

ParenteBeard LLC

Indiana University of Pennsylvania of the State System of Higher Education

Financial Statements
For the Years Ended
June 30, 2009 and 2008
&
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 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, 2009 and 2008. 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 financial position of the University and of its aggregate discretely presented component units as of June 30, 2009 and 2008, 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 and REHP (OPEB) on page 41 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.

ParenteBeard LLC

Pittsburgh, Pennsylvania
December 3, 2009

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

**BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2009 AND 2008**

	2009	2008
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 67,696,432	\$ 64,071,921
Accounts receivable:		
Governmental grants and contracts	1,758,051	3,242,265
Students, net of allowance for doubtful accounts of \$2,200,734 in 2009 and \$1,912,092 in 2008	7,672,343	7,187,477
Sales and service	138,511	472,114
Other	235,326	405,906
Inventories	812,175	878,543
Prepaid expenses, suppliers	927,727	947,156
Conversion pay receivable	38,856	44,850
Loans receivable, net of allowance for doubtful accounts of \$511,290 in 2009 and \$464,036 in 2008	868,864	684,240
Investment income receivable	148,655	206,013
Due from component units	3,361,401	1,889,069
Other current assets	<u>335,710</u>	<u>399,967</u>
Total current assets	<u>83,994,051</u>	<u>80,429,521</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	849,030	1,046,773
Endowment investments	3,287,899	3,892,617
Loans receivable, net	7,872,047	7,651,897
Bond discount/issuance costs	30,249	47,444
Due from component units	-	69,078
Capital assets, net	<u>110,067,957</u>	<u>100,409,306</u>
Total noncurrent assets	<u>122,107,182</u>	<u>113,117,115</u>
TOTAL	<u>\$ 206,101,233</u>	<u>\$ 193,546,636</u>

INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2009 AND 2008

	2009	2008
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses:		
Supplies and services	\$ 4,232,404	\$ 4,030,299
Employees	12,226,029	11,536,497
Deferred revenue:		
Students	3,404,203	3,049,297
Grants	277,342	334,432
Other	184,606	145,737
Accrued interest payable	59,622	47,966
Students' deposits	871,574	764,930
Other deposit liabilities	511,438	202,663
Current portion of workers' compensation obligation	432,251	396,587
Current portion of compensated absences obligation	592,815	548,142
Current portion of postretirement benefits obligation	6,425,000	6,375,000
Current portion of capital lease obligations	1,134	1,271
Current portion of loans payable	2,432	3,020
Current portion of bonds payable, net	2,744,607	2,168,696
Current portion of bond premium	132,552	94,685
Current portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	423,904	444,065
Current portion of due to component units	1,193,084	1,311,970
Other current liabilities	635,398	596,462
Total current liabilities	34,350,395	32,051,719
NONCURRENT LIABILITIES:		
Deferred revenue, other	132,146	163,390
Workers' compensation obligation	388,460	501,954
Compensated absences obligation	14,360,209	13,801,008
Postretirement benefits obligation	86,075,778	79,254,137
Capital lease obligations	4,837	-
Loans payable	-	1,794
Bonds payable, net	28,827,151	18,544,556
Bond premium	754,544	367,861
Due to System, AFRP	6,875,727	7,288,395
Due to component units	425,508	821,723
Other noncurrent liabilities	8,943,652	9,186,215
Total noncurrent liabilities	146,788,012	129,931,033
Total liabilities	181,138,407	161,982,752
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	74,337,604	71,396,689
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,835,763	2,823,809
Other	796,698	792,996
Expendable:		
Scholarships and fellowships	19,729	90,298
Research	-	209,967
Capital projects	251,278	773,054
Other	(228,999)	35,861
Unrestricted	(53,049,247)	(44,558,790)
Total net assets	24,962,826	31,563,884
TOTAL	\$ 206,101,233	\$ 193,546,636

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, 2009 AND 2008**

	2009	2008
OPERATING REVENUES:		
Tuition and fees	\$ 103,238,951	\$ 96,401,835
Less scholarship discounts and allowances	<u>21,767,528</u>	<u>20,800,652</u>
Net tuition and fees	81,471,423	75,601,183
Governmental grants and contracts:		
Federal	22,380,661	19,315,334
State	16,965,758	18,127,294
Local	14,421	6,693
Nongovernmental grants and contracts	2,050,735	3,562,946
Sales and services of educational departments	3,688,993	3,227,516
Auxiliary enterprises	23,955,866	22,608,914
Other revenues	<u>1,663,449</u>	<u>4,872,867</u>
Total operating revenues	<u>152,191,306</u>	<u>147,322,747</u>
OPERATING EXPENSES:		
Instruction	90,810,112	88,093,467
Research	1,295,089	1,066,169
Public service	7,240,757	8,305,232
Academic support	22,587,045	21,367,052
Student services	18,215,805	16,186,270
Institutional support	26,919,807	26,895,262
Operations and maintenance of plant	19,323,082	20,482,580
Depreciation	10,627,805	9,749,835
Student aid	10,179,008	10,282,029
Auxiliary enterprises	<u>20,826,526</u>	<u>20,480,546</u>
Total operating expenses	<u>228,025,036</u>	<u>222,908,442</u>
OPERATING LOSS	<u>(75,833,730)</u>	<u>(75,585,695)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations, general and restricted	62,520,915	64,825,362
Investment income, net	2,406,450	3,327,033
Unrealized loss on investments	(612,830)	(313,221)
Gifts for other than capital purposes	1,959,566	170,992
Interest expense on capital asset-related debt	(1,531,540)	(1,338,277)
Loss on disposal of assets	(2,345,897)	(1,372,011)
Other nonoperating revenue	<u>98,593</u>	<u>193,002</u>
Nonoperating revenues, net	<u>62,495,257</u>	<u>65,492,880</u>
LOSS BEFORE OTHER REVENUES	<u>(13,338,473)</u>	<u>(10,092,815)</u>
OTHER REVENUES:		
State appropriations, capital	1,505,843	1,641,576
Capital gifts and grants	<u>5,231,572</u>	<u>683,269</u>
Total other revenues	<u>6,737,415</u>	<u>2,324,845</u>
DECREASE IN NET ASSETS	(6,601,058)	(7,767,970)
NET ASSETS, BEGINNING OF YEAR	<u>31,563,884</u>	<u>39,331,854</u>
NET ASSETS, END OF YEAR	<u>\$ 24,962,826</u>	<u>\$ 31,563,884</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, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees, net	\$ 80,898,019	\$ 75,491,668
Grants and contracts	42,838,699	42,730,136
Payments to suppliers for goods and services	(48,431,363)	(47,696,200)
Payments to employees	(149,719,672)	(145,269,557)
Loans issued to students	(1,420,473)	(1,723,960)
Loans collected from students	1,015,699	1,105,324
Student Aid	(10,179,008)	(10,282,029)
Auxiliary enterprise charges	23,819,879	22,514,738
Sales and services of educational departments	4,022,596	3,799,273
Other (payments) receipts	(215,622)	5,111,194
Net cash used in operating activities	<u>(57,371,246)</u>	<u>(54,219,413)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	62,520,915	64,825,362
Gifts for other than capital purposes	1,959,566	170,992
PLUS, Stafford, and other loans receipts (non-Perkins)	93,136,583	80,774,209
PLUS, Stafford, and other loans disbursements (non-Perkins)	(92,589,260)	(81,063,365)
Agency transactions, net	(238,548)	253,813
Other	98,593	193,002
Net cash provided by noncapital financing activities	<u>64,887,849</u>	<u>65,154,013</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt and leases	18,493,698	2,747,297
Capital appropriations	1,505,843	1,641,576
Capital grants and gifts received	5,231,572	683,269
Purchases of capital assets	(22,626,217)	(9,142,414)
Principal paid on capital debt and leases	(7,977,984)	(4,249,945)
Interest paid on capital debt and leases	(1,172,443)	(1,316,970)
Net cash used in capital financing activities	<u>(6,545,531)</u>	<u>(9,637,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	1,495,308	54,523
Interest on investments	2,463,808	3,353,480
Purchase of investments	(1,503,420)	(133,809)
Net cash provided by investing activities	<u>2,455,696</u>	<u>3,274,194</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>3,426,768</u>	<u>4,571,607</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>65,118,694</u>	<u>60,547,087</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 68,545,462</u>	<u>\$ 65,118,694</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (75,833,730)	\$ (75,585,695)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	10,627,805	9,749,835
Changes in assets and liabilities:		
Receivables, net	1,332,951	2,597,724
Inventories	66,368	124,806
Other assets	(1,657,646)	(161,297)
Accounts payable	891,637	823,218
Deferred revenue	305,441	(389,488)
Students' deposits	106,644	317,389
Compensated absences	603,874	576,629
Loans to students and employees	(404,774)	(618,636)
Other liabilities	6,590,184	8,346,102
Net cash used in operating activities	<u>\$ (57,371,246)</u>	<u>\$ (54,219,413)</u>
NONCASH TRANSACTIONS:		
Equipment acquired by capital lease	<u>\$ 6,136</u>	<u>\$ 789,350</u>
Equipment acquired by trade	<u>\$ 608,184</u>	<u>\$ 25,572</u>

See Notes to Financial Statements

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

**BALANCE SHEET - COMPONENT UNITS
JUNE 30, 2009 AND 2008**

	2009	2008
<u>ASSETS</u>		
ASSETS:		
Cash and cash equivalents	\$ 5,063,712	\$ 7,987,127
Accounts receivable	2,392,292	1,695,128
Contributions/pledges receivable	8,391,373	4,511,906
Due from university	1,618,592	2,133,693
Inventories	1,598,201	1,779,975
Investments	33,603,596	42,002,586
Capital assets, net	203,834,141	144,962,631
Restricted cash and investments	37,809,553	95,015,239
Other assets	<u>3,765,779</u>	<u>3,625,439</u>
TOTAL	<u>\$ 298,077,239</u>	<u>\$ 303,713,724</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 6,309,770	\$ 8,123,011
Annuity liabilities	105,403	55,681
Due to university	3,361,401	1,958,147
Deposits payable	3,111,903	3,571,077
Capital leases	20,158,891	21,483,891
Long-term debt, net	211,351,417	208,454,424
Other liabilities	<u>22,440,146</u>	<u>10,648,788</u>
Total liabilities	<u>266,838,931</u>	<u>254,295,019</u>
NET ASSETS:		
Unrestricted	(7,048,703)	5,471,367
Temporarily restricted	10,375,712	17,437,013
Permanently restricted	<u>27,911,299</u>	<u>26,510,325</u>
Total net assets	<u>31,238,308</u>	<u>49,418,705</u>
TOTAL	<u>\$ 298,077,239</u>	<u>\$ 303,713,724</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, 2009 AND 2008

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND OTHER ADDITIONS:		
Sales and service	\$ 8,822,181	\$ 8,308,773
Student fees	5,756,784	5,538,602
Grants and contracts	5,029,645	5,068,121
Rental income	14,466,555	6,189,712
Investment (loss) income	(602,659)	206,817
Other	3,164,142	2,331,201
Unrealized loss on investments	(10,848,776)	(6,926,592)
Contributions	527,176	573,413
Net assets released based on satisfaction of program restrictions	<u>9,049,408</u>	<u>2,679,962</u>
Total revenues and other additions	<u>35,364,456</u>	<u>23,970,009</u>
EXPENSES AND OTHER DEDUCTIONS:		
Program services:		
Scholarships and grants	1,981,973	2,058,835
Student activities and programs	5,978,817	5,858,622
University stores	8,216,108	7,709,517
Housing	16,104,328	6,721,922
Other university support	1,488,160	282,771
Other programs	5,727,839	5,924,345
Management and general	6,795,797	1,898,163
Fundraising	<u>1,307,211</u>	<u>1,246,997</u>
Total expenses and other deductions	<u>47,600,233</u>	<u>31,701,172</u>
Decrease in unrestricted net assets	<u>(12,235,777)</u>	<u>(7,731,163)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	7,340,347	3,045,613
Investment loss	(2,662,079)	(2,704)
Unrealized loss on investments	(2,338,547)	(672,089)
Net assets released based on satisfaction of program restrictions	<u>(9,049,408)</u>	<u>(2,679,962)</u>
Decrease in temporarily restricted net assets	<u>(6,709,687)</u>	<u>(309,142)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	<u>765,067</u>	<u>515,315</u>
Increase in permanently restricted net assets	<u>765,067</u>	<u>515,315</u>
DECREASE IN NET ASSETS	(18,180,397)	(7,524,990)
NET ASSETS, BEGINNING OF YEAR	<u>49,418,705</u>	<u>59,943,695</u>
NET ASSETS, END OF YEAR	<u>\$ 31,238,308</u>	<u>\$ 52,418,705</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. The component units are legally separate, tax-exempt organizations that report their financial condition and results of activities under the accounting requirements promulgated by the Financial Accounting Standards Board ("FASB"). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component unit's financial information in the University's financial reporting entity for these differences.

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 \$382,204 in 2009 and \$536,617 in 2008, 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 AND LOANS RECEIVABLE

Accounts and loans 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 and loans 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 consist mainly of supplies and 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.

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified.

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 relate 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 has determined that Statement No. 52, which is effective for the fiscal year ending June 30, 2009, has no effect on its balance sheet or statement of revenues, expenses, and changes in net assets. 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 and 53 will affect its balance sheet and the statement of revenues, expenses, and changes in net assets.

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2. CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2009:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 261,239	\$ -	\$ 1,057,361	\$ 116,168	\$ 183,824	\$ 1,618,592
Capital assets, net	1,142,682	22,122,301	172,703,569	-	7,865,589	203,834,141
Other assets	<u>2,911,512</u>	<u>2,902,400</u>	<u>82,878,818</u>	<u>3,170,346</u>	<u>761,430</u>	<u>92,624,506</u>
Total assets	<u>\$4,315,433</u>	<u>\$25,024,701</u>	<u>\$256,639,748</u>	<u>\$3,286,514</u>	<u>\$8,810,843</u>	<u>\$298,077,239</u>
Due to University	\$ -	\$ -	\$ 2,442,268	\$ 792,146	\$ 126,987	\$ 3,361,401
Capital leases	-	20,158,891	-	-	-	20,158,891
Other liabilities	<u>790,428</u>	<u>4,392,021</u>	<u>227,700,079</u>	<u>1,329,745</u>	<u>9,106,366</u>	<u>243,318,639</u>
Total liabilities	<u>\$ 790,428</u>	<u>\$24,550,912</u>	<u>\$230,142,347</u>	<u>\$2,121,891</u>	<u>\$9,233,353</u>	<u>\$266,838,931</u>
Net Assets:						
Unrestricted	\$3,525,005	\$ 473,789	\$ (11,311,818)	\$1,164,623	\$ (900,302)	\$ (7,048,703)
Temporarily restricted	-	-	9,897,920	-	477,792	10,375,712
Permanently restricted	-	-	27,911,299	-	-	27,911,299
Total net assets	<u>\$3,525,005</u>	<u>\$ 473,789</u>	<u>\$ 26,497,401</u>	<u>\$1,164,623</u>	<u>\$ (422,510)</u>	<u>\$ 31,238,308</u>

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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 revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2009:

	<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	\$ -	\$ -	\$ 8,632,590	\$ -	\$ -	\$ 8,632,590
Sales and services	8,009,237	-	-	812,944	-	8,822,181
Student fees	5,756,784	-	-	-	-	5,756,784
Grants and contracts	-	-	-	5,029,645	-	5,029,645
Rental income	125,000	-	13,007,749	-	1,333,806	14,466,555
Investment income	26,987	145,925	(3,457,897)	14,312	5,935	(3,264,738)
Unrealized loss on investments	(2,597)	-	(13,184,726)	-	-	(13,187,323)
Other revenues and gains	<u>501,185</u>	<u>12,500</u>	<u>2,715,233</u>	<u>14,764</u>	<u>(79,540)</u>	<u>3,164,142</u>
Total revenues and gains	<u>14,416,596</u>	<u>158,425</u>	<u>7,712,949</u>	<u>5,871,665</u>	<u>1,260,201</u>	<u>29,419,836</u>
Expenses and losses:						
Program services:						
Scholarships and grants	-	-	1,981,973	-	-	1,981,973
Student activities and programs	5,978,817	-	-	-	-	5,978,817
University stores	8,216,108	-	-	-	-	8,216,108
Housing	-	-	14,737,104	-	1,367,224	16,104,328
Other university support	-	-	1,488,160	-	-	1,488,160
Other programs	-	76,866	728,270	4,922,703	-	5,727,839
Management and general	585,391	69,270	5,205,914	925,295	9,927	6,795,797
Fundraising	<u>-</u>	<u>-</u>	<u>1,307,211</u>	<u>-</u>	<u>-</u>	<u>1,307,211</u>
Total expenses and losses	<u>14,780,316</u>	<u>146,136</u>	<u>25,448,632</u>	<u>5,847,998</u>	<u>1,377,151</u>	<u>47,600,233</u>
Changes in net assets	(363,720)	12,289	(17,735,683)	23,667	(116,950)	(18,180,397)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 3,525,005</u>	<u>\$473,789</u>	<u>\$ 26,497,401</u>	<u>\$1,164,623</u>	<u>\$ (422,510)</u>	<u>\$ 31,238,308</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, 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, 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>

3. DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with 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 \$64,928,413 and \$62,860,245 at June 30, 2009 and 2008, 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, 2009 and 2008, the carrying amount of the University's demand and time deposits were \$3,617,049 and \$2,258,449, respectively, as compared to bank balances of \$3,615,849 and \$1,774,759, 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, 2009 is presented below:

	Moody's Rating (if applicable)	Modified Duration (if applicable)	<u>Fair Value</u>
Deposits,			
Demand and time deposits			\$3,617,049
Investments,			
Equity/balances mutual funds			<u>3,287,899</u>
Total deposits and investments			<u>\$6,904,948</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	81,841
Deposit	Euro	<u>23,599</u>
Total		<u>\$105,440</u>

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)	<u>Fair Value</u>
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>

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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	\$73,700
Deposit	Euro	<u>890</u>
Total		<u>\$74,590</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, 2008	Additions	Retirements	Reclassifications	Ending Balance June 30, 2009
Land		\$ 4,960,206	\$ -	\$ -	\$ -	\$ 4,960,206
Construction in progress		<u>11,681,042</u>	<u>2,473,544</u>	<u>(654,995)</u>	<u>(5,734,328)</u>	<u>7,765,263</u>
Total capital assets not being depreciated		<u>16,641,248</u>	<u>2,473,544</u>	<u>(654,995)</u>	<u>(5,734,328)</u>	<u>12,725,469</u>
Buildings, including improvements	10-40	164,050,842	18,303,085	(4,282,898)	5,734,328	183,805,357
Furnishings and equipment (including cost of capital leases)	3-10	27,882,424	1,993,871	(277,816)	-	29,598,479
Library books	10	<u>9,511,246</u>	<u>465,997</u>	<u>(71,655)</u>	<u>-</u>	<u>9,905,588</u>
Total capital assets being depreciated		<u>201,444,512</u>	<u>20,762,953</u>	<u>(4,632,369)</u>	<u>5,734,328</u>	<u>223,309,424</u>
Less accumulated depreciation:						
Buildings, including improvements		(88,907,353)	(7,862,118)	1,991,608	-	(94,777,863)
Furnishings and equipment		(21,504,668)	(2,208,446)	274,060	-	(23,439,054)
Library books		<u>(7,264,433)</u>	<u>(557,241)</u>	<u>71,655</u>	<u>-</u>	<u>(7,750,019)</u>
Total accumulated depreciation		<u>(117,676,454)</u>	<u>(10,627,805)</u>	<u>2,337,323</u>	<u>-</u>	<u>(125,966,936)</u>
Total capital assets being depreciated, net		<u>83,768,058</u>	<u>10,135,148</u>	<u>(2,295,046)</u>	<u>5,734,328</u>	<u>97,342,488</u>
Capital assets, net		<u>\$ 100,409,306</u>	<u>\$ 12,608,692</u>	<u>\$(2,950,041)</u>	<u>\$ -</u>	<u>\$ 110,067,957</u>

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	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>

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

2010	214,632
2011	214,632
2012	214,632
2013	<u>196,746</u>
Total minimum lease payments	<u>\$840,642</u>

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Total rent expense for operating leases was \$1,517,267 and \$116,259 for the years ended June 30, 2009 and 2008, 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

2010	2,085,305
2011	2,091,330
2012	2,087,605
2013	2,081,983
2014	2,035,235
Thereafter	<u>26,921,736</u>
Total minimum lease payments	37,303,194
Less amount representing interest on capital leases	<u>17,144,303</u>
Present value of net minimum capital lease payment	<u>\$20,158,891</u>

Buildings and building improvements, net of depreciation, at June 30, 2009 and 2008, include \$21,142,315 and \$21,875,943, 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, 2009 and 2008, are as follows:

	Weighted Average Interest Rate	Balance July 1, 2008	Bonds Issued	Bonds Redeemed	Balance June 30, 2009
Series R issued in June 1999 for various projects	4.97%	\$ 50,000	\$ -	\$ (50,000)	\$ -
Series T issued in July 2001 for various projects	4.88%	3,260,798	-	(273,638)	2,987,160
Series U issued in August 2002 for various projects	4.32%	245,000	-	(60,000)	185,000
Series V issued in August 2002 for various projects	Variable	1,653,876	-	(1,653,876)	-
Series W issued in October 2002 for various projects	4.72%	1,959,864	-	(681,914)	1,277,950
Series X issued in May 2003 for various projects	4.48%	1,389,133	-	(440,362)	948,771
Series Y issued in June 2003 for various projects	Variable	1,215,713	-	(1,215,713)	-
Series Z issued in March 2004 for various projects	3.96%	705,347	-	(185,385)	519,962
Series AA issued in July 2004 for various projects	4.51%	1,166,685	-	(52,340)	1,114,345
Series AB issued in July 2004 for various projects	Variable	1,306,793	-	(1,306,793)	-
Series AC issued in July 2005 for various projects	4.91%	5,106,771	-	(256,739)	4,850,032
Series AD issued in July 2005 for various projects	Variable	431,892	-	(431,892)	-
Series AF issued in July 2007 for various projects	4.91%	1,313,745	-	(44,434)	1,269,311
Series AG issued in March 2008 for various projects	4.48%	923,207	-	(141,837)	781,370
Series AH issued in July 2008 for various projects	4.70%	-	13,822,125	(539,623)	13,282,502
Series AI issued in August 2008 for various projects	3.95%	-	4,671,573	(206,791)	4,464,782
Total bonds payable		20,728,824	<u>\$18,493,698</u>	<u>\$(7,541,337)</u>	\$31,681,185
Plus unamortized gain on refinancing		3,900			2,381
Less unamortized loss on refinancing		<u>(88,549)</u>			<u>(111,808)</u>
Outstanding at end of year		<u>\$20,644,175</u>			<u>\$31,571,758</u>

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	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>(88,549)</u>
Outstanding at end of year		<u>\$21,681,923</u>			<u>\$20,644,175</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 (\$48,059,978 and \$50,008,222 was outstanding as of June 30, 2009 and 2008, 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 \$7,299,631 at June 30, 2009 and \$7,732,460 at June 30, 2008.

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

		2010	2011	2012	2013	2014	2015- 2019	2019- 2024	2024- 2029	Total
Series T	Principal	285,483	300,104	317,367	332,144	348,378	1,121,461	282,223	-	2,987,160
	Interest	144,524	130,249	115,244	99,376	84,429	199,735	21,334	-	794,891
	Total	430,007	430,353	432,611	431,520	432,807	1,321,196	303,557	-	3,782,051
U	Principal	60,000	60,000	65,000	-	-	-	-	-	185,000
	Interest	6,863	4,688	2,438	-	-	-	-	-	13,989
	Total	66,863	64,688	67,438	-	-	-	-	-	198,989
W	Principal	376,368	217,015	220,544	227,601	236,422	-	-	-	1,277,950
	Interest	58,785	41,747	32,085	22,042	11,370	-	-	-	166,029
	Total	435,153	258,762	252,629	249,643	247,792	-	-	-	1,443,979
X	Principal	464,111	95,098	103,918	108,138	98,777	78,729	-	-	948,771
	Interest	45,663	22,458	17,703	12,507	7,100	8,034	-	-	113,465
	Total	509,774	117,556	121,621	120,645	105,877	86,763	-	-	1,062,236
Z	Principal	192,245	199,166	23,930	24,857	25,785	53,979	-	-	519,962
	Interest	20,080	12,390	4,424	3,706	2,929	3,125	-	-	46,654
	Total	212,325	211,556	28,354	28,563	28,714	57,104	-	-	566,616
AA	Principal	54,387	56,141	58,480	60,820	63,744	365,211	455,562	-	1,114,345
	Interest	50,562	48,591	46,345	44,006	40,965	158,938	68,661	-	458,068
	Total	104,949	104,732	104,825	104,826	104,709	524,149	524,223	-	1,572,413
AC	Principal	269,600	282,826	296,052	311,945	327,839	1,896,185	1,240,696	224,889	4,850,032
	Interest	239,750	226,270	212,129	197,326	181,729	646,135	207,195	9,839	1,920,373
	Total	509,350	509,096	508,181	509,271	509,568	2,542,320	1,447,891	234,728	6,770,405
AF	Principal	46,315	48,196	50,312	52,428	54,779	317,152	405,079	295,050	1,269,311
	Interest	61,986	60,018	57,970	55,831	53,603	224,169	136,500	29,986	680,063
	Total	108,301	108,214	108,282	108,259	108,382	541,321	541,579	325,036	1,949,374
AG	Principal	145,636	150,702	156,400	161,466	167,166	-	-	-	781,370
	Interest	26,014	21,281	16,383	11,300	5,851	-	-	-	80,829
	Total	171,650	171,983	172,783	172,766	173,017	-	-	-	862,199
AH	Principal	618,663	649,327	674,881	709,951	745,726	4,324,471	4,479,342	1,080,141	13,282,502
	Interest	622,855	591,922	565,949	532,205	496,707	1,885,898	789,178	131,053	5,615,767
	Total	1,241,518	1,241,249	1,240,830	1,242,156	1,242,433	6,210,369	5,268,520	1,211,194	18,898,269
AI	Principal	248,435	257,164	266,093	275,680	285,267	1,593,599	1,503,573	34,971	4,464,782
	Interest	175,136	166,441	157,440	148,127	139,167	526,296	179,982	1,574	1,494,163
	Total	423,571	423,605	423,533	423,807	424,434	2,119,895	1,683,555	36,545	5,958,945
Total	Principal	2,761,243	2,315,739	2,232,977	2,265,030	2,353,883	9,750,787	8,366,475	1,635,051	31,681,185
	Interest	1,452,218	1,326,055	1,228,110	1,126,426	1,023,850	3,652,330	1,402,850	172,452	11,384,291
	Total	\$ 4,213,461	\$ 3,641,794	\$ 3,461,087	\$ 3,391,456	\$ 3,377,733	\$ 13,403,117	\$ 9,769,325	\$ 1,807,503	\$ 43,065,476

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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>
2010	\$ 9,387,497	\$ 9,092,452	\$ 18,479,949
2011	1,783,970	8,628,678	10,412,648
2012	2,600,547	8,558,348	11,158,895
2013	2,977,405	8,457,398	11,434,803
2014	5,738,816	8,927,985	14,666,801
Thereafter	<u>194,790,000</u>	<u>133,007,654</u>	<u>327,797,654</u>
	217,278,235	<u>\$176,672,515</u>	<u>\$393,950,750</u>
Plus unamortized bond premium	327,345		
Less unamortized bond issue costs	<u>(6,254,162)</u>		
Long-term debt, net	<u>\$211,351,417</u>		

7. COMPENSATED ABSENCES

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

	<u>2009</u>	<u>2008</u>
Balance, July 1	\$14,349,150	\$13,772,521
Current changes in estimate	1,196,690	1,124,769
Payouts	<u>(592,816)</u>	<u>(548,140)</u>
Balance, June 30	<u>\$14,953,024</u>	<u>\$14,349,150</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 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, 2004 are not required to make contributions. Beginning July 1, 2005, plan members receiving benefits who retire on or after July 1, 2005 contribute at a percentage of their final salary, the rate of which varies based on the plan member's retirement date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2008/09, PASSHE contributed \$248.68 for each current active employee per biweekly pay period. PASSHE made contributions of \$26,131,000, \$24,858,000 and \$24,675,000 for the fiscal years ending June 30, 2009, 2008, and 2007, 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.

SYSTEM 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 "System Plan"). The System 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 System Plan is unfunded, and no financial report is prepared.

FUNDING POLICY

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System 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 \$43,847,000 and \$32,570,000 for the fiscal years ending June 30, 2009 and 2008, 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, 2009, 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 \$1,951,000 and \$1,644,000, or approximately 4.4% and 5.0% of the total premiums, for the fiscal years ending June 30, 2009 and 2008, 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	\$11,284,000
Interest on net OPEB obligation	4,068,000
Adjustment to annual required contribution	<u>(4,101,000)</u>
Annual OPEB cost (expense)	11,251,000
Contributions made	<u>(4,379,359)</u>
Increase in net OPEB obligation	6,871,641
Net OPEB obligation, beginning of year	<u>85,629,137</u>
Net OPEB obligation, end of year	<u>\$92,500,778</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, 2009, 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, 2009	\$11,251,000	38.9%	\$92,500,778
June 30, 2008	11,364,000	29.7%	85,629,137
June 30, 2007	10,753,000	47.0%	77,643,688

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2008, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$138,169,000
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$138,169,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	<u>\$ 68,741,000</u>
UAAL as a percentage of covered payroll	<u>201.0%</u>

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, 2008, 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 8.5% initially, reduced by decrements to an ultimate rate of 5.0% after six years. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2008, was 27 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 rates were 2.380% and 3.565% of annual covered payroll at June 30, 2009 and 2008, respectively. The University's contributions to PSERS for the years ended June 30, 2009, 2008, and 2007 were approximately \$118,000, \$168,000, and \$164,000, 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 2.64% or 3.29% of an active member's annual covered payroll at June 30, 2009. The University's contributions to SERS for the years ended June 30, 2009, 2008, and 2007, were approximately \$1,346,000, \$1,344,000, and \$1,239,000, 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, 2009 and 2008 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2009 and 2008 were approximately \$4,965,000 and \$4,971,000, respectively, from the University, and \$2,672,000 and \$2,652,000, 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 \$75,312 and \$58,704 to the fund during the years ended June 30, 2009 and 2008, respectively. The University received reimbursement of \$304 in 2009 and \$108,988 in 2008, for the University's portion of an actuarially determined excess reserve.

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For the years ended June 30, 2009 and 2008, the aggregate liability for claims under the self-insurance limit was \$820,711 and \$898,541, respectively. Changes in the University's claims liability amount for the fiscal year 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Balance at July 1	\$ 898,541	\$ 673,523
Current year claims and changes in estimates	411,999	515,028
Payments	<u>(489,829)</u>	<u>(290,010)</u>
Balance at June 30	<u>\$ 820,711</u>	<u>\$ 898,541</u>

11. CONTINGENCIES

The University is committed to future construction projects in the amount of approximately \$14,685,000 as of June 30, 2009.

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, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Designated accounts for educational and general activities	\$ 23,659,466	\$ 24,592,544
Designated accounts for healthcare reserve	1,273,173	1,019,566
Designated accounts for auxiliary enterprises (operations, plant activities, and debt retirement)	13,337,389	12,119,708
Designated accounts for plant activities and debt retirement	16,134,527	17,687,679
Compensated absences deficit	(14,953,024)	(14,349,150)
Postretirement benefit deficit	<u>(92,500,778)</u>	<u>(85,629,137)</u>
	<u>\$(53,049,247)</u>	<u>\$(44,558,790)</u>

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

13. DUE TO FOUNDATION FOR IUP

During the fiscal year ended June 30, 2007, the University entered into an agreement with the Foundation for Indiana University of Pennsylvania, Inc. to develop, construct and complete the interior improvements to the Student Amenity Premises of the Phase I Student Housing Facilities (Amenity Improvements). Title to the Amenity Improvements shall be vested in the Foundation until the termination or expiration of the Ground Lease agreement. The agreement stipulates the Foundation shall be reimbursed in full for the total amount of the costs incurred in connection with the design, development, and construction of the Amenity Improvements, not to exceed \$1,500,000. Interest shall accrue on the Foundation's principal investment in the Amenity Improvements at the rate of 5.2% per annum from the date of each advance by the Foundation to pay the Amenity Improvements' costs until the Foundation is reimbursed in full for the total cost of the Amenity Improvements. Such reimbursements are in the form of principal, interest and additional rent. Until December 31, 2012, the Foundation shall be reimbursed from Indiana University of Pennsylvania's portion of the Net Available Cash Flow distributed under the Ground Lease agreement according to the following schedule:

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<u>Lease Year</u>	<u>Payment Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Rent</u>	<u>Total</u>
2008-2009	12/31/2009	\$141,836	\$35,776	\$145,173	\$ 322,785
2009-2010	12/31/2010	141,836	26,203	137,350	305,389
2010-2011	12/31/2011	141,836	18,726	131,237	291,799
2011-2012	12/31/2012	141,836	11,248	125,125	278,209
2012-2013	12/31/2013	-	3,770	3,081	6,851
		<u>\$567,344</u>	<u>\$95,723</u>	<u>\$541,966</u>	<u>\$1,205,033</u>

Any outstanding amount owed by Indiana University of Pennsylvania for the Amenity Improvements on December 31, 2012 is payable in full on that date. As of June 30, 2009 and 2008, the total amount of construction cost for the Amenity Improvements amounted to \$1,432,042. The work was completed on August 8, 2007.

14. RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP

GROUND LEASE AGREEMENTS

The University leases land to the Foundation for IUP, Inc. for the Foundation's Student Housing Facilities under separate Ground Lease Agreements for each phase of the Facilities construction.

Ground Lease Agreement – Phase I and II:

The University entered into the agreement as of May 1, 2007. The Foundation will pay annual base rents in the amount of \$25,000 beginning in fiscal year ended June 30, 2008 for Phase I and \$36,000 for Phase II beginning in fiscal year ended June 30, 2009. The base rent for both Phase I and II will increase by 2% in each subsequent year through the expiration date of the lease June 30, 2049. Additional rents equaling one half of one percent of actual room rental charges began in the fiscal years ended June 30, 2008, and 2009 for Phase I and Phase II, respectively.

Ground Lease Agreement – Phase III:

The University entered into the agreement as of May 1, 2008. The Foundation will pay a base rent payment in the amount of \$37,713 beginning in fiscal year ended June 30, 2010. This base rent will increase by 2% each subsequent year through the lease expiration date of June 30, 2050. Additional rents equaling one half of one percent of actual room rental charges will be paid beginning in fiscal year ending June 30, 2010. During the year ended June 30, 2008, the Foundation paid a one-time initial rent payment of \$80,000.

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Ground Lease Agreement – Phase IV:

The University entered into the agreement as of May 1, 2009. The Foundation will pay a base rent payment of \$18,315 beginning in fiscal year ended June 30, 2011. This base rent will increase by 2% each subsequent year through the lease expiration date of June 30, 2051. Additional rents equaling one half of one percent of actual room rental charges will be paid beginning in fiscal year ending June 30, 2011.

Total ground lease revenues received from the Foundation for the years ended June 30, 2009, and 2008 were \$62,100 and \$105,000, respectively.

Approximate minimum ground lease revenues for future years are:

<u>Fiscal Year</u>	<u>Lease Revenues</u>
2009-2010	\$ 101,055
2010-2011	121,391
2011-2012	123,819
2012-2013	126,295
2013-2014	128,821
Thereafter	<u>4,473,730</u>
Total	<u>\$5,075,111</u>

FACILITIES MANAGEMENT CONTRACT FOR STUDENT HOUSING FACILITIES

The University has entered into Facilities Management Contracts with the Foundation to provide the Foundation with management services operating all Phases of the Foundation's Student Housing Facilities. The facility management agreements continue through June 30, 2012 for Phase I, June 30, 2013 for Phase II, June 30, 2014 for Phase III, and June 30, 2015 for Phase IV. Automatic renewal terms exist associated with these agreements. For Phases I and II of the Student Housing Facilities, the amount of the management revenue charge shall be equal to the difference between indirect project expenses for such fiscal year and the portion of indirect project expenses previously paid by the Foundation to the Manager during the fiscal year. For Phase III of the Student Housing Facilities, for the fiscal year beginning July 1, 2009, and ending June 30, 2010, the amount of the management expense charge shall be \$418,204. For subsequent fiscal years, the amount of the management expenses charge shall be equal to the difference between indirect project expenses for such fiscal year and the portion of the indirect project expenses previously paid by the Foundation to the University during the fiscal year. For Phase IV of the Student Housing Facilities, the amount of the management expense charge shall be equal to the difference between indirect project expenses for such fiscal year and the portion of indirect project expenses previously paid by the Foundation to the University during the fiscal year beginning July 1, 2010.

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Under the terms of the Management Agreements the University collects rent, advance deposits, and other fees from the student renters then transfers the money to the Foundation. The total amount due to the Foundation at June 30, 2009 and 2008, were \$454,242 and \$294,644, respectively. Total management fees charged to the Foundation for the years ended June 30, 2009 and 2008, were \$612,669 and \$254,000, respectively.

OTHER PROPERTY LEASES

The University leases classroom space from the Foundation under a non-cancelable operating lease entered into on September 1, 2008 and terminating on August 31, 2018. Minimum lease payments to the Foundation begin in the 2009/2010 fiscal year and continue according to the following schedule as of June 30, 2009:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2009-2010	\$ 430,000
2010-2011	408,000
2011-2012	408,000
2012-2013	408,000
2013-2014	408,000
	<u>\$2,062,000</u>

The University leases office space from the Foundation in the Phase II facility for the Student Health Center under a non-cancelable lease commencing on July 1, 2008, and terminating on December 31, 2037. Total rent expenses for these facilities were \$630,835 and \$-0- for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments by fiscal year are estimated at:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2009-2010	\$ 611,183
2010-2011	623,407
2011-2012	635,875
2012-2013	648,593
2013-2014	661,565
Thereafter	19,996,536
	<u>\$23,177,159</u>

15. RELATED PARTY TRANSACTIONS – UNIVERSITY ACQUISITIONS, INC.

GROUND LEASE AGREEMENT

The University leases land to University Acquisitions, Inc. for UAI's Student Housing Facilities under a Ground Lease Agreement commencing on September 7, 2004, and expiring on June 30, 2040. Total ground lease revenues received from UAI for the years ended June 30, 2009, and 2008 were \$13,113 and \$12,731, respectively. Approximate future lease revenues by fiscal year for the next five years are:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2009-2010	\$13,506
2010-2011	13,911
2011-2012	14,328
2012-2013	14,758
2013-2014	15,200

FACILITIES MANAGEMENT CONTRACT FOR STUDENT HOUSING FACILITIES

The University has entered into a Facilities Management Contract with UAI to provide UAI with management services operating UAI's Student Housing Facilities commencing on July 1, 2005, and terminating on June 30, 2010. The Facilities Management Agreement includes automatic renewals for up to six additional five year periods, consecutively.

Under the terms of the Facilities Management Agreement the University collects rent, advance deposits, and other fees from the student renters then transfers the money to UAI. The total amount due to UAI at June 30, 2009 and 2008, were \$56,837 and \$90,825, respectively. Total management fees charged to UAI for the years ended June 30, 2009 and 2008, were \$85,397 and \$82,910, respectively.

Approximate future minimum management fee revenues by fiscal year are as follows:

<u>Fiscal Year</u>	<u>Management Fee Revenues</u>
2009-2010	\$87,959
2010-2011	90,598
2011-2012	93,316
2012-2013	96,115
2013-2014	98,998

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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(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%
July 1, 2008	-	138,169	138,169	0%	68,741	201.0%

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%
July 1, 2008	\$47,920	\$13,257,570	\$13,209,650	0.36%	\$4,093,000	323%

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