

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2007 AND 2006
&
INDEPENDENT AUDITORS' REPORT
&
SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Lock Haven University of Pennsylvania
of the State System of Higher Education:

We have audited the accompanying basic financial statements of Lock Haven 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, 2007 and 2006. 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. For 2007, we did not audit the financial statements of the Lock Haven University Foundation or the Clearfield Education Foundation, which collectively represent 92%, 81%, and 76%, respectively, of the assets, net assets, and revenues of the discretely presented component units. For 2006, we did not audit the financial statements of the 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 Lock Haven University Foundation and the Clearfield Education Foundation for 2007 and the discretely presented component units for 2006, 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 respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The University has not presented Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Schedule of Funding Progress for the System Plan (OPEB) on page 34 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Garante Landry, LLC

Williamsport, Pennsylvania
November 9, 2007

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2007 AND 2006**

	2007	2006
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 34,003,741	\$ 30,499,090
Accounts receivable:		
Governmental grants and contracts	1,344,169	1,499,956
Students, net of allowance for doubtful accounts of \$1,445,000 in 2007 and \$1,150,000 in 2006	1,414,941	1,231,330
Other	1,628,859	394,022
Investment income receivable	33,478	131,313
Prepaid expenses	1,080,162	881,064
Loans receivable, net of allowance for doubtful accounts of \$300,000 in 2007 and 2006	99,555	94,291
Other current assets	<u>847,786</u>	<u>852,517</u>
Total current assets	<u>40,452,691</u>	<u>35,583,583</u>
NONCURRENT ASSETS:		
Loans receivable	895,999	848,620
Capital assets, net	53,582,093	43,060,308
Other non-current assets	<u>-</u>	<u>450,000</u>
Total noncurrent assets	<u>54,478,092</u>	<u>44,358,928</u>
TOTAL	<u>\$ 94,930,783</u>	<u>\$ 79,942,511</u>

LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEET
June 30, 2007 and 2006

	2007	2006
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 8,002,337	\$ 7,001,220
Deferred revenue	1,123,841	1,630,510
Students' deposits	362,471	298,633
Workers' compensation	172,232	151,975
Compensated absences and postretirement benefit obligations	2,550,000	2,028,590
Current portion of bonds payable, net	775,054	557,876
Capitalized lease obligations	111,145	123,364
Due to System, Academic Facilities Renovation Bond Program (AFRP)	138,740	62,647
Other current liabilities	<u>1,540,923</u>	<u>951,277</u>
Total current liabilities	<u>14,776,743</u>	<u>12,806,092</u>
NONCURRENT LIABILITIES:		
Deferred revenue	108,911	125,667
Workers' compensation	158,386	58,273
Compensated absences and postretirement benefits obligations	24,892,899	23,510,356
Capitalized lease obligations	62,868	136,109
Bonds payable	12,584,813	7,898,674
Due to System, AFRP	2,334,894	2,375,477
Other noncurrent liabilities	<u>1,067,309</u>	<u>2,305,123</u>
Total noncurrent liabilities	<u>41,210,080</u>	<u>36,409,679</u>
Total liabilities	<u>55,986,823</u>	<u>49,215,771</u>
NET ASSETS:		
Invested in capital assets, net of related debt	38,977,875	31,888,599
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	20,965	20,965
Other	198,840	164,771
Expendable:		
Scholarships and fellowships	26,776	25,307
Research	-	7,956
Capital projects	618,819	(652)
Other	14,410	24,641
Unrestricted	<u>(913,725)</u>	<u>(1,404,847)</u>
Total net assets	<u>38,943,960</u>	<u>30,726,740</u>
TOTAL	<u>\$ 94,930,783</u>	<u>\$ 79,942,511</u>

See Notes to Financial Statements

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
OPERATING REVENUES:		
Tuition and fees	\$34,786,127	\$34,663,936
Less scholarship discounts and allowances	<u>8,050,998</u>	<u>7,239,747</u>
Net tuition and fees	26,735,129	27,424,189
Governmental grants and contracts:		
Federal	6,523,869	6,563,716
State and local	6,437,991	6,281,142
Other	14,131	7,200
Sales and services of educational departments	239,092	166,749
Auxiliary enterprises	12,884,562	11,846,561
Other revenues	<u>1,038,402</u>	<u>780,599</u>
Total operating revenues	<u>53,873,176</u>	<u>53,070,156</u>
OPERATING EXPENSES:		
Instruction	26,740,712	25,238,602
Research	75,194	158,894
Public service	1,803,512	2,148,832
Academic support	7,735,083	7,970,051
Student services	7,569,365	7,330,298
Institutional support	9,486,713	9,267,169
Operations and maintenance of plant	5,606,784	5,274,172
Depreciation	3,420,531	2,897,554
Student aid	3,636,794	3,705,609
Auxiliary enterprises	<u>9,636,636</u>	<u>10,075,675</u>
Total operating expenses	<u>75,711,324</u>	<u>74,066,856</u>
OPERATING LOSS	<u>(21,838,148)</u>	<u>(20,996,700)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations, general and restricted	22,477,650	21,365,506
Investment income, net of related investment expense of \$10,459 in 2007 and \$20,395 in 2006	1,734,011	1,272,127
Gifts for other than capital purposes	8,700	172
Interest expense on capital asset-related debt	(427,238)	(524,291)
Loss on disposal of assets	(200,601)	(696,557)
Other nonoperating revenue	<u>71,996</u>	<u>73,624</u>
Nonoperating revenues, net	<u>23,664,518</u>	<u>21,490,581</u>
INCOME BEFORE OTHER REVENUES	1,826,370	493,881
OTHER REVENUES:		
State appropriations, capital	1,037,247	1,012,538
Capital gifts and grants	<u>5,353,603</u>	<u>432,020</u>
Total other revenues	<u>6,390,850</u>	<u>1,444,558</u>
INCREASE IN NET ASSETS	8,217,220	1,938,439
NET ASSETS, beginning	<u>30,726,740</u>	<u>28,788,301</u>
NET ASSETS, ending	<u>\$38,943,960</u>	<u>\$30,726,740</u>

See Notes to Financial Statements

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF CASH FLOWS - PRIMARY INSTITUTION
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net tuition and fees	\$ 26,268,914	\$ 26,885,057
Grants and contracts	13,257,671	12,763,049
Payments to suppliers for goods and services	(17,513,843)	(18,394,704)
Payments to employees	(48,373,713)	(46,172,833)
Loans issued to students	(222,050)	(407,221)
Loans collected from students	169,852	282,396
Student Aid	(3,636,794)	(3,705,609)
Auxiliary enterprise charges	12,691,677	12,375,123
Sales and services of educational departments	239,092	166,749
Other receipts	(440,409)	1,638,583
	<u>(17,559,603)</u>	<u>(14,569,410)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	22,477,650	21,365,506
Gifts for other than capital purposes	8,700	172
PLUS, Stafford, and other loans receipts (non-Perkins)	27,718,168	25,345,652
PLUS, Stafford, and other loans disbursements (non-Perkins)	(27,718,168)	(25,345,652)
Agency transactions, net	(13,240)	(11,128)
Other	72,154	73,624
	<u>22,545,264</u>	<u>21,428,174</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from debt	5,565,519	246,579
Capital appropriations	1,037,247	1,012,538
Capital grants and gifts received	5,353,603	432,020
Purchases of capital assets	(14,094,676)	(5,264,675)
Principal paid on debt	(955,512)	(1,061,773)
Interest paid on debt	(219,037)	(558,834)
	<u>(3,312,856)</u>	<u>(5,194,145)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest income	1,831,846	1,153,529
	<u>1,831,846</u>	<u>1,153,529</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,504,651	2,818,148
CASH AND CASH EQUIVALENTS, Beginning of year	30,499,090	27,680,942
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 34,003,741</u>	<u>\$ 30,499,090</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (21,838,148)	\$ (20,996,700)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,420,531	2,897,554
Changes in assets and liabilities:		
Receivables, net	(27,824)	(546,755)
Other assets	(979,204)	1,343,435
Accounts payable	1,001,117	620,025
Deferred revenue	(523,425)	137,648
Student deposits	63,838	(54,018)
Compensated absences	(154,617)	347,249
Loans to students	(52,643)	(125,020)
Other liabilities	1,530,772	1,807,172
	<u>(17,559,603)</u>	<u>(14,569,410)</u>
Net cash used in operating activities		

See Notes to Financial Statements

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**BALANCE SHEET - COMPONENT UNITS
JUNE 30, 2007 AND 2006**

	2007	2006
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,257,857	\$ 2,850,141
Accounts receivable	319,611	319,833
Pledges receivable	1,032,596	1,299,424
Inventory	441,520	347,657
Prepaid expenses	77,006	106,084
Loans receivable	-	18,591
Other assets	<u>781,668</u>	<u>372,555</u>
Total current assets	<u>3,910,258</u>	<u>5,314,285</u>
NONCURRENT ASSETS:		
Restricted cash and investments	2,566,504	2,359,331
Investments	14,282,300	12,329,980
Capital assets, net	18,774,394	19,907,403
Other assets	<u>1,718,654</u>	<u>1,658,240</u>
Total noncurrent assets	<u>37,341,852</u>	<u>36,254,954</u>
TOTAL	<u>\$ 41,252,110</u>	<u>\$ 41,569,239</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 609,846	\$ 1,187,572
Donation payable	1,140,265	-
Notes payable	482,152	337,801
Deferred revenue	294,943	592,245
Other liabilities	<u>513,173</u>	<u>57,137</u>
Total current liabilities	<u>3,040,379</u>	<u>2,174,755</u>
NONCURRENT LIABILITIES:		
Revenue bonds	17,665,000	17,990,000
Notes payable	5,543,393	2,707,440
Other liabilities	<u>626,743</u>	<u>-</u>
Total noncurrent liabilities	<u>23,835,136</u>	<u>20,697,440</u>
Total liabilities	<u>26,875,515</u>	<u>22,872,195</u>
NET ASSETS:		
Unrestricted	3,073,433	10,431,418
Temporarily restricted	3,712,861	2,526,236
Permanently restricted	<u>7,590,301</u>	<u>5,739,390</u>
Total net assets	<u>14,376,595</u>	<u>18,697,044</u>
TOTAL	<u>\$ 41,252,110</u>	<u>\$ 41,569,239</u>

See Notes to Financial Statements

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - COMPONENT UNITS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND OTHER ADDITIONS:		
Sales and services	\$ 739,080	\$ 2,428,051
Contributions	371,774	619,954
Investment income	540,432	1,193,399
Student activity fees	1,311,846	1,235,594
Other revenues	3,023,102	4,425,734
Satisfaction of donor restrictions	<u>7,096,699</u>	<u>124,346</u>
Total revenues and other additions	<u>13,082,933</u>	<u>10,027,078</u>
EXPENSES AND OTHER DEDUCTIONS:		
Management and general	1,484,044	4,444,578
Program expenses	10,037,999	2,609,456
Scholarships	892,142	211,654
Student services	1,062,355	908,450
Other expenses	<u>285,377</u>	<u>135,515</u>
Total expenses and other deductions	<u>13,761,917</u>	<u>8,309,653</u>
(Decrease) increase in unrestricted net assets	<u>(678,984)</u>	<u>1,717,425</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Sales and services	1,278,282	-
Contributions and support	603,854	239,721
Investment income	805,493	8,708
Other revenues	337,862	-
Satisfaction of donor restrictions	<u>(7,096,699)</u>	<u>(82,346)</u>
(Decrease) increase in temporarily restricted net assets	<u>(4,071,208)</u>	<u>166,083</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS,		
Contributions	377,539	210,781
Investment income	564,826	-
Satisfaction of donor restrictions	<u>-</u>	<u>(42,000)</u>
Increase in permanently restricted net assets	<u>942,365</u>	<u>168,781</u>
(DECREASE) INCREASE IN NET ASSETS	<u>(3,807,827)</u>	<u>2,052,289</u>
NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	18,697,044	16,644,755
RESTATEMENT	<u>(512,622)</u>	<u>-</u>
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	<u>18,184,422</u>	<u>16,644,755</u>
NET ASSETS, END OF YEAR	<u>\$ 14,376,595</u>	<u>\$ 18,697,044</u>

See Notes to Financial Statements

**LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

NOTES TO FINANCIAL STATEMENTS

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

ORGANIZATION

Lock Haven University of Pennsylvania of the State System of Higher Education (the "University"), a public four year institution located in Lock Haven, Pennsylvania, was founded in 1870. The University is one of fourteen universities of the State System of Higher Education ("PASSHE"). PASSHE was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended ("Act 188"). PASSHE is a component unit of the Commonwealth of Pennsylvania (the "Commonwealth").

REPORTING ENTITY

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14, the University has determined that the Student Cooperative Council, Inc. of Lock Haven University (the "Council"), the Lock Haven University Foundation and the Clearfield Educational Foundation, Inc. (collectively the "Foundations") 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 Council is a legally separate, tax-exempt entity that collects student activity fees and other miscellaneous revenues, which are allocated to clubs, organizations, athletic programs and general administration. The Council also operates the Campus Bookstore and the Student Recreation Center. Because the economic resources received and held by the Council are for the direct benefit of the University and because of the influence of the University over the Council, the Council is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Council is presented as of and for the fiscal years ended May 15, 2007 and 2006.

The Foundations are legally separate, tax-exempt entities that act primarily as fundraising organizations to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or income therefrom, that the Foundations hold and invest are restricted to the activities of the University by donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the University, the Foundations are considered component units of the University and are included within the University's financial reporting entity. The financial activity of the Foundations is presented as of June 30, 2007 and 2006.

During the years ended June 30, 2007 and 2006, the Lock Haven University Foundation awarded grants-in-aid and scholarships of \$892,142 and \$797,401. In addition, in 2005 the Lock Haven University Foundation agreed to make a non-refundable cash gift to the University for construction of an Alumni Center. For the years ended June 30, 2007 and 2006, respectively, the Lock Haven University Foundation gifted \$5,400,000 and \$400,000 to the University. The Alumni Center is expected to be completed during the 2008 fiscal year.

During the years ended June 30, 2007 and 2006, the Clearfield Educational Foundation, Inc. distributed \$12,369 and \$11,421 to the University for both restricted purposes.

Complete financial statements for the Council and the Foundations may be obtained at the University's administrative office.

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

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

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

OPERATING REVENUES

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses.

Appropriations, gifts, interest income (except for interest earned by auxiliaries totaling \$578,285 at June 30, 2007 which is included in auxiliary revenues), capital grants, gains on the sale of investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as non-operating revenue.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

NET ASSETS

The University maintains the following net asset classifications:

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

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

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

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

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

CASH EQUIVALENTS AND INVESTMENTS

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

ACCOUNTS AND LOANS RECEIVABLE

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

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

CAPITAL ASSETS

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

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

DEFERRED REVENUE

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

COMPENSATED ABSENCES

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

PENSION PLANS

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

INCOME TAXES

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 amounts in 2006 have been reclassified to conform to the 2007 reporting format.

2. CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2007:

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Capital assets, net	\$17,231,940	\$1,542,454	\$18,774,394
Other assets	<u>19,232,535</u>	<u>3,245,181</u>	<u>22,477,716</u>
Total assets	<u>\$36,464,475</u>	<u>\$4,787,635</u>	<u>\$41,252,110</u>
Long-term debt	\$23,608,995	\$ 81,550	\$23,690,545
Other liabilities	<u>2,566,897</u>	<u>618,073</u>	<u>3,184,970</u>
Total liabilities	<u>\$26,175,892</u>	<u>\$ 699,623</u>	<u>\$26,875,515</u>
Net assets:			
Unrestricted	\$ (816,285)	\$3,889,718	\$ 3,073,433
Temporarily restricted	3,712,861	-	3,712,861
Permanently restricted	<u>7,392,007</u>	<u>198,294</u>	<u>7,590,301</u>
Total net assets	<u>\$10,288,583</u>	<u>\$4,088,012</u>	<u>\$14,376,595</u>

The following represents combining condensed balance sheet information for the component units as of June 30, 2006:

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Capital assets, net	\$18,496,317	\$1,411,086	\$19,907,403
Other assets	<u>18,814,981</u>	<u>2,846,855</u>	<u>21,661,836</u>
Total assets	<u>\$37,311,298</u>	<u>\$4,257,941</u>	<u>\$41,569,239</u>
Long-term debt	\$20,880,192	\$ 155,049	\$21,035,241
Other liabilities	<u>1,615,277</u>	<u>221,677</u>	<u>1,836,954</u>
Total liabilities	<u>\$22,495,469</u>	<u>\$ 376,726</u>	<u>\$22,872,195</u>
Net assets:			
Unrestricted	\$ 6,748,497	\$3,682,921	\$10,431,418
Temporarily restricted	2,526,236	-	2,526,236
Permanently restricted	<u>5,541,096</u>	<u>198,294</u>	<u>5,739,390</u>
Total net assets	<u>\$14,815,829</u>	<u>\$3,881,215</u>	<u>\$18,697,044</u>

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The following represents combining statement of revenues, expenses, and changes in net assets for the component units for the year ended June 30, 2007:

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Changes in unrestricted net assets:			
Revenues and other additions			
Sales and services	\$ 28,700	\$ 710,380	\$ 739,080
Contributions	115,154	256,620	371,774
Investment income	341,473	198,959	540,432
Student activity fees	-	1,311,846	1,311,846
Other revenues	2,900,854	122,248	3,023,102
Satisfaction of donor restrictions	<u>7,065,747</u>	<u>30,952</u>	<u>7,096,699</u>
Total revenues and other additions	<u>10,451,928</u>	<u>2,631,005</u>	<u>13,082,933</u>
Expenses and other deductions:			
Management and general	194,283	1,289,761	1,484,044
Program expenses	10,012,203	25,796	10,037,999
Scholarships	892,142	-	892,142
Student services	-	1,062,355	1,062,355
Other expenses	<u>284,917</u>	<u>460</u>	<u>285,377</u>
Total expenses and other deductions	<u>11,383,545</u>	<u>2,378,372</u>	<u>13,761,917</u>
(Decrease)/increase in unrestricted net assets	<u>(931,617)</u>	<u>252,633</u>	<u>(678,984)</u>
Changes in temporarily restricted net assets:			
Salaries and services	1,278,282	-	1,278,282
Contributions and support	600,402	3,452	603,854
Investment income	777,993	27,500	805,493
Other revenues	337,862	-	337,862
Satisfaction of donor restrictions	<u>(7,065,747)</u>	<u>(30,952)</u>	<u>(7,096,699)</u>
Decrease in temporarily restricted net assets	<u>(4,071,208)</u>	<u>-</u>	<u>(4,071,208)</u>
Changes in permanently restricted net assets:			
Contributions	377,539	-	377,539
Investment income	<u>564,826</u>	<u>-</u>	<u>564,826</u>
Increase in permanently restricted net assets	<u>942,365</u>	<u>-</u>	<u>942,365</u>

LOCK HAVEN UNIVERSITY
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	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
(Decrease)/increase in net assets	<u>\$ (4,060,460)</u>	<u>\$ 252,633</u>	<u>\$ (3,807,827)</u>
Net assets at beginning of year, as previously reported	14,815,829	3,881,215	18,697,044
Restatement	<u>(466,786)</u>	<u>(45,836)</u>	<u>(512,622)</u>
Net assets at beginning of year, as restated	<u>14,349,043</u>	<u>3,835,379</u>	<u>18,184,422</u>
Net assets end of year	<u>\$10,288,583</u>	<u>\$4,088,012</u>	<u>\$14,376,595</u>

The following represents combining statement of revenues, expenses, and changes in net assets for the component units for the year ended June 30, 2006:

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Changes in unrestricted net assets:			
Revenues and other additions			
Sales and services	\$1,771,856	\$ 656,195	\$ 2,428,051
Contributions	414,534	205,420	619,954
Investment income	1,069,463	123,936	1,193,399
Student activity fees	-	1,235,594	1,235,594
Other revenues	4,274,313	151,421	4,425,734
Satisfaction of donor restrictions	<u>70,194</u>	<u>54,152</u>	<u>124,346</u>
Total revenues and other additions	<u>7,600,360</u>	<u>2,426,718</u>	<u>10,027,078</u>
Expenses and other deductions:			
Management and general	3,196,896	1,247,682	4,444,578
Program expenses	2,443,655	165,801	2,609,456
Scholarships	211,654	-	211,654
Student services	-	908,450	908,450
Other expenses	<u>117,732</u>	<u>17,783</u>	<u>135,515</u>
Total expenses and other deductions	<u>5,969,937</u>	<u>2,339,716</u>	<u>8,309,653</u>
Increase in unrestricted net assets	<u>1,630,423</u>	<u>87,002</u>	<u>1,717,425</u>
Changes in temporarily restricted net assets:			
Contributions	236,277	3,444	239,721
Investment income	-	8,708	8,708
Satisfaction of donor restrictions	<u>(70,194)</u>	<u>(12,152)</u>	<u>(82,346)</u>

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	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Increase in temporarily restricted net assets	\$ <u>166,083</u>	\$ <u>-</u>	\$ <u>166,083</u>
Changes in permanently restricted net assets:			
Contributions	205,781	5,000	210,781
Satisfaction of donor restrictions	<u>-</u>	<u>(42,000)</u>	<u>(42,000)</u>
Increase in permanently restricted assets	<u>205,781</u>	<u>(37,000)</u>	<u>168,781</u>
Increase in net assets	2,002,287	50,002	2,052,289
Net assets, beginning	<u>12,813,542</u>	<u>3,831,213</u>	<u>16,644,755</u>
Net assets, ending	<u>\$14,815,829</u>	<u>\$3,881,215</u>	<u>\$18,697,044</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 \$31,149,952 and \$30,220,009 at June 30, 2007 and 2006, respectively.

PASSHE invests its funds in accordance with the Board's Investment Policy, which authorizes PASSHE to invest in repurchase agreements, commercial paper, obligations of the United States Treasury, agencies and sponsored entities, certificates of deposit, municipal bonds, mortgage-backed securities, asset-backed securities, banker's acceptances, and corporate bonds. Restricted nonexpendable funds and amounts designated by the Board or University trustees may be invested in the investments described above, as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, Universities use local financial institutions for activities such as cash deposits. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, PASSHE recognizes a fiduciary responsibility to invest all funds prudently in accordance with ethical and prevailing legal standards. In addition, PASSHE recognizes that the funds in its custody can be classified according to purpose, time frame for use, source, and other similar classifications. Differential investment guidelines and objectives are required to manage various funds classifications appropriately and optimally.

Regardless of funds classifications, certain general tenets apply. Investments in all classifications seek to minimize exogenous risks while maintaining or expanding purchasing power. Adequate liquidity is maintained so assets are held to maturity. In all classifications, high quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments are made in U.S.-based corporations. Investment performance in all classifications is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed. A portfolio duration target of 1.8 years is maintained with an upper limit of 2.2 years.

Safety of principal and liquidity are the top priorities for the investment of PASSHE's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed; this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities. Collateralized mortgage obligations (CMOs) are sometimes based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in PASSHE's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates. PASSHE's operating funds are invested and reinvested in the following types of instruments with qualifications as provided.

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<u>Investment Categories</u>	<u>Limit (% of Market Value)</u>	<u>Single Issuer (maximum)</u>	<u>Rating Limit (Moody's)</u>
Government securities/ repurchase agreements	Greater than 20%	5% Repurchase	N/A
Commercial paper/certificates of deposit/banker's acceptances	Less than 30%	5% of each type	P-1
Municipal bonds	Less than 20%	5%	Aa or higher
Corporate bonds	Less than 20%	N/A	Aa or higher
Collateralized mortgage Obligations (CMOs)	Less than 20%	N/A	Aaa
Asset-backed securities	Less than 20%	N/A	Aaa
System notes	Less than 20%	5%	N/A

At June 30, 2007 and 2006, the carrying amount of the University's demand and time deposits and certificates of deposit for all funds was \$2,853,789 and \$279,081 respectively, compared to bank balances of \$2,877,553 and \$264,713 respectively. The difference is caused primarily by items in transit. Of the bank balances, \$103,204 and \$101,016, respectively, was covered by federal government depository insurance, or was collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$2,774,349 and \$163,697, respectively, was uninsured and uncollateralized, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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4. CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditure of University funds or the incurrence of debt consist of the following:

For the year ended June 30, 2007:

	Estimated Lives (in years)	Beginning Balance July 1, 2006	Additions	Retirements	Reclass	Ending Balance June 30, 2007
Land		\$ 2,225,835	\$ 53,631		\$ 1,195	\$ 2,280,661
Construction in progress		<u>2,651,991</u>	<u>10,909,448</u>		<u>(308,537)</u>	<u>13,252,902</u>
Total capital assets not being depreciated		<u>4,877,826</u>	<u>10,963,079</u>		<u>(307,342)</u>	<u>15,533,563</u>
Buildings, including improvements	10-40	52,135,602	1,298,083	\$(272,057)	307,342	53,468,970
Furnishings and equipment, Including capital leases	3-40	4,239,672	1,773,590	(265,514)	-	5,747,748
Library books	10	<u>4,031,239</u>	<u>108,165</u>	<u>(171,508)</u>	<u>-</u>	<u>3,967,896</u>
Total capital assets being depreciated		<u>60,406,513</u>	<u>3,179,838</u>	<u>(709,079)</u>	<u>307,342</u>	<u>63,184,614</u>
Less accumulated depreciation:						
Buildings, including improvements		(16,115,436)	(2,573,249)	104,230	-	(18,584,455)
Furnishings and equipment, including capital leases		(2,614,936)	(769,850)	232,740	-	(3,152,046)
Library books		<u>(3,493,659)</u>	<u>(77,432)</u>	<u>171,508</u>	<u>-</u>	<u>(3,399,583)</u>
Total accumulated depreciation		<u>(22,224,031)</u>	<u>(3,420,531)</u>	<u>508,478</u>	<u>-</u>	<u>(25,136,084)</u>
Total capital assets being depreciated, net		<u>38,182,482</u>	<u>(240,693)</u>	<u>(200,601)</u>	<u>307,342</u>	<u>38,048,530</u>
Capital assets, net		<u>\$ 43,060,308</u>	<u>\$10,722,386</u>	<u>\$(200,601)</u>	<u>\$ -</u>	<u>\$53,582,093</u>

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For the year ended June 30, 2006:

	Estimated Lives (in years)	Beginning Balance July 1, 2005	Additions	Retirements	Reclass	Ending Balance June 30, 2006
Land		\$ 2,212,074	\$ 13,761			\$ 2,225,835
Construction in progress		<u>1,475,067</u>	<u>1,798,502</u>		<u>\$(621,578)</u>	<u>2,651,991</u>
Total capital assets not being depreciated		<u>3,687,141</u>	<u>1,812,263</u>		<u>\$(621,578)</u>	<u>4,877,826</u>
Buildings, including improvements	10-40	49,903,520	2,827,140	\$(1,216,636)	621,578	52,135,602
Furnishings and equipment, including capital leases	3-40	3,896,652	544,236	(201,216)	-	4,239,672
Library books	10	<u>4,055,439</u>	<u>124,604</u>	<u>(148,804)</u>	<u>-</u>	<u>4,031,239</u>
Total capital assets being depreciated		<u>57,855,611</u>	<u>3,495,980</u>	<u>(1,566,656)</u>	<u>621,578</u>	<u>60,406,513</u>
Less accumulated depreciation:						
Buildings, including improvements		(14,322,983)	(2,356,697)	564,244	-	(16,115,436)
Furnishings and equipment, including capital leases		(2,293,181)	(474,781)	153,026	-	(2,614,936)
Library books		<u>(3,576,387)</u>	<u>(66,076)</u>	<u>148,804</u>	<u>-</u>	<u>(3,493,659)</u>
Total accumulated depreciation		<u>(20,192,551)</u>	<u>(2,897,554)</u>	<u>866,074</u>	<u>-</u>	<u>(22,224,031)</u>
Total capital assets being depreciated, net		<u>37,663,060</u>	<u>598,426</u>	<u>(700,582)</u>	<u>621,578</u>	<u>38,182,482</u>
Capital assets, net		<u>\$ 41,350,201</u>	<u>\$ 2,410,689</u>	<u>\$ (700,582)</u>	<u>\$ -</u>	<u>\$ 43,060,308</u>

5. LEASES

The University has entered into a capital lease agreement for the financing of a mail machine and several copiers. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more are as follows:

YEAR ENDING JUNE 30

2008	\$ 121,746
2009	54,496
2010	<u>12,053</u>
Total minimum lease payments	188,295
Less amount representing interest on capital leases	<u>14,282</u>
Present value of net minimum capital lease payment	<u>\$ 174,013</u>

Capital assets included \$118,226 and \$222,434 of equipment acquired through leases that have been capitalized at June 30, 2007 and 2006, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Employees	\$4,534,303	\$4,292,711
Suppliers	3,436,941	2,690,947
Accrued interest payable	<u>31,093</u>	<u>17,562</u>
Total	<u>\$8,002,337</u>	<u>\$7,001,220</u>

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7. BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the PASSHE through the Pennsylvania Higher Educational Facilities Authority ("PHEFA"). In connection with the bond issuances, the PASSHE entered into a loan agreement with PHEFA on behalf of the University under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. PASSHE's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation.

The various bond series allocated to the University for the year ended June 30, 2007 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2006	Bonds Issued	Bonds Redeemed	Bonds Refunded	Balance June 30, 2007
Series T used for sprinkler installation and Recreation Center	4.90%	\$6,360,472	-	\$(295,320)	-	\$ 6,065,152
Series V used for completion of various PASSHE wide capital projects	Variable	545,319	-	-	-	545,319
Series X used for completion of various PASSHE wide capital projects	4.60%	409,797	-	(95,497)	-	314,300
Series Y used for completion of various PASSHE wide capital projects	Variable	44,662	-	-	-	44,662
Series Z used to refund Series K Bonds	4.04%	769,580	-	(139,445)	-	630,135
Series AB used for PASSHE wide capital projects	Variable	214,145	-	-	-	214,145
Series AE used for PASSHE wide capital projects	4.99%	-	\$5,412,098	(173,633)	-	5,238,465
Total bonds payable		<u>\$8,343,975</u>	<u>\$5,412,098</u>	<u>\$(703,895)</u>	<u>\$-</u>	13,052,178
Plus unamortized bond premium costs, net						313,853
Less unamortized loss on refunding						(6,164)
Outstanding at end of year						13,359,867
Less current portion						775,054
Noncurrent portion						<u>\$12,584,813</u>

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The various bond series allocated to the University for the year ended June 30, 2006 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2005	Bonds Issued	Bonds Redeemed	Bonds Refunded	Balance June 30, 2006
Series T used for sprinkler installation and Recreation Center	4.90%	\$6,641,786		\$(281,314)		\$6,360,472
Series V used for completion of various PASSHE wide capital projects	Variable	545,319		-		545,319
Series X used for completion of various PASSHE wide capital projects	4.64%	500,408		(90,251)		409,797
Series Y used for completion of various PASSHE wide capital projects	Variable	360,666		-	\$(316,004)	44,662
Series Z used to refund Series K Bonds	4.04%	885,002		(115,422)	-	769,580
Series AB used for PASSHE wide capital projects	Variable	<u>214,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,145</u>
Total bonds payable		<u>\$9,146,966</u>	<u>\$ -</u>	<u>\$(486,987)</u>	<u>\$(316,004)</u>	<u>\$8,343,975</u>
Plus unamortized bond premium costs, net						120,418
Less unamortized loss on refunding						<u>(7,843)</u>
Outstanding at end of year						8,456,550
Less current portion						<u>557,876</u>
Noncurrent portion						<u>\$7,898,674</u>

The University participates in PASSHE's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the 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 (\$47,335,786 and \$48,718,808 was outstanding as of June 30, 2007 and 2006). 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. As of June 30, 2007 and 2006, the balance owed by the University to PASSHE's AFRP pool of funding was \$2,473,634 and \$2,438,124, respectively.

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

		2008	2009	2010	2011	2012	2013- 2017	2018- 2022	2023- 2027	Total
Series										
T	Principal	\$ 315,164	\$ 328,004	\$ 343,178	\$ 363,022	\$ 380,531	\$ 2,181,634	\$ 2,153,619	\$ -	\$ 6,065,152
	Interest	297,496	281,737	265,337	248,178	230,027	863,283	276,002	-	2,462,060
	Total	612,660	609,741	608,515	611,200	610,558	3,044,917	2,429,621	-	8,527,212
V	Principal	-	-	-	-	-	-	545,319	-	545,319
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	545,319	-	545,319
X	Principal	99,695	104,417	110,188	-	-	-	-	-	314,300
	Interest	15,715	10,730	5,510	-	-	-	-	-	31,955
	Total	115,410	115,147	115,698	-	-	-	-	-	346,255
Y	Principal	-	-	-	-	-	-	-	44,662	44,662
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	44,662	44,662
Z	Principal	147,061	155,556	160,830	166,688	-	-	-	-	630,135
	Interest	26,676	18,323	13,101	6,668	-	-	-	-	65,768
	Total	173,737	174,879	173,931	173,356	-	-	-	-	695,903
AB	Principal	-	-	-	-	-	-	-	214,145	214,145
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	214,145	214,145
AE	Principal	169,948	178,699	187,450	197,122	206,794	1,206,219	1,549,340	1,542,893	5,238,465
	Interest	264,939	256,441	247,506	238,134	228,278	969,518	625,677	197,582	3,028,075
	Total	434,887	435,140	434,956	435,256	435,072	2,175,737	2,175,017	1,740,475	8,266,540
Total	Principal	731,868	766,676	801,646	726,832	587,325	3,387,853	4,248,278	1,801,700	13,052,178
	Interest	604,826	568,231	531,454	492,980	458,305	1,832,801	901,679	197,582	5,587,858
	Total	\$ 1,336,694	\$ 1,334,907	\$ 1,333,100	\$ 1,219,812	\$ 1,045,630	\$ 5,220,654	\$ 5,149,957	\$ 1,999,282	\$ 18,640,036

8. DEFERRED REVENUE

Deferred revenue consisted of the following at June 30:

	<u>2007</u>		<u>2006</u>	
	<u>CURRENT</u>	<u>NONCURRENT</u>	<u>CURRENT</u>	<u>NONCURRENT</u>
Student tuition and fees	\$ 939,051		\$1,461,620	
Grants	141,753		141,993	
Gifts	<u>43,037</u>	<u>\$108,911</u>	<u>26,897</u>	<u>\$125,667</u>
Total	<u>\$1,123,841</u>	<u>\$108,911</u>	<u>\$1,630,510</u>	<u>\$125,667</u>

9. COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

Compensated absences and postretirement benefits consisted of the following at June 30:

	<u>2007</u>		<u>2006</u>	
	<u>CURRENT</u>	<u>NONCURRENT</u>	<u>CURRENT</u>	<u>NONCURRENT</u>
Compensated absences	\$ 300,000	\$ 3,301,411	\$ 178,590	\$ 3,577,439
Post-retirement benefit obligations	<u>2,250,000</u>	<u>21,591,488</u>	<u>1,850,000</u>	<u>19,932,917</u>
Total	<u>\$2,550,000</u>	<u>\$24,892,899</u>	<u>\$2,028,590</u>	<u>\$23,510,356</u>

COMPENSATED ABSENCES

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

	<u>2007</u>	<u>2006</u>
Balance July 1	\$3,756,029	\$3,408,779
Current changes in estimate	156,116	513,482
Payouts	<u>(310,734)</u>	<u>(166,232)</u>
Balance June 30	<u>\$3,601,411</u>	<u>\$3,756,029</u>

POSTRETIREMENT BENEFITS

PASSHE employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefits plans. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

COMMONWEALTH PLAN

Employee members of the American Federation of State, County and Municipal Employees; Pennsylvania Doctors Alliance; and Pennsylvania Social Services Union participate in a multi-employer plan administered by the Commonwealth. The University pays annual contributions, based upon a rate per employee, determined by the plan administrators. Total contributions made for such benefits by the University were approximately \$1,153,000 and \$1,192,000 for the years ended June 30, 2007 and 2006 respectively.

SYSTEM PLAN

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties, the State College and University Professional Association, Security Police and Fire Professionals of America, Pennsylvania Nurses Association, and management employees participate in a single-employer defined benefit healthcare plan administered by PASSHE (System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefit as well as tuition waivers at any of PASSHE's Universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan is unfunded and no financial report is prepared.

Funding Policy

The contribution requirements of plan members and the 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 \$34,726,000 and \$35,311,000 for the fiscal years ended June 30, 2007 and 2006, respectively. Plan members receiving benefits who retired after July 1, 2004 and are not eligible for Medicare contributed at the same rate as they contributed to the plan immediately before retiring. Plan members receiving benefits who retired after July 1, 2004 and are eligible for Medicare contributed 10% of their monthly premiums. Plan members receiving benefits who retired prior to July 1, 2004 are not required to make contributions. Total contributions made by plan members for fiscal years ended June 30, 2007 and 2006 were \$1,430,000 and \$1,401,000, respectively, or approximately 4.0% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

PAASHE's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following shows the components of the University's annual OPEB cost for the year ended June 30, 2007, the amount actually contributed to the plan, changes in the University's net OPEB obligation, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation:

	<u>2007</u>
Annual required contribution	\$ 3,861,000
Interest on net OPEB obligation	1,035,000
Adjustment to annual required contribution	<u>(986,000)</u>
Annual OPEB cost (expense)	3,910,000
Contributions made	<u>(1,851,429)</u>
Increase in net OPEB obligation	2,058,571
Net OPEB obligation at July 1, 2006	<u>21,782,917</u>
Net OPEB obligation at June 30, 2007	<u>\$23,841,488</u>

LOCK HAVEN UNIVERSITY
 OF THE STATE SYSTEM OF HIGHER EDUCATION
 NOTES TO FINANCIAL STATEMENTS

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2007 and the preceding year were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2006	\$3,738	45.6%	\$21,783
June 30, 2007	3,910	47.3%	23,841

The funded status of the plan as of July 1, 2006, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$49,173,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>49,173,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	<u>\$21,306,000</u>
UAAL as a percentage of covered payroll	215.00%

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, 2006, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.75% investment rate of return, which is the expected rate to be earned on PASSHE's operating portfolio, and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after seven years. The UAAL is being amortized as a level percentage of payroll, on a closed basis. The remaining amortization period at July 1, 2006, was 29 years.

10. PENSION BENEFITS

The University's employees participate in one of three multiple-employer cost sharing retirement plans. The Public School Employees' Retirement System (PSERS) and the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by PASSHE.

PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa.C.S. 8101-8535) is the authority by which PSERS benefits 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, employers, and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class is selected. The contribution rate for PASSHE is an actuarially determined rate. The rate was 3.230% and 2.345% of annual covered payroll at June 30, 2007 and 2006, respectively. The University's contributions to PSERS for the years ended June 30, 2007, 2006, and 2005, were approximately \$39,000, \$25,000, and \$29,000, 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, PA 17108-0125.

SERS also provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (the University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Active members contribute at a rate of either 5.0% or 6.25% of their qualifying compensation. The University contributed at an actuarially determined rate of either 2.595% or 3.23% of an active member's annual covered payroll at June 30, 2007. The University's contributions to SERS for the years ended June 30, 2007, 2006, and 2005, were \$546,000, \$390,000, and \$238,000, 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, PA 17108-0125.

Because the ARP is a defined contribution plan, benefits depend upon 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 the 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, 2007 and 2006 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2007 and 2006 were \$1,438,000 and \$1,343,000, respectively, from the University, and \$719,000 and \$723,000, respectively, from active members.

11. WORKERS' COMPENSATION

PASSHE is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, the University is responsible for claims less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (the Reserve Fund), to which all PASSHE universities contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$23,189 and \$20,405 to the Reserve Fund during the years ended June 30, 2007 and 2006, respectively.

For the years ended June 30, 2007 and 2006, the aggregate liability for claims under the self-insurance limit was \$330,618 and \$210,248, respectively. Changes in the workers' compensation claims liability amount in fiscal years 2007 and 2006 follow.

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2007	\$210,248	\$312,817	\$(192,447)	\$330,618
2006	\$119,794	\$259,377	\$(168,923)	\$210,248

12. CONTINGENCIES

Authorized expenditures for construction projects unexpended as of June 30, 2007 and 2006 were approximately \$4,886,000 and \$6,676,000, respectively.

The nature of the educational industry is such that, from time to time, the University is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. The University is self-insured for workers' compensation up to stated limits (note 11). 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 significantly exceeded the University's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

13. RESTATEMENT

The accompanying component unit financial statements have been restated to correct errors made in prior years affecting the financial statements of the Lock Haven University Foundation and the Student Cooperative Council, Inc. of Lock Haven University.

The Lock Haven University Foundation restatement resulted primarily from adjustments made regarding capitalized interest on a building project and the establishment of certain liabilities underlying split-interest agreements. The net effect of the restatements was to decrease net assets as of July 1, 2006 by \$466,786.

The Student Cooperative Council, Inc. of Lock Haven University restatement resulted from the Organization's past practice of not accruing for compensated absences, and for certain fiscal 2006 unrecorded credit card sales at its Clearfield campus bookstore. The effect of the restatement was to decrease net assets at May 16, 2006 by \$45,836.

**LOCK HAVEN UNIVERSITY
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE SYSTEM PLAN (OPEB)
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(UNAUDITED)
(IN THOUSANDS)**

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, 2006	\$0	\$51,223	\$51,223	0%	\$26,121	196%
July 1, 2007	\$0	\$49,173	\$49,173	0%	\$21,306	215%