PENN STATE ALUMNI ASSOCIATION
University Park, Pennsylvania

Consolidated Financial Statements
and
Supplementary Financial Information
For the year ended June 30, 2014

and Independent Auditors' Report Thereon

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INDEPENDENT AUDITORS' REPORT

To the Executive Board
Penn State Alumni Association
University Park, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Penn State Alumni Association (the Association), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statement of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Penn State Alumni Association as of June 30, 2014, and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the Schedule of PSAA Holding Corporation Income and Expenses for the year ended June 30, 2014 is presented for purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The Association has significant activity with Penn State University, a related party, which is described throughout the footnotes to the consolidated financial statements.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
June 3, 2015

PENN STATE ALUMNI ASSOCIATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 1,791,513
Investments	60,113,628
Accounts receivable	998,450
Inventory	95,732
Prepaid expenses	111,325
Total Current Assets	63,110,648
OTHER ASSETS	
Class treasuries - custodial accounts	296,674
PROPERTY AND EQUIPMENT - at cost	135,032
	$ 63,542,354

LIABILITIES AND UNRESTRICTED NET ASSETS

CURRENT LIABILIITES	
Accounts payable	$ 45,418
Pledge payable - Penn State University	300,000
Other accrued expenses	279,701
Deferred revenue	1,222,440
Total Current Liabilities	1,847,559
LONG-TERM LIABILITIES	
Class treasuries - account payable	296,674
Deferred revenue	7,835,403
Total Long-Term Liabilities	8,132,077
Total Liabilities	9,979,636
UNRESTRICTED NET ASSETS	
Board-designated	
Life membership	47,431,377
Margin of excellence	5,736,081
	53,167,458
Undesignated	395,260
	53,562,718
	$ 63,542,354

See notes to consolidated financial statements.

PENN STATE ALUMNI ASSOCIATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014

REVENUE, GAINS AND OTHER SUPPORT	
In-kind contributed services, facilities and utilities	$ 5,460,897
Royalties	3,080,653
Membership dues	2,539,548
Event income	925,971
Sales of inventory	449,397
Advertising income	262,325
Marketing income	135,000
Other miscellaneous income	121,332
Miscellaneous tour income	119,055
Investment income, net of fees	9,590,846
	22,685,024
COST OF GOODS SOLD	344,990
FUNCTIONAL EXPENSES	
Program services	9,892,034
Management and general	2,952,655
	12,844,689
PSAA HOLDING CORPORATION EXPENSES	52,778
Net Increase in Unrestricted Net Assets	9,442,567
UNRESTRICTED NET ASSETS	
Beginning of year	44,120,151
End of year	$ 53,562,718

See notes to consolidated financial statements.

PENN STATE ALUMNI ASSOCIATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Total
FUNCTIONAL EXPENSES			
In-kind contributed services, facilities and utilities	$ 4,711,360	$ 749,537	$ 5,460,897
Salaries and benefits	-	1,081,785	1,081,785
Contributions to Penn State	999,700	-	999,700
Fees for services	487,699	308,924	796,623
Advertising and promotion	1,101,687	64,157	1,165,844
Office expenses	920,067	208,610	1,128,677
Information technology	16,956	271,243	288,199
Occupancy	25,246	46,573	71,819
Travel	616,192	110,886	727,078
Conferences, conventions and meetings	1,013,127	91,606	1,104,733
Depreciation expense	-	19,334	19,334
	$ 9,892,034	$ 2,952,655	$ 12,844,689

See notes to consolidated financial statements.

PENN STATE ALUMNI ASSOCIATION

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Net increase in unrestricted net assets	$ 9,442,567
Adjustments to reconcile net increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation	19,334
Realized and unrealized gains, net	(8,195,070)
Changes in assets and liabilities:	
Accounts receivable	56,957
Inventory	(2,034)
Prepaid expenses	5,276
Accounts payable	45,418
Other accrued expenses	13,986
Deferred revenue	(276,845)
Net Cash Provided By Operating Activities	1,109,589
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(89,740)
Purchases of investments	(3,219,350)
Proceeds from sales of investments	1,123,510
Net Cash Used In Investment Activities	(2,185,580)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of pledge to Penn State University	(300,000)
Net Decrease in Cash and Cash Equivalents	(1,375,991)
CASH AND CASH EQUIVALENTS	
Beginning of year	3,167,504
End of year	$ 1,791,513

See notes to consolidated financial statements.

NOTE 1 - ORGANIZATION

Penn State Alumni Association's (the Association) mission is to connect alumni to Penn State University (University) and to each other, to provide valued services to members, and to support the University's mission of teaching, researching, and services. The Association accomplishes this mission by generating a feeling of belonging and inclusivity among all alumni; maintaining standards of the highest quality in programs for, and relationships with, alumni, by reinvigorating service to alumni and alumni affiliate organizations; engaging alumni culturally, socially, historically, and increasingly intellectually with the University; becoming more student-oriented; and becoming a membership growth-driven organization. The Association is supported primarily through membership dues, investments and related income, royalty income, and support from the University.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied by management in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation - The consolidated financial statements of the Association include the financial statements of PSAA Holding Corporation (Holding Corporation). The Holding Corporation is a for-profit corporation organized during 1990 for the exclusive purpose of transacting business that would otherwise be unrelated business income to the Association, which is primarily sales of inventory related to the Alumni Store. All significant transactions between the Association and the Holding Corporation have been eliminated.

Basis of Presentation - The Association's financial statement presentation follows the recommendations of Accounting Standards Codification (ASC) No. 958, "Not-for-Profit Entities." Under ASC No. 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Under the provisions of ASC No. 958, net assets and changes therein are classified and reported, based on the existence or absence of donor-imposed stipulations as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. At June 30, 2014, all assets are unrestricted with $53,167,458 as board-designated.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by action of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions. At June 30, 2014 there are no temporarily restricted net assets.

Permanently Restricted Net Assets - Net assets subject to permanent donor-imposed stipulations that they be maintained permanently. Generally, the donors of such assets permit the Association to use all or part of the income earned on the assets for general or specific purposes. At June 30, 2014, there are no permanently restricted net assets.

Basis of Accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenue and support are recognized when earned and expenses are recognized when incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The Association considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents. The Association maintains cash that may exceed federally insured amounts at times.

Accounts Receivable and Credit Risk - Accounts receivable represents outstanding payments on life memberships and royalties, and are stated at outstanding balances. The Association considers accounts receivable to be fully collectable. Accordingly, an allowance for doubtful accounts has not been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory - Inventory consists of merchandise such as Penn State Alumni Association and Penn State University logoed apparel and other items held for resale through the Holding Corporation. Inventory is stated at the lower of cost or market. Cost is determined using the average cost method.

Investments and Investment Risk - In accordance with ASC No. 958-320, "Not-for-Profit Entities Investments - Debt and Equity Securities," investments in debt and equity securities, with readily determinable fair values, are reported at the fair value. Any unrealized gain (loss) is reported as an increase or decrease in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or by law. Any realized gain (loss) on the sale or disposal of investments, if any, are computed on a specific identification basis and included as an increase or decrease in unrestricted net assets, unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or by law.

Property and Equipment - Property and equipment are stated at the lower of cost or fair value. Donated assets are recorded as contributions at their estimated fair value using an appropriate valuation technique. Such donations are reported as unrestricted contributions, unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit donor-imposed restrictions regarding their use and contributions of cash, which must be used to acquire property and equipment, are reported as restricted contributions. Absent donor-imposed stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor-imposed stipulations when the donated or acquired assets are placed in service, unless otherwise instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation has been provided on the straight-line method of accounting over the useful lives of the assets. The cost of maintenance and repairs is charged to expense as incurred and significant renewals and betterments are capitalized and depreciated over the estimated useful lives. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Asset Impairment - The Association accounts for long-lived assets, to be held and used, in accordance with the provisions of ASC No. 360, "Property, Plant, and Equipment." This statement requires that long-lived assets, to be held and used, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset, to be held and used, is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management has made no adjustments to the carrying value of the long-lived assets as of June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Deferred revenue represents amounts received in advance for multi-year annual membership dues and life membership dues, royalties, as well as fees received for events that occur in a future period.

Deferred Revenue is comprised of the following for the year ended June 30, 2014:

Deferred event revenue	$	123,017
Deferred multi-year membership dues		236,923
Deferred royalty revenue		862,500
Deferred life membership dues		7,835,403
	$	9,057,843

Revenue recognition - Royalties are recognized when they are earned. Advertising and marketing revenue is recognized upon release of the publication. Event income is deferred upon receipt and transferred to current-year income when the event occurs.

Annual membership dues are recognized as revenue upon receipt on a straight-line basis over the applicable membership period. Unexpired membership dues and revenues received in advance of the educational programs are deferred until the membership period and events take place. Multi-year annual membership income is recognized over three years, since the member has three years of access to publications, events, voting in Alumni Council elections (only Alumni members are eligible to vote), and discounted products and services. Life member dues are viewed as an exchange transaction where the life member pays a one-time fee in exchange for lifetime access to publications, events, voting in Alumni Council elections (only Alumni members are eligible to vote), and discounted products and services. As such, life membership income is recognized using the straight-line method over 15 years.

Contributions - The Association accounts for contributions in accordance with the ASC No. 958-605, “Revenue Recognition.” Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized, until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributed Services, Facilities and Utilities - The Association's staff is employed by the University. The Association provides funds to the University to supplement salaries and benefits of the Association's staff. Additionally, the Association is housed on the University's grounds and is provided equipment, furniture, rent, and utilities at no cost. These amounts are recorded at their fair value on the Association's Consolidated Statement of Activities and Change in Net Assets as in-kind contributions and related expenses. Total salaries and benefits supplemented by the University were $3,861,799 for the year ended June 30, 2014. In-kind contribution of facilities and utilities was $1,599,098 for the year ended June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis on the Consolidated Statement of Activities and Change in Net Assets and Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Marketing and Advertising - Marketing and advertising are expensed as incurred. Marketing and advertising costs for the year ended June 30, 2014 were $1,165,844.

Income Taxes - The Association and the Holding Corporation file separate tax returns utilizing their respective appropriate basis of accounting.

The Association is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Association has been classified as an entity, which is not a private Foundation, within the meaning of Section 509(a) and qualifies for deductible charitable contributions provided in Section 170(b)(1)(A)(vi). However, income from certain activities, not directly related to the Association's tax-exempt purpose, may be subject to taxation as unrelated business income. The Association generates unrelated business income from advertising income both in the Penn State Magazine and the Football Letter, from the sale of inventory, and from providing tours to members.

The Holding Corporation is a taxable entity and accounts for income taxes in accordance with FASB ASC topic Income Taxes. Under this method, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided for temporary differences between financial and tax reporting. The temporary differences arise principally from net operating losses (NOLs). The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The consolidated statement of financial position of the Association at June 30, 2014 does not include any liabilities associated with uncertain tax positions. The Association’s policy is to accrue interest and penalties related to unrecognized tax benefits in other miscellaneous expenses. The Association has no unrecognized tax benefits that if recognized would change the effective tax rate.

Use of Estimates - The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events - Management of the Association has evaluated subsequent events through June 3, 2015, which is the date the consolidated financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - The FASB issued ASU No. 2013-06, Services Received from the Personnel of an Affiliate. The amendments in this Update require all not-for-profit entities to apply a similar recognition and measurement basis for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter, with early adoption permitted. The Association is currently assessing the impact on its consolidated financial statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Association's cash balances in financial institutions, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Association has not experienced any losses and believes it has limited exposure to significant credit risk. Management regularly monitors the financial institutions, along with its cash balances, in an effort to keep potential risk to a minimum.

NOTE 4 - CLASS TREASURIES - CUSTODIAL ACCOUNTS

The Association is the custodian of a bank account, which consists of moneys voluntarily donated by graduating classes dating back to 1964. The Association maintains a separate list of each classes' cash balance. The money is used to fund a 50th class reunion for each graduating class, which has a balance in this account. Additionally, when certain chapters of the Association (See Note 13) become inactive, at the option of the chapter, the Association holds the funds in escrow. The funds are returned in the event that the chapters are reactivated. The Association does not own these funds, nor does the Association have variance power, but has a fiduciary responsibility to protect and preserve the funds entrusted to it for the classes and inactive chapters.

At June 30, 2014, the Association has $296,674 of restricted cash in the custodial account. The custodial account, held by the University, is restricted as to withdrawal and use of the restricted cash. The Association has a payable in the amount of $296,674.

NOTE 5 - INVESTMENTS

The following is a summary of investments at June 30, 2014:

	Cost	Fair Value
Fixed income mutual funds	$ 17,225,395	$ 17,800,884
Equity mutual funds	25,049,984	42,312,744
	$ 42,275,379	$ 60,113,628

NOTE 5 - INVESTMENTS (Continued)

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported.

Investment return is comprised of the following for the year ended June 30, 2014:

Interest and dividend income	$	1,447,912
Realized gains, net		602,341
Unrealized gains, net		7,592,732
Investment management fees		(52,136)
	$	9,590,846

NOTE 6 - FAIR VALUE MEASUREMENTS

ASC No. 820, "Fair Value Measurements," provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used maximize the use of observable inputs and minimize the use of unobservable inputs.

The Association's financial instruments consist primarily of cash and cash equivalents, investments, accounts receivable, and accounts payable. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value, due to the nature of those items.

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The following are descriptions of the valuation methodologies used to measure the investments at fair value.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds, held by the Association, are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Association are deemed to be actively traded.

The following tables summarize the financial assets valued on a recurring basis categorized by the level, within the fair value hierarchy, as of and for the year ended June 30, 2014:

Assets	Level 1	Level 2	Level 3
Fixed income mutual funds	$ 17,800,884	-	-
Equity mutual funds	42,312,744	-	-
	$ 60,113,628	-	-

The preceding methods described might produce a fair value calculation that might not be indicative of net realizable or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 7 - UNIVERSITY ENDOWMENTS

At June 30, 2014, the University has established fourteen endowments on behalf of the Association, which were initially funded through donations to the University with the income designated for the Association. The Association does not have variance power, and as such, the endowments are not reflected on the Consolidated Statement of Financial Position, because they are not assets of the Association. All endowments are subject to general guidelines and policies of the University as adopted, by the board of trustees of the University, for the management of endowment funds, including the application of fees associated with endowment administration. Stability of endowment support and preservation of purchasing power against inflationary pressures shall be achieved by limiting spending to an annually determined spending rate, based on the fair value of the fund. Payments are made directly from the endowment spending account to the funds’ beneficiaries, which received $102,137 during the year. As of June 30, 2014, the total market value of the fourteen endowments is $3,143,166.

As authorized by the board of trustees, the University's investment council monitors and administers annual endowment spending. Any investment return in excess of the designated spending rate is retained in the principal of the fund and reflected at its fair value.

NOTE 8 - PROPERTY AND EQUIPMENT

The Association follows the capitalization policy of the University to determine potential additions to property and equipment. The Holding Corporation maintains assets apart from the Association in connection with its business purpose.

Property and equipment consist of the following at June 30, 2014:

	Useful Lives		Amount
Equipment - Alumni Association	5 years	$	157,353
Furniture and equipment - PSAA Holding Corporation	5-7 years		12,297
Less: Accumulated depreciation			(34,618)
		$	135,032

Depreciation for the year ended June 30, 2014 was $18,461 for the Association and $873 for the Holding Corporation.

NOTE 9 - AFFINITY MARKETING PROGRAMS

The Association has established affinity marketing programs with service providers for credit cards, tour programs, insurance programs, and merchandise. In exchange for its endorsement, the Association receives royalties or commissions, depending upon the nature of the affinity partner's business services. Remunerations may be advanced to the Association, depending upon the agreement.

NOTE 10 - PLEDGE TO PENN STATE UNIVERSITY

During September 2008, the Association entered into an unconditional pledge with the University, in order to provide financial assistance to the different campuses and colleges of the University. The Association and the University created a Trustee Matching Scholarship Program for thirty-five (35) different campuses and colleges of the University. The scholarship is to assist students at these campuses and colleges, who have demonstrated a need for funds to meet their necessary college expenses. The Association committed to providing $2,100,000 over a seven-year period to fund the program. The University agreed to a 5.0% match of the initial pledge, plus 5.0% of any additional contributions made to each recipient's fund. At June 30, 2014, the Association had an outstanding payable in the amount of $300,000, which is scheduled to be paid during fiscal year 2015.

NOTE 11 - BOARD-DESIGNATED ASSETS

The Association maintains a reserve for the purpose of providing funds to service members, who have paid to become life members. The reserve, held and invested by Vanguard in accordance with the Association's investment policy, is considered an unrestricted board-designated asset of the Association. There is no actuarial evaluation of the reserve required. Life member dues, less a portion held back to cover current operating costs, are deposited into the fund and annual distributions are received by the Association based on the Association's investment policy. At June 30, 2014, the fair value of the fund was $47,431,377.

The Board of Directors has established a Margin of Excellence Fund and designated the money to support the mission of the University. The fund, held and invested by Vanguard in accordance with the Association's investment policy, is considered an unrestricted board-designated asset of the Association. There is no actuarial evaluation of the fund required. At June 30, 2014, the fair value of the fund was $5,736,081.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

During August 2013, the Association entered into a marketing and sponsorship agreement with Penn State Sports Properties, LLC. The sponsorship agreement has a three-year term, commencing on July 1, 2013. Total sponsorship fees were $125,000 for the year ended June 30, 2014. Each year of the agreement coincides with an athletic year of the University. The future terms of the agreement do not represent a liability on the Consolidated Statement of Financial Position since the agreement is dependent upon Penn State Sports Properties, LLC providing sponsorship services during the athletic year. The agreement calls for payments of $128,750 and $132,615 for the years ended June 30, 2015 and June 30, 2016, respectively.

The Association, from time to time in the ordinary course of business, is subject to, or a party to, pending or threatened litigation, assessments, or claims. While it is not possible to predict with certainty the outcome of such matters individually, or in the aggregate, management believes that any ultimate result will not have a material, adverse effect on the consolidated financial position or consolidated activities or cash flows of the Association. No amounts were accrued in the consolidated financial statements for such matters as of June 30, 2014.

NOTE 13 - SUPPORTED GROUPS

The purpose of Penn State Chapters (the chapters) is to assist the University in promoting its programs. The chapters provide fellowship opportunities for alumni, students, parents of students, and other friends of the University within the geographic bounds of the chapter area. The chapters also disseminate information about the Alumni Association's programs and services. During the year ended June 30, 2014, there were 178 chapters throughout the world.

An Alumni Interest Group is a group of alumni and friends of the University who have common interests arising out of their University recognized, co-curricular activities or common cultural or professional postgraduate interests, and who relate to and support the mission of the University. During the year ended June 30, 2014, there were thirty-five (35) Alumni Interest Groups.

An Affiliate Program Group consists of alumni or friends of the University who have a common interest in a particular academic, professional, or extracurricular activity, which is related to a specific college or campus program. During the year ended June 30, 2014, there were sixty-seven (67) Affiliate Program Groups.

NOTE 13 - SUPPORTED GROUPS (Continued)

The purpose of Alumni Societies is to stimulate the continued interest of all graduates and former students of colleges and campuses; to act as informal advisory boards to the chief administrative officer of the respective colleges and campuses; to provide additional avenues for identification, contact, and representation of alumni within the Association and each society; and to provide a means whereby alumni may gather for the enrichment of their respective colleges and campuses of the University. During the year ended June 30, 2014, there were thirty-five (35) Alumni Societies.

During the year ended June 30, 2014, the Association provided grants to supported groups in the amount of $255,491.

NOTE 14 - INCOME TAXES

The Association and Holding Corporation are no longer subject to examinations by tax authorities in any major tax jurisdiction before 2010.

For the year ended June 30, 2014, the Association generated a net loss from unrelated business activities. Accordingly, no provision has been made for income taxes in the consolidated financial statements. As required under Section 511 of the IRC, the Association files Form 990-T with the Internal Revenue Service (IRS) on an annual basis to report income and expenses from these activities. As a result of the cumulative net operating losses, the deferred tax asset is fully reserved at June 30, 2014.

The Association receives royalties that are generated by allowing access to members to companies with which the Association has a signed agreement. The Association does not treat these royalties as unrelated business income. This treatment is based on relevant court decisions, such as Sierra Club Inc., vs. Commissioner, May 10, 1993. The Association does not believe this to be an uncertain tax position.

The Holding Corporation utilized approximately $19,000 of net operating losses to offset taxable income for the year ended June 30, 2014.

NOTE 14 - INCOME TAXES (Continued)

Net operating losses may be carried-back for two years and/or carried-forward for twenty years. The remaining net operating loss carryforwards, if not used, will expire as follows:

Penn State Alumni Association Year of Net Operating Loss	NOL	Cumulative NOL	Expiration Year
2003	$ 159	$ 159	2023
2004	26,550	26,709	2024
2005	32,677	59,386	2025
2006	91,892	151,278	2026
2007	106,088	257,366	2027
2008	-	257,366	2028
2009	341,202	598,568	2029
2010	136,097	734,665	2030
2011	268,504	1,003,169	2031
2012	224,565	1,227,734	2032
2013	-	1,227,734	2033

PSAA Holding Corporation Year of Net Operating Loss	NOL	Cumulative NOL	Expiration Year
2012	$ 23,651	$ 23,651	2032
2013	(19,397)	4,254	

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SUPPLEMENTARY FINANCIAL INFORMATION

PENN STATE ALUMNI ASSOCIATION

SCHEDULE TO CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

PSAA HOLDING CORPORATION INCOME AND EXPENSES

INCOME		
Sales of inventory	$	279,249
Interest		38
		279,287
COST OF GOODS SOLD		207,111
GENERAL AND ADMINISTRATIVE EXPENSES		
Credit card processing		8,859
Depreciation		873
Legal and professional services		2,450
Office and other supplies		11,180
Purchased services		24,847
Taxes		279
Telephone		945
Travel		3,346
		52,779
INCREASE IN UNRESTRICTED NET ASSETS	$	19,397

See notes to consolidated financial statements.

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