

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2008 AND 2007
&
INDEPENDENT AUDITORS' REPORT
&
SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Indiana University of Pennsylvania
of the State System of Higher Education:

We have audited the accompanying basic financial statements of Indiana University of Pennsylvania of the State System of Higher Education (the "University") and its aggregate discretely presented component units as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The University has not presented Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Schedule of Funding Progress for the System Plan (OPEB) on page 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Parente Randolph, LLC

Pittsburgh, Pennsylvania
November 3, 2008

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2008 AND 2007**

	2008	2007
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 64,071,921	\$ 59,521,153
Accounts receivable:		
Governmental grants and contracts	3,242,265	4,815,933
Students, net of allowance for doubtful accounts of \$1,912,092 and \$1,742,292	7,187,477	7,639,776
Sales and service	472,114	1,043,871
Other	405,906	290,898
Inventories	878,543	1,003,349
Prepaid expenses, suppliers	947,156	472,959
Conversion pay receivable	44,850	49,443
Loans receivable, net of allowance for doubtful accounts of \$464,036 and \$424,816	684,240	640,883
Investment income receivable	206,013	232,460
Due from component units	1,889,069	1,149,169
Other current assets	<u>399,967</u>	<u>200,384</u>
Total current assets	<u>80,429,521</u>	<u>77,060,278</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	1,046,773	1,025,934
Endowment investments	3,892,617	4,126,552
Loans receivable	7,651,897	7,076,618
Bond discount/issuance costs	47,444	51,404
Due from component units	69,078	104,398
Capital assets, net	<u>100,409,306</u>	<u>102,388,738</u>
Total noncurrent assets	<u>113,117,115</u>	<u>114,773,644</u>
TOTAL	<u><u>\$ 193,546,636</u></u>	<u><u>\$ 191,833,922</u></u>

INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2008 AND 2007

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses:		
Supplies and services	\$ 4,030,299	\$ 3,215,692
Employees	11,536,497	11,501,316
Other	-	26,570
Deferred revenue:		
Students	3,049,297	3,403,941
Grants	334,432	190,231
Other	145,737	307,090
Accrued interest payable	47,966	48,971
Students' deposits	764,930	447,541
Other deposit liabilities	202,663	238,006
Current portion of workers' compensation liability	396,587	326,105
Current portion of compensated absences liability	548,142	760,418
Current portion of postretirement benefits liability	6,375,000	6,166,000
Current portion of capitalized lease obligations	1,271	1,824
Current portion of loans payable	3,020	2,697
Current portion of bonds payable, net of unamortized gain/loss on defeasance	2,168,696	2,402,159
Current portion of bond premium	94,685	111,186
Current portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	444,065	458,006
Due to component units	2,133,693	805,681
Other current liabilities	596,462	270,717
Total current liabilities	<u>32,873,442</u>	<u>30,684,151</u>
NONCURRENT LIABILITIES:		
Deferred revenue, other	163,390	181,082
Workers' compensation liability	501,954	347,418
Compensated absences liability	13,801,008	13,012,103
Postretirement benefits liability	79,254,137	71,477,688
Capitalized lease obligations	-	1,115
Loans payable	1,794	4,243
Bonds payable, net of unamortized gain/loss on defeasance	18,544,556	19,279,764
Bond premium	367,861	422,062
Due to System, AFRP	7,288,395	7,716,117
Other noncurrent liabilities	9,186,215	9,376,325
Total noncurrent liabilities	<u>129,109,310</u>	<u>121,817,917</u>
Total liabilities	<u>161,982,752</u>	<u>152,502,068</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	71,396,689	72,418,721
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,823,809	2,822,717
Other	792,996	792,996
Expendable:		
Scholarships and fellowships	90,298	192,108
Research	209,967	430,109
Capital projects	773,054	1,529,033
Other	35,861	264,649
Unrestricted	(44,558,790)	(39,118,479)
Total net assets	<u>31,563,884</u>	<u>39,331,854</u>
TOTAL	<u>\$ 193,546,636</u>	<u>\$ 191,833,922</u>

See Notes to Financial Statements

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
OPERATING REVENUES:		
Tuition and fees	\$ 96,401,835	\$ 92,515,956
Less scholarship discounts and allowances	<u>20,800,652</u>	<u>17,913,272</u>
Net tuition and fees	75,601,183	74,602,684
Governmental grants and contracts:		
Federal	19,315,334	19,502,890
State	18,127,294	18,571,523
Local	6,693	1,223
Nongovernmental grants and contracts	3,562,946	2,438,042
Sales and services of educational departments	3,227,516	2,853,577
Auxiliary enterprises	22,608,914	22,028,780
Other revenues	<u>4,872,867</u>	<u>10,094,326</u>
Total operating revenues	<u>147,322,747</u>	<u>150,093,045</u>
OPERATING EXPENSES:		
Instruction	88,093,467	87,998,935
Research	1,066,169	1,051,007
Public service	8,305,232	7,675,924
Academic support	21,367,052	21,668,958
Student services	16,186,270	15,330,575
Institutional support	26,895,262	21,298,025
Operations and maintenance of plant	22,951,195	26,245,191
Depreciation	9,749,835	9,715,089
Student aid	10,282,029	10,394,053
Auxiliary enterprises	<u>18,011,931</u>	<u>18,750,114</u>
Total operating expenses	<u>222,908,442</u>	<u>220,127,871</u>
OPERATING LOSS	<u>(75,585,695)</u>	<u>(70,034,826)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations, general and restricted	64,825,362	63,232,196
Investment income, net	3,327,033	3,465,745
Unrealized (loss) gain on investments	(313,221)	397,862
Gifts for other than capital purposes	170,992	406,094
Interest expense on capital asset-related debt	(1,338,277)	(1,368,219)
Loss on disposal of assets	(1,372,011)	(2,579,336)
Other nonoperating revenue	<u>193,002</u>	<u>187,556</u>
Nonoperating revenues, net	<u>65,492,880</u>	<u>63,741,898</u>
LOSS BEFORE OTHER REVENUES	<u>(10,092,815)</u>	<u>(6,292,928)</u>
OTHER REVENUES:		
State appropriations, capital	1,641,576	2,598,401
Capital gifts and grants	<u>683,269</u>	<u>309,065</u>
Total other revenues	<u>2,324,845</u>	<u>2,907,466</u>
(DECREASE) IN NET ASSETS	<u>(7,767,970)</u>	<u>(3,385,462)</u>
NET ASSETS, BEGINNING OF YEAR	<u>39,331,854</u>	<u>42,717,316</u>
NET ASSETS, END OF YEAR	<u>\$ 31,563,884</u>	<u>\$ 39,331,854</u>

See Notes to Financial Statements

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF CASH FLOWS - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees, net	\$ 75,491,668	\$ 72,544,976
Grants and contracts	42,730,136	39,885,240
Payments to suppliers for goods and services	(47,696,200)	(50,247,671)
Payments to employees	(145,269,557)	(143,219,170)
Loans issued to students	(1,723,960)	(1,127,854)
Loans collected from students	1,105,324	1,167,703
Student Aid	(10,282,029)	(10,394,053)
Auxiliary enterprise charges	22,514,738	21,559,576
Sales and services of educational departments	3,799,273	2,595,841
Other receipts	5,111,194	13,933,295
Net cash used in operating activities	<u>(54,219,413)</u>	<u>(53,302,117)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	64,825,362	63,232,196
Gifts for other than capital purposes	170,992	406,094
PLUS, Stafford, and other loans receipts (non-Perkins)	80,774,209	(74,673,700)
PLUS, Stafford, and other loans disbursements (non-Perkins)	(81,063,365)	75,746,164
Agency transactions, net	253,813	(1,556,908)
Other	193,002	187,556
Net cash provided by noncapital financing activities	<u>65,154,013</u>	<u>63,341,402</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt	2,747,297	-
Capital appropriations	1,641,576	1,104,353
Capital grants and gifts received	683,269	309,065
Purchases of capital assets	(9,142,414)	(10,456,735)
Principal paid on capital debt and leases	(4,249,945)	(3,797,702)
Interest paid on capital debt and leases	(1,316,970)	(1,482,954)
Net cash used in capital financing activities	<u>(9,637,187)</u>	<u>(14,323,973)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	54,523	8,169
Purchase of investments	(133,809)	(129,518)
Interest on investments	3,353,480	3,436,085
Net cash provided by investing activities	<u>3,274,194</u>	<u>3,314,736</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,571,607	(969,952)
CASH AND CASH EQUIVALENTS, Beginning of year	60,547,087	61,517,039
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 65,118,694</u>	<u>\$ 60,547,087</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (75,585,695)	\$ (70,034,826)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	9,749,835	9,715,089
Changes in assets and liabilities:		
Receivables, net	2,597,724	(2,723,866)
Inventories	124,806	79,469
Other assets	(161,297)	4,084,664
Accounts payable	823,218	434,934
Deferred revenue	(389,488)	63,660
Students' deposits	317,389	(84,025)
Compensated absences	576,629	(395,315)
Loans to students and employees	(618,636)	39,849
Other liabilities	8,346,102	5,518,250
Net cash used in operating activities	<u>\$ (54,219,413)</u>	<u>\$ (53,302,117)</u>
NONCASH TRANSACTIONS:		
Equipment acquired by capital lease	<u>\$ 789,350</u>	<u>\$ -</u>
Equipment acquired by trade	<u>\$ 25,572</u>	<u>\$ -</u>

See Notes to Financial Statements

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

BALANCE SHEET - COMPONENT UNITS
JUNE 30, 2008 AND 2007

	2008	2007
<u>ASSETS</u>		
ASSETS:		
Cash and cash equivalents	\$ 7,987,127	\$ 6,292,569
Accounts receivable	1,695,128	2,624,219
Contributions/pledges receivable	4,511,906	3,870,437
Due from university	2,133,693	805,681
Inventories	1,779,975	1,389,476
Investments	42,002,586	44,601,542
Capital assets, net	144,962,631	77,236,151
Restricted cash and investments	95,015,239	87,627,219
Other assets	<u>3,625,439</u>	<u>6,564,298</u>
TOTAL	<u>\$ 303,713,724</u>	<u>\$ 231,011,592</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 8,123,011	\$ 6,214,662
Annuity liabilities	55,681	42,083
Due to university	1,958,147	1,253,567
Deposits payable	3,571,077	3,646,386
Capitalized leases	21,483,891	22,753,891
Long-term debt, net	208,454,424	136,010,486
Other liabilities	<u>10,648,788</u>	<u>4,146,822</u>
Total liabilities	<u>254,295,019</u>	<u>174,067,897</u>
NET ASSETS:		
Unrestricted	5,471,367	13,463,635
Temporarily restricted	17,437,013	16,833,320
Permanently restricted	<u>26,510,325</u>	<u>26,646,740</u>
Total net assets	<u>49,418,705</u>	<u>56,943,695</u>
TOTAL	<u>\$ 303,713,724</u>	<u>\$ 231,011,592</u>

See Notes to Financial Statements

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - COMPONENT UNITS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
REVENUES AND GAINS:		
Contributions	\$ 4,134,341	\$ 6,105,277
Sales and service	8,308,773	7,121,933
Student fees	5,538,602	5,629,013
Grants and contracts	5,068,121	4,465,416
Rental income	6,189,712	1,238,371
Investment income	204,113	2,443,187
Unrealized (loss) gain on investments	(7,598,681)	5,341,799
Other revenues and gains	<u>2,331,201</u>	<u>1,702,010</u>
Total revenues and gains	<u>24,176,182</u>	<u>34,047,006</u>
EXPENSES AND LOSSES:		
Program services:		
Scholarships and grants	2,058,835	1,386,394
Student activities and programs	5,858,622	5,824,567
University stores	7,709,517	7,070,002
Housing	6,721,922	1,292,542
Other university support	282,771	464,417
Other programs	5,924,345	4,904,677
Management and general	1,898,163	1,794,966
Fundraising	<u>1,246,997</u>	<u>1,101,672</u>
Total expenses and losses	<u>31,701,172</u>	<u>23,839,237</u>
(DECREASE) INCREASE IN NET ASSETS	(7,524,990)	10,207,769
NET ASSETS, BEGINNING OF YEAR	<u>56,943,695</u>	<u>46,735,926</u>
NET ASSETS, END OF YEAR	<u>\$ 49,418,705</u>	<u>\$ 56,943,695</u>

See Notes to Financial Statements

**INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

NOTES TO FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

ORGANIZATION

Indiana University of Pennsylvania of the State System of Higher Education (the "University"), a public, four-year doctoral intensive institution located in Indiana, Pennsylvania, was founded in 1875. The University is one of fourteen universities of the Pennsylvania State System of Higher Education ("PASSHE"). PASSHE was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended ("Act 188"). PASSHE is a component unit of the Commonwealth of Pennsylvania (the "Commonwealth").

REPORTING ENTITY

In accordance with Government Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organization's Are Component Units*, an amendment of GASB 14, the University has determined that The Student Co-Operative Association, Inc. (the "Cooperative"), The College Student Union Association, Inc. (the "Student Union"), The Foundation for IUP, Inc. (the "Foundation"), The IUP Research Institute, Inc. (the "Research Institute"), and University Acquisitions, Inc. ("University Acquisitions") should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

Complete financial statements for the component units may be obtained at the University's accounting office.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND BASIS OF PRESENTATION**

The University functions as a business-type activity, as defined by GASB.

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The University applies only the Financial Accounting Standards Board pronouncements issued before November 30, 1989, except for those that conflict with GASB pronouncements.

OPERATING REVENUES

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income (except for interest earned by auxiliaries totaling \$536,617 in 2008 and \$517,986 in 2007, which is included in auxiliary revenues), capital grants, gains on the sale of investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as non-operating revenue.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship discount and allowance. Certain other scholarship or discount amounts are paid directly to, or refunded to, the students and are generally reflected as expenses.

NET ASSETS

The University maintains the following net asset classifications:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted – nonexpendable: Net assets subject to externally imposed conditions requiring that they be maintained by the University in perpetuity.

Restricted – expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated for specific purposes by the University's Council of Trustees.

When both restricted and unrestricted funds are available for expenditure, the decision as to which funds are used first is left to the discretion of the University.

CASH EQUIVALENTS AND INVESTMENTS

The University considers all demand and time deposits, money market funds, and overnight repurchase agreements to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift.

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fees charged to current and former students, amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants and contracts, and other miscellaneous sources.

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the University's historical losses and periodic review of individual accounts.

INVENTORIES

Inventories are stated at the lower of cost or market, with cost being determined principally on the weighted average method.

CAPITAL ASSETS

Land and buildings at the University's campus acquired or constructed prior to the creation of PASSHE on July 1, 1983, are owned by the Commonwealth and made available to the University. Since the University neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed utilizing capital funds appropriated by the Commonwealth after June 10, 1983, and made available to the University.

Buildings, equipment and furnishings acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong useful life.

DEFERRED REVENUE

Deferred revenue includes amounts received for tuition and fees, grants, corporate sponsorship payments, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

COMPENSATED ABSENCES

Employees' right to receive annual leave and sick leave payments upon termination or retirement for services already rendered is recorded as a liability.

PENSION PLANS

Employees of the University are required to enroll in one of three available cost-sharing multiple-employer retirement plans immediately upon employment. The University recognizes annual pension expenditures equal to its contractually required contributions to the plans.

INCOME TAXES

The University, as a member of PASSHE, which is a political subdivision of the Commonwealth, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Statement No. 51 establishes accounting and financial reporting requirements for intangible assets, specifically with regard to whether and when intangible assets should be considered capital assets for financial reporting purposes. The University is required to adopt Statement No. 51 for the fiscal year ending June 30, 2010. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments, and specifically requires endowments to report their land and other real estate investments at fair value. The University is required to adopt Statement No. 52 for the fiscal year ending June 30, 2009. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions. The University is required to adopt Statement No. 53 for the fiscal year ending June 30, 2010. The University is evaluating, but has not determined, how the adoption of Statements No. 51, 52, and 53 will affect its balance sheet and the statement of revenues, expenses, and changes in net assets.

INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

2. CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2008:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 622,459	\$ -	\$ 1,099,540	\$ 149,718	\$ 261,976	\$ 2,133,693
Capital assets, net	1,035,874	22,911,448	112,904,946	-	8,110,363	144,962,631
Other assets	<u>2,999,016</u>	<u>2,876,994</u>	<u>146,727,240</u>	<u>3,358,001</u>	<u>656,149</u>	<u>156,617,400</u>
Total assets	<u>\$4,657,349</u>	<u>\$25,788,442</u>	<u>\$260,731,726</u>	<u>\$3,507,719</u>	<u>\$9,028,488</u>	<u>\$303,713,724</u>
Due to University	\$ -	\$ -	\$ 584,452	\$1,202,544	\$ 171,151	\$ 1,958,147
Capitalized leases	-	21,483,891	-	-	-	21,483,891
Other liabilities	<u>768,624</u>	<u>3,843,051</u>	<u>215,914,190</u>	<u>1,164,219</u>	<u>9,162,897</u>	<u>230,852,981</u>
Total liabilities	<u>\$ 768,624</u>	<u>\$25,326,942</u>	<u>\$216,498,642</u>	<u>\$2,366,763</u>	<u>\$9,334,048</u>	<u>\$254,295,019</u>
Net Assets:						
Unrestricted	\$3,888,725	\$ 461,500	\$ 719,954	\$1,140,956	\$ (739,768)	\$ 5,471,367
Temporarily restricted	-	-	17,002,805	-	434,208	17,437,013
Permanently restricted	<u>-</u>	<u>-</u>	<u>26,510,325</u>	<u>-</u>	<u>-</u>	<u>26,510,325</u>
Total net assets	<u>\$3,888,725</u>	<u>\$ 461,500</u>	<u>\$ 44,233,084</u>	<u>\$1,140,956</u>	<u>\$ (305,560)</u>	<u>\$ 49,418,705</u>

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The following represents combining condensed balance sheet information for the component units as of June 30, 2007:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 620,509	\$ -	\$ -	\$ -	\$ 185,172	\$ 805,681
Capital assets, net	1,080,653	23,653,996	44,146,365	-	8,355,137	77,236,151
Other assets	<u>3,398,581</u>	<u>2,826,348</u>	<u>143,259,951</u>	<u>2,910,659</u>	<u>574,221</u>	<u>152,969,760</u>
Total assets	<u>\$5,099,743</u>	<u>\$26,480,344</u>	<u>\$187,406,316</u>	<u>\$2,910,659</u>	<u>\$9,114,530</u>	<u>\$231,011,592</u>
Due to University	\$ -	\$ -	\$ -	\$1,212,753	\$ 40,814	\$ 1,253,567
Capitalized leases	-	22,753,891	-	-	-	22,753,891
Other liabilities	<u>677,872</u>	<u>3,357,454</u>	<u>135,931,152</u>	<u>1,030,236</u>	<u>9,063,725</u>	<u>150,060,439</u>
Total liabilities	<u>\$ 677,872</u>	<u>\$26,111,345</u>	<u>\$135,931,152</u>	<u>\$2,242,989</u>	<u>\$9,104,539</u>	<u>\$174,067,897</u>
Net Assets:						
Unrestricted	\$4,421,871	\$ 368,999	\$ 8,375,990	\$ 667,670	\$ (370,895)	\$ 13,463,635
Temporarily restricted	-	-	16,452,434	-	380,886	16,833,320
Permanently restricted	-	-	26,646,740	-	-	26,646,740
Total net assets	<u>\$4,421,871</u>	<u>\$ 368,999</u>	<u>\$ 51,475,164</u>	<u>\$ 667,670</u>	<u>\$ 9,991</u>	<u>\$ 56,943,695</u>

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The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2008:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Revenues and gains:						
Contributions	\$ -	\$ -	\$ 4,134,341	\$ -	\$ -	\$ 4,134,341
Sales and services	7,531,271	-	-	777,502	-	8,308,773
Student fees	5,538,602	-	-	-	-	5,538,602
Grants and contracts	-	-	-	5,068,121	-	5,068,121
Rental income	125,000	-	4,850,476	-	1,214,236	6,189,712
Investment income	73,021	159,382	(95,912)	50,009	17,613	204,113
Unrealized loss on investments	(5,998)	-	(7,592,683)	-	-	(7,598,681)
Other revenues and gains	<u>331,723</u>	<u>26,000</u>	<u>2,250,850</u>	<u>14,818</u>	<u>(292,190)</u>	<u>2,331,201</u>
Total revenues and gains	<u>13,593,619</u>	<u>185,382</u>	<u>3,547,072</u>	<u>5,910,450</u>	<u>939,659</u>	<u>24,176,182</u>
Expenses and losses:						
Program services:						
Scholarships and grants	-	-	2,058,835	-	-	2,058,835
Student activities and programs	5,858,622	-	-	-	-	5,858,622
University stores	7,709,517	-	-	-	-	7,709,517
Housing	-	-	5,474,777	-	1,247,145	6,721,922
Other university support	-	-	282,771	-	-	282,771
Other programs	-	55,288	1,215,290	4,653,767	-	5,924,345
Management and general	558,626	37,593	510,482	783,397	8,065	1,898,163
Fundraising	<u>-</u>	<u>-</u>	<u>1,246,997</u>	<u>-</u>	<u>-</u>	<u>1,246,997</u>
Total expenses and losses	<u>14,126,765</u>	<u>92,881</u>	<u>10,789,152</u>	<u>5,437,164</u>	<u>1,255,210</u>	<u>31,701,172</u>
Changes in net assets	(533,146)	92,501	(7,242,080)	473,286	(315,551)	(7,524,990)
Net assets at beginning of year	<u>4,421,871</u>	<u>368,999</u>	<u>51,475,164</u>	<u>667,670</u>	<u>9,991</u>	<u>56,943,695</u>
Net assets at end of year	<u>\$ 3,888,725</u>	<u>\$461,500</u>	<u>\$44,233,084</u>	<u>\$1,140,956</u>	<u>\$ (305,560)</u>	<u>\$49,418,705</u>

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The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2007:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Revenues and gains:						
Contributions	\$ -	\$ -	\$ 6,105,277	\$ -	\$ -	\$ 6,105,277
Sales and services	7,121,933	-	-	-	-	7,121,933
Student fees	5,629,013	-	-	-	-	5,629,013
Grants and contracts	-	-	-	4,465,416	-	4,465,416
Rental income	125,000	-	-	-	1,113,371	1,238,371
Investment income	103,088	350,048	1,944,578	21,596	23,877	2,443,187
Unrealized gain (loss) on investments	(1,400)	-	5,343,199	-	-	5,341,799
Other revenues and gains	<u>491,219</u>	<u>17,376</u>	<u>1,241,071</u>	<u>10,169</u>	<u>(57,825)</u>	<u>1,702,010</u>
Total revenues and gains	<u>13,468,853</u>	<u>367,424</u>	<u>14,634,125</u>	<u>4,497,181</u>	<u>1,079,423</u>	<u>34,047,006</u>
Expenses and losses:						
Program services:						
Scholarships and grants	-	-	1,386,394	-	-	1,386,394
Student activities and programs	5,824,567	-	-	-	-	5,824,567
University stores	7,070,002	-	-	-	-	7,070,002
Housing	-	-	80,032	-	1,212,510	1,292,542
Other university support	-	-	464,417	-	-	464,417
Other programs	-	437,578	769,843	3,697,256	-	4,904,677
Management and general	538,993	36,842	499,153	712,930	7,048	1,794,966
Fundraising	<u>-</u>	<u>-</u>	<u>1,101,672</u>	<u>-</u>	<u>-</u>	<u>1,101,672</u>
Total expenses and losses	<u>13,433,562</u>	<u>474,420</u>	<u>4,301,511</u>	<u>4,410,186</u>	<u>1,219,558</u>	<u>23,839,237</u>
Changes in net assets	35,291	(106,996)	10,332,614	86,995	(140,135)	10,207,769
Net assets at beginning of year	<u>4,386,580</u>	<u>475,995</u>	<u>41,142,550</u>	<u>580,675</u>	<u>150,126</u>	<u>46,735,926</u>
Net assets at end of year	<u>\$ 4,421,871</u>	<u>\$368,999</u>	<u>\$51,475,164</u>	<u>\$ 667,670</u>	<u>\$ 9,991</u>	<u>\$56,943,695</u>

3. DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the PASSHE. PASSHE maintains these and other PASSHE funds on a pooled basis. Although PASSHE pools its funds in a manner similar to an internal investment pool, individual PASSHE entities do not hold title to any assets in the fund. PASSHE as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at PASSHE level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$62,860,245 and \$57,717,473 at June 30, 2008 and 2007, respectively.

PASSHE invests its funds in accordance with the Board's Investment Policy, which authorizes PASSHE to invest in repurchase agreements, commercial paper, obligations of the United States Treasury, agencies and sponsored entities, certificates of deposit, municipal bonds, mortgage-backed securities, asset-backed securities, banker's acceptances, and corporate bonds. Restricted nonexpendable funds and amounts designated by the Board or University trustees may be invested in the investments described above, as well as corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as cash deposits. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, PASSHE recognizes a fiduciary responsibility to invest all funds prudently in accordance with ethical and prevailing legal standards. In addition, PASSHE recognizes that the funds in its custody can be classified according to purpose, time frame for use, source, and other similar classifications. Differential investment guidelines and objectives are required to manage various funds classifications appropriately and optimally.

Regardless of funds classifications, certain general tenets apply. Investments in all classifications seek to minimize exogenous risks while maintaining or expanding purchasing power. Adequate liquidity is maintained so assets are held to maturity. In all classifications, high quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments are made in U.S.-based corporations. Investment performance in all classifications is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed. A portfolio duration target of 1.8 years is maintained with an upper limit of 2.2 years.

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Safety of principal and liquidity are the top priorities for the investment of PASSHE's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed; this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities. Collateralized mortgage obligations (CMOs) are sometimes based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in PASSHE's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates. PASSHE's operating funds are invested and reinvested in the following types of instruments with qualifications as provided.

<u>Investment Categories</u>	<u>Limit (% of Market Value)</u>	<u>Single Issuer (maximum)</u>	<u>Rating Limit (Moody's)</u>
Government securities/ repurchase agreements	Greater than 20%	5% Repurchase	N/A
Commercial paper/ certificates of deposit/ banker's acceptances	Less than 30%	5% of each type	P-1
Municipal bonds	Less than 20%	5%	Aa or higher
Corporate bonds	Less than 20%	N/A	Aa or higher
Collateralized mortgage obligations (CMOs)	Less than 20%	N/A	Aaa
Asset-backed securities	Less than 20%	N/A	Aaa
System notes	Less than 20%	5%	N/A

At June 30, 2008 and 2007, the carrying amount of the University's demand and time deposits were \$2,258,449 and \$2,829,614, respectively, as compared to bank balances of \$1,774,759 and \$2,826,964, respectively. The difference is caused primarily by items in-transit. All bank balances were covered by federal depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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The carrying value (fair value) of deposits and investments for the University's pooled funds on June 30, 2008 is presented below:

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits, Demand and time deposits			\$2,258,449
Investments, Equity/balances mutual funds			<u>3,892,617</u>
Total deposits and investments			<u>\$6,151,066</u>

Of the local investments noted above, the exposure to foreign currency risk is as follows:

<u>Investment</u>	<u>Currency</u>	<u>Fair Value</u>
Deposit	British Pound	\$73,700
Deposit	Euro	<u>890</u>
Total		<u>\$74,590</u>

The carrying value (fair value) of deposits and investments for the University's pooled funds on June 30, 2007 is presented below:

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits, Demand and time deposits			\$2,829,614
Investments, Equity/balances mutual funds			<u>4,126,552</u>
Total deposits and investments			<u>\$6,956,166</u>

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Of the local investments noted above, the exposure to foreign currency risk is as follows:

<u>Investment</u>	<u>Currency</u>	<u>Fair Value</u>
Deposit	British Pound	\$ 7,478
Deposit	Euro	<u>21,556</u>
Total		<u>\$29,034</u>

4. CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following:

	Estimated Lives (in years)	Beginning Balance July 1, 2007	Additions	Retirements	Reclassifications	Ending Balance June 30, 2008
Land		\$ 4,960,206	\$ -	\$ -	\$ -	\$ 4,960,206
Construction in progress		<u>8,366,196</u>	<u>5,642,525</u>	<u>-</u>	<u>(2,327,679)</u>	<u>11,681,042</u>
Total capital assets not being depreciated		<u>13,326,402</u>	<u>5,642,525</u>	<u>-</u>	<u>(2,327,679)</u>	<u>16,641,248</u>
Buildings, including improvements	10-40	162,163,579	2,142,526	(2,582,942)	2,327,679	164,050,842
Furnishings and equipment (including cost of capital leases)	3-10	27,549,367	841,821	(508,764)	-	27,882,424
Library books	10	<u>9,002,710</u>	<u>515,542</u>	<u>(7,006)</u>	<u>-</u>	<u>9,511,246</u>
Total capital assets being depreciated		<u>198,715,656</u>	<u>3,499,889</u>	<u>(3,098,712)</u>	<u>2,327,679</u>	<u>201,444,512</u>
Less accumulated depreciation:						
Buildings, including improvements		(82,956,936)	(7,178,365)	1,227,948	-	(88,907,353)
Furnishings and equipment		(19,945,434)	(2,051,740)	492,506	-	(21,504,668)
Library books		<u>(6,750,950)</u>	<u>(519,730)</u>	<u>6,247</u>	<u>-</u>	<u>(7,264,433)</u>
Total accumulated depreciation		<u>(109,653,320)</u>	<u>(9,749,835)</u>	<u>1,726,701</u>	<u>-</u>	<u>(117,676,454)</u>
Total capital assets being depreciated, net		<u>89,062,336</u>	<u>(6,249,946)</u>	<u>(1,372,011)</u>	<u>2,327,679</u>	<u>83,768,058</u>
Capital assets, net		<u>\$102,388,738</u>	<u>\$ (607,421)</u>	<u>\$ (1,372,011)</u>	<u>\$ -</u>	<u>\$100,409,306</u>

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	Estimated Lives (in years)	Beginning Balance July 1, 2006	Additions	Retirements	Reclassifications	Ending Balance June 30, 2007
Land		\$ 4,960,206	\$ -	\$ -	\$ -	\$ 4,960,206
Construction in progress		<u>8,285,347</u>	<u>6,510,370</u>	<u>-</u>	<u>(6,429,521)</u>	<u>8,366,196</u>
Total capital assets not being depreciated		<u>13,245,553</u>	<u>6,510,370</u>	<u>-</u>	<u>(6,429,521)</u>	<u>13,326,402</u>
Buildings, including improvements	10-40	160,883,683	-	(5,149,625)	6,429,521	162,163,579
Furnishings and equipment (including cost of capital leases)	3-10	24,588,410	3,289,314	(328,357)	-	27,549,367
Library books	10	<u>8,351,726</u>	<u>657,051</u>	<u>(6,067)</u>	<u>-</u>	<u>9,002,710</u>
Total capital assets being depreciated		<u>193,823,819</u>	<u>3,946,365</u>	<u>(5,484,049)</u>	<u>6,429,521</u>	<u>198,715,656</u>
Less accumulated depreciation:						
Buildings, including improvements		(78,017,207)	(7,310,849)	2,371,120	-	(82,956,936)
Furnishings and equipment		(18,545,400)	(1,927,560)	527,526	-	(19,945,434)
Library books		<u>(6,280,337)</u>	<u>(476,680)</u>	<u>6,067</u>	<u>-</u>	<u>(6,750,950)</u>
Total accumulated depreciation		<u>(102,842,944)</u>	<u>(9,715,089)</u>	<u>2,904,713</u>	<u>-</u>	<u>(109,653,320)</u>
Total capital assets being depreciated, net		<u>90,980,875</u>	<u>(5,768,724)</u>	<u>(2,579,336)</u>	<u>6,429,521</u>	<u>89,062,336</u>
Capital assets, net		<u>\$104,226,428</u>	<u>\$ 741,646</u>	<u>\$ (2,579,336)</u>	<u>\$ -</u>	<u>\$102,388,738</u>

5. LEASES

The University has entered into a long-term operating lease for the use of facilities. Future annual minimum payments in the aggregate, under noncancelable operating leases are as follows:

YEAR ENDING JUNE 30

2009	\$ 214,632
2010	214,632
2011	214,632
2012	214,632
2013	<u>196,746</u>

Total minimum lease payments \$1,055,274

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Total rent expense for operating leases was \$116,259 and \$205,689 for the years ended June 30, 2008 and 2007, respectively.

The component units have entered into capital lease agreements for the financing of buildings and building improvements. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more, are as follows:

YEAR ENDING JUNE 30

2009	\$2,084,268
2010	2,085,305
2011	2,091,330
2012	2,087,605
2013	2,081,983
Thereafter	<u>24,149,457</u>
Total minimum lease payments	34,579,948
Less amount representing interest on capital leases	<u>17,903,570</u>
Present value of net minimum capital lease payment	<u>\$16,676,378</u>

Buildings, net of depreciation, at June 30, 2008 and 2007, include \$22,278,043 and \$23,012,172, respectively, acquired through leases that have been capitalized.

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6. BONDS PAYABLE AND LONG TERM DEBT

Bonds payable consist of tax-exempt revenue bonds issued by PASSHE through the Pennsylvania Higher Educational Facilities Authority ("PHEFA"). In connection with the bond issuances, PASSHE entered into a loan agreement with PHEFA on behalf of the University under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. PASSHE's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2008 and 2007, are as follows:

	Weighted Average Interest Rate	Balance July 1, 2007	Bonds Issued	Bonds Redeemed	Balance June 30, 2008
Series P issued in February 1998 for various projects	5.05%	\$ 996,657	\$ -	\$ (996,657)	\$ -
Series Q issued in June 1998 for various projects	4.81%	374,248	-	(374,248)	-
Series R issued in June 1999 for various projects	4.95%	95,000	-	(45,000)	50,000
Series T issued in July 2001 for various projects	4.89%	3,523,173	-	(262,375)	3,260,798
Series U issued in August 2002 for various projects	4.26%	300,000	-	(55,000)	245,000
Series V issued in August 2002 for various projects	4.48%	1,653,876	-	-	1,653,876
Series W issued in October 2002 for various projects	4.68%	2,630,236	-	(670,372)	1,959,864
Series X issued in May 2003 for various projects	4.55%	1,809,477	-	(420,344)	1,389,133
Series Y issued in June 2003 for various projects	4.48%	1,215,713	-	-	1,215,713
Series Z issued in March 2004 for various projects	4.97%	881,030	-	(175,683)	705,347
Series AA issued in July 2004 for various projects	4.48%	1,217,272	-	(50,587)	1,166,685
Series AB issued in July 2004 for various projects	4.08%	1,306,793	-	-	1,306,793
Series AC issued in July 2005 for various projects	4.92%	5,350,649	-	(243,878)	5,106,771
Series AD issued in July 2005 for various projects	4.08%	431,892	-	-	431,892
Series AF issued in July 2007 for various projects	4.89%	-	1,359,120	(45,375)	1,313,745
Series AG issued in March 2008 for various projects	4.42%	-	<u>1,388,177</u>	<u>(464,970)</u>	<u>923,207</u>
Total bonds payable		21,786,016	<u>\$2,747,297</u>	<u>(\$3,804,489)</u>	20,728,824
Plus unamortized gain on refinancing		3,928			3,900
Less unamortized loss on refinancing		<u>(108,021)</u>			<u>(19,472)</u>
Outstanding at end of year		<u>\$21,681,923</u>			<u>\$20,713,252</u>

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	Weighted Average Interest Rate	Balance July 1, 2006	Bonds Returned to PASSHE	Bonds Redeemed	Balance June 30, 2007
Series O issued in June 1997 for various projects	5.13%	\$ 187,500	\$ -	\$ (187,500)	\$ -
Series P issued in February 1998 for various projects	5.05%	1,114,432	-	(117,775)	996,657
Series Q issued in June 1998 for various projects	4.81%	735,130	-	(360,882)	374,248
Series R issued in June 1999 for various projects	4.92%	140,000	-	(45,000)	95,000
Series T issued in July 2001 for various projects	4.90%	3,770,928	-	(247,755)	3,523,173
Series U issued in August 2002 for various projects	4.20%	355,000	-	(55,000)	300,000
Series V issued in August 2002 for various projects	3.69%	1,653,876	-	-	1,653,876
Series W issued in October 2002 for various projects	4.65%	3,278,841	-	(648,605)	2,630,236
Series X issued in May 2003 for various projects	4.60%	2,212,198	-	(402,721)	1,809,477
Series Y issued in June 2003 for various projects	3.69%	1,215,713	-	-	1,215,713
Series Z issued in March 2004 for various projects	4.04%	1,047,197	-	(166,167)	881,030
Series AA issued in July 2004 for various projects	4.40%	1,480,875	(214,479)	(49,124)	1,217,272
Series AB issued in July 2004 for various projects	3.70%	1,306,793	-	-	1,306,793
Series AC issued in July 2005 for various projects	4.92%	5,794,627	(210,658)	(233,320)	5,350,649
Series AD issued in July 2005 for various projects	3.69%	<u>766,578</u>	<u>(334,686)</u>	<u>-</u>	<u>431,892</u>
Total bonds payable		25,059,688	<u>\$(759,823)</u>	<u>\$(2,513,849)</u>	21,786,016
Plus unamortized gain on refinancing		5,146			3,928
Less unamortized loss on refinancing		<u>(127,424)</u>			<u>(108,021)</u>
Outstanding at end of year		<u>\$24,937,410</u>			<u>\$21,681,923</u>

The University participates in PASSHE's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across PASSHE. This program will provide \$100,000,000 in funding over the next several years. PASSHE will issue bonds to provide a pool for funding for AFRP (\$50,008,222 and \$47,335,786 was outstanding as of June 30, 2008 and 2007, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. The balance owed by the University to PASSHE's AFRP pool of funding was \$7,732,460 at June 30, 2008 and \$8,174,123 at June 30, 2007.

Principal and interest maturities for each of the next five years and in subsequent five-year periods ending June 30 are as follows:

		2009	2010	2011	2012	2013	2014- 2018	2018- 2023	2023- 2028	Total
Series R	Principal	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000
	Interest	2,250	-	-	-	-	-	-	-	2,250
	Total	52,250	-	-	-	-	-	-	-	52,250
T	Principal	273,638	285,483	300,104	317,367	332,144	1,338,776	413,286	-	3,260,798
	Interest	158,206	144,524	130,249	115,244	99,376	263,500	41,998	-	953,097
	Total	431,844	430,007	430,353	432,611	431,520	1,602,276	455,284	-	4,213,895
U	Principal	60,000	60,000	60,000	65,000	-	-	-	-	245,000
	Interest	8,903	6,863	4,688	2,438	-	-	-	-	22,892
	Total	68,903	66,863	64,688	67,438	-	-	-	-	267,892
V	Principal	-	-	-	-	-	-	1,653,876	-	1,653,876
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	1,653,876	-	1,653,876
W	Principal	681,914	376,368	217,015	220,544	227,601	236,422	-	-	1,959,864
	Interest	89,001	58,785	41,747	32,085	22,042	11,370	-	-	255,030
	Total	770,915	435,153	258,762	252,629	249,643	247,792	-	-	2,214,894
X	Principal	440,362	464,111	95,098	103,918	108,138	177,506	-	-	1,389,133
	Interest	67,682	45,663	22,458	17,703	12,507	15,134	-	-	181,147
	Total	508,044	509,774	117,556	121,621	120,645	192,640	-	-	1,570,280
Y	Principal	-	-	-	-	-	-	-	1,215,713	1,215,713
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	1,215,713	1,215,713
Z	Principal	185,385	192,245	199,166	23,930	24,857	79,764	-	-	705,347
	Interest	27,496	20,080	12,390	4,424	3,706	6,054	-	-	74,150
	Total	212,881	212,325	211,556	28,354	28,563	85,818	-	-	779,497
AA	Principal	52,340	54,387	56,141	58,480	60,820	349,421	435,387	99,709	1,166,685
	Interest	52,656	50,562	48,591	46,345	44,006	174,514	89,065	4,985	510,724
	Total	104,996	104,949	104,732	104,825	104,826	523,935	524,452	104,694	1,677,409
AB	Principal	-	-	-	-	-	-	-	1,306,793	1,306,793
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	1,306,793	1,306,793
AC	Principal	256,739	269,600	282,826	296,052	311,945	1,807,366	1,441,956	440,287	5,106,771
	Interest	252,587	239,750	226,270	212,129	197,326	736,504	279,293	29,101	2,172,960
	Total	509,326	509,350	509,096	508,181	509,271	2,543,870	1,721,249	469,388	7,279,731
AD	Principal	-	-	-	-	-	-	-	431,892	431,892
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	431,892	431,892
AF	Principal	44,434	46,315	48,196	50,312	52,428	302,105	385,801	384,154	1,313,745
	Interest	63,875	61,986	60,018	57,970	55,831	239,274	155,790	49,195	743,939
	Total	108,309	108,301	108,214	108,282	108,259	541,379	541,591	433,349	2,057,684
AG	Principal	141,837	145,636	150,702	156,400	161,466	167,166	-	-	923,207
	Interest	30,624	26,014	21,281	16,383	11,300	5,851	-	-	111,453
	Total	172,461	171,650	171,983	172,783	172,766	173,017	-	-	1,034,660
Total	Principal	2,186,649	1,894,145	1,409,248	1,292,003	1,279,399	4,458,526	4,330,306	3,878,548	20,728,824
	Interest	753,280	654,227	567,692	504,721	446,094	1,452,201	566,146	83,281	5,027,642
	Total	\$ 2,939,929	\$ 2,548,372	\$ 1,976,940	\$ 1,796,724	\$ 1,725,493	\$ 5,910,727	\$ 4,896,452	\$ 3,961,829	\$ 25,756,466

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The component units have entered into long-term debt agreements for the financing of buildings and building improvements. Future minimum payments by year and in the aggregate are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,035,000	\$ 8,970,330	\$ 10,005,330
2010	1,645,000	8,921,506	10,566,506
2011	2,010,000	8,844,718	10,854,718
2012	2,850,000	8,737,087	11,587,087
2013	3,225,000	8,582,462	11,807,462
Thereafter	<u>203,920,000</u>	<u>136,619,524</u>	<u>340,539,524</u>
	214,685,000	<u>\$180,675,627</u>	<u>\$395,360,627</u>
Plus unamortized bond premium	405,890		
Less unamortized bond issue costs	<u>(6,636,466)</u>		
Long-term debt, net	<u>\$208,454,424</u>		

7. COMPENSATED ABSENCES

Compensated absences activity for the years ended June 30, is as follows:

	<u>2008</u>	<u>2007</u>
Balance, July 1	\$13,772,521	\$14,167,836
Current changes in estimate	1,124,769	828,264
Payouts	<u>(548,140)</u>	<u>(1,223,579)</u>
Balance, June 30	<u>\$14,349,150</u>	<u>\$13,772,521</u>

8. POSTRETIREMENT BENEFITS

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefit plans. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare Supplement for individuals over age 65.

RETIRED EMPLOYEES HEALTH PROGRAM PLAN

PLAN DESCRIPTION

Employee members of the American Federation of State, County and Municipal Employees; Pennsylvania Doctors Alliance; and Pennsylvania Social Services Union participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with health care benefits. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

FUNDING POLICY

The contribution requirements of plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members receiving benefits who retired prior to July 1, 2005 are not required to make contributions. Plan members receiving benefits who retire on or after July 1, 2005 contribute at a rate of 1.0% of their final salary. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2007/08, PASSHE contributed \$248.68 for each current active employee per biweekly pay period. PASSHE made contributions of \$24,858,000, \$24,675,000 and \$24,732,000 for the fiscal years ending June 30, 2008, 2007, and 2006, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

PASSHE PLAN

PLAN DESCRIPTION

Employee members of the Association of Pennsylvania State College and University Faculties, the State College and University Professional Association, Security Police and Fire Professionals of America, Pennsylvania Nurses Association and management employees participate in a single-employer defined healthcare plan administered by PASSHE (the "PASSHE Plan"). The PASSHE Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of PASSHE's Universities. Act 188 empowers the Board to establish and amend benefits provisions. The PASSHE Plan is unfunded, and no financial report is prepared.

FUNDING POLICY

The contribution requirements of plan members and the PASSHE are established and may be amended by the Board. The PASSHE Plan is funded on a pay-as-you-go basis, i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. PASSHE paid premiums of \$23,316,000 and \$34,726,000 for the fiscal year ending June 30, 2008 and 2007, respectively. Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions. Plan members receiving benefits who retire on or after July 1, 2005, contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. As of June 30, 2008, the maximum rate being contributed by plan members was 10% of the premium currently paid by active employees. Total contributions made by plan members were \$1,644,000 and \$1,430,000, or approximately 7.1% and 4.1% of the total premiums, for the fiscal years ending June 30, 2008 and 2007, respectively.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

Annual required contribution	\$11,290,000
Interest on net OPEB obligation	3,687,000
Adjustment to annual required contribution	<u>(3,613,000)</u>
Annual OPEB cost (expense)	11,364,000
Contributions made	<u>(3,378,551)</u>
Increase in net OPEB obligation	7,985,449
Net OPEB obligation at July 1, 2007	<u>77,643,688</u>
Net OPEB obligation at June 30, 2008	<u>\$85,629,137</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2008, and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2008	\$11,364,000	29.7%	\$85,629,137
June 30, 2007	10,753,000	47.0%	77,643,688
June 30, 2006	10,213,000	46.1%	71,940,307

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2007, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$140,130,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$140,130,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	\$ 65,575,000
UAAL as a percentage of covered payroll	213.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.75% investment rate of return, which is an expected rate to be earned on PASSHE's operating portfolio and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after seven years. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2007, was 28 years.

9. PENSION BENEFITS

The University's employees participate in one of three multiple-employer cost sharing retirement plans. The Public School Employees' Retirement System ("PSERS") and the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") are governmental cost-sharing multiple employer defined benefit plans. The Alternative Retirement Plan ("ARP") is a defined contribution plan administered by PASSHE.

PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa.C.S.8101-8535) is the authority by which benefit provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (the University), and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefit class is selected. The contribution rate for the University is an actuarially determined rate. The rate was 3.565% and 3.230% of annual covered payroll at June 30, 2008 and 2007, respectively. The University's contributions to PSERS for the years ended June 30, 2008, 2007, and 2006 were approximately \$168,000, \$164,000, and \$114,000, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

SERS also provides retirement, death, and disability benefits, and legislative mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (the University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Active members contribute at a rate of either 5.0% or 6.25% of their qualifying compensation. The University contributed at an actuarially determined rate of either 2.63% or 3.28% of an active member's annual covered payroll at June 30, 2008. The University's contributions to SERS for the years ended June 30, 2008, 2007, and 2006, were approximately \$1,344,000, \$1,239,000, and \$856,000, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania State Employees' Retirement System, P.O. Box 1147, Harrisburg, Pennsylvania 17108-0125.

Because ARP is a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement code establishes the employer contribution rate for ARC, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University's contribution rate on June 30, 2008 and 2007 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2008 and 2007 were approximately \$4,971,000 and \$4,885,000, respectively, from the University, and \$2,652,000 and \$2,598,000, respectively, from active members.

10. WORKERS' COMPENSATION

The University is self-insured for workers' compensation losses. For claims prior to July 1, 1995, the University is responsible for claims less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund) to which all PASSHE Universities contribute amounts as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$58,704 and \$43,738 to the fund during the years ended June 30, 2008 and 2007, respectively. The University received reimbursement of \$108,988 in 2008 and \$27,758 in 2007, respectively, for the University's portion of an actuarially determined excess reserve.

For the years ended June 30, 2008 and 2007, the aggregate liability for claims under

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the self-insurance limit was \$898,541 and \$673,523, respectively. Changes in the University's claims liability amount for the fiscal year 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Balance at July 1	\$673,523	\$643,364
Current year claims and changes in estimates	515,028	267,592
Payments	<u>(290,010)</u>	<u>(237,433)</u>
Balance at June 30	<u>\$898,541</u>	<u>\$673,523</u>

11. CONTINGENCIES

The University is committed to future construction projects in the amount of approximately \$10,663,000 as of June 30, 2008.

The nature of the education industry is such that, from time to time, the universities of PASSHE are exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. The University is self-insured for workers' compensation up to stated limits (see Note 10). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant.

Additionally, the University has not reduced significantly any of its insurance coverage from the prior year. Settled claims have not exceeded significantly the University's commercial coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

12. UNRESTRICTED NET ASSETS

Unrestricted net assets, as defined by GASB Statement No 35, are not subject to externally imposed stipulations; however, they are subject to internal designations. Unrestricted net assets have been internally designated at June 30, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Designated accounts for educational and general activities	\$24,592,544	\$ 24,097,292
Designated accounts for healthcare reserve	1,019,566	617,926
Designated accounts for auxiliary enterprises (operations, plant activities, and debt retirement)	12,119,708	10,491,328
Designated accounts for plant activities and debt retirement	17,687,679	17,091,184
Compensated absences deficit	(14,349,150)	(13,772,521)
Postretirement benefit deficit	<u>(85,629,137)</u>	<u>(77,643,688)</u>
	<u>\$(44,558,790)</u>	<u>\$(39,118,479)</u>

PASSHE does not require the University or its member universities to fund compensated absence or postretirement benefit net asset deficits.

13. SUBSEQUENT EVENTS

In July 2008, the University was allocated a portion of the proceeds from the Series AH tax-exempt revenue bonds issued by PASSHE through PHEFA totaling \$14,400,000. The Series AH proceeds will be used for building renovations and additions.

In August 2008, the University was allocated a portion of the proceeds from the Series AI tax-exempt revenue bonds issued by PASSHE through PHEFA totaling \$4,671,573. The Series AI proceeds will be used to refund the Series V, Y, AB and AD tax-exempt revenue bonds.

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)
(amounts in thousands)

SCHEDULE OF FUNDING PROGRESS FOR THE SYSTEM PLAN (OPEB)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((B-A)/C)
July 1, 2005	\$ -	\$ 140,307	\$ 140,307	0%	\$ 73,495	190.9%
July 1, 2006	-	134,870	134,870	0%	63,665	211.8%
July 1, 2007	-	140,130	140,130	0%	65,575	213.7%

The information above relates to the University's share of the System Plan; i.e., it does not include any other PASSHE Institution or the Chancellor's Office.

SCHEDULE OF FUNDING PROGRESS FOR THE REHP (OPEB)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY (AAL) (B)	UNFUNDED AAL (UAAL) (B-A)	FUNDED RATIO (A/B)	COVERED PAYROLL (C)	UAAL AS A PERCENTAGE OF COVERED PAYROLL ((B-A)/C)
July 1, 2007	\$38,500	\$7,297,500	\$7,259,000	0.52%	\$3,559,000	203%

The information above relates to the Commonwealth's REHP as a whole; i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.

See Notes to Financial Statements