

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

Financial Statements and
Required Supplementary Information

June 30, 2012 and 2011



Indiana University of Pennsylvania of the State System of Higher Education

Table of Contents

June 30, 2012 and 2011

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheet - Primary Institution	3
Statement of Revenues, Expenses, and Changes in Net Assets - Primary Institution	5
Statement of Cash Flows - Primary Institution	6
Balance Sheet - Component Units	7
Statement of Revenues, Expenses, and Changes in Net Assets - Component Units	8
Notes to Financial Statements	9
Required Supplementary Information	
Schedule of Funding Progress for the System Plan and REHP (OPEB)	44

Independent Auditors' Report

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

We have audited the accompanying financial statements of Indiana University of Pennsylvania of the State System of Higher Education (the "University") and its aggregate discretely presented component units as of and for the years ended June 30, 2012 and 2011. 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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the 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, 2012 and 2011, 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.

Management has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

ParenteBeard LLC

Pittsburgh, Pennsylvania
November 27, 2012

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Primary Institution

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 94,983,937	\$ 71,540,267
Accounts receivable:		
Governmental grants and contracts	1,763,275	1,929,732
Students, net of allowance for doubtful accounts of \$2,807,014 in 2012 and \$2,749,728 in 2011	8,013,855	8,277,083
Sales and service	411,801	316,896
Other	306,326	698,570
Inventories	703,221	702,163
Prepaid expenses, suppliers	1,476,225	1,491,062
Conversion pay receivable	7,882	17,763
Loans receivable, net of allowance for doubtful accounts of \$919,177 in 2012 and \$804,147 in 2011	865,893	757,928
Investment income receivable	107,248	36,623
Due from component units	2,453,294	5,995,659
Other current assets	61,110	265,857
	<u>111,154,067</u>	<u>92,029,603</u>
Total current assets		
Noncurrent Assets		
Restricted cash and cash equivalents	25,026	3,812,004
Endowment investments	4,483,363	4,396,295
Loans receivable, net	6,509,392	7,190,059
Bond discount/issuance costs	18,977	22,401
Capital assets, net	143,911,815	147,580,086
	<u>154,948,573</u>	<u>163,000,845</u>
Total noncurrent assets		
	<u>\$ 266,102,640</u>	<u>\$ 255,030,448</u>
Total assets		

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Primary Institution
June 30, 2012 and 2011

Liabilities and Net Assets	2012	2011
Current Liabilities		
Accounts payable and accrued expenses:		
Supplies and services	\$ 2,449,603	\$ 2,310,492
Employees	11,129,549	15,578,307
Deferred revenue:		
Students	3,679,941	3,830,352
Grants	46,556	103,398
Other	162,348	152,834
Accrued interest payable	134,951	113,687
Students' deposits	936,606	766,740
Other deposit liabilities	362,292	296,662
Current portion of workers' compensation obligation	421,578	449,019
Current portion of compensated absences obligation	1,720,086	1,481,112
Current portion of postretirement benefits obligation	7,242,000	6,728,000
Current portion of capital lease obligations	1,462	1,344
Current portion of loans payable	58,486	8,204,895
Current portion of bonds payable, net	3,161,054	2,889,434
Current portion of bond premium	396,551	312,845
Current portion of due to System, Academic Facilities		
Renovation Bond Program (AFRP)	527,517	509,535
Current portion of due to component units	1,233,352	1,375,432
Other current liabilities	1,263,854	873,834
Total current liabilities	<u>34,927,786</u>	<u>45,977,922</u>
Noncurrent Liabilities		
Deferred revenue, other	41,788	69,647
Workers' compensation obligation	381,331	572,651
Compensated absences obligation	13,579,093	11,526,368
Postretirement benefits obligation	110,962,258	102,071,658
Mortgage payable	231,022	-
Capital lease obligations	1,094	2,449
Bonds payable, net	58,557,548	54,352,286
Bond premium	3,062,442	2,936,162
Due to System, AFRP	5,551,377	6,080,991
Due to component units	-	141,835
Other noncurrent liabilities	8,057,729	8,304,715
Total noncurrent liabilities	<u>200,425,682</u>	<u>186,058,762</u>
Total liabilities	<u>235,353,468</u>	<u>232,036,684</u>
Net Assets (Deficit)		
Invested in capital assets, net of related debt	72,385,663	72,636,363
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,859,396	2,845,337
Other	798,731	878,694
Expendable:		
Scholarships and fellowships	421,303	417,219
Capital projects	2,678,348	1,616,797
Other	10,046	107,068
Unrestricted	(48,404,315)	(55,507,714)
Total net assets	<u>30,749,172</u>	<u>22,993,764</u>
Total liabilities and net assets	<u>\$ 266,102,640</u>	<u>\$ 255,030,448</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher EducationStatement of Revenues, Expenses, and Changes in Net Assets - Primary Institution
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Tuition and fees	\$ 135,399,220	\$ 119,747,396
Less scholarship discounts and allowances	<u>34,710,393</u>	<u>28,765,172</u>
Net tuition and fees	<u>100,688,827</u>	<u>90,982,224</u>
Governmental grants and contracts:		
Federal	28,931,500	31,938,007
State	18,313,147	15,944,573
Local	39,379	22,023
Nongovernmental grants and contracts	2,806,659	2,780,527
Sales and services of educational departments	7,630,678	6,400,183
Auxiliary enterprises	27,890,493	25,813,227
Other revenues	<u>2,231,899</u>	<u>126,638</u>
Total operating revenues	<u>188,532,582</u>	<u>174,007,402</u>
Operating Expenses		
Instruction	100,526,742	99,862,367
Research	1,026,495	1,061,621
Public service	6,571,180	6,424,749
Academic support	20,307,357	21,278,178
Student services	18,688,555	18,700,182
Institutional support	28,720,559	26,578,885
Operations and maintenance of plant	17,099,938	19,147,778
Depreciation	11,129,744	10,741,676
Student aid	8,397,442	13,775,394
Auxiliary enterprises	<u>23,712,961</u>	<u>22,445,197</u>
Total operating expenses	<u>236,180,973</u>	<u>240,016,027</u>
Operating Loss	<u>(47,648,391)</u>	<u>(66,008,625)</u>
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	51,426,617	57,711,535
ARRA state fiscal stabilization funds	-	5,038,483
Investment income, net	1,379,227	1,143,031
Unrealized (loss) gain on investments	(12,916)	538,655
Gifts for other than capital purposes	1,896,262	3,547,040
Interest expense on capital asset-related debt	(3,124,036)	(1,954,460)
Loss on disposal of assets	-	(29,279)
Other nonoperating revenue	<u>192,605</u>	<u>205,714</u>
Nonoperating revenues, net	<u>51,757,759</u>	<u>66,200,719</u>
Income Before Other Revenues	<u>4,109,368</u>	<u>192,094</u>
Other Revenues		
State appropriations, capital	869,856	-
Capital gifts and grants	<u>2,776,184</u>	<u>3,193,254</u>
Total other revenues	<u>3,646,040</u>	<u>3,193,254</u>
Increase in Net Assets	7,755,408	3,385,348
Net Assets, Beginning of Year	<u>22,993,764</u>	<u>19,608,416</u>
Net Assets, End of Year	<u>\$ 30,749,172</u>	<u>\$ 22,993,764</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Tuition and fees, net	\$ 100,096,728	\$ 91,199,000
Grants and contracts	52,342,775	52,803,043
Payments to suppliers for goods and services	(49,251,283)	(54,112,095)
Payments to employees	(159,185,912)	(160,776,484)
Loans issued to students	(1,024,375)	(1,235,370)
Loans collected from students	1,482,046	1,235,393
Student aid	(8,397,442)	(13,775,394)
Auxiliary enterprise charges	27,753,261	25,848,922
Sales and services of educational departments	7,535,773	3,602,160
Other receipts (payments)	<u>6,647,950</u>	<u>(1,074,821)</u>
Net cash used in operating activities	<u>(22,000,479)</u>	<u>(56,285,646)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	51,426,617	62,750,018
Gifts for other than capital purposes	1,864,406	3,530,171
PLUS, Stafford, and other loans receipts (non-Perkins)	130,331,122	112,287,303
PLUS, Stafford, and other loans disbursements (non-Perkins)	(130,258,635)	(112,351,991)
Agency transactions, net	(6,857)	65,958
Other	<u>192,605</u>	<u>205,714</u>
Net cash provided by noncapital financing activities	<u>53,549,258</u>	<u>66,487,173</u>
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	8,805,837	45,034,845
Capital appropriations	869,856	-
Capital grants and gifts received	3,703,650	2,501,315
Purchases of capital assets	(6,707,648)	(33,178,189)
Proceeds from sale of capital assets	1,515	-
Principal paid on capital debt and leases	(12,666,814)	(5,992,773)
Interest paid on capital debt and leases	<u>(3,320,123)</u>	<u>(2,317,843)</u>
Net cash (used in) provided by capital financing activities	<u>(9,313,727)</u>	<u>6,047,355</u>
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	7,597	6,933
Interest on investments	1,308,602	1,205,892
Purchase of investments	<u>(107,581)</u>	<u>(105,053)</u>
Net cash provided by investing activities	<u>1,208,618</u>	<u>1,107,772</u>
Net Increase in Cash and Cash Equivalents	<u>23,443,670</u>	<u>17,356,654</u>
Cash and Cash Equivalents, Beginning of Year	<u>71,540,267</u>	<u>54,183,613</u>
Cash and Cash Equivalents, End of Year	<u>\$ 94,983,937</u>	<u>\$ 71,540,267</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (47,648,391)	\$ (66,008,625)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	11,129,744	10,741,676
Expenses paid by Commonwealth or donor	31,856	10,049
Changes in assets and liabilities:		
Receivables, net	315,950	2,941,739
Inventories	(1,058)	(18,616)
Other assets	4,182,569	(3,967,986)
Restricted cash	2,142,475	(90,493)
Accounts payable	(4,309,647)	(6,467,258)
Deferred revenue	(225,598)	110,507
Students' deposits	169,866	(10,247)
Compensated absences	2,291,699	(2,330,955)
Loans to students and employees	457,671	23
Other liabilities	<u>9,462,385</u>	<u>8,804,540</u>
Net cash used in operating activities	<u>\$ (22,000,479)</u>	<u>\$ (56,285,646)</u>
Noncash Transactions:		
Equipment acquired by trade	<u>\$ 755,340</u>	<u>\$ 61,480</u>
Equipment acquired by like-kind exchanges	<u>\$ -</u>	<u>\$ 2,054</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Balance Sheet - Component Units

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Assets		
Cash and cash equivalents	\$ 6,468,779	\$ 10,715,592
Accounts receivable	1,414,166	1,849,278
Contributions/pledges receivable	3,031,964	6,697,850
Due from University	1,233,352	1,517,267
Inventories	2,018,736	1,681,607
Investments	49,465,666	46,232,349
Capital assets, net	225,239,698	229,995,943
Restricted cash and investments	<u>46,671,399</u>	<u>30,819,319</u>
Total assets	<u>\$ 335,543,760</u>	<u>\$ 329,509,205</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,611,920	\$ 3,525,201
Annuity liabilities	156,490	141,749
Due to University	2,453,294	5,995,659
Deposits payable	4,184,683	4,181,340
Capital leases	32,578,843	18,089,517
Long-term debt, net	234,599,864	236,905,843
Other liabilities	<u>50,988,455</u>	<u>26,537,474</u>
Total liabilities	<u>328,573,549</u>	<u>295,376,783</u>
Net Assets		
Unrestricted	(36,474,528)	(12,181,681)
Temporarily restricted	9,909,615	13,397,148
Permanently restricted	<u>33,535,124</u>	<u>32,916,955</u>
Total net assets	<u>6,970,211</u>	<u>34,132,422</u>
Total liabilities and net assets	<u>\$ 335,543,760</u>	<u>\$ 329,509,205</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in Unrestricted Net Assets		
Revenues and Other Additions:		
Sales and service	\$ 8,376,837	\$ 8,219,591
Student fees	6,912,171	6,795,433
Grants and contracts	4,199,690	6,397,064
Rental income	27,099,385	26,751,340
Investment income	297,772	490,896
Other	2,514,128	2,795,965
Unrealized (loss) gain on investments	(156,618)	1,150,825
Unrealized (loss) gain on interest rate swap	(24,366,438)	4,811,947
Contributions	1,012,836	475,575
Net assets released based on satisfaction of program restrictions	6,659,422	6,138,194
	<u>32,549,185</u>	<u>64,026,830</u>
Total revenues and other additions		
Expenses and Other Deductions:		
Scholarships and grants	1,582,386	1,621,950
Student activities and programs	6,356,882	5,998,783
University stores	7,188,061	7,550,816
Housing	28,132,255	28,998,302
Other university support	6,145,609	6,511,737
Other programs	4,173,467	6,479,785
Management and general	2,518,851	2,047,507
Fundraising	744,521	602,600
	<u>56,842,032</u>	<u>59,811,480</u>
Total expenses and other deductions		
(Decrease) increase in unrestricted net assets	<u>(24,292,847)</u>	<u>4,215,350</u>
Changes in Temporarily Restricted Net Assets		
Contributions	2,362,300	2,301,564
Investment gain	1,126,972	1,763,054
Unrealized (loss) gain on investments	(517,383)	4,784,863
Net assets released based on satisfaction of program restrictions	(6,659,422)	(6,138,194)
Net assets transferred	200,000	215,000
	<u>3,487,533</u>	<u>2,926,287</u>
(Decrease) increase in temporarily restricted net assets		
Changes in Permanently Restricted Net Assets		
Contributions	<u>618,169</u>	<u>1,433,085</u>
(Decrease) Increase in Net Assets		
	(27,162,211)	8,574,722
Net Assets, Beginning of Year	<u>34,132,422</u>	<u>25,557,700</u>
Net Assets, End of Year	<u>\$ 6,970,211</u>	<u>\$ 34,132,422</u>

See notes to financial statements

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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").

Measurement Focus, Basis of Accounting, and Basis of Presentation

The University functions as a business-type activity, as defined by the Government Accounting Standards Board ("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. The economic resources measurement focus reports all inflows, outflows and balances that effect an entity's net assets. 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.

Reporting Entity

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations 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. ("UAI") 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.

The Cooperative, Student Union, Foundation, Research Institute, and UAI are legally separate, tax-exempt organizations. The Cooperative includes Student Funds, the Co-op Store and Central Treasury. Student Funds administers activity fees assessed and collected by the University. The Co-op Store sells college textbooks, clothing and supplies, and Central Treasury acts as a banking agent for campus organizations. Because the economic resources received and held by Cooperative are for the direct benefit of the University and the influence of the University over the Cooperative, the Cooperative is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Cooperative is presented as of and for the years ended June 30, 2012 and 2011.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

The Student Union is a nonprofit entity that is affiliated with the Cooperative. Its assets include the various buildings and the main furnishings and fixtures. Because the economic resources received and held by the Student Union are for the direct benefit of the University and the influence of the University over the Student Union, the Student Union is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Student Union is presented as of and for the years ended June 30, 2012 and 2011.

The Foundation acts as a repository for gifts given for the benefit of the University. Resources held by the Foundation are used solely to supplement the capital, public service, financial aid and educational programs of the University and administratively operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources and income thereon is restricted for the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Foundation is presented as of and for the years ended June 30, 2012 and 2011.

The Research Institute engages in, fosters, and supports research related to fields of study at the University and to provide development and administrative services for such research. The Research Institute also disseminates information related to research to the academic community and the public and offers programs and services related to the procurement of funding for conducting its research and development projects. Because these restricted resources held by the Research Institute can only be used by, or for the benefit of, the University, the Research Institute is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of the Research Institute is presented as of and for the years ended June 30, 2012 and 2011.

UAI constructed, managed, and maintained student housing facilities and activities for the benefit of the students of the University and its charitable, educational and scientific purposes. On April 14, 2010, UAI's Board of Directors resolved to the acquisition of UAI's assets and liabilities by the University. Because these restricted resources held by UAI can only be used by, or for the benefit of, the University, UAI is considered a component unit of the University and is included within the University's financial reporting entity. The financial activity of UAI is presented for the period from July 1, 2010 through February 24, 2011, the date the liquidation of UAI was complete.

Complete financial statements for the Cooperative, Student Union, Foundation, Research Institute and UAI may be obtained at the University's administrative office.

Operating Revenues and Expenses

Operating revenues of the University consist of tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity; corporate partnerships; and revenue from cogeneration sales as operating revenue. 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, 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 and Waivers

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.

In accordance with a formula prescribed by the National Association of College and University Business Officers ("NACUBO"), the University allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances (netted against tuition and fees) and student aid expense. Scholarships and waivers of room and board fees are reported in auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Net Assets

The University maintains the following net asset classifications:

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts Receivable and Loans Receivable

Accounts and loans receivable consist of tuition and fees charged to current and former students, amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants, 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 30, 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. No write-down of capital assets was required for the years ended June 30, 2012 and 2011.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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 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, is tax-exempt; accordingly, no provision for income taxes has been made in the accompanying financial statement.

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 2011 financial statements have been reclassified to conform to the 2012 reporting format.

New Accounting Standards

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. The University has not yet determined the effect of Statement No. 60 on its financial statements.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With Statements No. 63 and 65, GASB has reclassified certain assets and liabilities as “deferred outflows” and “deferred inflows” of resources. Further, GASB has replaced the term “net assets” with “net position,” and has changed the balance sheet presentation to “assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position.” The University is required to adopt Statement No. 63 for the fiscal year ending June 30, 2013, and Statement No. 65 for the fiscal year ending June 30, 2014. The University has determined that the adoption of these GASB Statements will have no effect on the substance of its financial statements but will increase the complexity of the financial statements to its readers, as the new presentation will differ from the traditional and familiar business reporting model.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 will require the University to report its share of the pension liabilities that the Commonwealth of Pennsylvania State Employees’ Retirement System (SERS) and Public School Employees’ Retirement System (PSERS) must record beginning in Fiscal Year 2014/15. Although the University has not received an estimate of its share of the pension liabilities from either organization, the liabilities are expected to be significant and have a detrimental effect on its financial statements.

2. Condensed Component Unit Information

The following represents combining condensed balance sheet information for the component units as of June 30, 2012:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Due from University	\$ 93,705	\$ -	\$ 1,139,227	\$ 420	\$ -	\$ 1,233,352
Investments	200,196	-	49,265,470	-	-	49,465,666
Capital assets, net	1,300,636	22,481,273	201,417,701	40,088	-	225,239,698
Other assets	<u>4,237,472</u>	<u>17,019,044</u>	<u>36,301,916</u>	<u>2,046,612</u>	<u>-</u>	<u>59,605,044</u>
Total assets	<u>\$ 5,832,009</u>	<u>\$ 39,500,317</u>	<u>\$ 288,124,314</u>	<u>\$ 2,087,120</u>	<u>\$ -</u>	<u>\$ 335,543,760</u>
Due to University	\$ 22,410	\$ -	\$ 1,898,632	\$ 532,252	\$ -	\$ 2,453,294
Capital leases	310,997	32,267,846	-	-	-	32,578,843
Long-term debt, net	-	-	234,599,864	-	-	234,599,864
Other liabilities	<u>967,596</u>	<u>5,976,527</u>	<u>51,037,898</u>	<u>959,527</u>	<u>-</u>	<u>58,941,548</u>
Total liabilities	<u>\$ 1,301,003</u>	<u>\$ 38,244,373</u>	<u>\$ 287,536,394</u>	<u>\$ 1,491,779</u>	<u>\$ -</u>	<u>\$ 328,573,549</u>
Net Assets:						
Unrestricted	\$ 4,531,006	\$ 1,255,944	\$ (42,856,819)	\$ 595,341	\$ -	\$ (36,474,528)
Temporarily restricted	-	-	9,909,615	-	-	9,909,615
Permanently restricted	-	-	33,535,124	-	-	33,535,124
Total net assets	<u>\$ 4,531,006</u>	<u>\$ 1,255,944</u>	<u>\$ 587,920</u>	<u>\$ 595,341</u>	<u>\$ -</u>	<u>\$ 6,970,211</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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
Investments	192,070	-	46,040,279	-	-	46,232,349
Capital assets, net	1,277,416	21,145,204	207,474,431	98,892	-	229,995,943
Other assets	<u>3,739,522</u>	<u>3,141,155</u>	<u>41,938,270</u>	<u>2,944,699</u>	-	<u>51,763,646</u>
Total assets	<u>\$ 5,505,874</u>	<u>\$ 24,286,359</u>	<u>\$ 296,671,292</u>	<u>\$ 3,045,680</u>	<u>\$ -</u>	<u>\$ 329,509,205</u>
Due to University	\$ 13,722	\$ -	\$ 5,545,854	\$ 436,083	\$ -	\$ 5,995,659
Capital leases	358,012	17,731,505	-	-	-	18,089,517
Long-term debt, net	-	424,000	236,481,843	-	-	236,905,843
Other liabilities	<u>1,181,885</u>	<u>4,969,287</u>	<u>26,498,280</u>	<u>1,736,312</u>	-	<u>34,385,764</u>
Total liabilities	<u>\$ 1,553,619</u>	<u>\$ 23,124,792</u>	<u>\$ 268,525,977</u>	<u>\$ 2,172,395</u>	<u>\$ -</u>	<u>\$ 295,376,783</u>
Net Assets:						
Unrestricted	\$ 3,952,255	\$ 1,161,567	\$ (18,168,788)	\$ 873,285	\$ -	\$ (12,181,681)
Temporarily restricted	-	-	13,397,148	-	-	13,397,148
Permanently restricted	<u>-</u>	<u>-</u>	<u>32,916,955</u>	<u>-</u>	<u>-</u>	<u>32,916,955</u>
Total net assets	<u>\$ 3,952,255</u>	<u>\$ 1,161,567</u>	<u>\$ 28,145,315</u>	<u>\$ 873,285</u>	<u>\$ -</u>	<u>\$ 34,132,422</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2012:

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenues and other additions:						
Sales and services	\$ 7,653,290	\$ -	\$ -	\$ 723,547	\$ -	\$ 8,376,837
Student fees	6,912,171	-	-	-	-	6,912,171
Grants and contracts	-	-	-	4,199,690	-	4,199,690
Rental income	-	-	27,099,385	-	-	27,099,385
Investment income	6,217	116,130	165,637	9,788	-	297,772
Other revenues and gains	373,904	21	2,125,125	15,078	-	2,514,128
Unrealized loss on investments	-	-	(156,618)	-	-	(156,618)
Unrealized loss on interest rate swap	-	-	(24,366,438)	-	-	(24,366,438)
Contributions	-	-	1,012,836	-	-	1,012,836
Net assets released	-	-	6,659,422	-	-	6,659,422
Total revenues and other additions	14,945,582	116,151	12,539,349	4,948,103	-	32,549,185
Expenses and other deductions:						
Scholarships and grants	-	-	1,582,386	-	-	1,582,386
Student activities and programs	6,356,882	-	-	-	-	6,356,882
University stores	7,188,061	-	-	-	-	7,188,061
Housing	-	-	28,132,255	-	-	28,132,255
Other university support	-	-	6,145,609	-	-	6,145,609
Other programs	-	(140,482)	-	4,313,949	-	4,173,467
Management and general	821,888	162,256	622,609	912,098	-	2,518,851
Fundraising	-	-	744,521	-	-	744,521
Total expenses and other deductions	14,366,831	21,774	37,227,380	5,226,047	-	56,842,032
(Decrease) increase in unrestricted net assets	578,751	94,377	(24,688,031)	(277,944)	-	(24,292,847)

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Changes in temporarily restricted net assets:						
Contributions	\$ -	\$ -	\$ 2,362,300	\$ -	\$ -	\$ 2,362,300
Investment gains	-	-	1,126,972	-	-	1,126,972
Unrealized loss on investments	-	-	(517,383)	-	-	(517,383)
Net assets released	-	-	(6,659,422)	-	-	(6,659,422)
Net assets transferred	-	-	200,000	-	-	200,000
Decrease in temporarily restricted net assets	-	-	(3,487,533)	-	-	(3,487,533)
Changes in permanently restricted net assets,						
Contributions	-	-	618,169	-	-	618,169
Change in net assets	578,751	94,377	(27,557,395)	(277,944)	-	(27,162,211)
Net assets, beginning of year	<u>3,952,255</u>	<u>1,161,567</u>	<u>28,145,315</u>	<u>873,285</u>	<u>-</u>	<u>34,132,422</u>
Net assets, end of year	<u>\$ 4,531,006</u>	<u>\$ 1,255,944</u>	<u>\$ 587,920</u>	<u>\$ 595,341</u>	<u>\$ -</u>	<u>\$ 6,970,211</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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>
Changes in unrestricted net assets:						
Revenues and other additions:						
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	410,848	10,665	1,149	490,896
Other revenues and gains	348,987	160,000	2,106,350	326	180,302	2,795,965
Unrealized gain on investments	-	-	1,150,825	-	-	1,150,825
Unrealized gain on interest rate swap	-	-	4,811,947	-	-	4,811,947
Contributions	-	-	475,575	-	-	475,575
Net assets released from restriction	-	-	5,598,934	-	539,260	6,138,194
Total revenues and other additions	14,913,815	222,680	40,499,957	6,863,805	1,526,573	64,026,830
Expenses and other additions:						
Scholarships and grants	-	-	1,621,950	-	-	1,621,950
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	-	-	6,511,737	-	-	6,511,737
Other programs	-	159,582	-	6,320,203	-	6,479,785
Management and general	948,067	31,490	195,829	861,741	10,380	2,047,507
Fundraising	-	-	602,600	-	-	602,600
Total expenses and other additions	14,497,666	191,072	37,263,700	7,181,944	677,098	59,811,480
Increase in unrestricted net assets	416,149	31,608	3,236,257	(318,139)	849,475	4,215,350

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

	<u>Cooperative</u>	<u>Student Union</u>	<u>Foundation</u>	<u>Research Institute</u>	<u>University Acquisitions</u>	<u>Total</u>
Changes in temporarily restricted net assets:						
Contributions	\$ -	\$ -	\$ 2,301,564	\$ -	\$ -	2,301,564
Investment gain	-	-	1,763,054	-	-	1,763,054
Unrealized gain on investments	-	-	4,784,863	-	-	4,784,863
Net assets released	-	-	(5,598,934)	-	(539,260)	(6,138,194)
Net assets transferred	-	-	215,000	-	-	215,000
Increase in temporarily restricted net assets	-	-	3,465,547	-	(539,260)	2,926,287
Changes in permanently restricted net assets,						
Contributions	-	-	1,433,085	-	-	1,433,085
Change in net assets	416,149	31,608	8,134,889	(318,139)	310,215	8,574,722
Net assets, beginning 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>
Net assets, end of year	<u>\$ 3,952,255</u>	<u>\$ 1,161,567</u>	<u>\$ 28,145,315</u>	<u>\$ 873,285</u>	<u>\$ -</u>	<u>\$ 34,132,422</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 \$93,421,818 and \$73,566,006 at June 30, 2012 and 2011, respectively.

Board Policy 1986-02-A, *Investment*, authorizes PASSHE to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board or University trustees may be invested in the investments described above as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as deposits of cash. In addition, the Universities 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 and in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. 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 may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

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.

PASSHE's operating funds are invested and reinvested in the following types of instruments with qualifications as provided. (See Board Policy 1986-02-A, *Investment*, for a complete list of and more details on permissible investments and associated qualifications.)

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

Investment Categories	Qualifications/Moody's Ratings Requirements
United States Government Securities	Together with repurchase agreements must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the United States Treasury and be in PASSHE's or its agent's custody.
Commercial Paper	P-1 and P-2 notes only, with no more than 5% and 3%, respectively, of the market value of the fund invested in any single issuer. Total may not exceed 20% of the market value of the fund.
Municipal Bonds	Bonds must carry long-term debt rating of A or better. Total may not exceed 20% of the market value of the fund.
Corporate Bonds	15% must carry long-term debt rating of A or better; 5% may be rated Baa2 or better. Total may not exceed 20% of the market value of the fund.
Collateralized Mortgage Obligations (CMOs)	Must be rated Aaa and guaranteed by U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

CMO Risk: 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.

Moody's Rating: PASSHE uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments, i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An Aaa rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with Aa indicate high quality obligations subject to very low credit risk; ratings that begin with A indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with Baa indicate medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers 1, 2, and 3, with 1 indicating a higher ranking and 3 indicating a lower ranking within the category. For short-term obligations, a rating of P-1 indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of P-2 indicates that issuers have a strong ability to repay short-term debt obligations.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

Modified Duration: PASSHE denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using modified duration. Duration is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. Modified duration takes into account changing interest rates. PASSHE maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. PASSHE's duration targets are not applicable to its long-term investments.

At June 30, 2012 and 2011, the carrying amount of the University's demand and time deposits were \$1,585,039 and \$1,786,265, respectively, as compared to bank balances of \$1,085,719 and \$1,480,396, 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.

The carrying value (fair value) of the University's local deposits and investments on June 30, 2012 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			\$ 1,585,039
Investments			
Fixed income mutual funds			2,036,648
Equity/balanced mutual funds			2,446,715
			<u>6,068,402</u>
Total			<u>\$ 6,068,402</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	\$ 43,704
Deposit	Euro	489
		<u>44,193</u>
Total		<u>\$ 44,193</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

The carrying value (fair value) of the University's local deposits and investments 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			
Fixed income mutual funds			1,898,038
Equity/balanced mutual funds			<u>2,498,257</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>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

4. Capital Assets

The classification of capital assets and related depreciation at June 30, 2012 and 2011, follow:

	Estimated Lives (in years)	Beginning Balance July 1, 2011	Additions	Retirements	Reclassifications	Ending Balance June 30, 2012
Land		\$ 4,589,374	\$ 600,072	\$ -	\$ 7,143	\$ 5,196,589
Construction in progress		1,003,541	2,672,661	(1,515)	(488,381)	3,186,306
Total capital assets not being depreciated		5,592,915	3,272,733	(1,515)	(481,238)	8,382,895
Buildings, including improvements	10-40	241,001,424	1,830,963	-	481,238	243,313,625
Furnishings and equipment (including cost of capital leases)	3-10	32,336,714	2,229,536	(619,413)	-	33,946,837
Library books	10	10,328,210	129,756	(64,363)	-	10,393,603
Total capital assets being depreciated		283,666,348	4,190,255	(683,776)	481,238	287,654,065
Less accumulated depreciation:						
Buildings, including improvements		(105,962,205)	(8,603,311)	-	-	(114,565,516)
Furnishings and equipment		(27,191,486)	(2,145,066)	619,413	-	(28,717,139)
Library books		(8,525,486)	(381,367)	64,363	-	(8,842,490)
Total accumulated depreciation		(141,679,177)	(11,129,744)	683,776	-	(152,125,145)
Total capital assets being depreciated, net		141,987,171	(6,939,489)	-	481,238	135,528,920
Capital assets, net		<u>\$ 147,580,086</u>	<u>\$ (3,666,756)</u>	<u>\$ (1,515)</u>	<u>\$ -</u>	<u>\$ 143,911,815</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

	Estimated Lives (in years)	Beginning Balance July 1, 2010	Additions	Retirements	Reclassifications	Ending Balance June 30, 2011
Land		\$ 4,589,374	\$ -	\$ -	\$ -	\$ 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 improvements	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)	-	32,336,714
Library books	10	10,171,514	211,143	(54,447)	-	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	-	(105,962,205)
Furnishings and equipment		(25,439,480)	(2,339,699)	587,693	-	(27,191,486)
Library books		(8,167,641)	(412,290)	54,445	-	(8,525,486)
Total accumulated depreciation		(131,579,654)	(10,741,676)	642,153	-	(141,679,177)
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)	\$ -	\$ 147,580,086

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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:	
2013	\$ 219,986
2014	18,818
2015	<u>5,971</u>
Total	<u>\$ 244,775</u>

Total rent expense for operating leases was \$2,234,561 and \$2,152,618 for the years ended June 30, 2012 and 2011, respectively.

The component units have entered into capital lease agreements for the financing of buildings, building improvements and equipment. Future annual minimum payments in the aggregate, under non-cancelable capital leases are as follows:

Years ending June 30:	
2013	\$ 2,861,421
2014	2,922,980
2015	2,790,183
2016	2,765,251
2017	2,766,089
Thereafter	<u>44,221,059</u>
Total minimum lease payments	58,326,983
Less amount representing interest on capital leases	<u>25,748,140</u>
Total	<u>\$ 32,578,843</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

6. Debt Obligations

Bonds payable consist of tax-exempt revenue bond series 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 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. Activity for the various bond series for the years ended June 30, 2012 and 2011 are as follows.

	Weighted Average Interest Rate	Balance July 1, 2011	Bonds Issued	Bonds Redeemed	Balance June 30, 2012
Series U issued in August 2002 for various projects	4.43 %	\$ 65,000	\$ -	\$ (65,000)	\$ -
Series W issued in October 2002 for various projects	4.76 %	684,568	-	684,568)	-
Series X issued in May 2003 for various projects	4.28 %	389,562	-	(389,562)	-
Series Z issued in March 2004 for various projects	3.95 %	128,551	-	(23,930)	104,621
Series AA issued in July 2004 for various projects	4.62 %	1,003,818	-	(58,481)	945,337
Series AC issued in July 2005 for various projects	4.90 %	4,297,606	-	(296,051)	4,001,555
Series AF issued in July 2007 for various projects	4.95 %	1,174,801	-	(50,311)	1,124,490
Series AG issued in March 2008 for various projects	4.60 %	485,031	-	(156,400)	328,631
Series AH issued in July 2008 for various projects	4.69 %	12,014,512	-	(674,881)	11,339,631
Series AI issued in August 2008 for various projects	4.01 %	3,959,184	-	(266,093)	3,693,091
Series AL issued July 2010 for various projects	5.00 %	33,209,185	-	(1,002,522)	32,206,663
Series AM issued July 2011 for various projects	4.62 %	-	7,766,479	(230,059)	7,536,420
Series AN issued March 2012 for various projects	4.78 %	-	574,557	-	574,557
Total bonds payable		<u>\$ 57,411,818</u>	<u>\$ 8,341,036</u>	<u>\$ (3,213,290)</u>	<u>\$ 61,854,996</u>
Plus unamortized gain on refinancing		647			430
Less unamortized loss on refinancing		<u>(170,745)</u>			<u>(136,824)</u>
Outstanding at end of year		<u>\$ 57,241,720</u>			<u>\$ 61,718,602</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

	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)	128,551
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
		<u>\$ 28,919,943</u>	<u>\$ 33,986,017</u>	<u>\$ (5,494,145)</u>	<u>\$ 57,411,818</u>
Total bonds payable					
Plus unamortized gain on refinancing		863			647
Less unamortized loss on refinancing		<u>(93,654)</u>			<u>(170,745)</u>
Outstanding at end of year		<u>\$ 28,827,152</u>			<u>\$ 57,241,720</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

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

Series		2013	2014	2015	2016	2017	2018- 2022	2023- 2027	2028- 2032	2033- 2037	Total
Z	Principal	\$ 24,856	\$ 25,785	\$ 26,527	\$ 27,453	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,621
	Interest	3,706	2,929	2,027	1,098	-	-	-	-	-	9,760
	Total	28,562	28,714	28,554	28,551	-	-	-	-	-	114,381
AA	Principal	60,820	63,744	66,960	69,884	72,808	416,381	194,740	-	-	945,337
	Interest	44,006	40,965	37,778	34,965	31,995	108,138	14,722	-	-	312,569
	Total	104,826	104,709	104,738	104,849	104,803	524,519	209,462	-	-	1,257,906
AC	Principal	311,945	327,839	344,097	360,721	377,709	1,633,782	645,462	-	-	4,001,555
	Interest	197,326	181,729	165,337	148,132	130,096	360,982	58,623	-	-	1,242,225
	Total	509,271	509,568	509,434	508,853	507,805	1,994,764	704,085	-	-	5,243,780
AF	Principal	52,428	54,779	57,365	60,186	63,242	367,463	469,027	-	-	1,124,490
	Interest	55,831	53,603	50,864	47,995	44,987	174,163	72,646	-	-	500,089
	Total	108,259	108,382	108,229	108,181	108,229	541,626	541,673	-	-	1,624,579
AG	Principal	161,466	167,165	-	-	-	-	-	-	-	328,631
	Interest	11,300	5,851	-	-	-	-	-	-	-	17,151
	Total	172,766	173,016	-	-	-	-	-	-	-	345,782
AH	Principal	709,951	745,726	781,501	822,035	862,921	4,974,151	2,153,312	290,034	-	11,339,631
	Interest	532,205	496,707	459,421	420,346	379,244	1,235,105	299,325	12,689	-	3,835,042
	Total	1,242,156	1,242,433	1,240,922	1,242,381	1,242,165	6,209,256	2,452,637	302,723	-	15,174,673
AI	Principal	275,680	285,267	294,853	305,662	318,345	1,790,436	422,848	-	-	3,693,091
	Interest	148,127	139,167	129,183	118,126	105,899	326,330	28,316	-	-	995,148
	Total	423,807	424,434	424,036	423,788	424,244	2,116,766	451,164	-	-	4,688,239
AL	Principal	1,052,723	1,109,444	1,161,165	1,221,109	1,004,436	5,672,786	6,545,000	8,355,000	6,085,000	32,206,663
	Interest	1,610,333	1,557,697	1,502,225	1,444,167	1,383,111	6,110,388	4,623,500	2,815,500	618,500	21,665,421
	Total	2,663,056	2,667,141	2,663,390	2,665,276	2,387,547	11,783,174	11,168,500	11,170,500	6,703,500	53,872,084
AM	Principal	255,558	263,491	276,524	290,124	304,857	1,755,476	2,230,327	2,160,063	-	7,536,420
	Interest	349,281	341,614	328,439	314,613	300,107	1,269,795	794,870	260,274	-	3,958,993
	Total	604,839	605,105	604,963	604,737	604,964	3,025,271	3,025,197	2,420,337	-	11,495,413
AN	Principal	281,820	292,737	-	-	-	-	-	-	-	574,557
	Interest	72,602	59,639	-	-	-	-	-	-	-	132,241
	Total	354,422	352,376	-	-	-	-	-	-	-	706,798
Total	Principal	3,187,247	3,335,977	3,008,992	3,157,174	3,004,318	16,610,475	12,660,716	10,805,097	6,085,000	61,854,996
	Interest	3,024,717	2,879,901	2,675,274	2,529,442	2,375,439	9,584,901	5,892,002	3,088,463	618,500	32,668,639
	Total	\$ 6,211,964	\$ 6,215,878	\$ 5,684,266	\$ 5,686,616	\$ 5,379,757	\$ 26,195,376	\$ 18,552,718	\$ 13,893,560	\$ 6,703,500	\$ 94,523,635

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

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 (\$41,271,274 and \$44,384,646 was outstanding as of June 30, 2012 and 2011, 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 \$6,078,894 at June 30, 2012 and \$6,590,526 at June 30, 2011.

	Beginning Balance July 1, 2011	Additions	Retirements	Ending Balance June 30, 2012	Current Portion
PASSHE bond - AFRP	\$ 6,590,526	\$ -	\$ (511,632)	\$ 6,078,894	\$ 527,517

	Beginning Balance July 1, 2010	Additions	Retirements	Ending Balance June 30, 2011	Current Portion
PASSHE bond - AFRP	\$ 7,088,019	\$ -	\$ (497,493)	\$ 6,590,526	\$ 509,535

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:

	Principal	Interest	Total
Years ending June 30:			
2013	\$ 3,601,079	\$ 8,769,840	\$ 12,370,919
2014	5,386,065	10,017,652	15,403,717
2015	4,135,000	9,864,635	13,999,635
2016	4,610,000	9,705,505	14,315,505
2017	5,070,000	9,535,828	14,605,828
Thereafter	217,790,000	136,262,054	354,052,054
	240,592,144	<u>\$ 184,155,514</u>	<u>\$ 424,747,658</u>
Plus unamortized bond premium	93,716		
Less unamortized bond issue costs	<u>(6,085,996)</u>		
Total	<u>\$ 234,599,864</u>		

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

7. Compensated Absences

Changes in the compensated absences liability in fiscal years 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Balance, July 1	\$ 13,007,480	\$ 15,338,435
Current changes in estimate	4,011,784	(849,843)
Payouts	<u>(1,720,085)</u>	<u>(1,481,112)</u>
Balance, June 30	<u>\$ 15,299,179</u>	<u>\$ 13,007,480</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, referred to here as the "System Plan" and the "Retired Employees Health Program". These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare Supplement for individuals over age 65.

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties ("APSCUF"), the State College and University Professional Association ("SCUPA"), Security Police and Fire Professionals of America, Pennsylvania Nurses Association and non-represented employees participate in a single-employer defined benefit 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 has no plan assets, 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 \$38,729,000 and \$37,245,000 for the fiscal years ending June 30, 2012 and 2011, respectively. Plan members receiving benefits 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. Following are the contribution rates of plan members as of June 30, 2012:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

- Nonfaculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to January 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually.
- Other eligible annuitants who retire after July 1, 2009, pay 15% of the plan premium in effect when they retired.

Total contributions made by plan members were \$3,189,000 and \$2,762,000 or approximately 7.6% and 6.9% of the total premiums, for the fiscal years ended June 30, 2012 and 2011, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 14,905,000
Interest on net OPEB obligation	4,508,000
Adjustment to annual required contribution	<u>(5,126,000)</u>
Annual OPEB cost (expense)	14,287,000
Contributions made	<u>(4,882,400)</u>
Increase in net OPEB obligation	9,404,600
Net OPEB obligation, beginning of year	<u>108,799,658</u>
Net OPEB obligation, end of year	<u>\$ 118,204,258</u>

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for June 30, 2012, and the two preceding years were as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 14,287,000	34.2 %	\$ 118,204,258
June 30, 2011	\$ 13,537,000	34.4 %	\$ 108,799,658
June 30, 2010	\$ 12,078,000	38.6 %	\$ 99,913,409

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2011, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability ("AAL")	\$ 175,594,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 175,594,000</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0 %</u>
Covered payroll	<u>\$ 74,909,840</u>
UAAL as a percentage of covered payroll	<u>234.4 %</u>

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

Actuarial Methods and Assumptions

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

In the July 1, 2011 actuarial valuation (revised November 2011), 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, 2011, was 24 years.

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 covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of non-represented 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 who enrolled prior to July 1, 2004, are not required to make contributions. Plan members who enrolled after July 1, 2004, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2011/12, PASSHE contributed \$240 for each current active employee per biweekly pay period. PASSHE made contributions of \$23,228,000, \$20,069,000 and \$25,318,000 for the fiscal years ending June 30, 2012, 2011, and 2010, 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.

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.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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 PSERS 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. Contribution rates for most active members are between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefit class is selected. New members hired after July 1, 2011 have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 4.325% of annual covered payroll at June 30, 2012. The University's contributions to PSERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$237,000, \$181,000 and \$142,000, 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 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. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011 have a one-time election to choose a 9.3% contribution rate. The University contributed at an actuarially determined rate between 4.83% and 6.99% of an active member's annual covered payroll at June 30, 2012. The University's contributions to SERS for the years ended June 30, 2012, 2011, and 2010, were approximately \$2,803,000, \$1,823,000 and \$1,388,000, 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.

Because ARP is a defined contribution plan, benefits equal 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, 2012 and 2011 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2012 and 2011 were approximately \$5,173,000 and \$5,403,000, respectively, from the University, and \$2,846,000 and \$2,647,000, respectively, from active members.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

10. Workers' Compensation

The University participates in PASSHE's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to \$100,000; for claims occurring on or after July 1, 1995, the University must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund ("Reserve Fund") to which the University contributes an amount as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$177,654 and \$125,200 to the Reserve Fund during the years ended June 30, 2012 and 2011, respectively.

Changes in the University's claims liability amount for the fiscal year 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Balance at July 1	\$ 1,021,670	\$ 917,872
Projected retained losses	407,322	433,835
Retirements and changes in estimates	<u>(626,083)</u>	<u>(330,037)</u>
Balance at June 30	<u>\$ 802,909</u>	<u>\$ 1,021,670</u>

11. Contingencies

The University is committed to future construction projects in the amount of approximately \$4,147,680 as of June 30, 2012.

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 participates in PASSHE's self-insured workers' compensation plan up to stated limits (see Note 10). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its risk management program. The University does not participate in any public entity risk pools and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant.

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

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

Collective bargaining agreements are negotiated at the PASSHE level. Approximately 88% of PASSHE's labor force is covered by collective bargaining agreements. The contract for APSCUF, which represents PASSHE's faculty and coaches, or approximately 46% of the labor force, expired June 30, 2011. The contract for SCUPA, which represents approximately 5% of PASSHE's labor force and includes professional employees working in areas such as admissions, financial aid, and residence life, also expired June 30, 2011. Negotiations between PASSHE and these unions are ongoing.

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, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Designated accounts for educational and general activities	\$ 48,608,895	\$ 36,997,496
Designated accounts for healthcare reserve	1,544,306	1,512,377
Designated accounts for auxiliary enterprises (operations, plant activities, and debt retirement)	16,582,219	14,151,961
Designated accounts for plant activities and debt retirement	18,363,702	13,637,590
Compensated absences deficit	(15,299,179)	(13,007,480)
Postretirement benefit deficit	<u>(118,204,258)</u>	<u>(108,799,658)</u>
Total unrestricted net assets	<u>\$ (48,404,315)</u>	<u>\$ (55,507,714)</u>

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

13. Due to Foundation for IUP

During the fiscal year ended June 30, 2007, the University entered into an agreement with the Foundation for Indiana University of Pennsylvania, Inc. to develop, construct and complete the interior improvements to the Student Amenity Premises of the Phase I Student Housing Facilities (Amenity Improvements). Title to the Amenity Improvements shall be vested in the Foundation until the termination or expiration of the Ground Lease agreement. The agreement stipulates the Foundation shall be reimbursed in full for the total amount of the costs incurred in connection with the design, development, and construction of the Amenity Improvements, not to exceed \$1,500,000. Interest shall accrue on the Foundation's principal investment in the Amenity Improvements at the rate of 5.2% per annum from the date of each advance by the Foundation to pay the Amenity Improvements' costs until the Foundation is reimbursed in full for the total cost of the Amenity Improvements. Such reimbursements are in the form of principal, interest and additional rent. On December 1, 2011, the Foundation and the University entered into an amended and restated letter of agreement regarding the distribution of Residential Revival Excess Cash Flow. The amended and restated agreement provides for the Foundation's forgiveness of the principal, interest, and additional future rent attributable to the Amenity Improvements owed by the University. Accordingly, the University has recognized as Gift Income in 2012 the forgiveness of \$283,672 of principal and \$18,726 of interest owed at June 30, 2011.

As of June 30, 2012 and 2011, 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.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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	
	2012	2011	2012	2011	2012	2011
Phase I	\$ 27,061	\$ 26,530	\$ 26,305	\$ 24,834	\$ 92,625	\$ 88,393
Phase II	\$ 38,841	\$ 38,079	\$ 38,401	\$ 39,364	\$ 137,490	\$ 129,288

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	
	2012	2011	2012	2011	2012	2011
Phase III	\$ 39,236	\$ 38,467	\$ 38,466	\$ 35,981	\$ 190,551	\$ 170,109

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.

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	
	2012	2011	2012	2011	2012	2011
Phase IV	\$ 18,681	\$ 18,315	\$ 21,096	\$ 19,993	\$ 79,571	\$ 68,400

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

Total ground lease revenues from all Phases received from the Foundation for the years ended June 30, 2012, and 2011 were \$123,819 and \$121,391, respectively. Total additional rents from all Phases received from the Foundation for the years ended June 30, 2012 and 2011 were \$124,268 and \$120,172, respectively. Total room waivers from all Phases received from the Foundation for the years ended June 30, 2012 and 2011 were \$500,237 and \$456,900, respectively.

Approximate minimum ground base rent for future years from all Phases are:

Years ending June 30:	Lease Revenues
2013	\$ 126,296
2014	128,821
2015	131,398
2016	134,025
2017	136,705
2018-2022	725,654
2023-2027	801,183
2028-2032	884,561
2033-2037	976,616
2038-2042	1,078,256
2043-2047	1,190,474
2048-2051	718,030
Total	<u>\$ 7,032,019</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, 2012 and 2011, were \$1,210,047 and \$1,275,987, respectively, and are included in auxiliary revenues.

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, 2012 and 2011, were \$936,185 and \$690,893, respectively.

Indiana University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2012 and 2011

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. Total rent expense for these facilities for the years ended June 30, 2012 and 2011, were \$408,000 and \$426,000, respectively. Future minimum lease payments by fiscal year are estimated at:

Years ending June 30:	Lease Payments
2013	\$ 408,000
2014	408,000
2015	408,000
2016	408,000
2017	408,000
2018-2019	476,000
Total	\$ 2,516,000

The University leases office space from the Foundation in the Phase II facility for the Student Health Center under a non-cancelable operating lease terminating on December 31, 2037. Total rent expense for this space was \$664,211 and \$655,875 for the years ended June 30, 2012 and 2011, respectively. Future minimum lease payments by fiscal year are estimated at:

Years ending June 30:	Lease Payments
2013	\$ 677,495
2014	691,045
2015	704,866
2016	718,963
2017	733,343
2018-2022	3,892,668
2023-2027	4,297,820
2028-2032	4,745,141
2033-2037	5,239,020
2037-2038	555,751
Total	\$ 22,256,112

15. Related Party Transactions - University Acquisitions, Inc.

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 was \$12,000. This base rent was increased by 3% each subsequent year through the lease termination date. Additional rents equaling one half of one percent of actual room rental charges were being paid. UAI also provided room fee waivers for Community Assistants residing in the facility which the University recognized as rental income.

During the fiscal year ending June 30, 2011, UAI paid base rent, additional rent, and provided room waivers to the University in the amounts of \$4,637, \$4,029 and \$21,387, respectively.

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 to pay off UAI's obligation to Citizens Bank for its student housing facilities. The terms of the ground lease between IUP and UAI required 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.

Facilities Management Contract for Student Housing Facilities

The University entered into a facilities management contract with UAI to provide UAI with management services operating UAI's student housing facilities. The contract was terminated on October 31, 2010. Total management fees charged to UAI for the year ended June 30, 2011, were \$30,199.

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

On October 22, 2010, the University borrowed \$8,204,895 from PASSHE under a promissory note to temporarily finance the retirement of UAI's commercial loan from Citizens Bank. The promissory note was 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.

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, plus interest of \$26,013.

17. Subsequent Events

On July 16, 2012, the University borrowed \$7,500,000 from PASSHE under a promissory note to temporarily finance the construction of a new dining facility (Crimson Café) and the design of renovations to an existing dining facility (Folger Hall). The promissory note is for a term not to exceed 380 days to be repaid upon closing of the next available PASSHE bond issue no later than July 31, 2013, at an interest rate of .45% (rate per annum) or a per diem of \$92.47 in accordance with established PASSHE policy.

In July 2012, Moody's placed PASSHE's Aa2 bond rating on review for downgrade as a result of the Commonwealth's rating downgrade from Aa1 to Aa2. In October 2012, Moody's downgraded PASSHE's rating to Aa3, with a stable outlook.

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

June 30, 2012 and 2011

(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, 2009	\$ -	\$ 148,463	\$ 148,463	0%	\$ 70,803	209.7%
July 1, 2010	\$ -	\$ 168,184	\$ 168,184	0%	\$ 72,728	231.3%
July 1, 2011	\$ -	\$ 175,594	\$ 175,594	0%	\$ 74,910	234.4%

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, 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%
July 1, 2011	\$ 70,740	\$ 12,907,790	\$ 12,837,050	0.55%	\$ 3,839,000	334%

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.