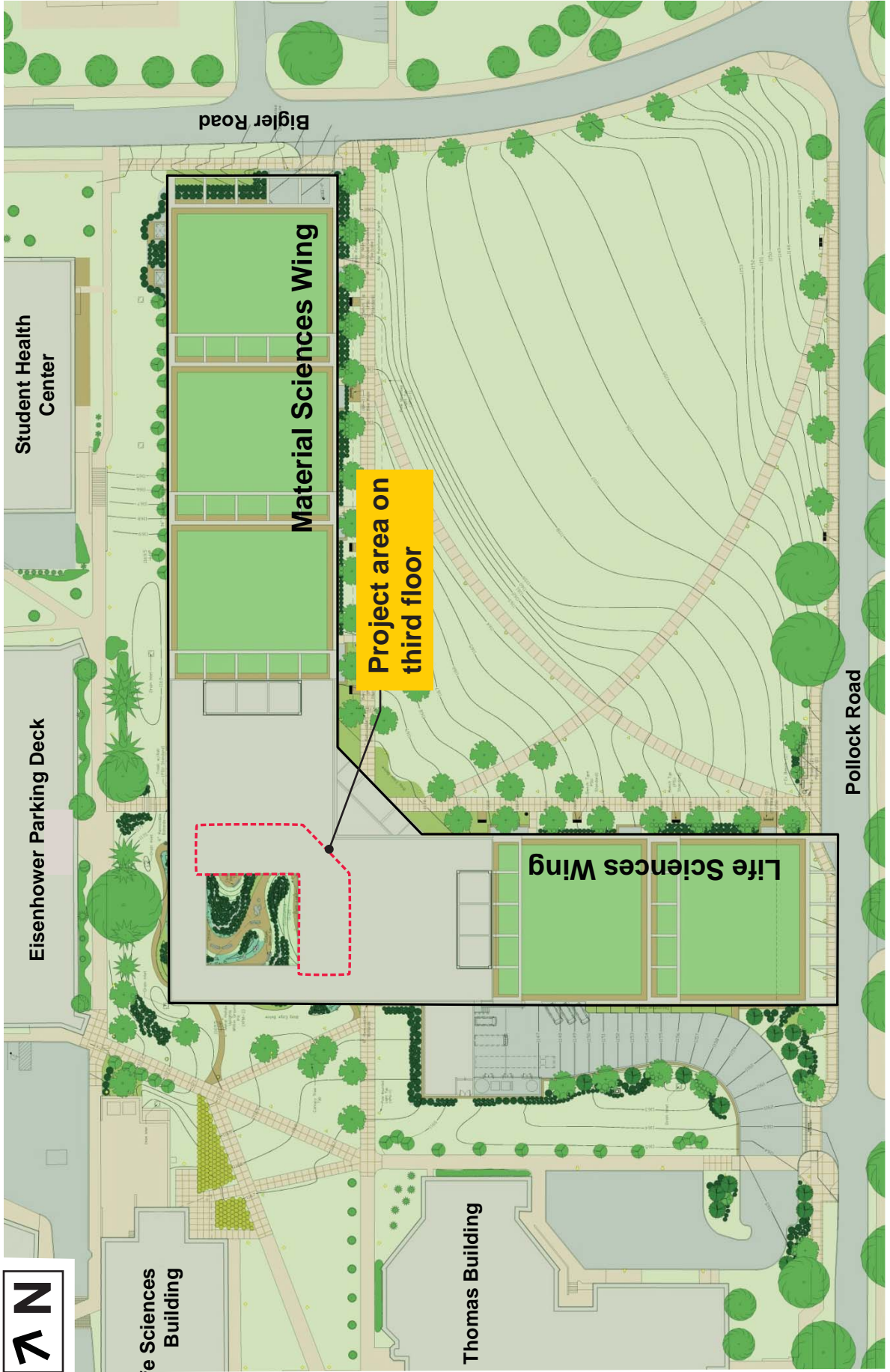
For the period May 1, 2013 through June 30, 2013, 46 major commitments were accepted by the University totaling approximately \$38,680,749.

Will the Committee on Finance, Business and Capital Planning recommend to the Board of Trustees adoption of the following resolutions:

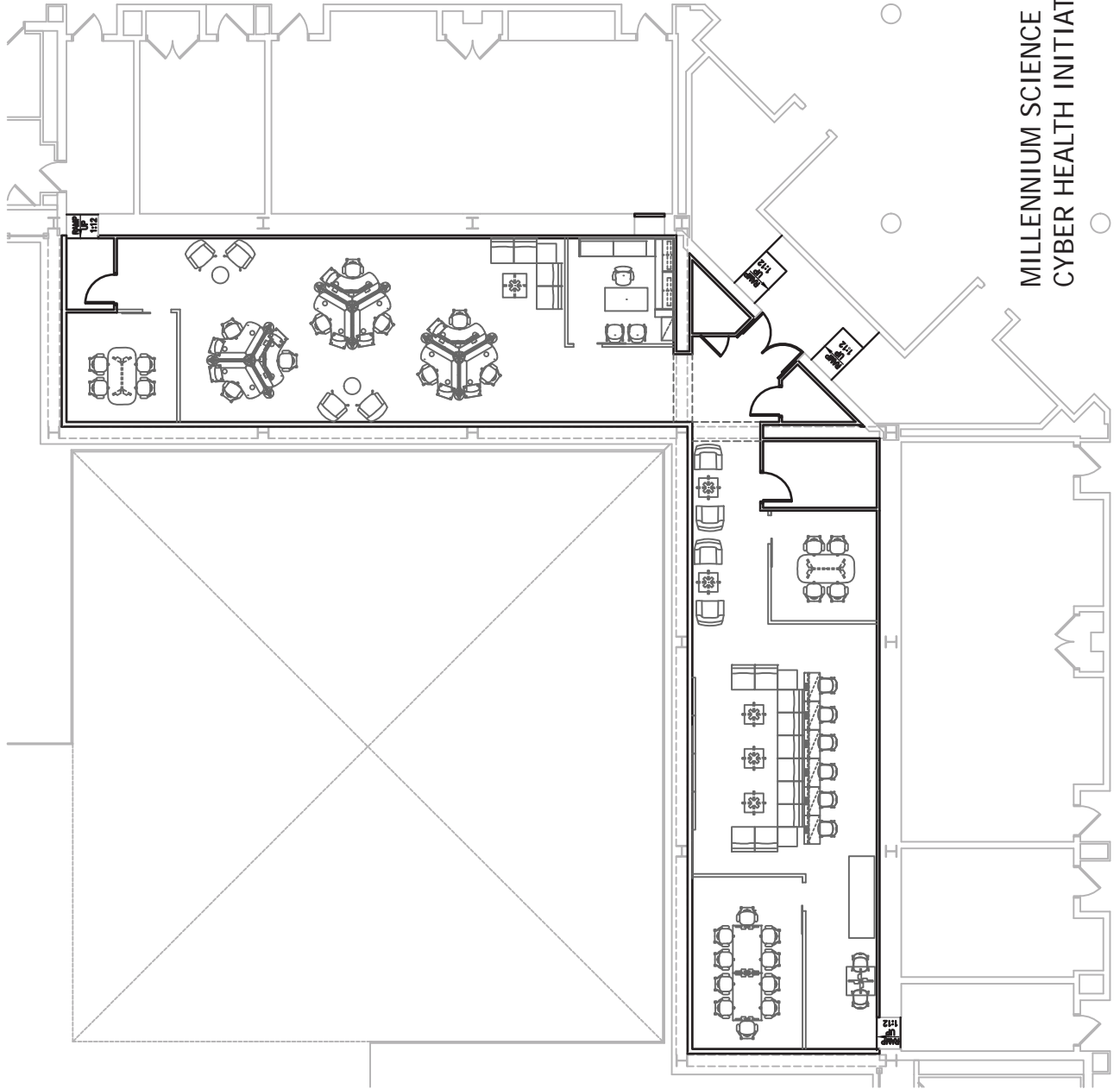
RESOLVED, That the Board of Trustees gratefully acknowledges the generous contributions of the many friends of the University in support of endowments, funds, and other major commitments as reported to the Committee on Finance, Business and Capital Planning at its meeting of July 12, 2013.

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

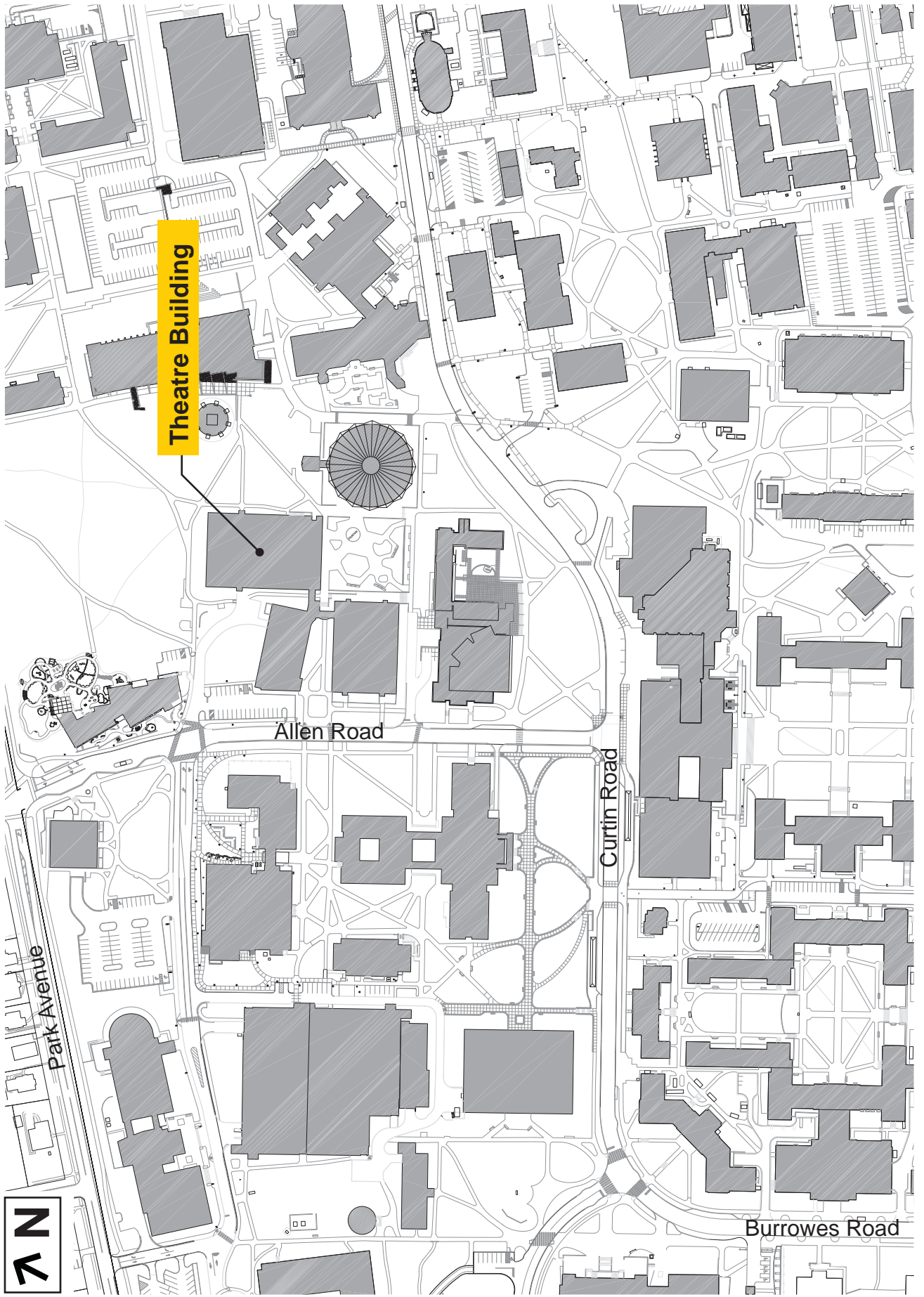


University Park



MILLENNIUM SCIENCE COMPLEX - THIRD FLOOR
CYBER HEALTH INITIATIVE SPACE

University Park



STATUS OF MAJOR CONSTRUCTION PROGRAMS AND BORROWING (> \$5 Million)
August 31, 2013

9/20/2013

FB&CP

Campus	Project Data			Budget Amount	Commonwealth Funding	Gift Amount	BOT Milestones		Construction		Notes
	Project Name	Arch/Eng Selection	Final Plan Approval				Start Date	Completion Date			
Abington	Woodland Building Renovation	01/13	11/13	\$7,000,000	\$0	\$0	01/13	04/14	10/14	Project in design.	
Berks	Luersen Building Renovation	03/13	03/14	\$13,000,000	\$11,900,000	\$0	03/13	03/14	05/15	Project in design	
Brandywine	Brandywine Main Building Renovation	01/12	05/12	\$9,500,000	\$0	\$0	01/12	05/12	08/13	Construction is complete.	
Harrisburg	Educational Activities Building	11/11	01/13	\$19,500,000	\$0	\$0	11/11	02/13	05/14	Construction is approximately 20% complete.	
Philadelphia	EEB Hub, Building 661 and 7R, Philadelphia Navy Yard	09/11	01/13	\$39,000,000	\$30,000,000	\$0	09/11	02/13	02/14, 05/14*	Construction is approximately 20% complete.	
	Beaver Stadium Video Boards / Sound System	07/11	07/13	\$10,000,000	\$0	\$0	07/11	11/13	08/14	Work to be completed for 2014 Season.	
	Burrowes Building Renovation	05/12	01/14	\$37,800,000	\$0	\$0	05/12	01/14	12/15	Project in design.	
	CBL Cage Wash Addition	N/A	09/13	\$5,400,000	\$0	\$0	N/A	09/13	06/14	Project bidding complete. Construction to begin in September 2013.	
	East Campus Steam Line	N/A	03/11	\$13,500,000	\$11,000,000	\$0	N/A	03/11	TBD	Construction is approximately 90% complete with pending quality / performance issues.	
	Environmental Improvements/BFP Installations	N/A	N/A	\$10,500,000	\$7,000,000	\$0	N/A	N/A	08/14	Project program is approximately 70% complete.	
	Essential Services Program	N/A	N/A	\$11,950,000	\$3,000,000	\$0	N/A	N/A	12/14	Project program is approximately 70% complete.	
	Eva J. Peil Laboratory for Advanced Biological Research	11/07	11/10	\$23,000,000	\$0	\$0	11/07	09/11	07/13	Construction is complete. Certification of lab spaces to occur summer/fall 2013.	
	Health and Human Development Building	01/08	11/12	\$58,500,000	\$52,300,000	\$0	01/08	03/13	05/15	Construction is approximately 8% complete.	
	HUB Addition	03/11	05/13	\$44,600,000	\$0	\$0	03/11	05/13	05/15	Construction is 5% complete.	
	IM Building Addition	01/11	01/13	\$26,110,000	\$0	\$0	01/11	02/13	04/14	Construction is approximately 35% complete.	
	IM Building Addition Phase II	03/13	01/14	\$31,250,000	\$0	\$0	03/13	02/14	06/15	Project budget increase to add basement shell space and renovate ground floor locker rooms.	
	Moore Building Renovation	07/08	01/12	\$21,900,000	\$18,900,000	\$1,200,000	07/08	03/12	08/13	Construction is complete.	
	MRL Renovations	N/A	11/13	\$11,000,000	\$8,200,000	\$0	N/A	11/13	07/15	Project in design.	
	Mueller Laboratory Renovations	03/12	01/14	\$18,000,000	\$0	\$0	03/12	05/14	07/15	Project in design.	
	Old Main Building Systems Renovation Phase I	09/11	11/12	\$11,000,000	\$0	\$1,500,000	09/11	01/13	10/13	Construction is approximately 70% complete.	
	Pegula Ice Arena	11/10	01/12	\$89,000,000	\$0	\$89,000,000	11/10	01/12	09/13	Construction is approximately 95% complete.	
	Recreation Hall Air Conditioning	01/12	11/12	\$5,500,000	\$0	\$0	01/12	02/13	08/13	Construction is complete.	
	South Frear Phase II Renovations	01/12	01/13	\$18,100,000	\$0	\$0	01/12	02/13	07/14	Construction is approximately 30% complete.	
	South Halls Renovations and New Building	3/11, 11/11	03/12	\$94,100,000	\$0	\$0	3/11, 11/11	05/12	12/14	Construction is approximately 45% complete.	
	Stieidle Renovation	03/12	03/14	\$52,000,000	\$0	\$0	03/12	03/14	11/15	Project in design.	
	Transformer Replacement Program	N/A	N/A	\$9,600,000	\$1,000,000	\$0	N/A	06/07	12/13	Project program is approximately 80% complete.	
	Water Treatment Plant and Distribution System Upgrades	01/11	03/14	TBD	TBD	\$0	01/11	TBD	TBD	Project in design.	
	WCSP Steam Turbine Replacement	01/11	01/13	\$8,600,000	\$0	\$0	01/11	TBD	TBD	Project on HOLD pending resolution of gas line routing.	
	WCSP Steam Production Modifications	01/11	11/12	\$48,300,000	\$0	\$0	01/11	TBD	TBD	Project on HOLD pending resolution of gas line routing.	
	West Campus Chilled Water Plant 3000 Ton Chiller	01/12	09/12	\$16,200,000	\$0	\$0	01/12	11/12	08/14	Construction is approximately 12% complete.	
	Whitmore Laboratory Renovations	03/12	09/14	\$32,900,000	\$0	\$0	03/12	01/15	12/16	Project in design.	

* 02/14 completion for Building 661 and a 05/14 completion for Building 7R (EEB Hub)

Summary of University Long-Term Debt - \$(000) (excluding PCT)

Estimated Bonds, Notes and Capital Leases as of June 30, 2013 (unaudited)	\$669,816
Authorized Borrowing Status - \$(000) (excluding PCT)	\$600,000
Borrowing Authority per May 2007 Board of Trustees	(\$539,507)
Capital Leases, Bonds, & Notes Issued	(\$5,100)
Future Capitalized Leases & Other Anticipated Commitments	\$255,393
Estimated Authority Remaining	

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
1.	Water Treatment Plant (and Distribution System) - Additional Funds (University Park)	\$15,000,000

This project was authorized by the Legislature in the 2010 session. Subsequent to that an engineering analysis has determined that improvements are needed to the water distribution system. Therefore, additional funds are being requested. 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. The University plans to construct a water treatment facility and to improve the distribution system by adding new water towers and upgrading existing ones. These improvements will sustain potable water service to the university community and meet future DEP regulations and mitigate any pollution hazards.

2.	Student Union Building (New or Addition) (Brandywine)	\$16,000,000
-----------	--	---------------------

Student Union building will be approx. 40,000 gsf and will include food preparation, serving and dining space to support new student housing; general student use spaces such as study lounges, student activity, clubs and assembly, and general seating/lounge areas that are needed to support a residential campus; and campus support space needs (central warehousing, central storage, mail, central server rooms, etc.); as well as Residence Life offices, health services, counselor, and police services. Project will include the extension of utilities to the site, parking and access roads, and any other infrastructure needed to support the facility.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
3.	Building Access Modifications (University Park)	\$10,000,000

This project will upgrade the building entrance and security systems. It will include the installation of card key access at main building entrances to limit access to buildings during non-occupied periods along with the installation of key access boxes to control distribution of interior building keys. In addition, the project will include the installation of video surveillance cameras. The funding will be used for infrastructure installation, equipment purchases, and any building modifications needed to accommodate the installations.

4.	Kostos Building Renewal (Hazleton)	\$12,000,000
-----------	---	---------------------

Kostos Building, constructed in 1970, houses the Campus's Engineering, Physics, Chemistry and Biology laboratories and many general purpose classrooms. This building has not been significantly updated since its construction. Building systems are worn out, labs are outdated and circulation patterns are problematic.

This project will address these issues by replacing mechanical, plumbing and electrical systems, improving the building envelope, replacing interior finishes, updating the laboratories and modifying spaces to improve circulation. The project funding will provide for design and construction costs related to the building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
5.	Recital Hall/Music I Renovation (University Park)	\$25,000,000

Project will construct a new Recital Hall addition with approx. 400 seats to the east of Music 1 (approximately 11,000 GSF). Renovation of Music I includes conversion of the Esber Recital Hall into a large ensemble rehearsal space + small rehearsal music classroom, renovation of spaces adjacent to new rehearsal spaces, including sound isolation, mechanical, and electrical systems (approximately 18,000 GSF). The project funding will provide for design and construction costs related to the new construction and building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The construction and renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

6.	Chilled Water Capacity and Distribution Expansion (University Park)	\$25,000,000
-----------	--	---------------------

To keep pace with further campus development, this project will provide additional chilled water capacity and distribution for the University Park campus. The project includes installation of approximately 3000 tons of additional cooling capacity and associated distribution piping to serve new cooling loads shifted to the central system.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
7.	Classroom/Class Lab Building (University Park) This project will include new classrooms, science teaching laboratories, computer labs, seminar rooms, classroom support space and teaching auditoria. The facility will be equipped with state of the art instructional technology to include technology for distance learning. The facility will be located on the core campus adjacent to academic facilities easily accessible by students and faculty. Funding will be used for design and construction costs, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The construction will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.	\$51,300,000
8.	Henning Building Renewal, Additional Funds (University Park) This project was authorized by the Legislature during the 2010 session. Additional funding is being requested. 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. The project funding will provide for design and construction costs related to the building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.	\$15,000,000

THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
------------------------	--	-------------------------

9. Pattee Library Knowledge Commons Ph. 7 (Atrium) (University Park)		\$11,000,000
---	--	---------------------

This project will further the Knowledge Commons multi-phased development. The new space, approx. 7,800 gsf, will create an atrium which will link the central and west sections of Pattee Library for the first time in the building's seventy-year history and greatly improve horizontal and vertical circulation in the center of the library. Some renovations to the surrounding spaces is also included. The addition will provide additional seating opportunities for students, meeting room space, and spaces to facilitate collaboration. Funding will be used for design and construction costs, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The construction and renovations will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

10. Waste Water Treatment Plant Renewal (University Park)		\$45,000,000
--	--	---------------------

The Waste Water Treatment Plant renewal project will provide an upgraded, single train, waste water treatment plant whose effluent will meet Class A Re-use water standards. The effluent will continue to be land applied beneficially at the existing spray fields as well as made available for re-use needs on campus. The existing plant infrastructure will be re-used and refurbished where possible to incorporate the newest technology and capitalize on previous infrastructure investments. In addition to addressing necessary major maintenance the project will improve the environmental impact of PSU wastewater on the local watershed, update treatment trains to minimize operational risks, and provide support and flexibility for future campus growth.

THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
11.	General Computing Tier III Data Center (within 125 miles of University Park)	\$50,000,000

The University has been assessing its business continuity vulnerability in the event of a catastrophic loss of computer data and systems at University Park. To address this concern, consultants have recommended the development of a mirror site that can be fully operational in moments if such an event should occur. The facility needs to be within an approximate 125-mile distance of the University Park Campus.

This project will include the acquisition of an appropriate site in the serviceable area that can be readily developed to meet the needs of this type of facility. The facility will house server racks to accommodate the current needs of the University and allow for expansion as the need arises. The site will accommodate outside support space and equipment. Other items included in the project are extension of any and all utilities to the site, clearance/demolition of any existing structures, parking and access roads, specialized security systems, and uninterrupted power systems (UPS) for backup power service in the event of utility power outage.

12.	Data Center (Hershey)	\$24,000,000
------------	------------------------------	---------------------

Hershey Medical Center's data center is currently located in an off-campus building with limited access to redundant utility services and that requires significant infrastructure upgrades to keep pace with programmatic needs. Campus planners have recommended this facility be relocated to campus. The new data center will be designed primarily for computer servers/equipment. Only those staff necessary to the functioning of the center will have offices there. The facility will be state-of-the-art, designed to be energy efficient.

The funding will provide for design and construction of the building, necessary utility extensions and site improvements.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
13.	Hosler Building Renewal (University Park)	\$42,000,000

Hosler Building was constructed in 1950 as the home for the Mineral Industries Department of the College of Earth and Mineral Sciences. Very little has been done to the structure in the ensuing 62 years. The condition of existing building systems is hampering ongoing research and reduces the quality of the undergraduate educational experience.

The funding for this project will renew the facility by replacing worn systems, updating electrical services and lighting, replacing heating and adding central chilled water air conditioning, improving the thermal envelope, replacing windows and interior finishes. Accessibility issues will be addressed. Interior space modifications will be required to meet the needs of the departments and activities housed within the facility, including research activities. In addition to design and construction, the project funding will provide for necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

14.	Agricultural Engineering Building (University Park)	\$44,000,000
------------	--	---------------------

This proposed project will address program changes in the Agricultural Engineering curriculum, which has evolved into laboratory-intensive engineering, currently in very short supply. The project will include demolition of a circa 1950 addition to the original 1930's building and construction of a new addition that will satisfy the needs of today's curriculum.

The approximately 65,000 gross square foot addition is planned to house new undergraduate education labs, research labs, and support spaces for the labs, faculty offices and support spaces, general purpose classrooms and a fermentation facility. An area shop, displaced by the demolition of the addition, will also be contained within the new footprint. The original building wing will be renewed to extend the life of the structure.

All design costs, necessary utility upgrades, modifications and extensions required to accommodate the project are included in the cost. Additionally, temporary relocation space costs are included in the overall project. The project, both addition and renewal portions, will be LEED certified and meet all applicable State building and applicable accessibility codes, as well as, other regulatory requirements.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
------------------------	--	-------------------------

15.	Engineering Building (Demolish Engr Units & Construct New Bldg.) (University Park)	\$100,000,000
------------	---	----------------------

Funding for the demolition of five small buildings constructed in the early 1900's known as Engineering Units A, B, C, D and E; and construction of a new, modernized and more efficient building for the programs under the College of Engineering. This project is the first of five phases to address the needs of the College of Engineering by providing consolidated, improved and expanded instructional and research space. The improvement and expansion of applied research, discipline collaboration, and high-technology instructional facilities in the engineering, technology and scientific fields at Penn State will have immeasurable benefit to the Commonwealth of Pennsylvania. Changing technology and methodologies require flexible and sophisticated laboratory spaces, high-technology classrooms and distance education spaces, seminar rooms, support spaces, and faculty and staff offices. This first phase project will provide 150K GSF for a Library/Learning Commons and Laboratories for various departments to include Architectural, Aerospace, Civil & Environmental Engineering, and SEDTAPP (School of Engineering Design, Technology, & Professional Programs).

Funding will be used for design and construction costs, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The construction and renovations will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

16.	Academic/Research Facility for Liberal Arts (University Park)	\$54,000,000
------------	--	---------------------

This project will provide approx. 90,000 gsf of state of the art research and teaching space for the College of Liberal Arts. The project will renovate existing space and provide expansion space for various departments to include Anthropology and Sociology. Funding will be used for design and construction costs, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The construction will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
17.	Academic Support Building Addition (Hershey)	\$35,000,000

The Academic Support units of the College of Medicine have outgrown the office building they are housed in. Units have been placed in various locations within the Hospital itself and in off-campus facilities to accommodate their space needs. This proposed addition will provide the needed space to allow these units to be co-located. The original Academic Support Building was designed to allow an addition to be constructed without interfering with the ongoing functioning in the facility.

In addition to design and construction of the addition, the project funding will provide for necessary utility upgrades, site improvements and code-related upgrades within the existing building, as required. The addition will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

18.	Additional Funds for a Computer Building (University Park)	\$10,000,000
------------	---	---------------------

Funding for an addition to or construction of a new Computer Building was authorized in Act 82 of 2010. Since that time, the University has determined that construction of a new facility is the appropriate direction to pursue. This request will provide the additional funding necessary to design and construct an appropriate facility that is energy efficient and state-of-the-art. This new facility will be located at the University Park Campus.

The funding will provide for design and construction of the building, necessary utility extensions and site improvements.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
19.	Burrowes Building Renewal (University Park)	\$40,800,000

Originally constructed in 1940, Burrowes Building was added to in 1967. The 112,000 gross square foot facility has not been significantly renovated since then. The building systems have outlived their useful lives and are in need of complete replacement. Additionally, the building is not air conditioned, resulting in sweltering heat conditions during the summer months to the extent that staff cannot safely work. Interior finishes are worn. The building also has limited accessibility for the disabled.

This project will renew the facility by replacing worn systems, updating electrical services and lighting, replacing heating and adding central chilled water air conditioning, improving the thermal envelope, replacing windows and interior finishes. Accessibility issues will be resolved. Interior space modifications may be needed to meet the needs of the departments and activities housed within the facility. In addition to design and construction, the project funding will provide for necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

20.	Michael Baker, Jr. Engineering & Science Building Renewal (Beaver)	\$8,000,000
------------	---	--------------------

The Baker Engineering & Science Building was constructed in 1968 and houses various undergraduate laboratories and general purpose classrooms. The building systems are beyond the end of their useful lives and need to be replaced. The laboratories have not been updated. Interior finishes are worn.

This project will address these issues by replacing mechanical, plumbing and electrical systems, improving the building envelope, replacing interior finishes and updating the laboratories. The project funding will provide for design and construction costs related to the building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

<u>Priority Number</u>	<u>2014-2015 Construction Projects</u>	<u>Amount Requested</u>
21.	Ruhl Student/Community Center & Multi-Purpose Buildings Renewal (York)	\$10,500,000

The Ruhl Student/Community Center was constructed in 1977. It is home to student-related support offices such as, the Bursar, student Admissions and Student Activities. Also, the Campus Director of Business Services is located here. The building is in need of renewal. The Multi-Purpose Building was constructed in 1970. Health and Physical Education activities reside here. This building is also in need of renewal.

The proposed project will address the mechanical, electrical, plumbing and exterior envelope system deficiencies of each building. Funding will be used for design and construction costs related to the building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

22.	Vairo Library Renewal (Brandywine)	\$12,000,000
------------	---	---------------------

Vairo Library was constructed in 1980. The building's design is unique and attractive. However the design has created shortcomings in the operation and use of the building. The building lacks accessibility for the physically challenged except through the loading dock area at the rear of the building. Patrons then must use a freight elevator originally designed for library activities to gain access to the upper floor. This elevator is accessible from the upper floor only through the library, the main occupant of the building. On the lower floor are classrooms and non-intensive labs, and a student lounge.

This project will address these shortcomings and renew building systems, which have not been updated since the buildings construction. It will allow replacement of mechanical, electrical, plumbing and exterior envelope systems. Funding will be used for design and construction costs related to the building renewal, as well as, necessary utility upgrades and extensions, site improvements and code-related upgrades. The renewal will meet all current building code requirements and provide for barrier-free access as required by the Americans with Disabilities Act and related codes.

2014-2015 Total Construction Projects	<u>\$655,600,000</u>
--	-----------------------------

**THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015**

Priority Number	<u>2014-2015 Original Equipment</u>	Amount Requested
1.	Water Treatment Plant (and Distribution System) - Additional Funds (University Park)	\$ 3,750,000
2.	Student Union Building (New or Addition) (Brandywine)	\$ 2,400,000
3.	Building Access Modifications (University Park)	\$ 1,500,000
4.	Kostos Building Renewal (Hazleton)	\$ 1,800,000
5.	Recital Hall/Music I Renovation (University Park)	\$ 3,300,000
6.	Chilled Water Capacity and Distribution Expansion (University Park)	\$ 3,750,000
7.	Classroom/Class Lab Building (University Park)	\$ 7,700,000
8.	Henning Building Renewal, Additional Funds (University Park)	\$ 1,500,000
9.	Pattee Library Knowledge Commons Ph. 7 (Atrium) (University Park)	\$ 1,500,000
10.	Waste Water Treatment Plant Renewal (University Park)	\$ 6,800,000
11.	General Computing Tier III Data Center (within 125 miles of University Park)	\$ 10,000,000
12.	Data Center (Hershey)	\$ 2,400,000
13.	Hosler Building Renewal (University Park)	\$ 8,400,000
14.	Agricultural Engineering Building (University Park)	\$ 8,800,000
15.	Engineering Building (Demolish Engr Units & Construct New Bldg.) (University Park)	\$ 15,000,000
16.	Academic/Research Facility for Liberal Arts (University Park)	\$ 8,100,000
17.	Academic Support Building Addition (Hershey)	\$ 3,500,000
18.	Additional Funds for a Computer Building (University Park)	\$ 1,500,000
19.	Burrowes Building Renewal (University Park)	\$ 4,100,000
20.	Michael Baker, Jr. Engineering & Science Building Renewal (Beaver)	\$ 1,400,000
21.	Ruhl Student/Community Center & Multi-Purpose Buildings Renewal (York)	\$ 1,600,000

THE PENNSYLVANIA STATE UNIVERSITY
PROPOSED CAPITAL BUDGET REQUEST FOR 2014-2015

<u>Priority Number</u>	<u>2014-2015 Original Equipment</u>	<u>Amount Requested</u>
22.	Vairo Library Renewal (Brandywine)	\$ 1,800,000
2014-2015 Total Original Equipment		\$ <u>100,600,000</u>
2014-2015 TOTAL REQUESTED		\$ <u>756,200,000</u>

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

THROUGH JUNE 2013

	This Year Year-To-Date (As of 6/30/13)		Last Year Year-To-Date (As of 6/30/12)		Change Year-To-Date (From 2012 - 2013)		Last Fiscal Year Grand Totals (7/01/11 - 6/30/12)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
ALUMNI	128,151	87,597,929	137,071	71,078,576	(8,920)	16,519,353	137,071	71,078,576
FRIENDS	168,798	29,977,565	167,449	33,884,206	1,349	(3,906,641)	167,449	33,884,206
CORPORATIONS	13,727	63,298,429	13,549	60,470,582	178	2,827,847	13,549	60,470,582
FOUNDATIONS	1,538	29,703,841	1,356	21,860,335	182	7,843,506	1,356	21,860,335
ORGANIZATIONS	5,301	27,201,516	3,970	21,503,448	1,331	5,698,068	3,970	21,503,448
TOTALS	317,515	\$237,779,280	323,395	\$208,797,147	(5,880)	\$28,982,133	323,395	\$208,797,147

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

THROUGH JUNE 2013

	This Year Year-To-Date <i>(As of 6/30/13)</i>		Last Year Year-To-Date <i>(As of 6/30/12)</i>		Change Year-To-Date <i>(From 2012 - 2013)</i>		Last Fiscal Year Grand Totals <i>(7/01/11 - 6/30/12)</i>	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
UNRESTRICTED								
ACADEMIC DIVISIONS								
FACULTY RESOURCES								
RESEARCH								
PUBLIC SVC & EXT								
LIBRARY								
PHYS. PLANT MAINT.								
STUDENT AID								
SCHOLARSHIPS								
STUDENT LOANS								
GRADUATE FELLOWSHIPS								
ATHLETIC GRT-IN-AID								
PROPB/DGS/EQUIP								
OTHER PURPOSES								
TOTALS	317,515	\$237,779,280	323,395	\$208,797,147	(5,880)	\$28,982,133	323,395	\$208,797,147

THE PENNSYLVANIA STATE UNIVERSITY
OFFICE OF UNIVERSITY DEVELOPMENT
YEAR TO DATE REPORT - ALL SOURCES
DEVELOPMENT OFFICER'S GOAL REPORT
THROUGH JUNE 2013

	This Year-To-Date (As of 6/30/13)		Last Year-To-Date (As of 6/30/12)		Change in YTD Totals (From 2012 - 2013)		Last Fiscal Year Grand Totals (7/01/11 - 6/30/12)	
	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars	Gifts	Dollars
ABINGTON	1,270	1,273,990	1,162	904,125	108	369,865	1,162	904,125
AGRICULTURAL SCIENCES	5,754	8,209,413	4,707	7,643,548	1,047	565,865	4,707	7,643,548
ALTOONA	1,879	1,584,686	2,413	1,570,888	(534)	(16,202)	2,413	1,570,888
ARTS & ARCHITECTURE	5,696	3,081,621	6,343	3,010,204	(647)	71,417	6,343	3,010,204
BEAVER	881	310,859	911	242,361	(30)	68,498	911	242,361
BEHREND	3,637	11,328,530	3,931	3,793,925	(294)	7,534,605	3,931	3,793,925
BERKS	1,344	458,038	1,400	429,308	(56)	28,730	1,400	429,308
BRANDYWINE	788	442,778	1,029	506,173	(241)	(63,395)	1,029	506,173
COMMUNICATIONS	1,516	1,471,270	1,477	1,383,474	39	87,796	1,477	1,383,474
DICKINSON SCHOOL OF LAW	793	922,094	839	1,614,493	(46)	(692,399)	839	1,614,493
DUBOIS	956	699,918	892	356,528	64	343,390	892	356,528
EARTH & MINERAL SCIENCES	3,114	5,641,896	3,507	14,906,522	(393)	(9,264,626)	3,507	14,906,522
THE EBERLY COLLEGE OF SCIENCE	4,673	18,925,944	4,954	5,647,237	(281)	13,278,707	4,954	5,647,237
EDUCATION	3,793	2,796,101	4,080	1,942,589	(287)	853,512	4,080	1,942,589
EDUCATIONAL EQUITY	611	613,234	753	304,688	(142)	308,546	753	304,688
ENGINEERING	8,893	20,428,283	9,891	23,828,703	(998)	(3,400,420)	9,891	23,828,703
FAYETTE, THE EBERLY CAMPUS	431	231,013	502	237,652	(71)	(6,639)	502	237,652
GREAT VALLEY	485	356,138	468	132,767	17	223,371	468	132,767
GREATER ALLEGHENY	856	277,196	930	182,476	(74)	94,720	930	182,476
HARRISBURG	2,571	2,379,988	2,729	942,682	(158)	1,437,286	2,729	942,682
HAZLETON	744	1,037,267	817	724,431	(73)	312,836	817	724,431
HEALTH & HUMAN DEVELOPMENT	4,983	7,851,986	5,697	8,414,985	(714)	(562,999)	5,697	8,414,985
HERSHEY	149,830	40,720,474	145,476	31,348,656	4,354	9,371,818	145,476	31,348,656
INFORMATION SCIENCES & TECHNOLOGY	529	7,917,412	574	7,343,032	(45)	574,380	574	7,343,032
INTERCOLLEGIATE ATHLETICS	39,015	50,463,097	38,457	51,255,748	558	(792,651)	38,457	51,255,748
LEHIGH VALLEY	661	241,929	787	410,631	(126)	(168,702)	787	410,631
LIBERAL ARTS	5,100	6,225,943	5,725	6,404,629	(625)	(178,686)	5,725	6,404,629
MONT ALTO	1,445	797,202	1,506	579,744	(61)	217,458	1,506	579,744
NEW KENSINGTON	618	304,590	816	439,585	(198)	(134,995)	816	439,585
OUTREACH	22,516	5,031,811	24,613	6,623,677	(2,097)	(1,591,866)	24,613	6,623,677
RESEARCH & GRADUATE SCHOOL	537	3,983,097	576	1,857,739	(39)	2,125,358	576	1,857,739
SCHREYER HONORS COLLEGE	1,383	1,357,785	1,491	2,041,745	(108)	(683,960)	1,491	2,041,745
SCHUYLKILL	939	800,175	1,036	382,945	(97)	417,230	1,036	382,945
SHENANGO	558	394,418	549	298,018	9	96,400	549	298,018
THE Smeal COLLEGE OF BUSINESS	7,060	7,872,456	7,757	5,513,422	(697)	2,359,034	7,757	5,513,422
STUDENT AFFAIRS	6,382	1,941,688	8,528	1,323,568	(2,146)	618,120	8,528	1,323,568
UNDERGRADUATE EDUCATION	2,365	7,936,300	2,697	2,839,440	(332)	5,096,860	2,697	2,839,440
UNIVERSITY LIBRARIES	3,707	4,140,999	3,910	2,433,506	(203)	1,707,493	3,910	2,433,506
UNIVERSITY WIDE	16,091	5,658,015	16,471	7,876,689	(380)	(2,218,674)	16,471	7,876,689
WILKES-BARRE	1,038	514,045	1,002	258,158	36	255,887	1,002	258,158
WORTHINGTON SCRANTON	966	592,400	959	325,368	7	267,032	959	325,368
YORK	1,107	593,221	1,033	521,088	74	72,133	1,033	521,088
TOTAL	317,515	\$237,779,280	323,395	\$208,797,147	(5,880)	\$28,982,133	323,395	\$208,797,147



Long-Term Investment Pool & Similar Funds

Investment Review for Fiscal 2013

Submitted September 2013

This cover page provides a summary overview of the Pennsylvania State University Long-Term Investment Pool (see next page for details) for Fiscal Year 2013. The second page summarizes Endowment-related data that is discussed on the remaining pages, along with performance analysis.

Executive Overview

Long-Term Investment Pool (LTIP) Performance

Annualized *net* investment returns for the Penn State University LTIP (adjusted for the impact of gifts and spending, and after external investment management expenses) for periods ending June 30, 2013 are:

<u>Fiscal 13</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
11.3%	12.4%	5.2%	8.6%

Long-Term Investment Pool Market Value (pg 3)

Penn State University’s Endowment was valued at \$1,933 million as of June 30, 2013. Including \$96 million in Similar Funds and \$1,005 million in non-endowed funds, the Long-Term Investment Pool was valued at \$3,034 million (see page 2 for details).

Review of Investment Markets (pg 4)

The graph below compares respective returns for 12-months ending June 30, 2013 and June 30, 2012 for the S&P500, MSCI All Country World (ACW) ex-US, 91-day US Treasury Bills, Barclays Aggregate Bonds, and publicly-traded Real Estate Investment Trusts (REITs) Indexes. As shown below, both US and non-US public equity returns for fiscal 2013 surpassed their 2012 performances, while domestic real estate (REITs) again returned low double digits. Bonds were slightly negative, while T-Bill returns were again negligible.

Investment Diversification and Asset Mix (pg 5)

At fiscal year-end, 51% of LTIP assets were invested in public equities (domestic and foreign) and 10% in private equity/venture capital, representing 61% of LTIP in growth-orientated assets. In addition, 18% was invested in fixed income/cash, 12% in real return assets (TIPS, real estate, natural resources/commodities), and 9% in diversifying strategies (hedge funds).

Comparative Fund Performance (pg 6)

Penn State’s LTIP returned 11.3% net for the year ending June 30, 2013 versus 11.9% for the Passive Policy Portfolio, while LTIP’s 3- and 5-yr relative performance outpaced the respective passive benchmark returns.

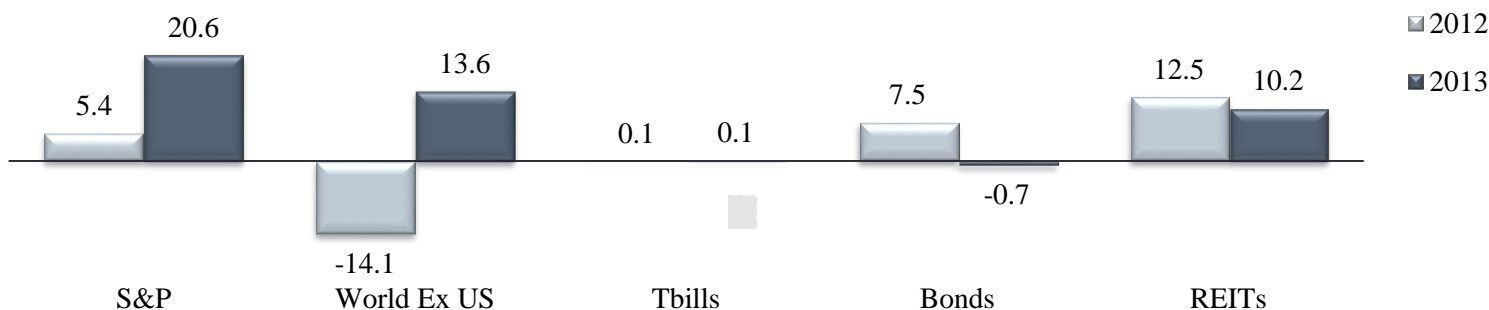
LTIP Liquidity (pg 7)

With more than one-half of assets convertible to cash in a matter of days, the LTIP maintains adequate liquidity to satisfy anticipated cash requirements.

LTIP Performance and Spending (pg 8)

The Penn State LTIP’s average annual net returns of 8.6% and 8.3% over the last 10 and 20 years, respectively, have allowed the LTIP to maintain inflation-adjusted spending while achieving long-term intergenerational equity.

**Investment Market Returns
Fiscal Years Ending June 30**



5-Year LTIP Facts and Figures

	Annual Periods Ending June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Investment Performance					
Endowment ¹ (annualized net returns)	11.3%	3.5%	23.2%	14.3%	-20.1%
Market Values (\$ millions)					
Endowment ¹	1,933.2	1,765.0	1,708.4	1,341.5	1,183.9
Similar Funds ²	<u>95.7</u>	<u>90.0</u>	<u>122.7</u>	<u>97.6</u>	<u>97.4</u>
Endowment and Similar Funds	2,028.9	1,855.0	1,831.1	1,439.1	1,281.3
As described in footnote #3 below, approximately \$1 billion earmarked to fund FAS 106 liabilities (post-retirement health care benefits for PSU retirees) was commingled into the University's Long-Term Investment Pool (LTIP) over the past four years. Prospectively, the reported market value, and related analysis, for LTIP will include all commingled funds, as shown below for June 30, 2013.					
Non-Endowed Funds ³	1,004.8	239.8	143.3	121.7	0.0
Total LTIP ⁴ & Similar Funds	3,033.7	2,094.8	1,953.8	1,560.8	1,281.3
Gifts & Other Additions (\$ mils)	73.9	76.2	136.3	62.5	61.2
Current Spending (\$ mils)	71.5	70.8	66.0	63.4	65.1
1) Endowment — donor-restricted gifts					
2) Similar Funds — deferred gifts and donor-restricted funds in transit to Endowment					
3) Non-Endowed Funds earmarked for FAS 106 liability (employee post-retirement health care benefits)					
4) Commingled assets over which Penn State's Office of Investment Management (OIM) has investment responsibility, as approved by the Penn State Investment Council (PSIC), exclusive of Similar Funds					

Penn State Investment Council (PSIC) Meetings

February 21, 2013:

- Committing \$20M each to: Franklin Park International Vehicle 2013, L.P.; Marlin Equity Partners IV, L.P.; KPS Special Situation Fund IV, L.P.; Altaris Health Partners III, L.P.
- Investing \$15M in Red Kite Compass Fund Ltd.
- Investing \$80M in Vontobel International Equity Fund
- Investing \$65M in Cevian Capital II Fund

April 26, 2013:

- Committing \$20M each in: Yorktown Energy Fund X, L.P.; Monroe Capital Senior Secured Direct Loan Fund L.P.
- Investing Franklin International Small Cap Growth Fund: \$50M

June 27, 2013:

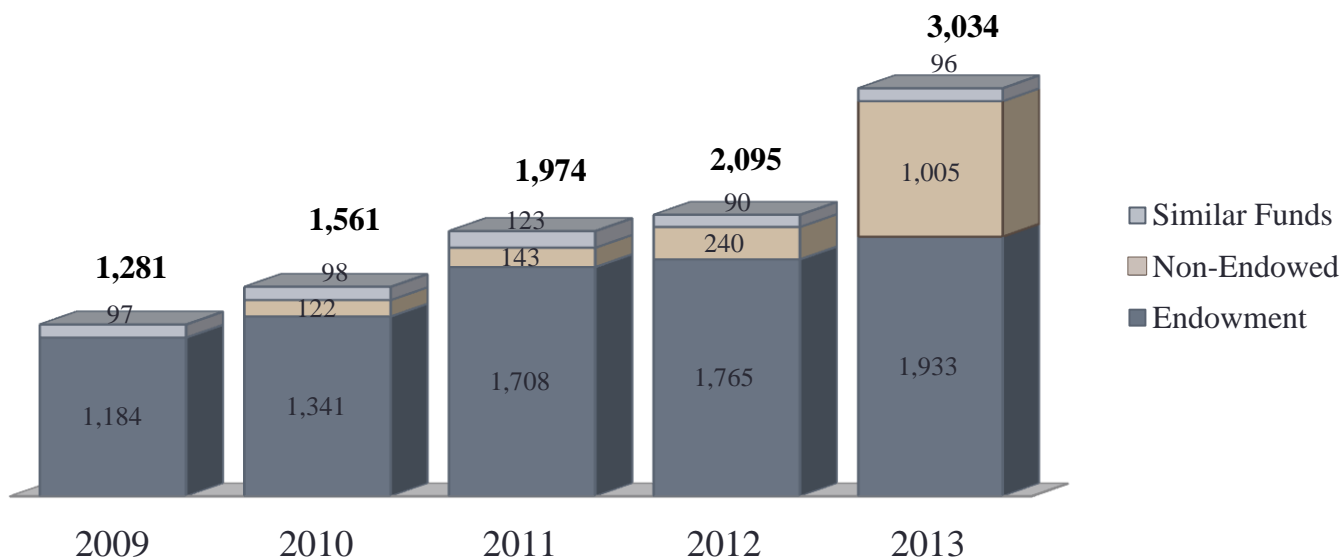
- Committing \$15M each to: ArrowTech I, L.P.; Sentinel V, L.P.; Foundry Select Fund, L.P.
- Investing \$50M each in Somerset Small Mid Cap EM All Country Fund; Capstone Volatility Master Fund
- Investing \$25M in Everest Global EM Focus Fund
- Investing \$15M in Henderson Agricultural Fund

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.

Long-Term Investment Pool Market Value

As of June 30, 2013, Penn State’s Endowment was valued at \$1,933.2 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 \$95.7 million. During the past four years, non-endowed funds in the amount of \$1,004.8 million have been commingled into the Long-Term Investment Pool, which currently stands at \$3,033.7 million, as shown in the far right-hand column below.

Long-Term Investment Pool Market Value
Fiscal Years Ending June 30
 (\$ millions)



From the graph above:

The Endowment increased by \$168.2 million during fiscal 2013, from \$1,765.0 million to \$1,933.2 million. As seen in the table on page 2, new gifts added to the Endowment Pool over the last 12 months totaled \$73.9 million, and Endowment program support (spending) amounted to \$71.5 million. Current endowment spending has been approved by the Board of Trustees to remain at an annual rate of 4.5%.

As of June 30, the market value of the Long-Term Investment Pool and similar funds totaled \$3,033.7 million, including \$1,004.8 million in non-endowed transfers that have been commingled for investment purposes, but are restricted to the on-going funding of the University’s FAS 106 liability, per above.

Prospectively, the reported market value for the Long-Term Investment Pool, as well as all analysis, will include all commingled funds.

Review of Investment Markets in Fiscal 2013

Following a year of single-digit gains, global equities rebounded in fiscal 2013 and trounced fixed income returns, which were uncharacteristically negative. In a strong reversal versus the prior fiscal year, US equities outdistanced non-US equity markets. The performance of investment markets that directly impact Penn State University's Long-Term Investment Pool is discussed below.

US Equities

The S&P 500 returned 20.6% for the 12 months ending June 30, 2013, compared to 5.4% for fiscal 2012, while the more broadly-based Russell 3000 Index returned 21.5% and 3.8%, respectively. Small-capitalization stocks, as measured by the Russell 2000 Index, returned 24.2% versus -2.1% last year. The Nasdaq Index's return of 16.0% trailed the broad domestic indexes in fiscal 2013, but improved appreciably on its 2012 return of 5.8%.

Non-US Equities

Equities outside the United States trailed those in the US as the Morgan Stanley All Country World (ACW) Index ex-US returned 13.6% for the 12-month period ending June 30, 2013. This was sharply higher than its fiscal 2012 return of -14.1%. Emerging market equities in developing countries returned 2.9% over the last 12 months, far above their -15.7% return in fiscal 2012.

Fixed Income

Barclays Capital Aggregate Bond Index (various maturities of US Government and non-government domestic bonds) returned -0.7% in fiscal 2013 versus 7.5% in 2012. US Long-Term Treasury Bonds returned -8.2% in fiscal 2013 versus 32.3% a year earlier.

For fiscal 2013 and 2012, 91-day Treasury Bills remained essentially flat at 0.1%. Global Treasury Inflation Protected Securities (TIPS) returned -1.1% in fiscal 2013 compared to 4.7% in fiscal 2012.

Real Estate

Publicly-traded Real Estate Investment Trusts (REITs) returned 10.2% for the fiscal year ended June 30, 2013 somewhat less than its 2012 return of 12.5%. Privately-held real estate investment partnerships, as measured by the largely commercial property NCREIF Index, returned 10.5% in fiscal 2013 compared to 13.4% in 2012.

Alternatives

Private Equity Buyouts and Venture Capital earned returns (time-weighted) of 12.9% and 4.9%, respectively, for the 12 months ending March 31, 2013 (private capital partnerships are reported on a 3-month lag). In the previous 12-month period ending March 31, 2012, Private Equity returned 10.8%, while Venture Capital was at 12.8%. By comparison, the Russell 2000 Index of small-capitalization stocks returned 16.3% for the 12 months ending March 31, 2013 and -0.2% for the year ending March 31, 2012.

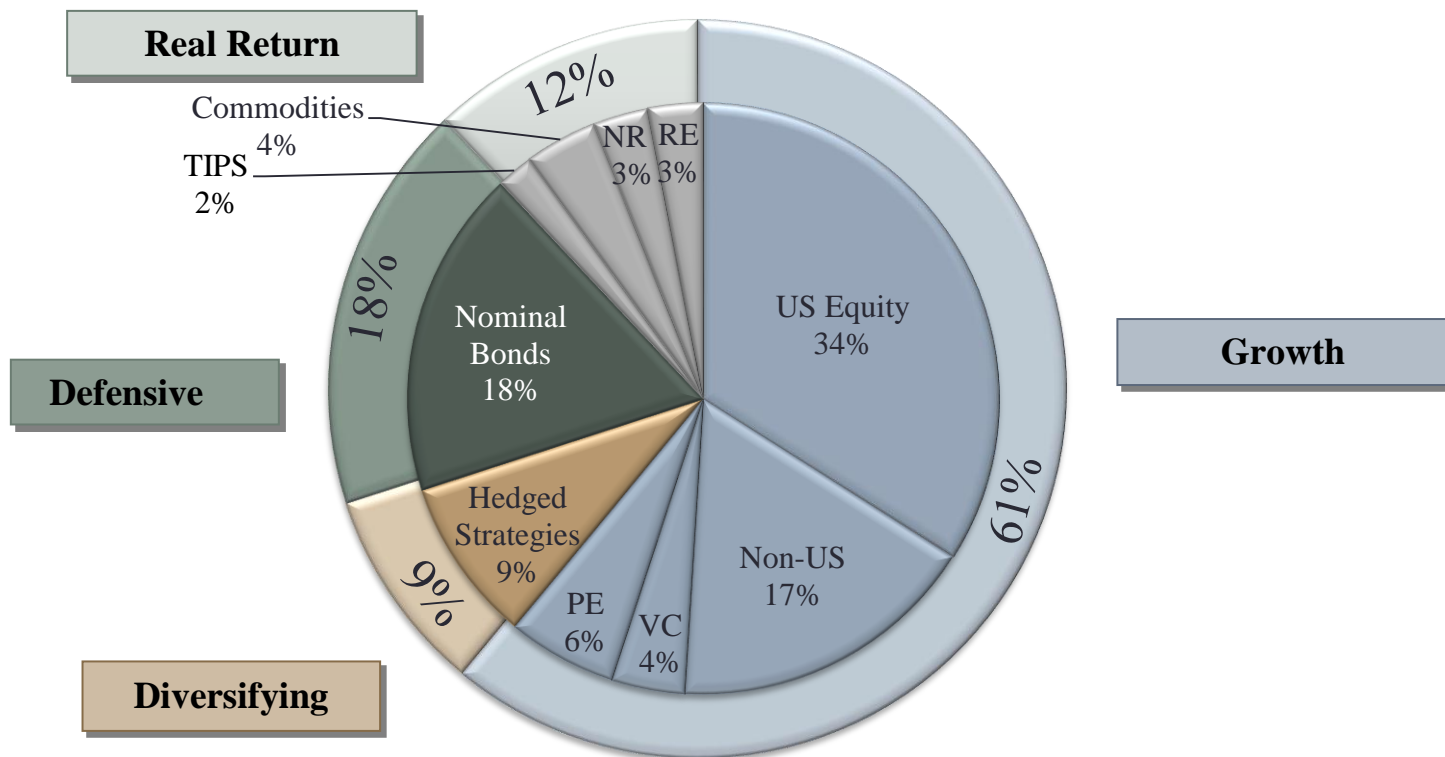
Economic and Market Outlook

In the 12 months ending June 30, 2013, global equity markets rebounded relative to Fiscal 2012, with US equities outpacing non-US indexes. However, fixed income markets were negative after six consecutive years of positive returns, owing largely to poor returns in the first six months of 2013, as markets began to anticipate the possibility of Federal Reserve Bank tapering its monthly purchase of bonds. Looking ahead, expectations for domestic corporate profits are leveling off in the face of record profit margins and a slowly recovering world economy, especially in the European developed countries.

Penn State's well-diversified Long-Term Investment Pool — consisting of public equities, private partnerships, bonds, and hedge funds in addition to inflation-sensitive "real return 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. LTIP's asset mix combines four broad investment strategies – growth (economic-sensitive), real (inflation-sensitive), diversifying (low sensitivity to economic/investment-market fluctuations), and defensive – to maximize potential returns, while tempering volatility. In the graph below, the four macro investment strategies are shown in the outermost ring with their June 30, 2013 allocations of 61%, 9%, 18% and 12%, respectively; however, the percentages fluctuate over time depending on market trends and allocations approved by the Penn State Investment Council.



At a more granular level, LTIP's diversified portfolio includes a variety of traditional asset classes that comprise the four macro strategies, as shown by the slices within the inner pie (percentages are rounded):

- Growth (61%): 34% in publicly-traded US and 17% in non-US common stocks, as well as 4% in venture capital and 6% private equity funds.
- Diversifying (9%): opportunistic (7%), absolute return (1%), and directional (1%) hedged strategies.
- Defensive (18%): 11% in US government and investment grade corporate bonds, and 7% in global bonds.
- Real Return (12%): 2% in Global Treasury Inflation Protected Securities (TIPS), as well as real estate (3%), natural resources (3%), and commodities (4%).

The approximately 73% currently allocated to growth and inflation sensitive strategies is intended to take advantage of capital growth and purchasing power protection offered by equity-type investments. The 18% invested in liquidity (fixed income) and 9% in various hedged strategies is intended to provide stability and diversification, respectively, during times of market turbulence and uncertain economic conditions.

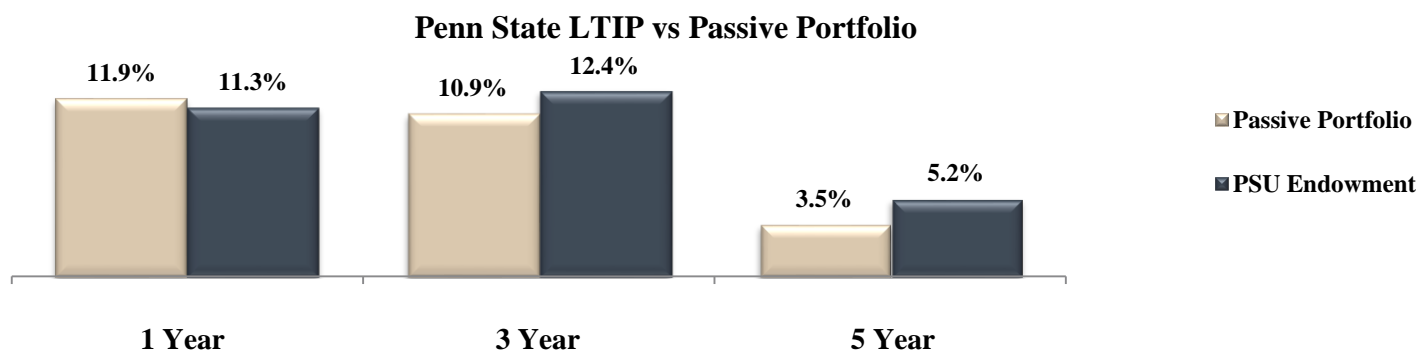
LTIP Performance Compared to Passive Portfolio

The Pool'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. This analysis is separate from the previous page where the described strategies do not have measurable benchmarks and represent a conceptual, top-down approach to asset allocation that is updated and reviewed regularly.

In the table below, the respective static weightings of three traditional major asset categories and sub categories are associated with corresponding market benchmarks and their respective index returns to generate *Passive Portfolio* returns over 1-, 3-, and 5-year horizons:

<u>Asset Class</u>	<u>Benchmark</u>	<u>% Weighting</u>	<u>Annualized % Benchmark Returns</u>		
			<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
Public Equities (listed on stock exchanges)					
Global Equities	MSCI All Country World Index	60	16.6	12.4	2.3
Private Capital (non-marketable alternatives)					
Private Equity	CA Private Equity Composite	10	12.9	15.1	7.5
Venture Capital	CA Venture Capital Composite	5	4.9	12.0	4.4
Private Real Estate	NCREIF Index	5	10.5	13.3	2.3
Fixed Income/Cash					
Total US Bonds	Barclays Aggregate Bond Index	<u>20</u>	<u>-0.7</u>	<u>3.5</u>	<u>5.2</u>
Total Passive Portfolio (net)		100%	11.9%	10.9%	3.5%

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 whose periodic weights vary as a result of fluctuating market returns as well as the periodic hiring and firing of investment managers.



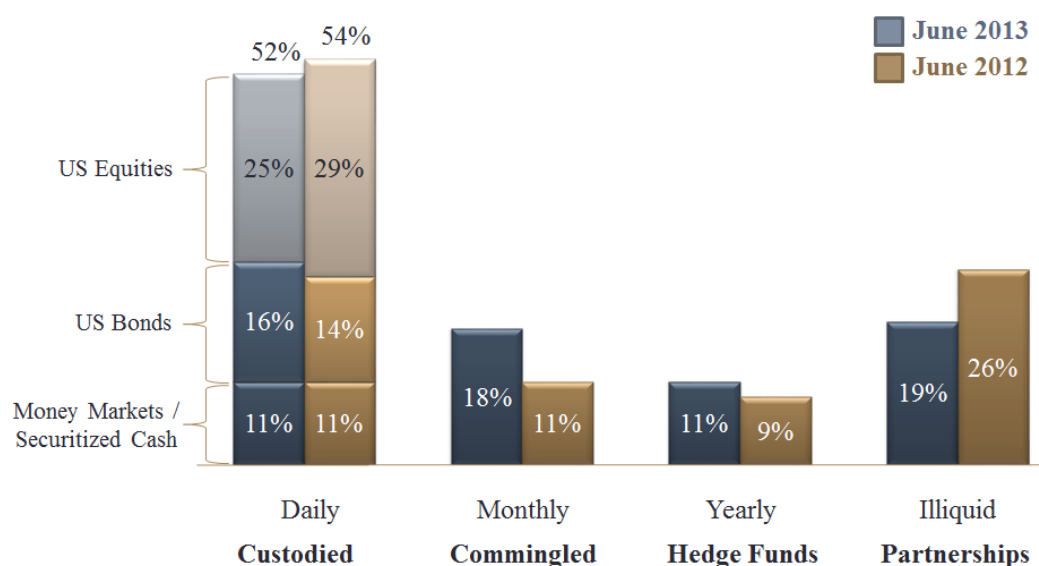
As shown above, Penn State's LTIP returned 11.3% net for fiscal 2013, trailing the 11.9% return of the Passive Portfolio, owing largely to the timing of cash inflows associated with the transfer of the non-endowed funds during the last 12 months. For the 3- and 5-year periods, the Long-Term Investment Pool's

annualized returns of 12.4% and 5.2% outpaced the Passive Portfolio's 10.9% and 3.5%, respectively. Overall, this indicates that the Endowment's investment managers augmented performance in the long term, while underperforming in the shorter term.

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. LTIP's performance varies from the *static* Passive Portfolio as a consequence of several factors, including but not limited to the timing of cash-flows, tactical shifts in asset mix, and individual investment manager performance and turnover.

Long-Term Investment Pool Liquidity

Financial crisis are characterized, among other considerations, by lack of liquidity, as institutions are unable to meet current obligations due to lack of available cash. In the graph below, LTIP assets are classified according to how quickly they can be converted to cash. Securities listed on exchanges or traded over-the-counter, and held in custody as 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 at least once a month. Hedge fund partnerships are typically open for at least partial liquidation once a year, with a few having more and/or less frequent liquidity “windows.” Non-marketable partnerships are considered illiquid primarily because of the inability of limited partners to transact at will.



Observations from the blue (left) bars of each of the four pairs above for the period ending June 30, 2013:

- 52% percent of LTIP assets are invested in stocks and bonds that can be converted to cash in a matter of days. Of this, about 2% is held in money market accounts, along with approximately 9% in “securitized cash” (i.e., fully-collateralized futures), which can be readily converted to cash in order to satisfy day-to-day and/or unforeseen cash requirements.
- Commingled portfolios, primarily non-US public equities, comprise 18% of LTIP assets and can be converted to cash within 30 days or, in some cases, sooner.
- 11% of LTIP assets are invested in various diversifying hedge fund partnerships and can be at least partially converted to cash annually or in many cases quarterly.
- 19% percent of LTIP assets are invested in more than 100 different partnership funds or other non-marketable investments which are conservatively considered illiquid because underlying holdings are typically not readily marketable, as well as uncertain timing of future cash distributions.

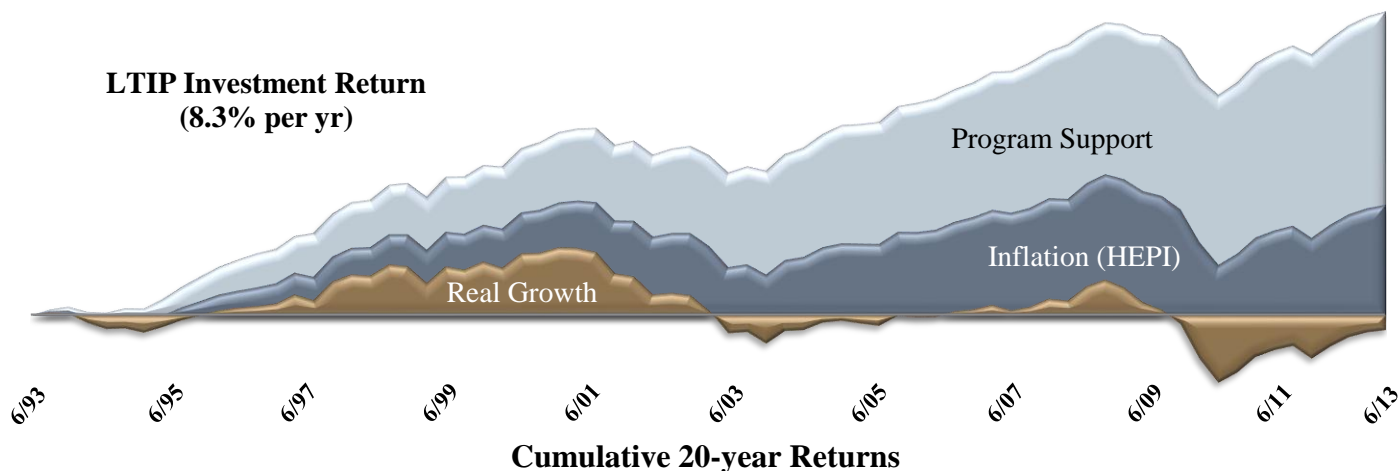
The foregoing indicates that LTIP maintains sufficient liquidity to satisfy anticipated cash requirements.

Liquidity Trends

As shown above, the liquidity profile of Penn State’s LTIP has shifted somewhat from the end of fiscal 2012 (tan bars) to the end of fiscal 2013 (grayish-blue bars). Daily liquidity remained about the same (from 54% to 52%), while monthly liquidity increased from 11% to 18% and yearly liquidity increased from 9% to 11%. On the other hand, illiquid non-marketable alternative assets decreased from 26% to 19%, owing to the growth of the total investment pool as a result of commingling non-endowed assets primarily into the other three liquidity categories. Over time, stepped up commitments to partnerships will gradually result in larger representation by non-marketable investments.

Long-Term LTIP Growth and Spending

In the chart below, the top line represents the cumulative net investment return of the Penn State Long-Term Investment Pool over the last 20 years, averaging 8.3% per year. The layers illustrate investment return apportioned to program support (spending as previously discussed on page 3) and inflation (as measured by the Higher Education Price Index [HEPI]), with the remaining residual representing net, real (inflation-adjusted) growth.



LTIP'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 discrete 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 topography 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 largely been achieved.

Two Very Different Decades of Market Performance

The variable nature of investment returns is characterized in the table below which bifurcates the last 20 years into two successive 10-year periods, whose respective investment returns differed widely. The 10 years ending June 2003 (second row) benefitted from an extended equity bull market during the 1990's, while the 10 years ending June 2013 (first row) suffered large sell-offs in equities, before rebounding over the last 4.3 years. The return disparity is reflected by comparing the S&P 500's 10-year average return for the decade ending June 30, 2013 (7.4%) versus June 30, 2002 (10.1%) below:

10-Year Periods Ending June 31	Annual Nominal Returns			HEPI	Annual Real Returns		
	S&P 500	Bond Index	LTIP		S&P	Bonds	LTIP
2003 to 2013	7.4%	4.5%	8.6%	3.0%	4.4%	1.5%	5.6%
1993 to 2003	10.1	7.4	8.0	3.4	6.6	4.0	4.6
Diff (percentage points)	-2.7%p	-2.9%p	0.6%p	-0.4%p	-2.2%p	-2.5%p	1.0%p

As shown by the negative differentials for the S&P and Bonds in the third row above, market index returns for the most recent 10 years lagged those for the previous 10 years. The Endowment's 8.6% annualized return for the 10 years ending June 30, 2013 bested its prior 10-year period return of 8.0% by 0.6%p (percentage points), net of fees. At the same time, the S&P 500's 7.4% annualized return was hampered by severe equity bear markets and trailed its 10.1% pace for the 10-year period ending June 2003 by 2.7%p. Barclays Aggregate Bond Index returned 4.5% for the June 30, 2013 10-year period versus 7.4% for the prior 10-year period.

On an inflation-adjusted basis relative to HEPI (boxed column in middle of above table), LTIP's net *real* return difference was 1.0%p, compared to *real* differences of -2.2%p for stocks and -2.5%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 both stocks and bonds (nominal and real) for the 10 years ending June 2013, when overall investment returns were significantly lower than the prior 10-year period.