

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

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**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2006 AND 2005  
&  
INDEPENDENT AUDITORS' REPORT**

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying basic financial statements of Indiana University of Pennsylvania of the State System of Higher Education (the "University") and its aggregate discretely presented component units as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2006 and 2005, 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.

*Parente Randolph, LLC*

Pittsburgh, Pennsylvania  
August 31, 2006

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

**BALANCE SHEET - PRIMARY INSTITUTION  
JUNE 30, 2006 AND 2005**

	2006	2005
<u>ASSETS</u>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 60,825,169	\$ 51,662,061
Accounts receivable:		
Governmental grants and contracts	3,125,315	4,809,444
Students, net of allowance for doubtful accounts of \$1,522,279 and \$1,571,998	5,345,216	4,337,621
Sales and service	811,135	649,742
Other	4,298,491	877,736
Inventories	1,082,818	958,602
Prepaid expenses, suppliers	539,916	211,907
Conversion pay receivable	60,532	70,996
Loans receivable, net of allowance for doubtful accounts of \$708,039 and \$905,014	1,082,231	1,296,097
Investment income receivable	202,800	150,126
Due from component units	675,668	953,718
Other current assets	<u>397,112</u>	<u>158,923</u>
Total current assets	<u>78,446,403</u>	<u>66,136,973</u>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and cash equivalents	691,870	825,671
Endowment investments	3,607,341	3,527,933
Loans receivable	6,675,119	7,128,043
Bond discount/issuance costs	64,383	52,843
Capital assets, net	<u>104,226,428</u>	<u>99,852,810</u>
Total noncurrent assets	<u>115,265,141</u>	<u>111,387,300</u>
<b>TOTAL</b>	<u><b>\$ 193,711,544</b></u>	<u><b>\$ 177,524,273</b></u>

**INDIANA UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEET - PRIMARY INSTITUTION  
JUNE 30, 2006 AND 2005**

	2006	2005
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses:		
Supplies and services	\$ 4,281,026	\$ 4,092,974
Employees	9,863,491	10,431,966
Other	164,127	113,764
Deferred revenue:		
Students	3,068,611	2,981,760
Grants	622,099	516,786
Sales and services	25,000	25,000
Other	94,033	105,299
Accrued interest payable	52,702	31,779
Students' deposits	531,566	523,153
Other deposit liabilities	722,450	496,064
Current portion of workers' compensation liability	326,470	283,319
Current portion of compensated absences liability	4,003,738	5,002,064
Current portion of postretirement benefits liability	5,067,000	4,373,000
Current portion of capitalized lease obligations	1,824	14,174
Current portion of loans payable	133,575	42,856
Current portion of bonds payable	2,510,893	2,152,284
Current portion of bond premium	132,886	113,571
Current portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	385,450	368,207
Due to component units	424,422	617,401
Other current liabilities	258,900	504,504
	<u>32,670,263</u>	<u>32,789,925</u>
Total current liabilities		
<b>NONCURRENT LIABILITIES:</b>		
Deferred revenue, other	208,941	236,800
Workers' compensation liability	316,894	287,054
Compensated absences liability	10,164,098	8,187,808
Postretirement benefits liability	66,873,307	62,058,844
Capitalized lease obligations	2,834	4,658
Loans payable	6,431	32,415
Bonds payable	22,426,517	18,376,205
Bond premium	543,594	324,997
Due to System, AFRP	8,177,917	8,564,398
Other noncurrent liabilities	9,603,432	9,724,935
	<u>118,323,965</u>	<u>107,798,114</u>
Total noncurrent liabilities		
Total liabilities	<u>150,994,228</u>	<u>140,588,039</u>
<b>NET ASSETS (DEFICIT):</b>		
Invested in capital assets, net of related debt	76,557,780	70,444,173
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,805,425	2,801,284
Other	792,996	792,996
Expendable:		
Scholarships and fellowships	117,336	113,267
Research	36,649	190,438
Other	11,220	4,401
Unrestricted	(37,604,090)	(37,410,325)
	<u>42,717,316</u>	<u>36,936,234</u>
Total net assets		
TOTAL	<u>\$ 193,711,544</u>	<u>\$ 177,524,273</u>

See Notes to Financial Statements

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY INSTITUTION  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>OPERATING REVENUES:</b>		
Tuition and fees	\$ 91,095,193	\$ 87,423,899
Less scholarship discounts and allowances	<u>15,813,462</u>	<u>15,603,377</u>
Net tuition and fees	75,281,731	71,820,522
Governmental grants and contracts:		
Federal	18,513,549	20,296,873
State and local	15,291,368	15,113,553
Nongovernmental grants and contracts	2,546,806	2,427,765
Sales and services of educational departments	971,318	1,036,422
Auxiliary enterprises	21,405,788	22,032,023
Other revenues	<u>10,322,524</u>	<u>7,643,542</u>
Total operating revenues	<u>144,333,084</u>	<u>140,370,700</u>
<b>OPERATING EXPENSES:</b>		
Instruction	81,874,907	80,570,785
Research	890,480	926,059
Public service	7,962,801	9,029,452
Academic support	19,400,474	19,180,127
Student services	13,556,208	13,197,804
Institutional support	20,962,955	19,821,539
Operations and maintenance of plant	22,646,703	20,646,083
Depreciation	9,821,347	9,217,567
Student aid	9,080,222	8,684,944
Auxiliary enterprises	<u>18,680,837</u>	<u>18,746,477</u>
Total operating expenses	<u>204,876,934</u>	<u>200,020,837</u>
<b>OPERATING LOSS</b>	<u>(60,543,850)</u>	<u>(59,650,137)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State appropriations, general and restricted	61,232,643	57,239,048
Investment income, net	2,735,897	1,816,844
Unrealized gain on investments	38,814	167,534
Gifts for other than capital purposes	396,617	632,295
Interest expense on capital asset-related debt	(988,137)	(1,045,269)
Loss on disposal of assets	(332,378)	(75,356)
Other nonoperating revenue	<u>211,666</u>	<u>230,058</u>
Nonoperating revenues, net	<u>63,295,122</u>	<u>58,965,154</u>
<b>PROFIT (LOSS) BEFORE OTHER REVENUES</b>	<u>2,751,272</u>	<u>(684,983)</u>
<b>OTHER REVENUES:</b>		
State appropriations, capital	2,800,586	2,001,541
Capital gifts and grants	<u>229,224</u>	<u>413,181</u>
Total other revenues	<u>3,029,810</u>	<u>2,414,722</u>
<b>INCREASE IN NET ASSETS, AS RESTATED FOR 2005</b>	<u>5,781,082</u>	<u>1,729,739</u>
<b>NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	36,936,234	35,624,325
<b>PRIOR PERIOD ADJUSTMENT</b>	-	(417,830)
<b>NET ASSETS, BEGINNING OF YEAR, AS RESTATED</b>	<u>36,936,234</u>	<u>35,206,495</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 42,717,316</u>	<u>\$ 36,936,234</u>

See Notes to Financial Statements

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

**STATEMENT OF CASH FLOWS - PRIMARY INSTITUTION  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Tuition and fees, net	\$ 74,221,466	\$ 71,577,057
Grants and contracts	37,947,424	36,383,252
Payments to suppliers for goods and services	(45,051,397)	(44,431,044)
Payments to employees	(135,026,967)	(132,937,332)
Loans issued to students	(1,478,861)	(1,571,091)
Loans collected from students	2,145,651	1,715,416
Student Aid	(9,080,222)	(8,684,944)
Auxiliary enterprise charges	21,157,638	21,987,726
Sales and services of educational departments	809,925	1,868,466
Other receipts	<u>6,837,755</u>	<u>7,901,892</u>
Net cash used in operating activities	<u>(47,517,588)</u>	<u>(46,190,602)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	61,232,643	57,650,055
Gifts for other than capital purposes	411,937	616,975
PLUS, Stafford, and other loans receipts (non-Perkins)	78,578,031	75,074,025
PLUS, Stafford, and other loans disbursements (non-Perkins)	(78,408,872)	(75,049,393)
Agency transactions, net	57,227	(36,634)
Other	<u>211,666</u>	<u>230,058</u>
Net cash provided by noncapital financing activities	<u>62,082,632</u>	<u>58,485,086</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from capital debt	7,141,720	2,905,017
Capital appropriations	2,800,586	2,001,541
Capital grants and gifts received	229,224	490,539
Purchases of capital assets	(14,527,343)	(11,491,293)
Principal paid on capital debt and leases	(3,069,644)	(2,792,317)
Interest paid on capital debt and leases	<u>(724,614)</u>	<u>(1,189,341)</u>
Net cash used in capital financing activities	<u>(8,150,071)</u>	<u>(10,075,854)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	60,000	135,194
Purchase of investments	(100,594)	(95,274)
Interest on investments	<u>2,654,928</u>	<u>1,804,152</u>
Net cash provided by investing activities	<u>2,614,334</u>	<u>1,844,072</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>9,029,307</b>	<b>4,062,702</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>52,487,732</u></b>	<b><u>48,425,030</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 61,517,039</u></b>	<b><u>\$ 52,487,732</u></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (60,543,850)	\$ (59,650,137)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	9,821,347	9,217,567
Changes in assets and liabilities:		
Receivables, net	515,141	(560,330)
Inventories	(124,216)	(17,720)
Other assets	(3,686,866)	185,717
Accounts payable	(579,983)	(44,963)
Deferred revenue	(40,702)	463,359
Students' deposits	8,413	(66,171)
Compensated absences	977,964	1,160,375
Loans to students and employees	666,790	144,325
Other liabilities	<u>5,468,374</u>	<u>2,977,376</u>
Net cash used in operating activities	<u>\$ (47,517,588)</u>	<u>\$ (46,190,602)</u>
<b>NONCASH TRANSACTIONS:</b>		
Equipment acquired by trade	<u>\$ 142,477</u>	<u>\$ 93,323</u>

See Notes to Financial Statements

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

**BALANCE SHEET - COMPONENT UNITS  
JUNE 30, 2006 AND 2005**

	2006	2005
<u><b>ASSETS</b></u>		
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 6,675,306	\$ 3,816,352
Accounts receivable	1,782,178	2,597,324
Contributions/pledges receivable	2,294,291	2,932,618
Due from university	424,422	617,401
Inventories	1,247,713	1,274,408
Investments	38,129,392	35,675,940
Capital assets, net	39,284,180	33,914,608
Restricted cash and investments	45,753,320	-
Other assets	18,044,669	18,940,851
	<u>\$ 153,635,471</u>	<u>\$ 99,769,502</u>
<b>TOTAL</b>	<b>\$ 153,635,471</b>	<b>\$ 99,769,502</b>
<u><b>LIABILITIES AND NET ASSETS</b></u>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 5,309,371	\$ 4,036,361
Annuity liabilities	44,913	47,461
Due to university	675,668	953,718
Deposits payable	3,191,546	2,976,899
Capitalized leases	24,773,891	25,213,892
Long-term debt	58,968,339	7,262,546
Other liabilities	13,935,817	15,375,086
	<u>106,899,545</u>	<u>55,865,963</u>
<b>Total liabilities</b>	<b>106,899,545</b>	<b>55,865,963</b>
<b>NET ASSETS:</b>		
Unrestricted	10,777,367	10,457,619
Temporarily restricted	9,946,744	6,795,899
Permanently restricted	26,011,815	26,650,021
	<u>46,735,926</u>	<u>43,903,539</u>
<b>Total net assets</b>	<b>46,735,926</b>	<b>43,903,539</b>
<b>TOTAL</b>	<b>\$ 153,635,471</b>	<b>\$ 99,769,502</b>

See Notes to Financial Statements

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

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - COMPONENT UNITS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
<b>REVENUES AND GAINS:</b>		
Contributions	\$ 3,221,083	\$ 3,358,677
Sales and service	7,257,202	7,263,280
Student Fees	5,548,875	5,509,386
Grants and contracts	4,848,538	5,638,132
Rental income	1,174,368	125,000
Investment income	1,695,111	1,344,445
Unrealized gains on investments	383,112	1,314,622
Other revenues and gains	<u>2,665,792</u>	<u>1,856,966</u>
Total revenues and gains	<u>26,794,081</u>	<u>26,410,508</u>
<b>EXPENSES AND LOSSES:</b>		
Program services:		
Scholarships and grants	1,499,845	1,392,331
Student activities and programs	5,328,278	5,314,679
University stores	7,025,541	7,164,138
Housing	1,136,048	85,000
Other university support	442,101	406,100
Other programs	6,109,391	8,016,495
Management and general	1,805,299	2,246,606
Fundraising	<u>615,191</u>	<u>674,181</u>
Total expenses and losses	<u>23,961,694</u>	<u>25,299,530</u>
INCREASE IN NET ASSETS	2,832,387	1,110,978
NET ASSETS, BEGINNING OF YEAR	<u>43,903,539</u>	<u>42,792,561</u>
NET ASSETS, END OF YEAR	<u>\$ 46,735,926</u>	<u>\$ 43,903,539</u>

See Notes to Financial Statements

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

**NOTES TO FINANCIAL STATEMENTS**

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

**ORGANIZATION**

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

**REPORTING ENTITY**

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

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

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

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

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

**OPERATING REVENUES**

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income (except for interest earned by auxiliaries totaling \$241,834 in 2006 and \$180,506 in 2005, which is included in auxiliary revenues), capital grants, gains on the sale of investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as non-operating revenue.

**SCHOLARSHIP DISCOUNTS AND ALLOWANCES**

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

## **NET ASSETS**

The University maintains the following net asset classifications:

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

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

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

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

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

## **CASH EQUIVALENTS AND INVESTMENTS**

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

## **ACCOUNTS RECEIVABLE**

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

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

## **INVENTORIES**

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

## **CAPITAL ASSETS**

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

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

## **DEFERRED REVENUE**

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

## **COMPENSATED ABSENCES**

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

## **PENSION PLANS**

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

### **INCOME TAXES**

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

### **USE OF ESTIMATES**

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

### **RECLASSIFICATIONS**

Certain items in the 2005 financial statements have been reclassified to confirm to the 2006 reporting format.