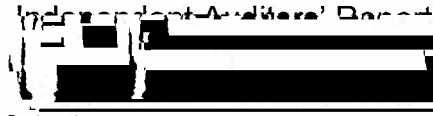


**Indiana University of Pennsylvania
of the State System of
Higher Education**

Financial Statements
For the Years Ended
June 30, 2010 and 2009
&



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, 2010 and 2009. 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.

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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

Parente Beard LLC

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

INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2010 AND 2009

	2010	2009
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses:		
Supplies and services	\$ 8,295,832	\$ 4,232,404
Employees	16,067,045	12,226,029
Deferred revenue:		
Students	3,437,850	3,404,203
Grants	328,844	277,342
Other	178,135	184,606
Accrued interest payable	54,381	59,622
Students' deposits	776,987	871,574
Other deposit liabilities	295,392	511,438
Current portion of postretirement benefits obligation	438,663	432,251
	1,318,052	592,815
	6,393,000	6,425,000
	1,233	1,134
	-	2,432
	2,299,669	2,744,607
	110,341	132,552
	490,313	423,904
	1,353,971	1,193,084
	770,810	635,398
Total current liabilities	<u>42,610,520</u>	<u>34,350,395</u>
NONCURRENT LIABILITIES:		
Workers' compensation obligation	479,209	388,460
Compensated absences obligation	14,020,383	14,360,209
Postretirement benefits obligation	93,520,409	86,075,778
Capital lease obligations	3,693	4,837
Bond premium	644,203	754,544
Due to System, AFRP	6,597,706	6,875,727
Due to component units	283,672	425,508
Other noncurrent liabilities	8,647,782	8,943,652
Current portion of compensated absences obligation		
Total noncurrent liabilities	<u>150,825,436</u>	<u>146,788,012</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related	88,041,470	74,337,604
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,845,337	2,835,763
Other	798,731	796,698
Current portion of postretirement benefits obligation		
Current portion of capital lease obligations		
Current portion of loans payable		
Current portion of bonds payable, net	198,974	19,729
Current portion of bond premium	764,060	251,278
Current portion of Due to System, Academic Facilities	117,247	(228,999)
Renovation Bond Program (AFRP)		
Current portion of due to component units		
Other current liabilities		

**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, 2010 AND 2009**

	2010	2009
OPERATING REVENUES:		
Tuition and fees	\$ 110,166,588	\$ 103,238,951
Less scholarship discounts and allowances	<u>26,356,343</u>	<u>21,767,528</u>
Net tuition and fees	83,810,245	81,471,423
Governmental grants and contracts:		
Federal	27,536,958	22,380,661
State	17,579,417	16,965,758
Local	13,648	14,421
Nongovernmental grants and contracts	<u>2,636,067</u>	<u>2,050,735</u>
Total operating revenues		
	<u>(7,500)</u>	<u>()</u>
OPERATING EXPENSES:		
Auxiliary enterprises	22,767,031	23,955,866
Other revenues	2,225,738	<u>1,663,449</u>
Total operating revenues	<u>159,458,800</u>	<u>152,191,306</u>
OPERATING EXPENSES:		
Instruction	96,415,393	90,810,112
Research	<u>(1,126,453)</u>	<u>(1,338,163)</u>
Public service	6,388,106	7,240,757
Academic support	21,864,354	22,587,045
Student services	18,022,356	18,215,805
Instructional support	27,300,522	<u>26,919,807</u>
Operations and maintenance of plant	<u>40,000,000</u>	<u>40,000,000</u>
DECREASE IN NET ASSETS		

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

**STATEMENT OF CASH FLOWS - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees, net	\$ 81,884,348	\$ 80,898,019
Grants and contracts	43,983,561	42,741,094
Payments to suppliers for goods and services	(40,806,143)	(48,431,363)
Payments to employees	(154,164,978)	(149,719,672)
Loans issued to students	(565,408)	(1,420,473)
Loans collected from students	1,183,398	1,015,699
Student Aid	(13,605,547)	(10,179,008)
Auxiliary enterprise charges	22,486,406	22,210,870
	<u>22,486,406</u>	<u>22,210,870</u>
	<u>2,990,562</u>	<u>4,022,596</u>
Sales and services of educational departments	2,990,562	4,022,596
Other receipts (payments)	<u>2,496,206</u>	<u>(215,622)</u>
	<u>(54,117,505)</u>	<u>(57,468,851)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	64,893,819	62,520,915
Gifts for other than capital purposes	2,388,606	1,959,566
PLUS, Stafford, and other loans receipts (non-Perkins)	98,495,728	93,136,583
PLUS, Stafford, and other loans disbursements (non Perkins)	(98,609,409)	(92,589,260)
Agency transactions, net	(102,365)	(238,548)
Other	<u>158,469</u>	<u>98,593</u>
	<u>67,224,848</u>	<u>64,887,849</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt and leases	-	18,493,698
Capital appropriations	<u>223,526</u>	<u>1,505,843</u>
Capital grants and gifts received	4,938,118	5,526,920
Purchases of capital assets	(28,757,939)	(22,626,217)
Principal paid on capital debt and leases	(2,976,328)	(7,977,984)
Interest paid on capital debt and leases	<u>(1,757,047)</u>	<u>(1,172,443)</u>

\$ _____
\$ _____
\$ _____

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

**BALANCE SHEET - COMPONENT UNITS
JUNE 30, 2010 AND 2009**

	2010	2009
<u>ASSETS</u>		
ASSETS:		
Cash and cash equivalents	\$ 7,802,408	\$ 5,063,712
Accounts receivable	2,641,531	2,392,292
Contributions/pledges receivable	7,885,975	8,391,373
Due from university	1,637,643	1,618,592
Inventories	1,571,214	1,598,201
Investments	37,206,302	33,603,596
Capital assets, net	237,127,994	203,834,141
Restricted cash and investments	30,099,743	37,809,553
Other assets	-	3,765,779
TOTAL	<u>\$ 325,972,810</u>	<u>\$ 298,077,239</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 5,269,692	\$ 6,309,770
Pension liabilities	156,240	105,402
net		
Due to university	3,162,068	3,361,401
Deposits payable	3,491,911	3,111,903
Capital leases	18,783,891	20,158,891
Long-term debt	238,630,987	211,351,417
Other liabilities	<u>30,920,312</u>	<u>22,440,146</u>
Total liabilities	<u>300,415,110</u>	<u>266,838,931</u>
NET ASSETS:		
Unrestricted	(16,397,031)	(7,048,703)
Temporarily restricted	12,275,228	10,375,712
Permanently restricted	29,679,503	27,911,299
Total net assets	<u>31,238,308</u>	<u>31,238,308</u>
TOTAL	<u>\$ 325,972,810</u>	<u>\$ 298,077,239</u>

**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, 2010 AND 2009

	2010	2009
CHANGES IN UNRESTRICTED NET ASSETS.		
REVENUES AND OTHER ADDITIONS:		
Sales and service	\$ 8,104,148	\$ 8,822,181
Student fees	6,110,203	5,756,784
Grants and contracts	5,684,541	5,029,645
Rental income	<u>2,875,222</u>	<u>1,133,722</u>
Investment income (loss)	-	-
Other	-	-
Unrealized loss on investments	-	-
Contributions	-	-
Net assets released based on satisfaction of program restrictions	-	-
Total revenues and other additions	22,774,114	20,775,032
EXPENSES AND OTHER DEDUCTIONS:		
Program services:		
Scholarships and grants	1,263,419	(602,659)
Student activities and programs	2,893,171	3,164,142
Student organizations	(9,114,369)	(10,848,776)
Student government	488,699	527,176
	<u>6,208,037</u>	<u>9,049,408</u>
	<u>44,208,541</u>	<u>35,264,456</u>
University stores	-	-
Housing	1,894,915	1,981,973
Other university support	5,744,085	5,978,817
Other programs	7,543,091	8,216,108
Management and general	<u>6,592,124</u>	<u>12,162,222</u>
Fundraising	-	-
Total expenses and other deductions	66,542,762	62,337,576
	<u>()</u>	<u>(12,235,777)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	-
Investment gain (loss)	2,447,796	1,488,160
Unrealized loss on investments	5,190,285	5,727,839
Unrealized gain on investments	3,129,171	6,795,797
	<u>1,175,095</u>	<u>1,307,211</u>
	<u>53,656,869</u>	<u>-</u>
Decrease in unrestricted net assets	9,348,328	-
	<u>4,055,324</u>	<u>7,340,347</u>
	<u>5,044,059</u>	<u>(2,662,079)</u>
	<u>(1,050,671)</u>	<u>(2,338,547)</u>
Net assets released based on satisfaction of program restrictions	(6,208,037)	(9,049,408)
Net assets transferred	<u>58,841</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	1,899,516	6,709,687
	<u>-</u>	<u>()</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
	<u>1,768,204</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Indiana University of Pennsylvania is a public university and is organized as follows:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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

Measurement Focus, Basis of Accounting

AND BASIS OF PRESENTATION

THE ACCOMPANYING FINANCIAL STATEMENTS HAVE BEEN PREPARED USING THE ECONOMIC

RESOURCE MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING IN ACCORDANCE

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance

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.
ACCOUNTS RECEIVABLE AND LOANS RECEIVABLE

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

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.

NOTES TO FINANCIAL STATEMENTS

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, nor controls, nor

DEFERRED REVENUE

COMPENSATED ABSENCES

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

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

2. CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet component units as of June 30, 2010:

	Cooperative	n	Institute	Acquisitions	Total
	1,856,243	21,368,752	207,070,468	7,624,530	
	3,099,663	3,035,748	77,040,858	632,147	
NOTES TO FINANCIAL STATEMENTS	\$4,439,370	\$24,404,500	\$285,232,462	\$8,488,131	\$325,972,810
	2,626	-	-	207,763	\$ 3,162,068
	891,638	-	-	8,590,583	18,783,891
	<u>\$ 894,264</u>	<u>\$23,274,541</u>	<u>\$265,222,036</u>	<u>\$8,798,949</u>	<u>\$360,415,110</u>
Net Assets:					
Unrestricted	\$3,536,106	\$ 1,129,959		\$1,191,424	
		Student			
		Union	Foundatio		
Due from University	\$	\$	\$	\$ 231,445	\$ 1,637,643
Capital assets net	\$ 526,400	\$ 1,170,050	\$ 22,040,400	\$ 1,104,424	\$ 25,557,583
Other assets					87,207,173
Due to University	\$	\$	\$ 2,187,905	\$ 763,774	\$
Capital leases		18,783,891	-	-	
Other liabilities		4,490,650	263,034,131	1,462,149	
Total liabilities					
			\$ (21,405,045)	\$ (849,475)	\$ (16,397,031)
Temporarily restricted			11,735,068	535,260	12,275,228
Permanently restricted			29,679,503		29,679,503
Total net assets					

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

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	790,428	4,392,021	227,700,079	1,329,745	9,106,366	243,318,639
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			27,911,299			27,911,299
Permanently restricted						
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>

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

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2010:

	Cooperative	Student	Research	University	
contracts					(10,165,040)
come					3,229,349
Revenues and gains:			08		47,976,261
Contributions	\$ -	\$ -	\$ 6,034,890	\$ -	\$ 6,034,890
Expe Sales and services	7,669,405			434,743	8,104,148
Program services:					
Student fees	6,110,203				6,110,203
Scholarships and grants			5,684,541		5,684,541
Student activities and					
Rental in	125,000		21,327,565	-	22,670,692
Investment income	7,327	128,122	6,160,406	1,793	6,307,478
Unrealized loss on investments	5,097	-	(10,170,137)	-	5,097
Other revenues and gains	301,948	10,000	2,586,384	9,455	321,562
Total revenues and gains	14,218,980	138,122	25,939,1	1	
Expenses and losses:					
Other programs			1,894,915		1,894,915
programs	5,744,085				5,744,085
University stores	7,543,091				7,543,091
Housing			25,112,176	1,420,255	26,532,431
Other programs		(545,438)	621,130	5,14,593	5,190,285
Management and general	920,703	27,390	1,174,971	995,276	3,129,171
Fundraising			1,175,0		1,175,0
Total expenses and losses	14,207,8				53,656,869
Changes in net assets	11,101	656,170	(6,486,975)	26,801	112,295
Net assets, beginning of year	3,525,005	473,789	26,497,401	1,164,623	(422,510)
Net assets, end of year	\$ 3,536,106	\$ 1,129,959	\$ 20,010,426	\$ 1,191,424	\$ (310,215)
					\$ 25,557,700

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

The following represents combining revenues, expenses, and changes in net assets:

information for the component units for the year ended June 30, 2009:

	Student	Research	University			
	Cooperative	Union	Foundation	Institute	Acquisitions	Total
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	501,185	12,500	2,715,233	14,764	(79,540)	3,164,142
Total revenues and gains	14,416,596	158,425	7,712,949	5,871,665	1,260,201	29,419,836
Expenses and losses:						
Program services:						
Scholarships and grants	-	-	1,091,072	-	-	1,091,072

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, \$5,832,875 and \$61,928,413, at June 30, 2010 and 2009,

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, structured investment vehicles, and other investments.

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

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

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

The carrying value (fair value) of deposits and investments for the University is presented below:

	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits,			
Demand and time deposits			\$1,111,700

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

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>

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	Beginning Balance July 1, 2020	Ending Balance June 30, 2020

OF THE STATE SYSTEM OF HIGHER EDUCATION
 NOTES TO FINANCIAL STATEMENTS

7

	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		11,681,042	2,473,544	(654,995)	(5,734,328)	7,765,263
Total capital assets not being depreciated		16,641,248	2,473,544	(654,995)	(5,734,328)	12,725,469

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

Total rent expense for operating leases was \$2,058,022 and \$1,517,627 for the years

financing of
 the

YEAR ENDING JUNE 30

2011
 2012
 2013
 2014
 2015
 Thereafter

ended June 30, 2010 and 2009, respectively.

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

	<u>16,421,660</u>
	\$ 2,091,330
	2,087,605
	2,081,983
	2,035,235
	2,035,235
	<u>24,874,163</u>
Total minimum lease payments	35,205,551
Less amount representing interest on capital leases	
Present value of net minimum capital lease payment	<u>\$18,783,891</u>

Buildings and building improvements, net of depreciation, at June 30, 2010 and 2009, include \$20,840,700 and \$24,440,245, respectively, acquired through leases that

DEBT

Bonds payable consist of tax exempt revenue bonds issued by PASSHE through the

OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

6. BONDS PAYABLE AND LONG TERM

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 and each PASSHE branch and its full faith and credit.

	Weighted Average Interest Rate	Balance July 1, 2009	Bonds Issued	Bonds Redeemed	Balance June 30, 2010
Series T issued in July 2001 for various projects	4.87%	\$2,987,160	\$	\$(285,481)	\$2,701,679
Series U issued in August 2002 for various projects	4.38%	185,000		(60,000)	125,000
Series W issued in October 2002 for various projects	4.74%	1,277,950		(376,368)	901,582
Series X issued in May 2003 for various projects	4.37%	948,771		(464,111)	484,660
Series Z issued in March 2004 for various projects	3.96%	519,962		(192,245)	327,717
Series AA issued in July 2004 for various projects	4.50%	1,114,245		(74,287)	1,039,958

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

	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
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OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

Series	2011	2012	2013	2014	2015	2016- 2020	2020 2025	2025- 2030	Total
T Principal	300,104	317,367	332,144	348,378	363,582	895,641	144,463		2,701,679

OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

\$ 18,745,928
12,519,569
12,917,383
13,140,358
15,747,141
342,784,129

The government units have entered into long-term debt agreements for the following:

Plus unamortized bond
Premium

\$

OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

FUNDING POLICY
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.

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

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 employee (ARC) as~~

a

12,078,000

Net OPEB obligation, end of year

Net OPEB
Obligation

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 expected to cover normal cost each year and amortize any unfunded

INDIANA UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$148,463,000
Actuarial value of plan assets	<u>0</u>
<u>Unfunded actuarial accrued liability (UAAL)</u>	148 463 000
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	<u>\$ 70,803,000</u>
UAAL as a percentage of covered payroll	<u>209.7%</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

ACTUARIAL METHODS AND ASSUMPTIONS

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

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

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

For the years ended June 30, 2010 and 2009, the aggregate liability for claims under the self-insurance limit was \$917,872 and \$820,711, respectively. Changes in the University's claims liability amount for the fiscal year 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Balance at July 1	\$ 820,711	\$ 898,541
Current year claims and changes in estimates	410,607	411,999
Payments	<u>(313,446)</u>	<u>(489,829)</u>
Balance at June 30	<u>\$ 917,872</u>	<u>\$ 820,711</u>

11. CONTINGENCIES

The University is committed to future construction projects in the amount of approximately \$1,320,000 as of June 30, 2010.

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 documents; and destruction of assets.

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, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
	\$ 27,782,720	\$ 23,659,466
follows:	1,567,230	1,273,173
	12,178,146	13,337,389
Designated accounts for educational and general activities	566,345	16,134,527
	(15,338,435)	(14,953,024)
	<u>(99,913,409)</u>	<u>(92,500,778)</u>
Total unrestricted net assets	<u>\$ (_____)</u>	<u>\$ (_____)</u>

activities
 Designated accounts for healthcare reserve
 Designated accounts for auxiliary enterprises
 (operations, plant activities, and debt retirement)
 Designated accounts for plant activities and debt

Designated absence deficit

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



<u>Lease Year</u>	<u>Payment Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Rent</u>	<u>Total</u>
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

Any outstanding amount owed by Indiana University of Pennsylvania for the Amenity Improvements as of December 31, 2010 is payable in full on that date. As of June 30,

2010 and 2009, 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

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

Ground Lease Agreement – Phase IV:

The University entered into the agreement on May 20, 2009. The Foundation will

Total ground lease revenues from all Phases received from the Foundation for the

pay a base rent payment of \$18,315 beginning in fiscal year ended June 30, 2011

Approximate minimum ground lease revenues for future years from all Phases are:

Fiscal Year

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

Under the terms of the Management Agreements the University collects rent,
admission deposits, and other fees from the student renters then transfers the moneys



15. RELATED PARTY TRANSACTIONS – UNIVERSITY ACQUISITIONS, INC.

OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS

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, 2010, and 2009 were \$13,506 and \$13,113, respectively. The University is expected to cancel this lease effective October 31, 2010. Lease revenue for the period July 1, 2010 through October 31, 2010 is expected to be \$4,637.

FACILITIES MANAGEMENT CONTRACT FOR STUDENT HOUSING FACILITIES

The University has entered into a Facilities Management Contract with UAI for the

17. TERMINATION BENEFITS

In March 2010, the Board approved a Voluntary Retirement Incentive Program for both union and nonrepresented employees meeting certain age and service requirements. Eligible employees who by May 28, 2010, indicated their intent to retire between June 18, 2010, and August 27, 2010, qualify for a cash incentive payout of between \$6,000 and \$20,000, depending on base salary and years of service. As of June 30, 2010, 27

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

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(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%
July 1, 2009	-	148,463	148,463	0%	70,803	209.7%

The information above relates to the University's share of the System Plan; it does not include any other

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