PENNSTATE

(814) 865-1355
(814) 863-0701

Joseph J. Doncsecz
Associate Vice President for Finance and Corporate Controller

The Pennsylvania State University
408 Old Main
University Park, PA 16802-1505

December 20, 2011

Christopher Ryder
Licensing Project Manager
U.S. Nuclear Regulatory Commission
Fuel Cycle Safety and Safeguards
Fuel Manufacturing Branch
Washington, DC 20555-0001
Mail Stop EBB 2 C40M

Re: **Audited Financial Statements – Year Ending June 30, 2011**

License numbers:

R-2	Breazeale Nuclear Reactor, Docket 050-0005
SNM-95	Docket 70-13

Dear Mr. Ryder,

Attached is The Pennsylvania State University's Audited Financial Statements for last fiscal year. An electronic version can be found at http://www.controller.psu.edu/Divisions/ControllersOffice/reports.html To show compliance with the financial tests of 10CFR30 Appendix A, The Pennsylvania State University certifies that PSU has:

(i) A bond rating of AA as issued by Standard and Poor's and a bond rating of Aa1 as issued by Moody's,
(ii) Tangible net worth each at least six times the current decommissioning cost estimates for all uses of radioactive material,
(iii) Tangible net worth of at least $10 million, and
(iv) Assets located in the United States amounting to at least 90 percent of the total assets or at least six times the current decommissioning cost estimates for the total of all facilities.

Also attached is PSU's Self-Guarantee Agreement for Financial Assurance for Cost of Decommissioning Activities.

Please contact Eric Boeldt at 814-865-6391 or ejb6@psu.edu if you have any questions.

Thank you.

Joseph J. Doncsecz

Joseph J. Doncsecz
Associate Vice President for Finance
and Corporate Controller

cc: Eric Boeldt, Radiation Safety Officer
Mark Trump, Associate Director, Radiation Science and Engineering Center

A020
NRR
NMSS

The Pennsylvania State University

Financial Assurance for Cost of Decommissioning Activities

Self-Guarantee Agreement

Guarantee made by The Pennsylvania State University, a nonprofit university, organized under the laws of the Commonwealth of Pennsylvania, herein referred to as "guarantor," to the U. S. Nuclear Regulatory Commission, on behalf of the university as licensee.

Recitals

1. The guarantor has full authority and capacity to enter into this self-guarantee by the bylaws of the Trustees of the Pennsylvania State University.

2. This self-guarantee is being issued to comply with regulations issued by NRC, an agency of the U. S. Government, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974. NRC has promulgated regulations in Title 10, Chapter I of the *Code of Federal Regulations,* Parts 50 and 70, which require that a holder of, or an applicant for, a materials license issued pursuant to 10 CFR Parts 50 and 70 provide assurance that funds will be available when needed for required decommissioning activities.

3. The self-guarantee is issued to provide financial assurance for decommissioning activities for the licenses and facilities shown.

License # and Docket #	License Description and method	Certified Amounts or Current Cost Estimates 2011
R-2 050-0005	Research Reactor 2001 estimate of $7,141,464 plus 5% per year increase.	$11,632,692
SNM-95 70-113	Special Nuclear Material for research and teaching. December 2009 estimate of decommissioning costs.	$19,500
	Sub total	$11,652,192
	25% contingency fund	$2,913,048
	Total Estimated Costs:	$14,565,240

4. The guarantor meets or exceeds the following financial test criteria for a nonprofit university that issues bonds. Specifically, the current rating for our most recent uninsured, uncollateralized, and unencumbered bond issuance was AA as issued by Standard & Poor's, and agrees to comply with all notification requirements as specified in 10 CFR Part 50, 70, and Appendix A to 10 CFR Part 30

5. The guarantor does not have a parent company holding majority control of its voting stock.

6. Decommissioning activities as used below refer to the activities required by 10 CFR Part 50 and 70 for decommissioning of the facilities identified above.

7. Pursuant to the guarantor's authority to enter into this guarantee, the guarantor guarantees to the NRC that the guarantor shall:

   (a) carry out the required decommissioning activities, as required by the licenses listed above.

8. The guarantor agrees to submit revised financial statements, financial test data annually within 180 days of the close of its fiscal year.

9. The guarantor agrees that if, at the end of any fiscal year before termination of this self-guarantee, it fails to meet the self-guarantee financial test criteria, it shall send within 90 days of the end of the fiscal year, by certified mail, notice to the NRC that it intends to provide alternative financial assurance as specified in 10 CFR Part 30. Within 120 days after the end of the fiscal year, the guarantor shall establish such financial assurance.

10. *{deleted}*

11. The guarantor agrees that if it determines, at any time other than as described in Recital 9, that it no longer meets the self-guarantee financial test criteria or it is disallowed from continuing as a self-guarantor, it shall establish alternative financial assurance as specified in 10 CFR Parts 50 and 70 within 30 days.

12. The guarantor, as well as its successors and assigns and agrees to remain bound jointly and severally under this guarantee notwithstanding any or all of the following: amendment or modification of the license or NRC-approved decommissioning funding plan for that facility, the extension or reduction of the time of performance of required activities, or any other modification or alteration of an obligation of the licensee pursuant to 10 CFR Parts 50 and 70.

13. The guarantor agrees that it shall be liable for all litigation costs incurred by the NRC in any successful effort to enforce the agreement against the guarantor.

14. The guarantor agrees to remain bound under this self-guarantee for as long as it, as licensee, must comply with the applicable financial assurance requirements of 10 CFR Part 50 and 70, for the previously listed facilities, except that the guarantor may cancel this self-guarantee by sending notice by certified mail to the NRC, such cancellation to become effective not before an alternative financial assurance mechanism has been put in place by the guarantor

15. The guarantor agrees that if it, as licensee, fails to provide alternative financial assurance as specified in 10 CFR Parts 50 and 70 and obtain written approval of

such assurance from the NRC within 90 days after a notice of cancellation by the guarantor is received by the NRC from the guarantor, the guarantor shall make full payment under the self-guarantee.

16. The guarantor expressly waives notice of acceptance of this self-guarantee by the NRC. The guarantor also expressly waives notice of amendments or modifications of the decommissioning requirements.

17. If the guarantor files financial reports with the U.S. Securities and Exchange Commission, then it shall promptly submit them to its independent auditor and to NRC during each year in which this self guarantee is in effect.

18. The guarantor agrees that if, at any time before termination of this self-guarantee, its most recent bond issuance ceases to be rated in the category of "A" or above by either Standard & Poor's or Moody's, it shall provide notice in writing of such fact to NRC within 20 days after publication of the change by the rating service.

I hereby certify that this self-guarantee is true and correct to the best of my knowledge.

Effective date: 12/19/11

The Pennsylvania State University:

Joseph J. Doncsecz

Joseph J. Doncsecz
Associate Vice President for Finance
and Corporate Controller

PENNSTATE

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Audited Financial Statements

The Pennsylvania State University

Fiscal Year Ended June 30, 2011

THE PENNSYLVANIA STATE UNIVERSITY

UNIVERSITY OFFICERS

as of October 18, 2011

GRAHAM B. SPANIER
President

RODNEY A. ERICKSON
Executive Vice President and
Provost

RODNEY P. KIRSCH
Senior Vice President for Development
and Alumni Relations

HAROLD L. PAZ
Chief Executive Officer, Penn State Milton S.
Hershey Medical Center; Senior
Vice President for Health Affairs; and
Dean, Penn State College of Medicine

GARY C. SCHULTZ
Interim Senior Vice President for
Finance and Business, and Treasurer

THE PENNSYLVANIA STATE UNIVERSITY

1855

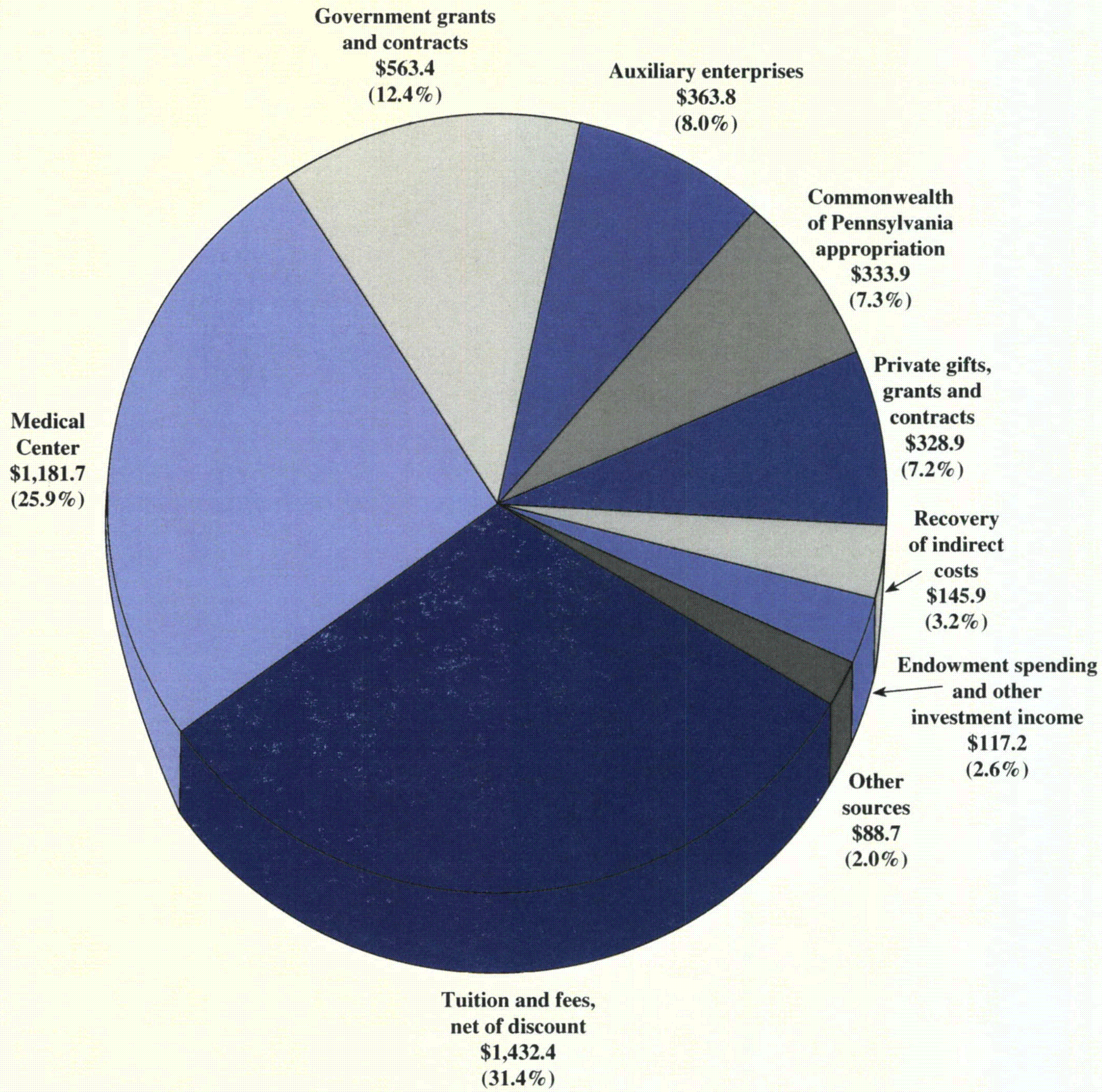
VIRTUE LIBERTY AND INDEPENDENCE

CONTENTS

OPERATING REVENUES BY SOURCE ($4.6 billion)

For the Year Ended June 30, 2011

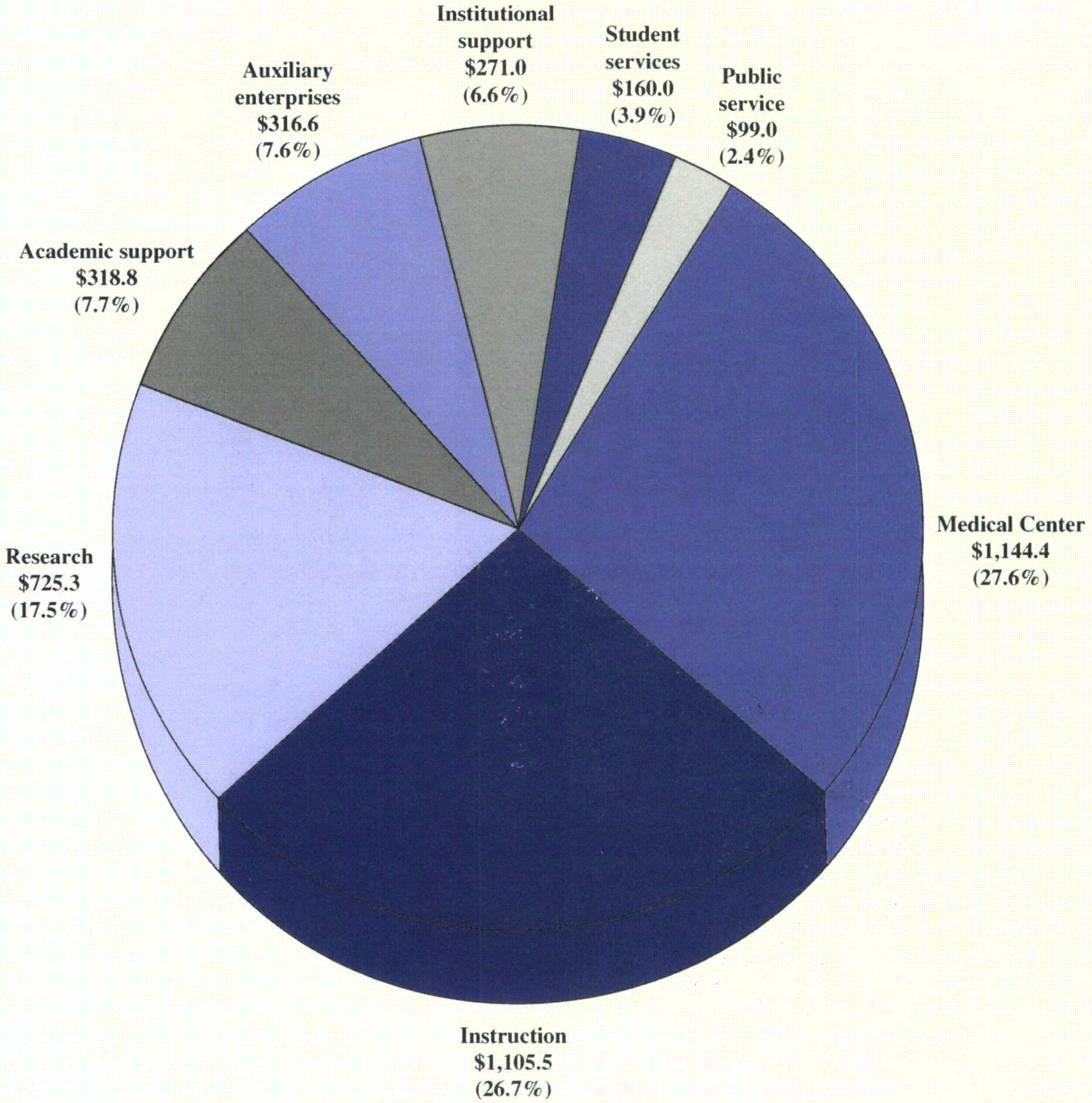
($ in Millions)



OPERATING EXPENSES BY FUNCTION ($4.1 billion)

For the Year Ended June 30, 2011

($ in Millions)



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(814) 865-1355
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Joseph J. Doncsecz
Associate Vice President for Finance and Corporate Controller

The Pennsylvania State University
408 Old Main
University Park, PA 16802-1505

October 18, 2011

Dr. Graham Spanier, President
The Pennsylvania State University

Dear Dr. Spanier:

The audited consolidated financial statements of The Pennsylvania State University and subsidiaries (the "University") for the fiscal year ended June 30, 2011 are presented on the accompanying pages. These financial statements represent a complete and permanent record of the finances of the University for the year.

These financial statements have been audited by Deloitte & Touche LLP, independent auditors, and their report has been made a part of this record.

Respectfully submitted,

Joseph J. Doncsecz

Joseph J. Doncsecz
Associate Vice President for Finance and Corporate Controller

Gary C. Schultz

Gary C. Schultz
Interim Senior Vice President for Finance and Business/Treasurer

Deloitte.

Deloitte & Touche LLP

1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: 215 246 2300
Fax: 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of The Pennsylvania State University and subsidiaries (the "University") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

October 18, 2011

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
ASSETS
JUNE 30, 2011 AND 2010
(in thousands)

	June 30, 2011	June 30, 2010
Current assets:		
Cash and cash equivalents	$ 1,569,015	$ 1,203,486
Short-term investments	219,483	202,487
Deposits held by bond trustees	54,905	191,340
Deposits held for others	24,453	25,972
Accounts receivable, net of allowances of $48,096 and $25,571	365,308	395,039
Contributions receivable, net	69,610	55,752
Loans to students, net of allowances of $369 and $396	7,364	7,076
Inventories	36,045	31,872
Prepaid expenses and other assets	89,565	70,845
Investments held under securities lending program	219,524	249,959
Total current assets	2,655,272	2,433,828
Noncurrent assets:		
Deposits held by bond trustees	4,746	6,676
Contributions receivable, net	157,459	158,408
Loans to students, net of allowances of $2,384 and $2,647	47,630	49,002
Deferred bond costs, net	6,748	7,260
Total investment in plant, net	3,372,005	3,151,655
Beneficial interest in perpetual trusts	12,843	11,400
Investments	3,443,905	2,909,271
Total noncurrent assets	7,045,336	6,293,672
Total assets	$ 9,700,608	$ 8,727,500

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
LIABILITIES AND NET ASSETS
JUNE 30, 2011 AND 2010
(in thousands)

	June 30, 2011	June 30, 2010
Current liabilities:		
Accounts payable and other accrued expenses	$ 508,426	$ 454,482
Deferred revenue	233,132	222,654
Long-term debt	43,016	52,339
Present value of annuities payable	5,397	4,873
Accrued postretirement benefits	37,601	32,257
Liability under securities lending program	219,524	249,959
Total current liabilities	1,047,096	1,016,564
Noncurrent liabilities:		
Deposits held in custody for others	52,618	52,783
Deferred revenue	12,004	14,521
Long-term debt	1,146,642	1,184,072
Present value of annuities payable	39,028	31,550
Accrued postretirement benefits	1,441,442	1,258,530
Refundable United States Government student loans	43,764	43,957
Other liabilities	141,908	143,870
Total noncurrent liabilities	2,877,406	2,729,283
Total liabilities	3,924,502	3,745,847
Net assets:		
Unrestricted -		
Undesignated	1,591	1,545
Designated for specific purposes	2,195,213	1,774,384
Net investment in plant	1,913,962	1,832,776
Total unrestricted - The Pennsylvania State University	4,110,766	3,608,705
Noncontrolling interest	694	657
Total unrestricted	4,111,460	3,609,362
Temporarily restricted	555,375	337,570
Permanently restricted	1,109,271	1,034,721
Total net assets	5,776,106	4,981,653
Total liabilities and net assets	$ 9,700,608	$ 8,727,500

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support:				
Tuition and fees, net of discounts of $116,588	$ 1,432,398	$ -	$ -	$ 1,432,398
Commonwealth of Pennsylvania -				
Appropriations	333,863	-	-	333,863
Special contracts	65,919	-	-	65,919
Department of General Services projects	46,801	-	-	46,801
United States Government grants and contracts	450,710	-	-	450,710
Private grants and contracts	170,890	-	-	170,890
Gifts and pledges	76,141	81,916	-	158,057
Endowment spending	65,964	-	-	65,964
Other investment income	50,958	284	-	51,242
Sales and services of educational activities	63,737	-	-	63,737
Recovery of indirect costs	145,855	-	-	145,855
Auxiliary enterprises	363,781	-	-	363,781
Medical Center revenue	1,181,732	-	-	1,181,732
Other sources	24,928	-	-	24,928
Net assets released from restrictions	40,145	(40,145)	-	-
Total operating revenues and other support	4,513,822	42,055	-	4,555,877
Operating expenses:				
Educational and general -				
Instruction	1,105,503	-	-	1,105,503
Research	725,306	-	-	725,306
Public service	98,965	-	-	98,965
Academic support	318,771	-	-	318,771
Student services	160,006	-	-	160,006
Institutional support	270,982	-	-	270,982
Total educational and general	2,679,533	-	-	2,679,533
Auxiliary enterprises	316,617	-	-	316,617
Medical Center expense	1,144,462	-	-	1,144,462
Total operating expenses	4,140,612	-	-	4,140,612
Increase in net assets from operating activities	373,210	42,055	-	415,265
Non-operating activities:				
Gifts and pledges	-	-	77,867	77,867
Current year investment returns	162,243	177,541	6,190	345,974
Endowment appreciation utilized	(28,539)	-	-	(28,539)
Changes in funds held by others in perpetuity	-	712	1,419	2,131
Write-offs and disposals of assets	(4,853)	-	-	(4,853)
Actuarial adjustment on annuities payable	-	(2,503)	(10,926)	(13,429)
Increase in net assets from non-operating activities	128,851	175,750	74,550	379,151
Increase in net assets - The Pennsylvania State University	502,061	217,805	74,550	794,416
Non-controlling interest:				
Excess of revenues over expenses	37	-	-	37
Increase in net assets non-controlling interest	37	-	-	37
Increase in total net assets	502,098	217,805	74,550	794,453
Net assets at the beginning of the year	3,609,362	337,570	1,034,721	4,981,653
Net assets at the end of the year	$ 4,111,460	$ 555,375	$ 1,109,271	$ 5,776,106

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues and other support:				
Tuition and fees, net of discounts of $109,255	$ 1,353,614	$ -	$ -	$ 1,353,614
Commonwealth of Pennsylvania -				
Appropriations	350,836	-	-	350,836
Special contracts	79,225	-	-	79,225
Department of General Services projects	91,824	-	-	91,824
United States Government grants and contracts	445,630	-	-	445,630
Private grants and contracts	173,032	-	-	173,032
Gifts and pledges	65,027	59,357	-	124,384
Endowment spending	63,401	-	-	63,401
Other investment income	53,069	545	-	53,614
Sales and services of educational activities	54,237	-	-	54,237
Recovery of indirect costs	142,092	-	-	142,092
Auxiliary enterprises	358,785	-	-	358,785
Medical Center revenue	1,027,218	-	-	1,027,218
Other sources	13,142	-	-	13,142
Net assets released from restrictions	26,705	(26,705)	-	-
Total operating revenues and other support	4,297,837	33,197	-	4,331,034
Operating expenses:				
Educational and general -				
Instruction	1,076,891	-	-	1,076,891
Research	742,190	-	-	742,190
Public service	96,355	-	-	96,355
Academic support	344,587	-	-	344,587
Student services	156,034	-	-	156,034
Institutional support	274,327	-	-	274,327
Total educational and general	2,690,384	-	-	2,690,384
Auxiliary enterprises	305,646	-	-	305,646
Medical Center expense	1,009,860	-	-	1,009,860
Total operating expenses	4,005,890	-	-	4,005,890
Increase in net assets from operating activities	291,947	33,197	-	325,144
Non-operating activities:				
Gifts and pledges	-	-	60,483	60,483
Current year investment returns	166,277	59,079	4,894	230,250
Endowment appreciation utilized	(30,586)	-	-	(30,586)
Changes in funds held by others in perpetuity	-	549	351	900
Write-offs and disposals of assets	(4,408)	-	-	(4,408)
Actuarial adjustment on annuities payable	-	629	(4,987)	(4,358)
Increase in net assets from non-operating activities	131,283	60,257	60,741	252,281
Increase in net assets - The Pennsylvania State University	423,230	93,454	60,741	577,425
Non-controlling interest:				
Acquisition adjustment	657	-	-	657
Increase in net assets - non-controlling interest	657	-	-	657
Increase in total net assets	423,887	93,454	60,741	578,082
Net assets at the beginning of the year	3,185,475	244,116	973,980	4,403,571
Net assets at the end of the year	$ 3,609,362	$ 337,570	$ 1,034,721	$ 4,981,653

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(in thousands)

	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Increase in net assets	$ 794,453	$ 578,082
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Actuarial adjustment on annuities payable	13,428	4,358
Contributions restricted for long-term investment	(156,224)	(85,019)
Interest and dividends restricted for long-term investment	(32,233)	(23,467)
Net realized and unrealized gains on long-term investments	(352,737)	(235,936)
Depreciation expense	223,642	215,474
Amortization expense	563	560
Loss on early extinguishment of debt	803	-
Write-offs and disposals of assets	4,961	7,020
Contributions of land, buildings and equipment	(2,787)	(2,343)
Buildings and equipment provided by Pennsylvania Department of General Services	(16)	(152)
Contribution to government student loan funds	154	234
Provision for bad debts	56,920	27,297
(Increase)/decrease in deposits held for others	1,520	(700)
Increase in receivables	(44,620)	(53,222)
Increase in inventories	(4,171)	(301)
Increase in prepaid expenses and other assets	(10,815)	(19,266)
Increase/(decrease) in accounts payable and other accrued expenses	(1,328)	12,735
Increase in deferred revenue	7,961	2,893
Increase in accrued postretirement benefits	188,256	246,603
Net cash provided by operating activities	687,730	674,850
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(424,404)	(354,052)
(Increase)/decrease in deposits held by bond trustees	138,366	(65,476)
Advances on student loans	(7,809)	(7,909)
Collections on student loans	7,881	7,426
Decrease in investments held under securities lending program	30,435	3,737
Decrease in liability under securities lending program	(30,435)	(3,737)
Purchase of investments	(40,211,674)	(27,207,760)
Proceeds from sale of investments	40,047,416	26,864,199
Net cash used in investing activities	(450,224)	(763,572)
Cash flows from financing activities:		
Contributions restricted for long-term investment	156,224	85,019
Interest and dividends restricted for long-term investment	32,233	23,467
Payments of annuity obligations	(5,419)	(4,892)
Proceeds from issuance of bonds	39,276	145,005
Bond issuance costs	(399)	-
Principal payments on notes, bonds and capital leases	(94,516)	(51,804)
Proceeds related to government student loan funds, net of collection costs	624	606
Net cash provided by financing activities	128,023	197,401
Net increase in cash and cash equivalents	365,529	108,679
Cash and cash equivalents at the beginning of the year	1,203,486	1,094,807
Cash and cash equivalents at the end of the year	$ 1,569,015	$ 1,203,486
Supplemental disclosures of cash flow information (Note 2)		

See notes to consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. THE UNIVERSITY AND RELATED ENTITIES

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

Basis of Presentation

The financial statements of the University include, on a consolidated basis, the combined financial statements of The Milton S. Hershey Medical Center ("TMSHMC" or "Medical Center"), a not-for-profit corporation and Penn State Hershey Health System, Inc. ("Health System") and The Corporation for Penn State and its subsidiaries ("the Corporation"). See Note 11 for additional information about TMSHMC and the Health System. The Corporation is a non-profit member corporation organized in 1985 for the exclusive purpose of benefiting and promoting the interests of the University, the Corporation's sole member. The Corporation's assets and revenues consist primarily of the assets and revenues of The Pennsylvania College of Technology ("Penn College"), a wholly-owned subsidiary of the Corporation. All significant transactions between the University, TMSHMC and the Corporation have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The University's consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the source of authoritative GAAP.

The University's consolidated financial statements include statements of financial position, activities and cash flows. In accordance with FASB ASC requirements, net assets and the changes in net assets are classified as permanently restricted, temporarily restricted or unrestricted.

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

Temporarily restricted net assets consist of contributions receivable and remainder interests whose ultimate use is not permanently restricted. In addition, the excess of current market value over the historical cost of permanently restricted endowments is classified as temporarily restricted net assets.

Unrestricted net assets are all the remaining net assets of the University. Net unrealized losses on permanently restricted endowment funds for which historical cost exceeds market value are recorded as a reduction to unrestricted net assets.

Revenue from temporarily restricted sources is reclassified as unrestricted revenue when the circumstances of the restriction have been fulfilled. Donor-restricted revenues whose restrictions are met within the same fiscal year are reported as unrestricted income.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts on the financial statements and the disclosure of contingencies and commitments. Actual results could differ from those estimates.

Revenue Recognition

Tuition revenue is recognized in the fiscal year in which the substantial portion of the educational term occurs. Institutional financial aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue. Revenues for auxiliary enterprises are recognized as the related goods and services are delivered and rendered. Grant revenues are recognized as the eligible grant activities are conducted. Payments received in advance for tuition, goods and services are deferred.

Unconditional promises to give are recognized as revenues and receivables in the year made and consist of written or oral promises to contribute to the University in the future. Contributions receivable are recorded with the revenue assigned to the appropriate category of restriction. The amounts are present-valued based on timing of expected collections.

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

TMSHMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because TMSHMC does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone for services and supplies furnished under the Medical Center's charity care policy during 2011 and 2010 totaled approximately $35.4 million and $32.9 million, respectively.

Fair Value of Financial Instruments

The University has provided fair value estimates for certain financial instruments in the notes to the financial statements. Fair value information presented in the financial statements is based on information available at June 30, 2011 and 2010. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and other accrued expenses approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying values of the University's loans to students are also reasonable estimates of their fair value, as the total outstanding loans to students as of June 30, 2011 and 2010 have been made at the rates available to students for similar loans at such times. Investments are reported at fair value as disclosed in Note 3. The fair value of the University's bonds payable is disclosed in Note 7. See Note 5 for further discussion of fair value measurements.

Cash Flows

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

(in thousands of dollars)	2011	2010
Interest paid	$ 50,862	$ 43,970
Non-cash acquisitions of land, buildings and equipment	10,371	12,956

Cash and cash equivalents include certain investments in highly liquid instruments with initial maturities of 90 days or less, except for such assets held by the University's investment managers as part of their long-term investment strategies. Short-term investments include other current investments held for general operating purposes with maturities greater than three months but less than 12 months.

Accounts Receivable

Accounts receivable, net at June 30 consists of the following:

(in thousands of dollars)	2011	2010
Grants and contracts, net of allowance of $1,260 and $860	$ 141,503	$ 134,998
Patient accounts receivable, net of allowance of $39,142 and $17,684	133,145	129,871
Student receivables, net of allowance of $4,258 and $4,018	34,053	41,965
Investment and interest receivable	30,558	34,891
Other, net of allowance of $3,436 and $3,009	26,049	53,314
Total accounts receivable, net	$ 365,308	$ 395,039

Loans to Students

Loans to students are disbursed to qualified students based on need and include loans granted by the University from institutional resources and under federal government loan programs. Students have a grace period until repayment is required based upon the earlier of graduation or no longer achieving at least half-time enrollment status. The grace period varies depending on the type of loan. Loans accrue interest after the grace period and are repaid directly to the University. Loans to students are uncollateralized and carry default risk. At June 30, 2011 and 2010, respectively, student loans represent 0.6% of total assets.

The availability of funds for loans under federal government revolving loan programs is dependent on reimbursements to the pool from repayments of outstanding loans. Funds advanced by the federal government of $43.8 million and $44.0 million at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available to loan and a decrease in the liability to the federal government.

At June 30, 2011 and 2010, loans to students consisted of the following:

(in thousands of dollars)	2011	2010
Loans to students:		
Federal government loan programs:		
Perkins loan program	$ 41,508	$ 42,580
Health Professions Student Loans and Loans for Disadvantaged Students	377	431
Federal government loan programs	41,885	43,011
Institutional loan programs	15,862	16,110
	57,747	59,121
Less allowance for doubtful accounts:		
Balance, beginning of year	(3,043)	(3,359)
Provision for doubtful accounts	290	316
Balance, end of year	(2,753)	(3,043)
Loans to students, net	$ 54,994	$ 56,078

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts according to the terms of the loan. Further, the University does not evaluate credit quality of student loans receivable after the initial approval of the loan. Loans to students are considered past due when payment is not received by the due date, and interest continues to accrue until the loan is paid in full or written off. When loans to students are deemed uncollectible, an allowance for doubtful accounts is established.

The University considers the age of the amounts outstanding in determining the collectability of loans to students. The aging of the loans to students based on days delinquent and the related allowance for doubtful accounts at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

2011	30 days or less	31-60 days	61-90 days	Over 91 days	Total
Loans to students:					
Federal government loan programs	$ 40,470	$ 603	$ 48	$ 764	$ 41,885
Institutional loan programs	15,358	273	42	189	15,862
Total loans to students	55,828	876	90	953	57,747
Allowance for doubtful accounts:					
Federal government loan programs					(1,771)
Institutional loan programs					(982)
Total allowance for doubtful accounts					(2,753)
Total loans to students, net					$ 54,994

(in thousands of dollars)

2010	30 days or less	31-60 days	61-90 days	Over 91 days	Total
Loans to students:					
Federal government loan programs	$ 41,010	$ 817	$ 93	$ 1,091	$ 43,011
Institutional loan programs	15,647	201	22	240	16,110
Total loans to students	56,657	1,018	115	1,331	59,121
Allowance for doubtful accounts:					
Federal government loan programs					(2,003)
Institutional loan programs					(1,040)
Total allowance for doubtful accounts					(3,043)
Total loans to students, net					$ 56,078

Inventories

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

Investments

The University's noncurrent investments represent the University's endowment and other investments held for general operating purposes. The University's investments are reported at fair value in the accompanying financial statements. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair values with gains and losses included in the consolidated statements of activities. In the management of investments, the University authorizes certain of its investment managers to purchase derivative securities to attain a desired market position; and the University may directly invest in derivative securities to attain a desired market position. The University does not trade or issue derivative financial instruments other than through the investment management practices noted above. The University records derivative securities at fair value with gains and losses reflected in the consolidated statements of activities.

The estimated fair value amounts for marketable debt and equity securities held by the University have been reviewed by the University and determined using available market information as supplied by the various financial institutions that act as trustees or custodians for the University. For non-liquid holdings, generally limited partnership investments in private real estate, venture capital, private equity, natural resources, and private debt, estimated fair value is determined based upon financial information provided by the general partner. This financial information includes assumptions and methods that were reviewed by University management. The University believes that the estimated fair value is a reasonable estimate of market value as of June 30, 2011 and 2010. Because the limited partnerships are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material.

Income on operating investments and income used for the annual distribution under the annual spending policy for endowments are reported in operating revenues within the consolidated statement of activities.

Beneficial Interest in Perpetual Trusts

The University is the beneficiary of certain perpetual trusts held and administered by outside trustees. The fair value of these trust assets has been recorded as permanently restricted net assets and related beneficial interest in perpetual trusts in the consolidated financial statements.

Investment in Plant

Total investment in plant as of June 30 is comprised of the following:

(in thousands of dollars)	2011	2010
Land	$ 110,409	$ 107,382
Buildings	4,449,942	4,093,137
Improvements other than buildings	502,542	485,613
Equipment	979,857	938,440
Total plant	6,042,750	5,624,572
Less accumulated depreciation	(2,670,745)	(2,472,917)
Total investment in plant, net	$ 3,372,005	$ 3,151,655

The value of land, buildings, and equipment is recorded at cost or, if received as gifts, at fair value at date of gift. The University does not capitalize the cost of library books. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Useful lives range from 10 to 50 years for buildings, 10 to 20 years for improvements other than buildings, and 3 to 20 years for equipment. The University has certain building and equipment lease agreements in effect which are considered capital leases that are included as long-term debt in the statements of financial position. These leases have been capitalized at the net present value of the minimum lease payments. Buildings and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset. The capitalized cost and accumulated depreciation of the leases at June 30, 2011 and 2010 was $101.8 million and $27.6 million, and $99.2 million and $21.7 million, respectively.

Asset Retirement Obligations

Under ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*, organizations must accrue for costs related to legal obligations to perform certain activities in connection with retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The University has identified asbestos abatement and the decommissioning of the Breazeale Nuclear Reactor as conditional asset retirement obligations. These obligations are reported as part of other non-current liabilities within the consolidated statement of financial position. The following table details the change in liabilities for the years ended June 30:

	(in thousands of dollars)
Balance as of June 30, 2009	$ 55,647
Accretion expense	2,873
Liabilities settled	(1,057)
Balance as of June 30, 2010	57,463
Accretion expense/ change in assumptions	4,780
Liabilities settled	(1,973)
Balance as of June 30, 2011	$ 60,270

Income Taxes

The University files U.S. federal and state tax returns. The statute of limitations on the University's federal returns generally remains open for three years following the year they are filed. In accordance with ASC 740 Income Taxes Topic, the University continues to evaluate tax positions and has determined there is no material impact on the University financial statements.

Recent Accounting Pronouncements

In April 2009, the FASB issued new ASC guidance for not-for-profit entities regarding mergers and acquisitions. This guidance defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. It also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. In addition, it amends existing FASB ASC Guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities applicable to not-for-profit entities. In January 2010, the FASB issued ASC guidance to clarify the scope of noncontrolling interests in consolidated financial statements related to a decrease in ownership provisions. This guidance was effective for the University beginning July 1, 2010 as it relates to acquisitions and mergers. On July 1, 2010, the University adopted the above guidance that established accounting and reporting standards for the noncontrolling interests in a subsidiary. This accounting and reporting standard requires entities that prepare consolidated financial statements to: (a) present noncontrolling interests as a component of net assets, separate from the parent's net assets; (b) separately present the amount of consolidated excess of revenues over expenses attributed to noncontrolling interests in the statements of activities; and (c) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. Such presentation is reflected in the University's consolidated financial statements.

In January 2010, the FASB issued ASC guidance that amends current disclosure requirements under the existing fair value accounting standard. It requires entities to disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements along with the reasons for those transfers. In addition, it also requires entities to present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as one net number in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance is effective for the University beginning on July 1, 2010 except for Level 3 fair value measurement disclosure that is effective July 1, 2011. As there were no transfers between Level 1 and Level 2 investments, there was no impact to the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries,* which requires a Healthcare Organization ("HCO") to present a liability related to medical malpractice claims (and other contingent claims) gross; such a liability would not be offset against related insurance recoveries unless the criteria in ASC 210-20 for offsetting were met. This guidance is effective for annual reporting periods beginning after December 15, 2010 and would require a cumulative-effect adjustment to opening unrestricted net assets in the period of adoption if a difference exists between any liabilities and insurance receivables recorded upon the adoption of the guidance. The University is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In July 2010, the FASB issued ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure a consensus of the FASB Emerging Issues Task Force*, which requires a HCO to disclose its policy for providing charity care and the amount of charity care provided. In addition, the ASU requires that the amount of charity care be based on the direct and indirect costs of providing charity care. The ASU also requires disclosure of funds received to offset or subsidize charity services provided. This guidance is effective for annual reporting periods beginning after December 15, 2010, and must be applied retrospectively. The University is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Entities.* This ASU requires a HCO to change the presentation of its statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, a HCO is required to provide enhanced disclosure about its policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for annual reporting periods ending after December 15, 2012. The University is currently assessing the impact of adopting this guidance on its consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* which requires more robust disclosure aimed at improving transparency by providing additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. This guidance is effective for the University beginning June 30, 2011 for disclosures as of the end of a reporting period.

3. INVESTMENTS

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

(in thousands of dollars)	2011	2010
Money markets	$ 172,027	$ 157,193
Fixed income:		
U.S. government/agency	892,659	892,175
U.S. corporate	524,413	493,493
Foreign	188,741	171,535
Other	306,152	182,902
Equities	918,265	694,491
Private capital	661,131	519,969
Investments held under securities lending program	219,524	249,959
Total	$ 3,882,912	$ 3,361,717

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

Futures contracts, which are fully cash collateralized, comprise the University's directly held derivative instruments at June 30, 2011 and 2010, respectively, are marked to market daily and are included in the fair value of the University's investments The fair value of derivative instruments is included in the fair value of the University's investments within the money market category. Futures contracts have minimal credit risk because the counterparties are the exchanges themselves. Fully cash collateralized derivative securities comprised approximately 2.8% and 1.6% of total investments at June 30, 2011 and 2010.

Through an agreement with its primary investment custodian, the University participates in lending securities to brokers. Collateral is generally limited to cash, government securities, and irrevocable letters of credit. Both the investment custodian and the security borrowers have the right to terminate a specific loan of securities at any time. The University receives lending fees and continues to earn interest and dividends on the loaned securities. At June 30, 2011 and 2010, the University held $219.5 million and $250.0 million, respectively, of short-term highly liquid investments as collateral deposits for the securities lending program. The collateral is included as an asset and the obligation to return such collateral is presented as a liability in the consolidated statements of financial position. The securities on loan had an estimated fair value of $214.5 million and $244.4 million at June 30, 2011 and 2010, respectively. Effective September 7, 2011, the University is no longer participating in the securities lending program.

The following schedules summarize the investment return and its classification in the consolidated statement of activities for the years ended June 30:

(in thousands of dollars) 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 88,383	$ 284	$ 6,190	$ 94,857
Net realized gains	75,676	14,060	-	89,736
Net unrealized gains	86,567	163,481	-	250,048
Total returns	$ 250,626	$ 177,825	$ 6,190	$ 434,641

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 77,661	$ 545	$ 4,894	$ 83,100
Net realized gains	49,755	2,271	-	52,026
Net unrealized gains	124,745	56,808	-	181,553
Total returns	$ 252,161	$ 59,624	$ 4,894	$ 316,679

4. ENDOWMENT NET ASSETS

The University's endowment includes both donor-restricted endowment funds and funds designated to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The ASC Not-for-Profit Entities Presentation of Financial Statements Subtopic (ASC Subtopic 958-205) provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and improves disclosure about an organization's endowment funds regardless of whether the organization is subject to UPMIFA. The Commonwealth of Pennsylvania has not adopted UPMIFA but rather has enacted Pennsylvania Act 141 ("PA Act 141"). PA Act 141 permits an organization's trustees to define income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least three preceding years) without regard to actual interest, dividend, or realized and unrealized gains.

The University has interpreted PA Act 141 to permit the University to spend the earnings of its endowment based on a total return approach, without regard to the fair value of the original gift. As a result of this interpretation, the University classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Funds functioning as endowments are established at the direction of University management and are classified as unrestricted net assets due to the lack of external donor restrictions. Gains and losses attributable to permanent endowments are recorded as temporarily restricted net assets and gains and losses attributable to funds functioning as endowments are recorded as unrestricted net assets.

From time to time due to unfavorable market fluctuations, the fair value of some assets associated with individual donor-restricted endowment funds may fall below the level that donors require to be retained as a perpetual fund, while other assets are unaffected to the same extent and maintain or exceed the level required. The aggregate amount of deficiencies at June 30, 2011 and 2010 was $3.3 million and $31.7 million, respectively, reported in unrestricted net assets on the consolidated statement of activities. Subsequent investment gains will be used to restore the balance up to the fair market value of the original gift. Subsequent gains above that amount will be recorded as temporarily restricted net assets.

Endowment net asset composition by type of fund as of June 30:

(in thousands of dollars) 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,261)	$ 314,769	$ 951,006	$ 1,262,514
Funds functioning as endowments	475,329	-	-	475,329
Total net assets	$ 472,068	$ 314,769	$ 951,006	$ 1,737,843

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (31,662)	$ 157,325	$ 863,312	$ 988,975
Funds functioning as endowments	361,341	-	-	361,341
Total net assets	$ 329,679	$ 157,325	$ 863,312	$ 1,350,316

Changes in endowment net assets for the years ended June 30:

(in thousands of dollars) 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 329,679	$ 157,325	$ 863,312	$ 1,350,316
Endowment return:				
Endowment earnings	37,425	48	3,081	40,554
Net realized gains	28,539	13,318	-	41,857
Net unrealized gains	66,659	171,629	-	238,288
Reclassification of funds with deficiencies	28,401	(28,401)	-	-
Total endowment return	161,024	156,594	3,081	320,699
Contributions	-	850	84,613	85,463
Endowment spending	(65,964)	-	-	(65,964)
Transfers to create funds functioning as endowments	47,329	-	-	47,329
Endowment net assets, end of the year	$ 472,068	$ 314,769	$ 951,006	$ 1,737,843

(in thousands of dollars) 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 264,655	$ 101,838	$ 807,047	$ 1,173,540
Endowment return:				
Endowment earnings	32,815	-	4,875	37,690
Net realized gains	30,842	782	-	31,624
Net unrealized gains	29,875	82,622	-	112,497
Reclassification of funds with deficiencies	27,991	(27,991)	-	-
Total endowment return	121,523	55,413	4,875	181,811
Contributions	-	74	51,390	51,464
Endowment spending	(63,401)	-	-	(63,401)
Transfers to create funds functioning as endowments	6,902	-	-	6,902
Endowment net assets, end of the year	$ 329,679	$ 157,325	$ 863,312	$ 1,350,316

The University has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable stream of funding to programs supported by its endowment while seeking to maintain, over time, the purchasing power of the endowment assets. The overall management objective for the University's pooled endowment funds is to preserve or grow the real (inflation-adjusted) purchasing power of the assets through a prudent long-term investment strategy. This objective would be achieved on a total return basis. Under these policies, as approved by the Board of Trustees and the Penn State Investment Council, the primary investment objective of the University's pooled endowment is to attain a real total return (net of investment management fees) that at least equals a total annual effective spending rate of 5.25% (program spending of 4.5% plus administrative costs of 0.75%) over the long term.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The endowment assets of the University are invested in a broad range of equities and fixed income securities, thereby limiting the market risk exposure in any one institution or individual investment.

The University has a policy of appropriating for distribution each year a certain percentage (4.5% for 2011 and 4.5% for 2010) of its pooled endowment fund's average fair market value over the prior five years preceding the fiscal year in which the distribution is planned. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to provide generous current spending while preserving "intergenerational equity". This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

5. FAIR VALUE MEASUREMENTS

The University utilizes the following fair value hierarchy, which prioritizes into three broad levels, the inputs to valuation techniques used to measure fair value:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets as of the measurement date;

Level 2 – Inputs other than unadjusted quoted prices that are observable for the asset or liability, directly or indirectly, including quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The University's assessment of significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset.

The following table presents information as of June 30, 2011 about the University's financial assets and liabilities that are measured at fair value on a recurring basis:

(in thousands of dollars)	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets:				
Long-term Investment Pool:				
Money markets	$ 4,897	$ 124,806	$ -	$ 129,703
Fixed income				
U.S. government/agency	68,454	23,580	-	92,034
U.S. corporate	3,388	103,733	-	107,121
Foreign	1,004	42,186	-	43,190
Other	-	13,770	-	13,770
Equities	578,847	262,730	-	841,577
Private capital	-	134,587	520,605	655,192
Total	$ 656,590	$ 705,392	$ 520,605	$ 1,882,587
Operating investments:				
Money markets	$ 23,662	$ 18,662	$ -	$ 42,324
Fixed income				
U.S. government/agency	400,147	400,365	113	800,625
U.S. corporate	11,158	406,134	-	417,292
Foreign	4,135	141,416	-	145,551
Other	-	290,216	2,166	292,382
Equities	75,142	519	1,027	76,688
Private capital	-	-	5,939	5,939
Total	$ 514,244	$ 1,257,312	$ 9,245	$ 1,780,801
Investments held under securities lending program	$ -	$ -	$ 219,524	$ 219,524
Deposits held by bond trustees:				
Money markets	$ 54,905	$ -	$ -	$ 54,905
Fixed income				
U.S. government/agency	-	4,746	-	4,746
Total	$ 54,905	$ 4,746	$ -	$ 59,651
Beneficial interest in perpetual trusts	$ -	$ -	$ 12,843	$ 12,843
Liabilities:				
Present value of annuities payable	$ -	$ -	$ 44,425	$ 44,425
Liability under securities lending program	$ -	$ -	$ 219,524	$ 219,524

The following table presents information as of June 30, 2010 about the University's financial assets and liabilities that are measured at fair value on a recurring basis:

(in thousands of dollars)	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Assets:				
Long-term Investment Pool:				
Money markets	$ 158	$ 76,764	$ -	$ 76,922
Fixed income				
U.S. government/agency	113,994	15,968	-	129,962
U.S. corporate	11,640	85,060	-	96,700
Foreign	2,737	5,523	-	8,260
Other	-	6,804	-	6,804
Equities	479,967	156,596	-	636,563
Private capital	-	102,882	413,870	516,752
Total	$ 608,496	$ 449,597	$ 413,870	$ 1,471,963
Operating investments:				
Money markets	$ 37,701	$ 42,570	$ -	$ 80,271
Fixed income				
U.S. government/agency	334,924	427,187	102	762,213
U.S. corporate	8,607	388,186	-	396,793
Foreign	3,116	160,159	-	163,275
Other	-	174,193	1,905	176,098
Equities	54,468	17	3,443	57,928
Private capital	-	-	3,217	3,217
Total	$ 438,816	$ 1,192,312	$ 8,667	$ 1,639,795
Investments held under securities lending program	$ -	$ -	$ 249,959	$ 249,959
Deposits held by bond trustees:				
Money markets	$ 121,342	$ -	$ -	$ 121,342
Fixed income				
U.S. government/agency	69,998	6,676	-	76,674
Total	$ 191,340	$ 6,676	$ -	$ 198,016
Beneficial interest in perpetual trusts	$ -	$ -	$ 11,400	$ 11,400
Liabilities:				
Present value of annuities payable	$ -	$ -	$ 36,423	$ 36,423
Liability under securities lending program	$ -	$ -	$ 249,959	$ 249,959

The Long-term Investment Pool (LTIP) is a mutual fund-like vehicle used for investing the University's endowment funds, funds functioning as endowments, and other operating funds that are expected to be held long-term. A share method of accounting for the LTIP is utilized by the University. Each participating fund enters into and withdraws from the LTIP based on monthly share values. At June 30, 2011 and 2010, fair value of endowment funds and funds functioning as endowments within the LTIP totaled $1,737.8 million and $1,350.3 million, respectively. At June 30, 2011 and 2010, fair value of operating funds included in the LTIP totaled $144.8 million and $121.7 million, respectively.

The following tables present information related to changes in Level 3 for each category of assets and liabilities for year ended June 30, 2011:

(in thousands of dollars)	Long-term Investment Pool	Operating Investments	Investments Held Under Securities Lending	Beneficial Interest in Perpetual Trusts
Assets:				
Beginning balance	$ 413,870	$ 8,667	$ 249,959	$ 11,400
Total realized and unrealized gains/(losses)	97,994	(196)	-	1,443
Purchases and settlements	8,741	1,552	(30,435)	-
Transfers in/(out) of Level 3	-	(778)	-	-
Ending balance	$ 520,605	$ 9,245	$ 219,524	$ 12,843

	Present Value of Annuities Payable	Liability Under Securities Lending
Liabilities:		
Beginning balance	$ 36,423	$ 249,959
Actuarial adjustment of liability	2,680	-
Gifts and severances	5,322	-
Purchases and settlements	-	(30,435)
Ending balance	$ 44,425	$ 219,524

The following tables present information related to changes in Level 3 for each category of assets and liabilities for year ended June 30, 2010:

(in thousands of dollars)	Long-term Investment Pool	Operating Investments	Investments Held Under Securities Lending	Beneficial Interest in Perpetual Trusts
Assets:				
Beginning balance	$ 597,400	$ 355,926	$ 253,696	$ 11,025
Total realized and unrealized gains/(losses)	93,438	27,154	-	375
Purchases and settlements	(38,734)	(218,399)	(3,737)	-
Transfers in/(out) of Level 3	(238,234)	(156,014)	-	-
Ending balance	$ 413,870	$ 8,667	$ 249,959	$ 11,400

	Present Value of Annuities Payable	Liability Under Securities Lending
Liabilities:		
Beginning balance	$ 36,966	$ 253,696
Actuarial adjustment of liability	(294)	-
Gifts and severances	(249)	-
Purchases and settlements	-	(3,737)
Ending balance	$ 36,423	$ 249,959

The following table presents the fair value and redemption frequency for those investments whose fair value is not readily determinable and is estimated using the net asset value per share or its equivalent as of June 30, 2011:

(in thousands of dollars)	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Commingled Funds:				
Non-U.S. Equity	$ 201,602		Daily/Monthly	5-15 days
Subtotal	$ 201,602			
Marketable Investment Partnerships:				
Absolute Return	$ 23,691		Quarterly	60 days
Private Debt	61,084		Quarterly/ Semi Annual	60-90 days
Directional Long/Short	79,756		Quarterly	30-65 days
Subtotal	$ 164,531			
Non-Marketable Investment Partnerships:				
Private Real Estate	$ 79,978	$ 20,394		
Venture Capital	95,009	91,759		
Private Equity	227,632	83,398		
Natural Resources	68,094	38,224		
Private Debt	21,232	5,800		
Subtotal	$ 491,945	$ 239,575		
Total	$ 858,078	$ 239,575		

The following table presents the fair value and redemption frequency for those investments whose fair value is not readily determinable and is estimated using the net asset value per share or its equivalent as of June 30, 2010:

(in thousands of dollars)	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Commingled Funds:				
Non-U.S. Equity	$ 156,596		Daily/Monthly	5-15 days
Fixed Income	131,592		Daily	5 days
Subtotal	$ 288,188			
Marketable Investment Partnerships:				
Absolute Return	$ 22,202		Quarterly	60 days
Private Debt	54,607		Quarterly/ Semi Annual	60-90 days
Directional Long/Short	51,897		Quarterly	30-65 days
Subtotal	$ 128,706			
Non-Marketable Investment Partnerships:				
Private Real Estate	$ 56,203	$ 30,902		
Venture Capital	69,567	80,349		
Private Equity	185,470	79,396		
Natural Resources	54,720	25,473		
Private Debt	25,302	2,013		
Subtotal	$ 391,262	$ 218,133		
Total	$ 808,156	$ 218,133		

Commingled funds include investments that aggregate assets from multiple investors and are managed collectively following a prescribed strategy. Redemptions vary from daily to monthly with required notification of 30 days or less. The non-U.S. equity strategy is invested in developed and developing countries outside of the United States, and spans the entire equity capitalization spectrum. These collective portfolios preclude the need to obtain securities registration in foreign countries.

Marketable Investment Partnerships include several hedge funds whose underlying positions are traded via public securities markets. Liquidity terms range from quarterly to semi-annually with advance notification for redemption ranging from 30 to 90 days. The fair values of the investments for each fund in this category have been estimated using the net asset value of the ownership interest in partner's capital. Three major investment strategies are included within this category. Absolute Return is comprised primarily of equity long/short and multi-strategy arbitrage strategies. Private Debt is comprised of credit securities rated below investment grade in addition to non-rated debt. Directional Long/Short is comprised primarily of equity long/short strategies in both U.S. and non-U.S. markets.

Nonmarketable Investment Partnerships include several private capital funds. The fair values of the investments for each fund in this category have been estimated using the net asset value of the ownership interest in partner's capital and cannot be redeemed. Realizations from each fund are received as the underlying investments are liquidated or distributed, typically within 10 years after initial commitment. Unfunded commitments represent remaining commitments for which capital calls have not been exercised as of June 30, 2011 and 2010, respectively. Five major investment strategies are included within this category. Private Real Estate includes properties primarily located in the U.S. Venture Capital includes non-public startups and enterprises in early stages of growth located globally. Private Equity includes buyouts of previously public companies as well as enterprises that are planning to go public in the near future, including funds focusing on opportunities outside the U.S. Natural Resources largely include companies primarily involved in natural gas in addition to a variety of other natural resources. Private Debt includes private credit securities rated below investment grade as well as non-rated debt.

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

(in thousands of dollars)	2011	2010
In one year or less	$ 76,640	$ 60,895
Between one year and five years	92,869	97,942
More than five years	125,732	119,605
	295,241	278,442
Less allowance	(6,107)	(3,656)
Less discount	(62,065)	(60,626)
Contributions receivable, net	$ 227,069	$ 214,160

Contributions receivable are discounted at rates ranging from 0.19% to 3.57% and 0.32% to 3.36% at June 30, 2011 and 2010, respectively. The discount rates for prior periods ranged from 0.51% to 6.28%.

At June 30, 2011 and 2010, the University has received bequest intentions and certain other conditional promises to give of $58.1 million and $39.0 million, respectively. These intentions and conditional promises to give are not included in the consolidated financial statements.

The following table summarizes the change in contributions receivable, net during the year ended June 30, 2011:

	(in thousands of dollars)
Balance beginning of year	$ 214,160
New pledges	130,412
Collections on pledges	(113,613)
Increase in allowance	(2,451)
Increase in unamortized discounts	(1,439)
Balance at the end of year	$ 227,069

7. LONG-TERM DEBT

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

(in thousands of dollars)	2011	2010
The Pennsylvania State University Bonds		
Series 2010	$ 135,035	$ 135,035
Series 2009A	125,850	131,460
Series 2009B	74,235	74,235
Series 2008A	77,670	77,670
Series 2008B	5,775	6,630
Series 2007A	89,150	89,640
Series 2007B	68,880	71,395
Series 2005	89,560	91,395
Series 2004A	55,385	56,580
Refunding Series 2003	18,140	20,280
Series of 2002	100,000	100,000
Refunding Series 2002	70,670	84,130
Refunding Series 2001	-	9,290
Pennsylvania Higher Educational Facilities Authority University Revenue Bonds (issued for The Pennsylvania State University)		
Series 2006	3,940	4,125
Series 2004	4,375	4,595
Series 2002	4,720	5,050
Lycoming County Authority College Revenue Bonds (issued for Penn College)		
Series 2011	39,050	-
Series 2008	55,000	55,000
Series 2005	12,875	13,535
Series 2002	28,550	28,930
Series 2000	-	39,305
Series 1993	8,750	10,500
Total bonds payable	1,067,610	1,108,780
Unamortized bond premiums	42,203	44,261
Note payable and capital leases		
Note payable	-	2,000
Capital lease obligations	79,845	81,370
Total notes payable and capital leases	79,845	83,370
Total long-term debt	$ 1,189,658	$ 1,236,411

Debt issuance	Interest rate mode	Interest rates	Payment ranges and maturity (in thousands of dollars)
The Pennsylvania State University Bonds			
Series 2010	Fixed	3.375% - 5.00%	$3,655 to $6,280 through March 2030 with $21,805 and $44,245 due March 2035 and 2040
Series 2009A	Fixed	4.00% - 5.00%	$5,775 to $9,320 through March 2029
Series 2009B	Variable	0.30%	June 2031
Series 2008A	Fixed	5.00%	$1,840 to $7,695 through August 2029
Series 2008B	Fixed	3.25% - 3.75%	$885 to $1,050 through August 2016
Series 2007A	Fixed	3.65% - 4.50%	$505 to $700 through August 2022, with $11,115 and $70,905 due August 2028 and 2036
Series 2007B	Fixed	4.25% - 5.25%	$2,625 to $5,955 through August 2027
Series 2005	Fixed	3.125% - 5.00%	$1,895 to $2,745 through September 2019 with $15,990, $20,550, and $32,485 due September 2024, 2029, and 2034
Series 2004A	Fixed	3.625% - 5.00%	$1,250 to $1,825 through September 2019, with $10,625, $13,635, and $17,515 due September 2024, 2029, and 2034
Refunding Series 2003	Fixed	4.00% - 5.25%	$2,250 to $2,970 through March 2018
Series of 2002	Variable	0.07%	March 2032
Refunding Series 2002	Fixed	5.25%	$4,585 to $16,540 through August 2016
Refunding Series 2001	Fixed	5.25%	Paid in full during 2011
Pennsylvania Higher Education Facilities Authority ("PHEFA") University Revenue Bonds			
Series 2006	Fixed	3.80% - 5.125%*	$195 to $280 through 2020, with $1,610 due September 2025
Series 2004	Fixed	3.85% - 5.00%*	$230 to $325 through 2019, with $1,905 due September 2024
Series 2002	Fixed	4.10% - 5.00%*	$345 to $425 due through 2017, with $2,435 due March 2022

* Annual interest costs to the University for interest rates greater than 3.00% are subsidized by PHEFA.

Lycoming County Authority College Revenue Bonds			
Series 2011	Fixed	3.00% - 5.50%	$70 to $5,230 through July 2030
Series 2008	Fixed	3.50% - 5.50%	$1,455 to $4,140 through October 2037
Series 2005	Fixed	4.00% - 5.00%	$505 to $1,855 through January 2025
Series 2002	Fixed	4.40% - 5.25%	$460 to 2,775 through 2032
Series 2000	Fixed	4.80% - 5.00%	Paid in full during 2011
Series 1993	Fixed	6.10% - 6.15%	$450 to $578 through November 2015

The Series 2011 bonds are Lycoming County Authority (the "Authority") College Revenue Bonds issued by Penn College in June 2011 for the purpose of refunding $39.3 million of the Authority's College Revenue Bonds Series 2000. The Series 2000 bonds were paid in full during 2011.

The Series 2010 bonds are general obligation bonds issued in May 2010 for the purpose of funding various construction and renovation projects. The Series 2010 Bonds are subject to early redemption provisions, at the option of the University, beginning March 2021. The bonds maturing on March 2035 and 2040 are subject to sinking fund redemption.

The Series 2009B Bonds are currently paying interest on a variable rate basis at a long term rate for the period June 1, 2011 through May 31, 2012. The University has the option to convert to another variable rate (daily, weekly, monthly or flexible) or to a fixed rate basis (such rates are generally determined on a market basis) at respective conversion dates. The bonds currently pay interest at 0.30% with adjustment on the respective date to the rate the remarketing agent believes will cause the bonds to have a market value equal to the principal.

The 2009B bondholders have the right to tender bonds on the purchase dates while such bonds bear interest at the daily, weekly or monthly rate. The 2009B Bonds were issued subject to the self-liquidity program established by the University on the date of issuance pursuant to which the University will provide liquidity for the 2009B Bonds from its general funds in the event of insufficient remarketing proceeds.

The Series of 2002 bonds currently pay interest on a variable rate basis in the weekly mode; however, the University has the option to convert to another variable rate (daily, monthly, flexible, semiannual or long mode) or to a fixed rate basis. The bonds currently pay interest at 0.07% with adjustment on a weekly basis to the rate the remarketing agent believes will cause the bonds to have a market value equal to the principal amount up to a maximum of 12%. The bondholders have the right to tender bonds at interest rate reset dates. The University, therefore, entered into standby bond purchase agreement with a bank to provide liquidity in case of tender. The bonds are not subject to sinking fund redemption; however, the University has the option to redeem the bonds prior to their scheduled maturity.

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

Year	Annual Installments *(in thousands of dollars)*
2012	$ 33,150
2013	34,675
2014	36,355
2015	38,545
2016	27,550
Thereafter	897,335
	$1,067,610

The fair value of the University's bonds payable is estimated based on current rates offered for similar issues with similar security, terms and maturities using available market information as supplied by the various financial institutions who act as trustees or custodians for the University. At June 30, 2011, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, are $1,109.8 million and $1,121.5 million, respectively. At June 30, 2010, the carrying value and estimated fair value of the University's bonds payable, including issuance premiums, were $1,153.0 million and $1,168.3 million, respectively. Certain bond issues have associated issuance premiums, these issuance premiums total $42.2 million and $44.3 million at June 30, 2011 and 2010, respectively and are presented within the statement of financial position as long-term debt. These issuance premiums will be amortized over the term of the respective outstanding bonds.

Capital leases

The University has certain building and equipment lease agreements in effect which are considered capital leases. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2011 are as follows:

Year	*(in thousands of dollars)*
2012	$ 12,515
2013	11,391
2014	9,882
2015	8,801
2016	8,113
Thereafter	146,825
Total minimum lease payments	197,527
Less imputed interest	(117,682)
Capital lease obligation	79,845
Current portion	7,175
Long-term portion	$ 72,670

8. OPERATING LEASES

The University has certain lease agreements in effect which are considered operating leases. During the year ended June 30, 2011, the University recorded expenses of $20.0 million for leased equipment and $21.6 million for leased building space. During the year ended June 30, 2010, the University recorded expenses of $21.3 million for leased equipment and $21.4 million for leased building space.

Future minimum lease payments under operating leases as of June 30, 2011 are as follows:

Year	*(in thousands of dollars)*
2012	$ 19,010
2013	15,643
2014	13,018
2015	11,253
2016	9,268
Thereafter	57,175
Total minimum lease payments	$ 125,367

9. RETIREMENT BENEFITS

The University provides retirement benefits for substantially all regular employees, primarily through either contributory defined benefit plans administered by the Commonwealth of Pennsylvania State Employees' Retirement System and The Public School Employees' Retirement System or defined contribution plans administered by the Teachers Insurance and Annuity Association – College Retirement Equity Fund and Fidelity Investments. The University is billed for its share of the estimated actuarial cost of the defined benefit plans ($14.8 million and $11.0 million for the years ended June 30, 2011 and 2010, respectively). The University's total cost for retirement benefits, included in expenses, is $118.7 million and $110.5 million for the years ended June 30, 2011 and 2010, respectively.

10. POSTRETIREMENT BENEFITS

The University sponsors a retiree medical plan covering eligible retirees and eligible dependents. For the 2011 benefit plan year, this program includes a Preferred Provider Organization ("PPO") plan for retirees and their dependents who are not eligible for Medicare, a Medicare Advantage PPO plan and a Medicare Supplement plan. In addition, the University provides retiree life insurance benefits at no cost to the retiree.

Employees who were hired prior to January 1, 2010 are eligible for medical coverage and life insurance after they retire if either of the following requirements are satisfied:

- they are at least age 60 and have at least 15 years of regular full-time employment and participation in a University-sponsored medical plan immediately preceding the retirement date
- regardless of age, if they have at least 25 years of regular full-time service. The last 10 of those 25 years of University service must be continuous and they must participate in a University -sponsored medical plan during the last 10 years immediately preceding the retirement date.

The retiree PPO medical plan and the life insurance coverage are self-funded programs, and all medical claims, death benefits and other expenses are paid from the unrestricted net assets of the University. The Medicare Advantage PPO plan and the Medicare Supplement plan are fully insured. The retirees pay varying amounts for coverage under the medical plan.

For those employees who were hired after December 31, 2009, the University will contribute funds each month on their behalf to a retirement healthcare savings plan. This plan is designed to help pay for qualified medical and health-related expenses in retirement, including the purchase of a health insurance policy.

Retirees will be eligible to access their Penn State Retirement Savings Account when they are no longer actively employed at Penn State and have satisfied either of the following requirements:

- completed 25 years of continuous full-time service and are age 60 or older
- completed a minimum of 15 years of continuous full-time service and are age 65 or older.

Included in unrestricted net assets at June 30, 2011 and 2010 are the following amounts that have not yet been recognized in net periodic postretirement cost: unrecognized prior service cost (benefit) of ($129.7) million and ($151.4) million and unrecognized actuarial loss of $579.1 million and $521.8 million, respectively.

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

Change in benefit obligation:
(in thousands of dollars)

	2011	2010
Benefit obligation at beginning of year	$ 1,290,787	$ 1,044,185
Service cost	57,030	42,216
Interest cost	76,285	66,363
Actuarial (gain)/loss	(58,555)	32,068
Benefits paid	(37,849)	(35,479)
Plan assumptions	151,345	141,434
Benefit obligation at end of year	$ 1,479,043	$ 1,290,787

Change in plan assets:
(in thousands of dollars)

	2011	2010
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	37,849	35,479
Benefits paid	(37,849)	(35,479)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (1,479,043)	$ (1,290,787)
Unrecognized prior service cost (benefit)	-	-
Unrecognized net actuarial loss	-	-
Accrued postretirement benefit expense	$ (1,479,043)	$ (1,290,787)

Net periodic postretirement cost includes the following components for the years ended June 30:
(in thousands of dollars)

	2011	2010
Service cost	$ 57,030	$ 42,216
Interest cost	76,285	66,363
Amortization of prior service cost	(21,673)	(21,651)
Amortization of unrecognized net loss	35,497	20,187
Net periodic postretirement cost	$ 147,139	$ 107,115

The assumed healthcare cost trend rate used in measuring the accumulated postretirement benefit obligation was 9.00% and 8.00% for the years ended June 30, 2011 and 2010, respectively, reduced by 0.50% per year to a fixed level of 5.00%. The weighted average postretirement benefit obligation discount rate was 5.75% and 5.50% for the years ended June 30, 2011 and 2010, respectively.

If the healthcare cost trend rate assumptions were increased by 1% in each year, the accumulated postretirement benefit obligation would be increased by $448.6 million and $234.8 million as of June 30, 2011 and 2010, respectively. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be an increase of $46.1 million and $22.4 million as of June 30, 2011 and 2010, respectively. If the healthcare cost trend rate assumptions were decreased by 1% in each year, the accumulated postretirement benefit obligation would be decreased by $242.6 million and $186.3 million as of June 30, 2011 and 2010, respectively. The effect of this change on the sum of the service cost and interest cost components of the net periodic postretirement benefit cost would be a decrease of $25.3 million and $17.4 million as of June 30, 2011 and 2010, respectively.

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

Postretirement benefits expected to be paid for the years ended June 30 are as follows:

	(in thousands of dollars)
2012	$ 44,858
2013	48,303
2014	53,244
2015	57,559
2016	62,063
2017-21	373,155

11. THE MILTON S. HERSHEY MEDICAL CENTER AND PENN STATE HERSHEY HEALTH SYSTEM

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

The Health System is a corporate investor in healthcare joint ventures, which are supportive of the missions of the Medical Center. The Health System was organized in 1995 as a wholly-owned subsidiary of the Corporation for the purpose of organizing components of an integrated health care delivery system. In 2010, the Health System recorded $657,000 of non-controlling interest related to the acquisition of additional ownership interest in a joint venture. This is recorded in the net assets within the consolidated statements of financial position.

12. CONTINGENCIES AND COMMITMENTS

Contractual Obligations

The University has contractual obligations for the construction of new buildings and for additions to existing buildings in the amount of $630.9 million of which $494.8 million has been paid or accrued as of June 30, 2011. The contract costs are being financed from available resources and from borrowings.

Letters of Credit

The University has available letters of credit in the amount of $16.0 million and $17.4 million as of June 30, 2011 and 2010, respectively. These letters of credit are used primarily to comply with minimum state and federal regulatory laws that govern various University activities. The fair value of these letters of credit approximates contract values based on the nature of the fee arrangements with the issuing banks.

Guarantees

The University has a contract with a third party whereby the third party acts as an agent of the University in connection with procurement of electricity. The University guarantees the payment of the obligations of the third party incurred on behalf of the University to counterparties. No liabilities related to guarantees have been recorded as of June 30, 2011.

Self-Insurance

The University has a coordinated program of commercial and self-insurance for medical malpractice claims at TMSHMC through the use of a qualified trust and a domestic captive insurance company in combination with a self-insured retention layer and is supplementing this program through participation in the Pennsylvania Medical Care Availability and Reduction of Error Fund ("Mcare Fund"), in accordance with Pennsylvania law. An estimate of the present value, discounted at 3% at June 30, 2011 and 2010, respectively, of the medical malpractice claims liability in the amount of $66.6 million and $71.4 million is recorded as of June 30, 2011 and 2010, respectively.

On July 1, 2003, TMSHMC became self-insured for all medical malpractice claims asserted on or after July 1, 2003, for all amounts that are below the coverage of the TMSHMC's excess insurance policies and not included in the insurance coverage of the Mcare Fund. Under the self-insurance program, TMSHMC is required to maintain a malpractice trust fund in an amount at least equal to the expected loss of known claims. The balance of this trust fund was $21.0 million and $22.3 million at June 30, 2011 and 2010, respectively. TMSHMC intends to fund any claims due during the next year from cash flows from operations.

With approval from the Pennsylvania Department of Labor and Industry ("PA-DLI"), the University elected to self-insure potential obligations applicable to workers' compensation. Certain claims under the program are contractually administered by a private agency. The University purchased insurance coverage for excess obligations over $600,000 per incident. An estimate of the self-insured workers' compensation claims liability in the amount of $13.1 million and $14.1 million, discounted at 1.25%, is recorded as of June 30, 2011 and 2010, respectively. The University has established a trust fund, in the amount of $12.4 million and $12.2 million at June 30, 2011 and 2010, respectively, as required by PA-DLI, to provide for the payment of claims under this self-insurance program. TMSHMC is self-insured for workers' compensation claims and has purchased an excess policy through a commercial insurer which covers individual claims in excess of $500,000 per incident for workers' compensation claims.

The University and TMSHMC are self-insured for certain health care benefits provided to employees. The University and TMSHMC have purchased excess policies which cover employee health benefit claims in excess of $500,000 and $350,000 per employee per year, respectively. The University and TMSHMC provide for reported claims and claims incurred but not reported.

Litigation and Contingencies

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

Based on its operation of the Medical Center (see Note 11), the University, like the healthcare industry, is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government reviews of healthcare providers for compliance with regulations have increased. Although the University believes it has done its best to comply with these numerous regulations, such government reviews could result in significant repayments of previously billed and collected revenues from patient services.

13. SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 18, 2011, the date when the financial statements were available to be issued. It did not identify any subsequent events other than as disclosed in Note 3 to the consolidated financial statements.

THE PENNSYLVANIA STATE UNIVERSITY

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