

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

Financial Statements and
Supplementary Information

June 30, 2011 and 2010



Indiana University of Pennsylvania of the State System of Higher Education

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Independent Auditors' Report

Council of Trustees
Indiana University of Pennsylvania

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, 2011 and 2010. 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, 2011 and 2010, 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 40 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
November 29, 2011

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Primary Institution
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 71,540,267	\$ 54,183,613
Accounts receivable:		
Governmental grants and contracts	1,929,732	4,363,584
Students, net of allowance for doubtful accounts of \$2,749,728 in 2011 and \$2,437,055 in 2010	8,277,083	9,064,221
Sales and service	316,896	37,645
Other	698,570	112,838
Inventories	702,163	683,547
Prepaid expenses, suppliers	1,491,062	991,063
Conversion pay receivable	17,763	27,952
Loans receivable, net of allowance for doubtful accounts of \$804,147 in 2011 and \$629,235 in 2010	757,928	819,522
Investment income receivable	36,623	99,484
Due from component units	5,995,659	3,162,068
Other current assets	265,857	207,333
	<u>92,029,603</u>	<u>73,752,870</u>
Noncurrent Assets		
Restricted cash and cash equivalents	3,812,004	3,091,052
Endowment investments	4,396,295	3,759,520
Loans receivable, net	7,190,059	7,303,399
Bond discount/issuance costs	22,401	26,160
Capital assets, net	147,580,086	125,111,371
	<u>163,000,845</u>	<u>139,291,502</u>
Total	<u>\$ 255,030,448</u>	<u>\$ 213,044,372</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Primary Institution

June 30, 2011 and 2010

Liabilities and Net Assets	2011	2010
Current Liabilities		
Accounts payable and accrued expenses:		
Supplies and services	\$ 2,310,492	\$ 8,295,832
Employees	15,578,307	16,067,045
Deferred revenue:		
Students	3,830,352	3,437,850
Grants	103,398	328,844
Other	152,834	178,135
Accrued interest payable	113,687	54,381
Students' deposits	766,740	776,987
Other deposit liabilities	296,662	295,392
Current portion of workers' compensation obligation	449,019	438,663
Current portion of compensated absences obligation	1,481,112	1,318,052
Current portion of postretirement benefits obligation	6,728,000	6,393,000
Current portion of capital lease obligations	1,344	1,235
Current portion of loans payable	8,204,895	-
Current portion of bonds payable, net	2,889,434	2,299,669
Current portion of bond premium	312,845	110,341
Current portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	509,535	490,313
Current portion of due to component units	1,375,432	1,353,971
Other current liabilities	873,834	770,810
Total current liabilities	45,977,922	42,610,520
Noncurrent Liabilities		
Deferred revenue, other	69,647	100,895
Workers' compensation obligation	572,651	479,209
Compensated absences obligation	11,526,368	14,020,383
Postretirement benefits obligation	102,071,658	93,520,409
Capital lease obligations	2,449	3,693
Bonds payable, net	54,352,286	26,527,484
Bond premium	2,936,162	644,203
Due to System, AFRP	6,080,991	6,597,706
Due to component units	141,835	283,672
Other noncurrent liabilities	8,304,715	8,647,782
Total noncurrent liabilities	186,058,762	150,825,436
Total liabilities	232,036,684	193,435,956
Net Assets (Deficit)		
Invested in capital assets, net of related debt	72,636,363	88,041,470
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,845,337	2,845,337
Other	878,694	798,731
Expendable:		
Scholarships and fellowships	417,219	198,974
Capital projects	1,616,797	764,060
Other	107,068	117,247
Unrestricted	(55,507,714)	(73,157,403)
Total net assets	22,993,764	19,608,416
Total	\$ 255,030,448	\$ 213,044,372

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

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Tuition and fees	\$ 119,747,396	\$ 110,166,588
Less scholarship discounts and allowances	<u>28,765,172</u>	<u>26,356,343</u>
Net tuition and fees	90,982,224	83,810,245
Governmental grants and contracts:		
Federal	31,938,007	27,536,958
State	15,944,573	17,579,417
Local	22,023	13,648
Nongovernmental grants and contracts	2,780,527	2,636,067
Sales and services of educational departments	6,400,183	5,034,590
Auxiliary enterprises	25,813,227	22,767,031
Other revenues	<u>126,638</u>	<u>80,844</u>
Total operating revenues	<u>174,007,402</u>	<u>159,458,800</u>
Operating Expenses:		
Instruction	99,862,367	96,415,393
Research	1,061,621	1,126,453
Public service	6,424,749	6,388,106
Academic support	21,278,178	21,864,354
Student services	18,700,182	18,022,356
Institutional support	26,578,885	27,300,522
Operations and maintenance of plant	19,147,778	19,300,915
Depreciation	10,741,676	10,525,872
Student aid	13,775,394	13,605,547
Auxiliary enterprises	<u>22,445,197</u>	<u>21,409,748</u>
Total operating expenses	<u>240,016,027</u>	<u>235,959,266</u>
Operating Loss	<u>(66,008,625)</u>	<u>(76,500,466)</u>
Nonoperating Revenues (Expenses):		
State appropriations, general and restricted	57,711,535	56,303,155
ARRA state fiscal stabilization funds	5,038,483	8,590,664
Investment income, net	1,143,031	1,681,060
Unrealized gain on investments	538,655	364,898
Gifts for other than capital purposes	3,547,040	2,496,372
Interest expense on capital asset-related debt	(1,954,460)	(1,640,300)
Loss on disposal of assets	(29,279)	(3,016,425)
Other nonoperating revenue	<u>205,714</u>	<u>158,469</u>
Nonoperating revenues, net	<u>66,200,719</u>	<u>64,937,893</u>
Gain (Loss) Before Other Revenues	<u>192,094</u>	<u>(11,562,573)</u>
Other Revenues:		
State appropriations, capital	-	223,526
Capital gifts and grants	<u>3,193,254</u>	<u>5,984,637</u>
Total other revenues	<u>3,193,254</u>	<u>6,208,163</u>
Increase (Decrease) in Net Assets	3,385,348	(5,354,410)
Net Assets, Beginning of Year	<u>19,608,416</u>	<u>24,962,826</u>
Net Assets, End of Year	<u>\$ 22,993,764</u>	<u>\$ 19,608,416</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

 Statement of Cash Flows - Primary Institution
 Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Tuition and fees, net	\$ 91,199,000	\$ 81,884,348
Grants and contracts	52,803,043	43,983,561
Payments to suppliers for goods and services	(54,112,095)	(40,806,143)
Payments to employees	(160,776,484)	(154,164,978)
Loans issued to students	(1,235,370)	(565,408)
Loans collected from students	1,235,393	1,183,398
Student Aid	(13,775,394)	(13,605,547)
Auxiliary enterprise charges	25,848,922	22,486,496
Sales and services of educational departments	3,602,160	2,990,562
Other receipts (payments)	(1,074,821)	2,496,206
	<u>(56,285,646)</u>	<u>(54,117,505)</u>
Net cash used in operating activities		
Cash Flows from Noncapital Financing Activities		
State appropriations	62,750,018	64,893,819
Gifts for other than capital purposes	3,530,171	2,388,606
PLUS, Stafford, and other loans receipts (non-Perkins)	112,287,303	98,495,728
PLUS, Stafford, and other loans disbursements (non-Perkins)	(112,351,991)	(98,609,409)
Agency transactions, net	65,958	(102,365)
Other	205,714	158,469
	<u>66,487,173</u>	<u>67,224,848</u>
Net cash provided by noncapital financing activities		
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	45,034,845	-
Capital appropriations	0	223,526
Capital grants and gifts received	2,501,315	4,938,118
Purchases of capital assets	(33,178,189)	(28,757,939)
Principal paid on capital debt and leases	(5,992,773)	(2,976,328)
Interest paid on capital debt and leases	(2,317,843)	(1,757,047)
	<u>6,047,355</u>	<u>(28,329,670)</u>
Net cash provided by (used in) capital financing activities		
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	6,933	92,965
Interest on investments	1,205,892	1,730,231
Purchase of investments	(105,053)	(113,688)
	<u>1,107,772</u>	<u>1,709,508</u>
Net cash provided by investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	17,356,654	(13,512,819)
Cash and Cash Equivalents, Beginning of Year	<u>54,183,613</u>	<u>67,696,432</u>
Cash and Cash Equivalents, End of Year	<u>\$ 71,540,267</u>	<u>\$ 54,183,613</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (66,008,625)	\$ (76,500,466)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	10,741,676	10,525,872
Expenses paid by Commonwealth or donor	10,049	21,766
Changes in assets and liabilities:		
Receivables, net	2,941,739	(3,896,265)
Inventories	(18,616)	128,628
Other assets	(3,967,986)	397,165
Restricted cash	(90,493)	(1,228,498)
Accounts payable	(6,467,258)	8,109,667
Deferred revenue	110,507	47,427
Students' deposits	(10,247)	(94,587)
Compensated absences	(2,330,955)	385,411
Loans to students and employees	23	617,990
Other liabilities	8,804,540	7,368,385
	<u>\$ (56,285,646)</u>	<u>\$ (54,117,505)</u>
Net cash used in operating activities		
Noncash Transactions:		
Equipment acquired by capital lease	<u>\$ -</u>	<u>\$ -</u>
Equipment acquired by trade	<u>\$ 61,480</u>	<u>\$ 54,761</u>
Equipment acquired by like-kind exchanges	<u>\$ 2,054</u>	<u>\$ -</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Component Units

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Assets		
Cash and cash equivalents	\$ 10,715,592	\$ 7,802,408
Accounts receivable	1,849,278	2,641,531
Contributions/pledges receivable	6,697,850	7,885,975
Due from university	1,517,267	1,637,643
Inventories	1,681,607	1,571,214
Investments	46,232,349	37,206,302
Capital assets, net	229,995,943	237,127,994
Restricted cash and investments	30,819,319	30,099,743
	<u>329,509,205</u>	<u>325,972,810</u>
Total	<u>\$ 329,509,205</u>	<u>\$ 325,972,810</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,525,201	\$ 5,269,692
Annuity liabilities	141,749	156,249
Due to university	5,995,659	3,162,068
Deposits payable	4,181,340	3,491,911
Capital leases	18,089,517	18,783,891
Long-term debt, net	236,905,843	238,630,987
Other liabilities	26,537,474	30,920,312
	<u>295,376,783</u>	<u>300,415,110</u>
Total liabilities	<u>295,376,783</u>	<u>300,415,110</u>
Net Assets		
Unrestricted	(12,181,681)	(16,397,031)
Temporarily restricted	13,397,148	10,470,861
Permanently restricted	32,916,955	31,483,870
	<u>34,132,422</u>	<u>25,557,700</u>
Total net assets	<u>34,132,422</u>	<u>25,557,700</u>
Total	<u>\$ 329,509,205</u>	<u>\$ 325,972,810</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

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in Unrestricted Net Assets		
Revenues and Other Additions:		
Sales and service	\$ 8,219,591	\$ 8,104,148
Student fees	6,795,433	6,110,203
Grants and contracts	6,397,064	5,684,541
Rental income	26,751,340	22,670,692
Investment income	490,896	1,263,419
Other	2,795,965	2,893,171
Unrealized gain (loss) on investments	5,962,772	(9,114,369)
Contributions	475,575	488,699
Net assets released based on satisfaction of program restrictions	6,138,194	6,208,037
	<u>64,026,830</u>	<u>44,308,541</u>
Total revenues and other additions		
Expenses and Other Deductions		
Program services:		
Scholarships and grants	1,681,095	1,894,915
Student activities and programs	5,998,783	5,744,085
University stores	7,550,816	7,543,091
Housing	28,998,302	26,532,431
Other university support	1,309,014	2,781,258
Other programs	8,398,996	6,383,489
Management and general	3,194,132	2,174,468
Fundraising	2,680,342	603,132
	<u>59,811,480</u>	<u>53,656,869</u>
Total expenses and other deductions		
Increase (decrease) in unrestricted net assets	<u>4,215,350</u>	<u>(9,348,328)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	2,301,564	4,055,324
Investment gain	1,763,054	5,044,059
Unrealized gain (loss) on investments	4,784,863	(1,050,671)
Net assets released based on satisfaction of program restrictions	(6,138,194)	(6,208,037)
Net assets transferred	215,000	58,841
	<u>2,926,287</u>	<u>1,899,516</u>
Increase in temporarily restricted net assets		
Changes in Permanently Restricted Net Assets		
Contributions	<u>1,433,085</u>	<u>1,768,204</u>
Increase in permanently restricted net assets	<u>1,433,085</u>	<u>1,768,204</u>
Increase (Decrease) in Net Assets	8,574,722	(5,680,608)
Net Assets, Beginning of Year	<u>25,557,700</u>	<u>31,238,308</u>
Net Assets, End of Year	<u>\$ 34,132,422</u>	<u>\$ 25,557,700</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2011 and 2010

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"), and The IUP Research Institute, Inc. (the "Research Institute") 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 \$213,815 in 2011 and \$211,304 in 2010, 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.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2011 and 2010

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 December 2009, GASB issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. Statement No. 57 amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The University is required to adopt Statement No. 57 for the fiscal year ending June 30, 2012. In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. Statement No. 59 updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The University is required to adopt Statement No. 59 for the fiscal year ending June 30, 2011. The University has determined that Statements No. 57 and 59 have no effect on its balance sheet or statement of revenues, expenses, and changes in net assets. In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. The University is required to adopt Statement No. 60 for the fiscal year ending June 30, 2013. In November 2010, GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus. Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The University is required to adopt Statement No. 61 for the fiscal year ending June 30, 2013. In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Statement No. 63 establishes standards for reporting what GASB defines as deferred outflows and inflows of resources, which they have distinguished from assets and liabilities, and net position, which currently is referred to as net assets. The University is required to adopt Statement No. 63 for the fiscal year ending June 30, 2013. The University has not yet determined the effect of Statements No. 60, 61, and 63 on its financial statements.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2011 and 2010

2. Condensed Component Unit Information

The following represents combining condensed balance sheet information for the component units as of June 30, 2011:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 296,866	\$	\$ 1,218,312	\$ 2,089	\$	\$ 1,517,267
Capital assets, net	1,277,416	21,145,204	207,474,431	98,892		229,995,943
Other assets	3,931,592	3,141,154	87,978,549	2,944,699		97,995,994
Total assets	\$ 5,505,874	\$ 24,286,358	\$ 296,671,292	\$ 3,045,680	\$ -	\$ 329,509,204
Due to University	13,722		5,545,854	436,083		5,995,659
Capital leases		17,731,505				17,731,505
Other liabilities	1,539,897	5,393,287	262,980,123	1,736,312		271,649,619
Total liabilities	\$ 1,553,619	23,124,792	268,525,977	2,172,395	-	295,376,783
Net Assets:						
Unrestricted	3,952,255	1,161,566	(18,168,788)	873,285		(12,181,682)
Temporarily restricted			13,397,148			13,397,148
Permanently restricted			32,916,955			32,916,955
Total net assets	\$ 3,952,255	\$ 1,161,566	\$ 28,145,315	\$ 873,285	\$ -	\$ 34,132,421

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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, 2010:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 274,464	\$ -	\$ 1,113,144	\$ 18,590	\$ 231,445	\$ 1,637,643
Capital assets, net	1,056,243	21,368,752	207,078,460	-	7,624,539	237,127,994
Other assets	3,099,663	3,035,748	77,040,858	3,398,757	632,147	87,207,173
Total assets	<u>\$ 4,430,370</u>	<u>\$ 24,404,500</u>	<u>\$ 285,232,462</u>	<u>\$ 3,417,347</u>	<u>\$ 8,488,131</u>	<u>\$ 325,972,810</u>
Due to University	\$ 2,626	\$ -	\$ 2,187,905	\$ 763,774	\$ 207,763	\$ 3,162,068
Capital leases	-	18,783,891	-	-	-	18,783,891
Other liabilities	891,638	4,490,650	263,034,131	1,462,149	8,590,583	278,469,151
Total liabilities	<u>\$ 894,264</u>	<u>\$ 23,274,541</u>	<u>\$ 265,222,036</u>	<u>\$ 2,225,923</u>	<u>\$ 8,798,346</u>	<u>\$ 300,415,110</u>
Net Assets:						
Unrestricted	\$ 3,536,106	\$ 1,129,959	\$ (21,405,045)	\$ 1,191,424	\$ (849,475)	\$ (16,397,031)
Temporarily restricted	-	-	9,931,601	-	539,260	10,470,861
Permanently restricted	-	-	31,483,870	0	0	31,483,870
Total net assets	<u>\$ 3,536,106</u>	<u>\$ 1,129,959</u>	<u>\$ 20,010,426</u>	<u>\$ 1,191,424</u>	<u>\$ (310,215)</u>	<u>\$ 25,557,700</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, 2011:

	<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			\$ 4,210,224	\$	\$	\$ 4,210,224
Sales and services	\$ 7,763,841	\$		455,750		8,219,591
Student fees	6,795,433					6,795,433
Grants and contracts				6,397,064		6,397,064
Rental income			25,945,478		805,862	26,751,340
Investment income	5,554	62,680	2,173,902	10,665	1,149	2,253,950
Unrealized loss on investments			10,747,635			10,747,635
Other revenues and gains	348,987	160,000	2,321,350	326	180,302	3,010,965
	<u>14,913,815</u>	<u>222,680</u>	<u>45,398,589</u>	<u>6,863,805</u>	<u>987,313</u>	<u>68,386,202</u>
Expenses and losses:						
Program services						
Scholarships and grants			1,681,095			1,681,095
Student activities and programs	5,998,783					5,998,783
University stores	7,550,816					7,550,816
Housing			28,331,584		666,718	28,998,302
Other university support			1,309,014			1,309,014
Other programs		159,582	1,919,211	6,320,203		8,398,996
Management and general	948,067	31,491	1,342,454	861,741	10,380	3,194,132
Fundraising			2,680,342			2,680,342
	<u>14,497,666</u>	<u>191,073</u>	<u>37,263,700</u>	<u>7,181,944</u>	<u>677,098</u>	<u>59,811,480</u>
Changes in net assets	416,149	31,607	8,134,889	(318,139)	310,215	8,574,722
Net assets, beginning of year	3,536,106	1,129,959	20,010,426	1,191,424	(310,215)	25,557,700
Net assets, end of year	<u>\$ 3,952,255</u>	<u>\$ 1,161,566</u>	<u>\$ 28,145,315</u>	<u>\$ 873,285</u>	<u>\$ 0</u>	<u>\$ 34,132,422</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, 2010:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Revenues and gains:						
Contributions	\$ -	\$ -	\$ 6,034,890	\$ -	\$ -	\$ 6,034,890
Sales and services	7,669,405	-	-	434,743	-	8,104,148
Student fees	6,110,203	-	-	-	-	6,110,203
Grants and contracts	-	-	-	5,684,541	-	5,684,541
Rental income	125,000	-	21,327,565	-	1,218,127	22,670,692
Investment income	7,327	128,122	6,160,406	7,931	3,692	6,307,478
Unrealized gain (loss) on investments	5,097	-	(10,170,137)	-	-	(10,165,040)
Other revenues and gains	301,948	10,000	2,586,384	9,455	321,562	3,229,349
Total revenues and gains	<u>14,218,980</u>	<u>138,122</u>	<u>25,939,108</u>	<u>6,136,670</u>	<u>1,543,381</u>	<u>47,976,261</u>
Expenses and losses:						
Program services						
Scholarships and grants	-	-	1,894,915	-	-	1,894,915
Student activities and 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 university support	-	-	2,781,258	-	-	2,781,258
Other programs	-	(545,438)	1,814,334	5,114,593	-	6,383,489
Management and general	920,703	27,390	220,268	995,276	10,831	2,174,468
Fundraising	-	-	603,132	-	-	603,132
Total expenses and losses	<u>14,207,879</u>	<u>(518,048)</u>	<u>32,426,083</u>	<u>6,109,869</u>	<u>1,431,086</u>	<u>53,656,869</u>
Changes in net assets	11,101	656,170	(6,486,975)	26,801	112,295	(5,680,608)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 3,536,106</u>	<u>\$ 1,129,959</u>	<u>\$ 20,010,426</u>	<u>\$ 1,191,424</u>	<u>\$ (310,215)</u>	<u>\$ 25,557,700</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 the 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 \$73,566,006 and \$55,832,875 at June 30, 2011 and 2010, 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.

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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.

Investment Categories	Limit (% of Market Value)	Single User (maximum)	Rating Limit (Moody's)
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 of 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, 2011 and 2010, the carrying amount of the University's demand and time deposits were \$1,786,265 and \$1,441,790, respectively, as compared to bank balances of \$1,480,396 and \$1,419,914, 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, 2011 is presented below:

	<u>Moody's Rating (if applicable)</u>	<u>Modified Duration (if applicable)</u>	<u>Fair value</u>
Deposits			
Demand and time deposits			\$ 1,786,265
Investments			
Equity/balances mutual funds			<u>4,396,295</u>
Total			<u>\$ 6,182,560</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	\$ 10,787
Deposit	Euro	<u>1,186</u>
Total		<u>\$ 11,973</u>

The carrying value (fair value) of deposits and investments for the University's pooled funds on June 30, 2010 is presented below:

	<u>Moody's Rating (if applicable)</u>	<u>Modified Duration (if applicable)</u>	<u>Fair value</u>
Deposits			
Demand and time deposits			\$ 1,441,790
Investments			
Equity/balances mutual funds			<u>3,759,520</u>
Total			<u>\$ 5,201,310</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	\$ 12,973
Deposit	Euro	<u>3,563</u>
Total		<u>\$ 16,536</u>

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Notes to Financial Statements

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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, 2010	Additions	Retirements	Reclassifications	Ending Balance June 30, 2011
Land		\$ 4,589,374	\$ 0	\$ 0	\$ 0	\$ 4,589,374
Construction in progress		27,566,998	610,289	(1,231)	(27,172,515)	1,003,541
Total capital assets not being depreciated		32,156,372	610,289	(1,231)	(27,172,515)	5,592,915
Buildings, including improvement	10-40	183,849,500	29,979,737	(328)	27,172,515	241,001,424
Furnishings and equipment (including cost of capital leases)	3-10	30,513,639	2,440,556	(617,481)	0	32,336,714
Library books	10	10,171,514	211,143	(54,447)	0	10,328,210
Total capital assets being depreciated		224,534,653	32,631,436	(672,256)	27,172,515	283,666,348
Less accumulated depreciation:						
Buildings, including improvements		(97,972,533)	(7,989,687)	15	0	(105,962,205)
Furnishings and equipment		(25,439,480)	(2,339,699)	587,693	0	(27,191,486)
Library books		(8,167,641)	(412,290)	54,445	0	(8,525,486)
Total capital assets being depreciated, net		92,954,999	21,889,760	(30,103)	27,172,515	141,987,171
Capital assets, net		\$ 125,111,371	\$ 22,500,049	\$ (31,334)	\$ 0	\$ 147,580,086

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	Estimated Lives (in years)	Beginning Balance July 1, 2009	Additions	Retirements	Reclassifications	Ending Balance June 30, 2010
Land		\$ 4,960,206	\$ -	\$ (370,832)	\$ -	\$ 4,589,374
Construction in progress		7,765,263	25,243,219	-	(5,441,484)	27,566,998
Total capital assets not being depreciated		12,725,469	25,243,219	(370,832)	(5,441,484)	32,156,372
Buildings, including improvement	10-40	183,805,357	1,958,600	(7,355,941)	5,441,484	183,849,500
Furnishings and equipment (including cost of capital leases)	3-10	29,598,479	1,280,959	(365,799)	-	30,513,639
Library books	10	9,905,588	308,156	(42,230)	-	10,171,514
Total capital assets being depreciated		223,309,424	3,547,715	(7,763,970)	5,441,484	224,534,653
Less accumulated depreciation:						
Buildings, including improvements		(94,777,863)	(7,701,966)	4,507,296	-	(97,972,533)
Furnishings and equipment		(23,439,054)	(2,364,054)	363,628	-	(25,439,480)
Library books		(7,750,019)	(459,852)	42,230	-	(8,167,641)
Total accumulated depreciation		(125,966,936)	(10,525,872)	4,913,154	-	(131,579,654)
Total capital assets being depreciated, net		97,342,488	(6,978,157)	(2,850,816)	5,441,484	92,954,999
Capital assets, net		\$ 110,067,957	\$ 18,265,062	\$ (3,221,648)	\$ -	\$ 125,111,371

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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 non-cancelable operating leases are as follows:

Years ending June 30:	
2012	\$ 248,934
2013	219,986
2014	18,818
2015	5,971
	<hr/>
Total	\$ 493,709

Total rent expense for operating leases was \$2,152,618 and \$2,058,032 for the years ended June 30, 2011 and 2010, respectively.

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

Years ending June 30:	
2012	\$ 2,222,617
2013	2,216,995
2014	2,170,247
2015	2,033,255
2016	2,040,856
Thereafter	22,847,625
	<hr/>
Total minimum lease payments	33,531,865
Less amount representing interest on capital leases	15,442,078
	<hr/>
Present value of net minimum capital lease payments	\$ 18,089,517

Buildings and building improvements, net of depreciation, at June 30, 2011 and 2010, include \$20,399,369 and \$20,810,786, respectively, acquired through leases that have been capitalized.

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Notes to Financial Statements

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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, 2011 and 2010, are as follows:

	Weighted Average Interest Rate	Balance July 1, 2010	Bonds Issued	Bonds Redeemed	Balance June 30, 2011
Series T issued in July 2001 for various projects	4.87%	\$ 2,701,678	\$ -	\$ (2,701,678)	\$ -
Series U issued in August 2002 for various projects	4.43%	125,000	-	(60,000)	65,000
Series W issued in October 2002 for various projects	4.76%	901,582	-	(217,015)	684,568
Series X issued in May 2003 for various projects	4.28%	484,660	-	(95,098)	389,562
Series Z issued in March 2004 for various projects	3.95%	327,717	-	(199,166)	128,552
Series AA issued in July 2004 for various projects	4.62%	1,059,958	-	(56,141)	1,003,818
Series AC issued in July 2005 for various projects	4.90%	4,580,432	-	(282,826)	4,297,606
Series AF issued in July 2007 for various projects	4.95%	1,222,996	-	(48,196)	1,174,801
Series AG issued in March 2008 for various projects	4.60%	635,734	-	(150,702)	485,031
Series AH issued in July 2008 for various projects	4.69%	12,663,839	-	(649,327)	12,014,512
Series AI issued in August 2008 for various projects	4.01%	4,216,347	-	(257,164)	3,959,184
Series AL issued in July 2010 for various projects	5.00%	-	33,986,017	(776,832)	33,209,185
Total bonds payable		28,919,944	33,986,017	(5,494,144)	57,411,818
Plus unamortized gain on refinancing		863			647
Less unamortized loss on refinancing		(93,654)			(170,745)
Outstanding at end of year		<u>\$ 28,827,153</u>	<u>\$ 33,986,017</u>	<u>\$ (5,194,144)</u>	<u>\$ 57,241,720</u>

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	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	4.58%	1,114,345	-	(54,387)	1,059,958
Series AC issued in July 2005 for various projects	4.91%	4,850,032	-	(269,600)	4,580,432
Series AF issued in July 2007 for various projects	4.93%	1,269,311	-	(46,315)	1,222,996
Series AG issued in March 2008 for various projects	4.53%	781,370	-	(145,636)	635,734
Series AH issued in July 2008 for various projects	4.69%	13,282,502	-	(618,663)	12,663,839
Series AI issued in August 2008 for various projects	3.89%	<u>4,464,782</u>	<u>-</u>	<u>(248,435)</u>	<u>4,216,347</u>
Total bonds payable		31,681,185	-	(2,761,243)	28,919,944
Plus unamortized gain on refinancing		2,381			863
Less unamortized loss on refinancing		<u>(111,808)</u>			<u>(93,654)</u>
Outstanding at end of year		<u>\$ 31,571,758</u>	<u>-</u>	<u>\$ (2,761,243)</u>	<u>\$ 28,827,153</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 (\$44,384,646 and \$47,857,567 was outstanding as of June 30, 2011 and 2010, 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 \$6,590,526 at June 30, 2011 and \$7,088,019 at June 30, 2010.

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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>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending June 30:			
2012	\$ 3,176,108	\$ 10,202,446	\$ 13,378,554
2013	3,604,075	10,069,764	13,673,839
2014	3,975,414	9,921,390	13,896,804
2015	6,763,977	9,738,971	16,502,948
2016	37,077,066	9,490,476	46,567,542
Thereafter	<u>187,693,565</u>	<u>117,038,518</u>	<u>304,732,083</u>
	242,290,205	<u>\$ 166,461,565</u>	<u>\$ 408,751,770</u>
Plus unamortized bond premium	149,667		
Less unamortized bond issue costs	<u>(5,534,029)</u>		
Total	<u>\$ 236,905,843</u>		

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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:

Series		2012	2013	2014	2015	2016	2017- 2021	2022- 2026	2027- 2031	2032- 2036	Total
U	Principal	65,000	-	-	-	-	-	-	-	-	65,000
	Interest	2,438	-	-	-	-	-	-	-	-	2,438
	Total	67,438	-	-	-	-	-	-	-	-	67,438
W	Principal	220,544	227,601	236,423	-	-	-	-	-	-	684,568
	Interest	32,085	22,042	11,370	-	-	-	-	-	-	65,497
	Total	252,629	249,643	247,793	-	-	-	-	-	-	750,065
X	Principal	103,918	108,138	98,777	18,597	19,217	40,915	-	-	-	389,562
	Interest	17,703	12,507	7,100	3,149	2,405	2,480	-	-	-	45,344
	Total	121,621	120,645	105,877	21,746	21,622	43,395	-	-	-	434,906
Z	Principal	23,930	24,857	25,785	26,527	27,453	-	-	-	-	128,552
	Interest	4,424	3,706	2,929	2,027	1,098	-	-	-	-	14,184
	Total	28,354	28,563	28,714	28,554	28,551	-	-	-	-	142,736
AA	Principal	58,480	60,820	63,744	66,960	69,884	398,252	285,678	-	-	1,003,818
	Interest	46,345	44,006	40,965	37,778	34,965	126,077	28,779	-	-	358,915
	Total	104,825	104,826	104,709	104,738	104,849	524,329	314,457	-	-	1,362,733
AC	Principal	296,052	311,945	327,839	344,097	360,721	1,816,173	840,780	-	-	4,297,607
	Interest	212,129	197,326	181,729	165,337	148,132	451,791	97,910	-	-	1,454,354
	Total	508,181	509,271	509,568	509,434	508,853	2,267,964	938,690	-	-	5,751,961
AF	Principal	50,312	52,428	54,779	57,365	60,186	349,831	446,691	103,209	-	1,174,801
	Interest	57,970	55,831	53,603	50,864	47,995	191,655	94,981	5,160	-	558,059
	Total	108,282	108,259	108,382	108,229	108,181	541,486	541,672	108,369	-	1,732,860
AG	Principal	156,400	161,466	167,165	-	-	-	-	-	-	485,031
	Interest	16,383	11,300	5,851	-	-	-	-	-	-	33,534
	Total	172,783	172,766	173,016	-	-	-	-	-	-	518,565
AH	Principal	674,881	709,951	745,726	781,501	822,035	4,757,474	2,956,620	566,324	-	12,014,512
	Interest	565,949	532,205	496,707	459,421	420,346	1,452,613	434,557	39,193	-	4,400,991
	Total	1,240,830	1,242,156	1,242,433	1,240,922	1,242,381	6,210,087	3,391,177	605,517	-	16,415,503
AI	Principal	266,093	275,680	285,267	294,853	305,662	1,722,609	809,020	-	-	3,959,184
	Interest	157,440	148,127	139,167	129,183	118,126	396,612	63,934	-	-	1,152,589
	Total	423,533	423,807	424,434	424,036	423,788	2,119,221	872,954	-	-	5,111,773
AL	Principal	1,002,521	1,052,723	1,109,444	1,161,165	1,221,109	5,547,223	6,235,000	7,955,000	7,925,000	33,209,185
	Interest	1,660,459	1,610,333	1,557,697	1,502,225	1,444,167	6,387,749	4,935,250	3,213,250	1,014,750	23,325,880
	Total	2,662,980	2,663,056	2,667,141	2,663,390	2,665,276	11,934,972	11,170,250	11,168,250	8,939,750	56,535,065
Total	Principal	2,918,131	2,985,609	3,114,949	2,751,065	2,886,267	14,632,477	11,573,789	8,624,533	7,925,000	57,411,820
	Interest	2,773,325	2,637,383	2,497,118	2,349,984	2,217,234	9,008,977	5,655,411	3,257,603	1,014,750	31,411,785
	Total	\$ 5,691,456	\$ 5,622,992	\$ 5,612,067	\$ 5,101,049	\$ 5,103,501	\$23,641,454	\$17,229,200	\$11,882,136	\$ 8,939,750	\$88,823,605

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7. Compensated Absences

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

	<u>2011</u>	<u>2010</u>
Balance, July 1	\$ 15,338,435	\$ 14,953,024
Current changes in estimate	(849,843)	1,782,698
Payouts	<u>(1,481,112)</u>	<u>(1,397,287)</u>
Balance, June 30	<u>\$ 13,007,480</u>	<u>\$ 15,338,435</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, 2005 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 2010/11, PASSHE contributed \$200 for each current active employee per biweekly pay period. PASSHE made contributions of \$20,069,000 \$25,318,000 and \$26,131,000 for the fiscal years ending June 30, 2011, 2010, and 2009, 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 \$37,245,000 and \$31,830,000 for the fiscal years ending June 30, 2011 and 2010, 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, 2011, the maximum rate being contributed by plan members was 15% of the premium currently paid by active employees. Total contributions made by plan members were \$2,762,000 and \$2,080,000, or approximately 6.9% and 6.1% of the total premiums, for the fiscal years ending June 30, 2011 and 2010, 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:

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Annual required contribution	\$ 13,983,000
Interest on net OPEB obligation	4,509,000
Adjustment to annual required contribution	<u>(4,955,000)</u>
Annual OPEB cost (expense)	13,537,000
Contributions made	<u>(4,650,751)</u>
Increase in net OPEB obligation	8,888,249
Net OPEB obligation, beginning of year	<u>99,913,409</u>
Net OPEB obligation, end of year	<u><u>\$ 108,799,658</u></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, 2011, and the two preceding years were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 13,537,000	34.4 %	\$ 108,799,658
June 30, 2010	\$ 12,078,000	38.6 %	\$ 99,913,409
June 30, 2009	\$ 11,251,000	38.9 %	\$ 92,500,778

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 168,184,000
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 168,184,000</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	<u><u>\$ 72,728,000</u></u>
UAAL as a percentage of covered payroll	231.3%

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, 2010 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5% 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% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2010, was 25 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.

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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 2.82% and 2.390% of annual covered payroll at June 30, 2011 and 2010, respectively. The University's contributions to PSERS for the years ended June 30, 2011, 2010, and 2009 were approximately \$181,000, \$142,000, and \$118,000, 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 3.29% or 4.11% of an active member's annual covered payroll at June 30, 2011. The University's contributions to SERS for the years ended June 30, 2011, 2010, and 2009, were approximately \$1,823,000, \$1,388,000, and \$1,346,000, 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 ARP, 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, 2011 and 2010 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2011 and 2010 were approximately \$5,403,000 and \$5,189,000, respectively, from the University, and \$2,647,000 and \$2,315,000, respectively, from active members.

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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 \$125,200 and \$149,900 to the fund during the years ended June 30, 2011 and 2010, respectively. The University did not receive any reimbursements in fiscal years 2011 or 2010.

For the years ended June 30, 2011 and 2010, the aggregate liability for claims under the self-insurance limit was \$1,021,670 and \$917,872, respectively. Changes in the University's claims liability amount for the fiscal year 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Balance at July 1	\$ 917,872	\$ 820,711
Projected retained losses	433,835	410,607
Retirements and changes in estimates	<u>(330,037)</u>	<u>(313,446)</u>
Balance at June 30	<u>\$ 1,021,670</u>	<u>\$ 917,872</u>

11. Contingencies

The University is committed to future construction projects in the amount of approximately \$3,121,000 as of June 30, 2011.

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.

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11. Contingencies (Continued)

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, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Designated accounts for educational and general activities	\$ 36,997,496	\$ 27,782,720
Designated accounts for healthcare reserve	1,512,377	1,567,230
Designated accounts for auxiliary enterprises (operations, plant activities, and debt retirement)	14,151,961	12,178,146
Designated accounts for plant activities and debt retirement	13,637,590	566,345
Compensated absences deficit	(13,007,480)	(15,338,435)
Postretirement benefit deficit	(108,799,658)	(99,913,409)
Total unrestricted net assets	<u>\$ (55,507,714)</u>	<u>\$ (73,157,403)</u>

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

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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:

<u>Lease Year</u>	<u>Payment Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Rent</u>	<u>Total</u>
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 on December 31, 2012 is payable in full on that date. As of June 30, 2011 and 2010, 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 has paid annual base rents in the amount of \$25,000 beginning in fiscal year ended June 30, 2008 for Phase I and \$36,600 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 on 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. The Foundation also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as Rental Income.

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The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 of:

	Base Rent		Additional Rent		Room Waivers	
	2011	2010	2011	2010	2011	2010
Phase I	\$ 26,530	\$ 26,010	\$ 24,834	\$ 24,563	\$ 88,393	\$ 86,181
Phase II	\$ 38,079	\$ 37,332	\$ 39,364	\$ 37,332	\$ 129,288	\$ 124,436

Ground Lease Agreement - Phase III:

The University entered into the agreement as of May 1, 2008. The Foundation began paying an annual base rent during the 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 are being paid, beginning in fiscal year ending June 30, 2010. The Foundation also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as Rental Income.

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2011	2010	2011	2010	2011	2010
Phase III	\$ 38,467	\$ 37,713	\$ 35,981	\$ 34,965	\$ 170,109	\$ 133,622

Ground Lease Agreement - Phase IV:

The University entered into the agreement as of May 29, 2009. The Foundation began paying annual base rent during the fiscal year ended June 30, 2011. This base rent will increase by 2% each subsequent year through the lease expiration date of June 1, 2051. Additional rents equaling one half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2011. The Foundation also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as Rental Income. During the fiscal year ended June 30, 2011, the Foundation paid base rent of \$18,315, additional rent of \$19,993, and provided room waivers of \$68,400 to the University.

Total ground lease revenues from all Phases received from the Foundation for the years ended June 30, 2011, and 2010 were \$121,391 and \$101,055, respectively.

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

<u>Fiscal Year</u>	<u>Lease Revenues</u>
2011-2012	\$ 123,819
2012-2013	126,295
2013-2014	128,821
2014-2015	131,398
	<u>\$ 510,333</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. Total management fees charged to the Foundation for the years ended June 30, 2011 and 2010, were \$1,275,987 and \$1,130,394, respectively.

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, 2011 and 2010, were \$690,893 and \$626,371, 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 began in the 2009/2010 fiscal year. Total rent expense for these facilities for the years ended June 30, 2011 and 2010, were \$426,000 and \$430,000, respectively. Future minimum lease payments by fiscal year are estimated at:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2011-2012	\$ 408,000
2012-2013	408,000
2013-2014	408,000
2014-2015	408,000
2015-2016	408,000
Thereafter	884,000
	<u>\$ 2,924,000</u>

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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 \$655,875 and \$643,089 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments by fiscal year are estimated at:

Fiscal Year	Lease Payments
2011-2012	\$ 642,234
2012-2013	655,078
2013-2014	668,180
2014-2015	681,543
2015-2016	695,173
Thereafter	<u>18,282,374</u>
	<u>\$ 21,624,582</u>

15. Related Party Transactions - University Acquisitions, Inc.

Transfer of UAI Assets and Liabilities to IUP

On October 29, 2010, IUP borrowed \$8,204,895 under a bridge note arrangement from PASSHE. The proceeds of this note were loaned to UAI for use to pay off UAI's obligation to Citizens Bank. UAI paid off all amounts owed to Citizens Bank on November 1, 2010. The terms of the Ground Lease between IUP and UAI require UAI's assets, liabilities, and net assets be transferred to the University upon satisfaction of Citizens Bank's obligation. In satisfaction of the loan to UAI, IUP received Buildings of \$7,441,567, Furniture of \$159,600, and Cash of \$603,728. UAI's books were closed on February 24, 2011, with a cash contribution to the University of \$199,332.

Ground Lease Agreement

The University leased 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. The lease was cancelled effective October 31, 2010. Under the terms of the Agreement UAI has paid annual base rent. The initial base rent of \$12,000 was paid beginning in fiscal year ended June 30, 2006. This base rent was increase by 3% each subsequent year through the lease termination date. Additional rents equaling one half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2006. UAI also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as Rental Income.

UAI paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2011	2010	2011	2010	2011	2010
UAI, Inc.	\$ 4,637	\$ 13,506	\$ 4,029	\$ 6,904	\$ 21,387	\$ 49,297

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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 Contract included automatic renewals for up to six additional five year periods, consecutively. The Contract was automatically renewed for July 1, 2010, through June 30, 2015, but was terminated on October 31, 2010. Total management fees charged to UAI for the years ended June 30, 2011 and 2010, were \$30,199 and \$87,959, respectively.

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, 2010, was \$231,445. There were no amounts due at June 30, 2011.

16. Related Party Transactions - PA State System of Higher Education

On October 22, 2010, the University borrowed \$8,204,895 from the PA State System of Higher Education's Short Term Investment Fund under a promissory note to temporarily finance the retirement of UAI's commercial loan from Citizens Bank. The promissory note is for a term not to exceed 282 days to be repaid upon closing of the next available PASSHE bond issue no later than July 31, 2011, at an interest rate of .44% (rate per annum) or a per diem of \$98.91 in accordance with established PASSHE Policy. At June 30, 2011, this obligation is reflected in the University's Balance Sheet – Primary Institution as Current portion of loans payable.

17. Subsequent Events

In July 2011, PASSHE issued Series AM tax-exempt revenue bonds in the amount of \$119,085,000. The University participated in the Series AM issue in the amount of \$7,766,479. Proceeds, including bond premium of \$464,429, were used to repay the \$8,204,895 promissory note payable to the PA State System of Higher Education's Short Term Investment Fund plus interest of \$26,013.

18. Termination Benefits

In March 2010, the PASSHE Board of Governors approved a Voluntary Retirement Incentive Program for both union and non-represented 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 \$30,000, depending on base salary and years of service. As of June 30, 2010, 27 eligible University employees accepted the offer by signing a release and settlement agreement releasing PASSHE from all legal claims related to their employment and retirement. During the fiscal year ending June 30, 2011, 10 additional employees completed their acceptance of the offer. The cash incentive is not eligible for retirement benefits. The Association of Pennsylvania State College and University Faculties declined to participate in this program.

Indiana University of Pennsylvania of the State System of Higher Education

Required Supplementary Information
 Years Ended June 30, 2011 and 2010
 (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, 2008	\$ -	\$ 138,169	\$ 138,169	0%	\$ 68,741	201.0%
July 1, 2009	\$ -	\$ 148,463	\$ 148,463	0%	\$ 70,803	209.7%
July 1, 2010	\$ -	\$ 168,184	\$ 168,184	0%	\$ 72,728	231.3%

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, 2008	\$ 60,000	\$ 12,863,270	\$ 12,803,270	0.47%	\$ 3,559,000	360%
July 1, 2009	\$ 47,920	\$ 13,257,570	\$ 13,209,650	0.36%	\$ 4,093,000	323%
July 1, 2010	\$ 56,320	\$ 13,674,250	\$ 13,617,930	0.41%	\$ 3,786,000	360%

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.