

**Lock Haven University of
Pennsylvania of the State
System of Higher Education**

Financial Statements and
Supplementary Information

June 30, 2010 and 2009

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

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June 30, 2010 and 2009

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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, 2010 and 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Lock Haven University Foundation or the Clearfield Education Foundation, which collectively represent 92%, 74%, and 76%, respectively, of the assets, net assets, and revenues of the discretely presented component units as of and for the year ended June 30, 2010, and 93%, 64%, and 61%, respectively, of the assets, net assets, and revenues of the discretely presented component units as of and for the year ended June 30, 2009. 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, 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 Lock Haven University of Pennsylvania of the State System of Higher Education and of its aggregate discretely presented component units as of June 30, 2010 and 2009, 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 and REHP (OPEB) on page 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

ParenteBeard LLC

Williamsport, Pennsylvania
December 14, 2010

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Balance Sheet Primary Institution
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 45,809,063	\$ 34,867,560
Accounts receivable:		
Governmental grants and contracts	1,911,235	1,041,981
Students, net of allowance for doubtful accounts of \$1,534,020 in 2010 and \$1,561,060 in 2009	1,302,665	1,591,922
Other	292,294	503,260
Investment income receivable	91,547	105,415
Prepaid expenses	1,053,509	953,587
Loans receivable, net of allowance for doubtful accounts of \$300,000 in 2010 and 2009	90,107	93,220
Other current assets	<u>62,833</u>	<u>86,807</u>
Total current assets	<u>50,613,253</u>	<u>39,243,752</u>
Noncurrent Assets		
Loans receivable	810,964	838,981
Capital assets, net	<u>65,485,775</u>	<u>63,100,314</u>
Total noncurrent assets	<u>66,296,739</u>	<u>63,939,295</u>
Total assets	<u>\$ 116,909,992</u>	<u>\$ 103,183,047</u>

See notes to financial statements

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Balance Sheet – Primary Institution
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 9,719,376	\$ 7,915,540
Deferred revenue	1,266,540	2,015,349
Students' deposits	569,107	495,476
Workers' compensation	224,823	209,235
Compensated absences and postretirement benefit obligations	2,670,000	2,682,000
Current portion of bonds payable, net	1,015,067	832,142
Capitalized lease obligations	48,029	62,607
Due to system, Academic Facilities Renovation Bond Program (AFRP)	148,527	128,410
Other current liabilities	46,778	44,658
	<u>15,708,247</u>	<u>14,385,417</u>
Noncurrent Liabilities		
Deferred revenue	65,220	88,551
Workers' compensation	117,644	256,987
Compensated absences and postretirement benefit obligations	33,784,512	30,901,850
Capitalized lease obligations	79,574	127,603
Bonds payable, net	18,994,926	10,950,519
Due to system, AFRP	1,996,103	2,080,322
Other noncurrent liabilities	1,131,813	1,157,252
	<u>56,169,792</u>	<u>45,563,084</u>
Total noncurrent liabilities	<u>56,169,792</u>	<u>45,563,084</u>
Total liabilities	<u>71,878,039</u>	<u>59,948,501</u>
Net Assets		
Invested in capital assets, net of related debt	46,946,392	48,918,711
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	20,965	20,965
Other	296,897	237,226
Expendable:		
Scholarships and fellowships	29,712	29,176
Other	69,790	3,567
Unrestricted	(2,331,803)	(5,975,099)
	<u>45,031,953</u>	<u>43,234,546</u>
Total net assets	<u>45,031,953</u>	<u>43,234,546</u>
Total liabilities and net assets	<u>\$ 116,909,992</u>	<u>\$ 103,183,047</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
Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Tuition and fees	\$ 39,579,485	\$ 37,240,779
Less scholarship discounts and allowances	<u>10,086,947</u>	<u>8,827,811</u>
Net tuition and fees	29,492,538	28,412,968
Governmental grants and contracts:		
Federal	9,808,027	6,685,350
State and local	6,778,129	6,324,810
Nongovernmental grants and contracts	46,803	123,252
Sales and services of educational departments	381,411	286,145
Auxiliary enterprises	14,732,899	13,739,967
Other revenues	<u>1,280,973</u>	<u>1,112,782</u>
Total operating revenues	<u>62,520,780</u>	<u>56,685,274</u>
Operating Expenses		
Instruction	31,062,714	28,267,265
Research	175,377	62,153
Public service	815,181	901,629
Academic support	7,815,019	7,458,722
Student services	9,192,404	8,383,664
Institutional support	9,740,624	9,705,437
Operations and maintenance of plant	5,548,028	6,827,085
Depreciation	4,784,437	4,516,700
Student aid	5,079,138	3,411,840
Auxiliary enterprises	<u>11,626,677</u>	<u>11,229,483</u>
Total operating expenses	<u>85,839,599</u>	<u>80,763,978</u>
Operating Loss	<u>(23,318,819)</u>	<u>(24,078,704)</u>
Nonoperating Revenues (Expenses)		
State appropriations, general and restricted	21,638,988	23,087,122
ARRA - State Fiscal Stabilization Funds	3,210,753	-
Investment income, net of related investment expense of \$21,210 in 2010 and \$15,310 in 2009	905,666	1,157,305
Gifts for other than capital purposes	315	112,657
Interest expense on capital asset-related debt	(843,334)	(626,543)
Loss on disposal of assets	(42,570)	(41,019)
Other nonoperating revenue	<u>73,210</u>	<u>46,672</u>
Nonoperating revenues, net	<u>24,943,028</u>	<u>23,736,194</u>
Income (loss) before other revenues	<u>1,624,209</u>	<u>(342,510)</u>
Other Revenues		
State appropriations, capital	92,741	617,704
Capital gifts and grants	<u>80,457</u>	<u>517,197</u>
Total other revenues	<u>173,198</u>	<u>1,134,901</u>
Increase in Net Assets	1,797,407	792,391
Net Assets, Beginning	<u>43,234,546</u>	<u>42,442,155</u>
Net Assets, Ending	<u>\$ 45,031,953</u>	<u>\$ 43,234,546</u>

See notes to financial statements

Lock Haven University of Pennsylvania of the State System of Higher Education

Statement of Cash Flows Primary Institution Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Net tuition and fees	\$ 29,672,692	\$ 28,231,846
Grants and contracts	15,131,737	13,491,263
Payments to suppliers for goods and services	(19,206,902)	(17,542,421)
Payments to employees	(54,006,688)	(51,652,276)
Loans issued to students	(141,420)	(128,243)
Loans collected from students	172,550	124,922
Student aid	(5,079,138)	(3,411,840)
Auxiliary enterprise charges	14,772,360	13,663,348
Sales and services of educational departments	381,411	286,145
Other receipts	3,184,084	136,381
	<u>(15,119,314)</u>	<u>(16,800,875)</u>
Net cash used in operating activities		
Cash Flows from Noncapital Financing Activities		
State and federal appropriations	24,849,741	23,087,122
Gifts for other than capital purposes	315	112,657
PLUS, Stafford, and other loans receipts (non-Perkins)	28,539,265	40,474,273
PLUS, Stafford, and other loans disbursements (non-Perkins)	(28,539,265)	(40,474,273)
Agency transactions, net	2,570	(3,396)
Other	66,327	113,351
	<u>24,918,953</u>	<u>23,309,734</u>
Net cash provided by noncapital financing activities		
Cash Flows from Capital Financing Activities		
Proceeds of debt	9,330,777	14,320
Capital appropriations	92,741	617,704
Capital grants and gifts received	80,457	517,197
Purchases of capital assets	(7,223,336)	(6,294,512)
Principal paid on debt	(1,138,354)	(858,982)
Interest paid on debt	(919,955)	(674,584)
	<u>222,330</u>	<u>(6,678,857)</u>
Net cash provided by (used in) capital financing activities		
Cash Flows from Investing Activities		
Interest income	919,534	1,089,622
	<u>10,941,503</u>	<u>919,624</u>
Net increase in cash and cash equivalents		
Cash and Cash Equivalents, Beginning of Year	<u>34,867,560</u>	<u>33,947,936</u>
Cash and Cash Equivalents, End of Year	<u>\$ 45,809,063</u>	<u>\$ 34,867,560</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (23,318,819)	\$ (24,078,704)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,784,437	4,516,700
Changes in assets and liabilities:		
Accounts receivable	(579,997)	(655,382)
Other assets	135,020	754,790
Accounts payable and accrued expenses	1,803,836	(1,330,668)
Deferred revenue	(772,140)	728,654
Students' deposits	73,631	30,640
Compensated absences	145,390	392,206
Loans receivable	31,130	(3,321)
Other liabilities	2,578,198	2,844,210
	<u>\$ (15,119,314)</u>	<u>\$ (16,800,875)</u>
Net cash used in operating activities		

See notes to financial statements

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Combined Balance Sheet – Component Units
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,672,655	\$ 1,343,916
Accounts receivable	187,822	154,575
Contributions/pledges receivable	351,940	479,144
Inventories	369,155	393,307
Short-term investments	<u>1,093,160</u>	<u>981,660</u>
Total current assets	<u>5,674,732</u>	<u>3,352,602</u>
Noncurrent Assets		
Investments	8,948,313	11,618,897
Capital assets, net	16,773,076	17,575,884
Other assets	<u>1,583,140</u>	<u>1,590,745</u>
Total noncurrent assets	<u>27,304,529</u>	<u>30,785,526</u>
Total assets	<u>\$ 32,979,261</u>	<u>\$ 34,138,128</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 516,468	\$ 463,464
Annuity liabilities	557,907	577,296
Due to University	<u>14,996</u>	<u>21,815</u>
Total current liabilities	<u>1,089,371</u>	<u>1,062,575</u>
Noncurrent Liabilities		
Bonds payable	17,180,000	17,445,000
Notes payable	4,604,448	8,974,292
Other liabilities	<u>715,056</u>	<u>677,171</u>
Total noncurrent liabilities	<u>22,499,504</u>	<u>27,096,463</u>
Total liabilities	<u>23,588,875</u>	<u>28,159,038</u>
Net Assets (Deficit)		
Unrestricted	(504,060)	(2,549,243)
Temporarily restricted	2,939,428	2,868,932
Permanently restricted	<u>6,955,018</u>	<u>5,659,401</u>
Total net assets	<u>9,390,386</u>	<u>5,979,090</u>
Total liabilities and net assets	<u>\$ 32,979,261</u>	<u>\$ 34,138,128</u>

See notes to financial statements

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Combined Statement of Revenues, Expenses and
Changes in Net Assets – Component Units
Years Ended June 30, 2010 and 2009

	2010	2009
Changes in Unrestricted Net Assets		
Revenues and Other Additions		
Sales and services	\$ 834,645	\$ 810,319
Contributions	108,341	131,715
Investment income (loss)	262,030	(360,423)
Student activity fees	1,609,504	1,401,582
Other revenues	5,674,781	3,729,975
Satisfaction of donor restrictions	<u>2,082,689</u>	<u>2,607,154</u>
Total revenues and other additions	<u>10,571,990</u>	<u>8,320,322</u>
Expenses and Other Deductions		
Management and general	1,600,332	1,545,929
Program expenses	4,348,520	5,351,189
Scholarships	962,250	1,197,092
Student services	1,313,144	1,315,095
Other expenses	<u>302,561</u>	<u>288,068</u>
Total expenses and other deductions	<u>8,526,807</u>	<u>9,697,373</u>
Increase (decrease) in unrestricted net assets	<u>2,045,183</u>	<u>(1,377,051)</u>
Changes in Temporarily Restricted Net Assets		
Sales and services	561,782	565,249
Contributions and support	698,775	491,863
Investment (loss) income	3,163	(579,912)
Other revenues	440,265	652,857
Satisfaction of donor restrictions	<u>(1,633,489)</u>	<u>(2,224,069)</u>
Increase (decrease) in temporarily restricted net assets	<u>70,496</u>	<u>(1,094,012)</u>
Changes in Permanently Restricted Net Assets		
Contributions	860,095	684,160
Investment loss	884,722	(1,474,356)
Satisfaction of donor restrictions	<u>(449,200)</u>	<u>(383,085)</u>
Increase (decrease) in permanently restricted net assets	<u>1,295,617</u>	<u>(1,173,281)</u>
Increase (Decrease) in Net Assets	<u>3,411,296</u>	<u>(3,644,344)</u>
Net Assets, Beginning of Year	<u>5,979,090</u>	<u>9,623,434</u>
Net Assets, End of Year	<u>\$ 9,390,386</u>	<u>\$ 5,979,090</u>

See notes to financial statements

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2010 and 2009

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 June 30, 2010 and 2009.

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 there from, 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 discretely presented in the University's financial statements. The financial activity of the Foundations is presented as of and for the fiscal years ended June 30, 2010 and 2009.

During the years ended June 30, 2010 and 2009, the Lock Haven University Foundation awarded grants-in-aid and scholarships of \$962,250 and \$1,197,092. For the years ended June 30, 2010 and 2009, respectively, the Lock Haven University Foundation gifted \$48,000 and \$670,000 to the University for restricted purposes.

During the years ended June 30, 2010 and 2009, the Clearfield Educational Foundation, Inc. distributed \$15,090 and \$12,050 to the University for restricted purposes.

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

The University records tuition; all academic, instructional, and other student fees; sales and services of educational activities; and auxiliary activity as operating 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 disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income (except for interest earned by auxiliaries totaling \$196,585 and \$223,847 for the years ended June 30, 2010 and 2009, respectively, which are included in auxiliary revenues), capital grants, 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 nonoperating 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.

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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 and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised values 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 allowances for doubtful accounts are 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 30, 1983 and made available to the University.

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000, with an estimated useful life of 2 years or greater, are capitalized. Buildings, portions of buildings, and capital improvements 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.

Equipment and furnishings are stated at cost less accumulated depreciation. All library books are capitalized and depreciated. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. 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 enroll in one of three available cost-sharing multiple-employer retirement plans immediately upon employment. The University recognizes annual pension expenditures equal to its contractually required contributions to the plans.

Income Taxes

The University, as a member of PASSHE, is tax exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

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 from the 2009 financial statements have been reclassified to conform to the 2010 presentation.

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

New Accounting Standards

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Statement No. 51 establishes accounting and financial reporting requirements for intangible assets, specifically with regard to whether and when intangible assets should be considered capital assets for financial reporting purposes. Statement No. 51 is effective for the fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. Statement No. 53 is effective for the fiscal year ending June 30, 2010.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement No. 54 establishes fund balance classifications for governmental funds. The University is required to adopt Statement No. 54 for the fiscal year ending June 30, 2011.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement No. 57 amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The University is required to adopt Statement No. 57 for the fiscal year ending June 30, 2012.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing bankruptcy under Chapter 9 of the United States Bankruptcy Code. The University is required to adopt Statement No. 58 for the fiscal year ending June 30, 2011.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. Statement No. 59 updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The University is required to adopt Statement No. 59 for the fiscal year ending June 30, 2011.

The University has determined that Statements No. 51, 53, 54, 57, 58, and 59 have no effect on its balance sheet or statement of revenues, expenses, and changes in net assets.

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

2. Condensed Component Unit Information

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

	LHU Foundation	Non-Major Component Units	Total
Capital assets, net	\$ 15,120,393	\$ 1,652,683	\$ 16,773,076
Other assets	13,706,783	2,499,402	16,206,185
Total assets	\$ 28,827,176	\$ 4,152,085	\$ 32,979,261
Long-term debt	\$ 21,784,448	\$ -	\$ 21,784,448
Other liabilities	1,397,620	406,807	1,804,427
Total liabilities	\$ 23,182,068	\$ 406,807	\$ 23,588,875
Net assets (deficit):			
Unrestricted	\$ (4,038,924)	\$ 3,534,864	\$ (504,060)
Temporarily restricted	2,939,428	-	2,939,428
Permanently restricted	6,744,604	210,414	6,955,018
Total net assets	\$ 5,645,108	\$ 3,745,278	\$ 9,390,386

The following represents combining condensed balance sheet information for the component units as of June 30, 2009:

	LHU Foundation	Non-Major Component Units	Total
Capital assets, net	\$ 15,874,098	\$ 1,701,786	\$ 17,575,884
Other assets	14,472,071	2,090,173	16,562,244
Total assets	\$ 30,346,169	\$ 3,791,959	\$ 34,138,128
Long-term debt	\$ 26,419,292	\$ -	\$ 26,419,292
Other liabilities	1,449,144	290,602	1,739,746
Total liabilities	\$ 27,868,436	\$ 290,602	\$ 28,159,038
Net assets (deficit):			
Unrestricted	\$ (5,841,786)	\$ 3,292,543	\$ (2,549,243)
Temporarily restricted	2,868,932	-	2,868,932
Permanently restricted	5,450,587	208,814	5,659,401
Total net assets	\$ 2,477,733	\$ 3,501,357	\$ 5,979,090

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

2. Condensed Component Unit Information (Continued)

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

	LHU Foundation	Non-Major Component Units	Total
Changes in unrestricted net assets:			
Revenues and other additions:			
Sales and services	\$ 18,176	\$ 816,469	\$ 834,645
Contributions	107,741	600	108,341
Investment income	124,619	137,411	262,030
Student activity fees	-	1,609,504	1,609,504
Other revenues	5,337,518	337,263	5,674,781
Satisfaction of donor restrictions	2,082,689	-	2,082,689
	<u>7,670,743</u>	<u>2,901,247</u>	<u>10,571,990</u>
Expenses and other deductions:			
Management and general	272,442	1,327,890	1,600,332
Program expenses	4,330,658	17,862	4,348,520
Scholarships	962,250	-	962,250
Student services	-	1,313,144	1,313,144
Other expenses	302,531	30	302,561
	<u>5,867,881</u>	<u>2,658,926</u>	<u>8,526,807</u>
	<u>1,802,862</u>	<u>242,321</u>	<u>2,045,183</u>
Changes in temporarily restricted net assets:			
Sales and services	561,782	-	561,782
Contributions and support	696,226	2,549	698,775
Investment income	-	3,163	3,163
Other revenues	445,977	(5,712)	440,265
Satisfaction of donor restrictions	(1,633,489)	-	(1,633,489)
	<u>70,496</u>	<u>-</u>	<u>70,496</u>

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

2. Condensed Component Unit Information (Continued)

	<u>LHU Foundation</u>	<u>Non-Major Component Units</u>	<u>Total</u>
Changes in permanently restricted net assets:			
Contributions	\$ 858,495	\$ 1,600	\$ 860,095
Investment income	884,722	-	884,722
Satisfaction of donor restrictions	(449,200)	-	(449,200)
Increase in permanently restricted net assets	<u>1,294,017</u>	<u>1,600</u>	<u>1,295,617</u>
Increase in net assets	3,167,375	243,921	3,411,296
Net assets, beginning of year	<u>2,477,733</u>	<u>3,501,357</u>	<u>5,979,090</u>
Net assets, end of year	<u>\$ 5,645,108</u>	<u>\$ 3,745,278</u>	<u>\$ 9,390,386</u>

The following represents combining statement of revenues, expenses, and changes in net assets for the component units for the year ended June 30, 2009:

	<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	\$ 17,861	\$ 792,458	\$ 810,319
Contributions	131,115	600	131,715
Investment loss	(174,831)	(185,592)	(360,423)
Student activity fees	-	1,401,582	1,401,582
Other revenues	3,355,837	374,138	3,729,975
Satisfaction of donor restrictions	<u>2,607,154</u>	<u>-</u>	<u>2,607,154</u>
Total revenues and other additions	<u>5,937,136</u>	<u>2,383,186</u>	<u>8,320,322</u>
Expenses and other deductions:			
Management and general	263,581	1,282,348	1,545,929
Program expenses	5,339,139	12,050	5,351,189
Scholarships	1,197,092	-	1,197,092
Student services	-	1,315,095	1,315,095
Other expenses	<u>287,533</u>	<u>535</u>	<u>288,068</u>
Total expenses and other deductions	<u>7,087,345</u>	<u>2,610,028</u>	<u>9,697,373</u>

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

2. Condensed Component Unit Information (Continued)

	LHU Foundation	Non-Major Component Units	Total
Decrease in unrestricted net assets	\$ (1,150,209)	\$ (226,842)	\$ (1,377,051)
Changes in temporarily restricted net assets:			
Sales and services	561,894	3,355	565,249
Contributions and support	491,863	-	491,863
Investment (loss) income	(584,887)	4,975	(579,912)
Other revenues	661,187	(8,330)	652,857
Satisfaction of donor restrictions	(2,224,069)	-	(2,224,069)
Decrease in temporarily restricted net assets	(1,094,012)	--	(1,094,012)
Changes in permanently restricted net assets:			
Contributions	679,940	4,220	684,160
Investment loss	(1,474,356)	-	(1,474,356)
Satisfaction of donor restrictions	(383,085)	-	(383,085)
(Decrease) increase in permanently restricted assets	(1,177,501)	4,220	(1,173,281)
Decrease in net assets	(3,421,722)	(222,622)	(3,644,344)
Net assets beginning of year	5,899,455	3,723,979	9,623,434
Net assets end of year	\$ 2,477,733	\$ 3,501,357	\$ 5,979,090

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2010 and 2009

3. Deposits and Investments

Primary Government

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 \$45,374,715 and \$34,490,075 at June 30, 2010 and 2009, respectively.

PASSHE invests its funds in accordance with the Board's Investment Policy, which authorizes PASSHE to invest in repurchase agreements, commercial paper, obligations of the United States Treasury, agencies and sponsored entities, certificates of deposit, municipal bonds, 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, 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 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.

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

3. Deposits and Investments (Continued)

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 used based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in PASSHE's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates. PASSHE's operating funds are invested and reinvested in the following types of instruments with qualifications as provided.

Investment Categories	Limit (% of Market Value)	Single Issuer (Maximum)	Rating Limit (Moody's)
Government securities/repurchase agreements	Greater than 20%	5% Repurchase	N/A
Commercial paper/certificates of deposit/banker's acceptances	Less than 30%	5% of each type	P-1
Municipal bonds	Less than 20%	5%	Aa or higher
Corporate bonds	Less than 20%	N/A	Aa or higher
Collateralized mortgage Obligations	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, 2010 and 2009, the carrying amount of the University's local demand and time deposits were \$434,348 and \$377,485, respectively, compared to bank balances of \$474,438 and \$455,199, respectively. The difference is caused primarily by items in transit. Of the bank balances, \$280,153 and \$280,042, respectively, was covered by federal government depository insurance, and \$194,285 and \$175,157 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. At June 30, 2010 and 2009, none of the University's demand and time deposits are exposed to foreign currency risk.

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

3. Deposits and Investments (Continued)

Major Component Unit

The fair value of investments for the Lock Haven University Foundation at June 30 is a follows:

	<u>2010</u>	<u>2009</u>
Investments:		
Cash and cash equivalents	\$ 28,261	\$ 2,311,634
Equity-based mutual funds	4,216,364	4,803,809
Investments with trustee – reserved	2,449,620	2,382,084
Fixed income mutual funds	1,702,632	1,625,649
Common stock	283,652	256,916
Other investments	76,729	52,250
Beneficial interest in a perpetual trust	29,517	29,517
Beneficial interest in a pooled income fund	5,400	5,400
	<u> </u>	<u> </u>
Total	<u>\$ 8,792,175</u>	<u>\$ 11,467,259</u>

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

4. Capital Assets

Primary Government

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, 2010:

	Beginning Balance July 1, 2009	Additions	Retirements	Reclass	Ending Balance June 30, 2010
Land	\$ 2,280,661				\$ 2,280,661
Construction in progress	2,538,079	\$ 4,663,597	\$ (36,868)	\$ (1,890,004)	5,274,804
Total capital assets not being depreciated	4,818,740	4,663,597	(36,868)	(1,890,004)	7,555,465
Buildings, including improvements	79,274,556	1,530,674		1,828,444	82,633,674
Furnishings and equipment, Including capital leases	7,945,408	900,559	(122,652)	61,560	8,784,875
Library books	4,090,540	128,506	(54,660)		4,164,386
Total capital assets being depreciated	91,310,504	2,559,739	(177,312)	1,890,004	95,582,935
Less accumulated depreciation:					
Buildings, including improvements	(25,039,270)	(3,534,540)			(28,573,810)
Furnishings and equipment, including capital leases	(4,528,423)	(1,144,000)	106,082		(5,566,341)
Library books	(3,461,237)	(105,897)	54,660		(3,512,474)
Total accumulated depreciation	(33,028,930)	(4,784,437)	160,742		(37,652,625)
Total capital assets being depreciated, net	58,281,574	(2,224,698)	(16,570)	1,890,004	57,930,310
Capital assets, net	\$ 63,100,314	\$ 2,438,899	\$ (53,438)	\$ -	\$ 65,485,775

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

4. Capital Assets (Continued)

For the year ended June 30, 2009

	Beginning Balance July 1, 2008	Additions	Retirements	Reclass	Ending Balance June 30, 2009
Land	\$ 2,280,661				2,280,661
Construction in progress	2,528,501	\$ 2,290,145	\$ (27,882)	\$ (2,252,685)	\$ 2,538,079
Total capital assets not being depreciated	4,809,162	2,290,145	(27,882)	(2,252,685)	4,818,740
Buildings, including improvements	74,097,616	2,924,255		2,252,685	79,274,556
Furnishings and equipment, including capital leases	7,297,903	960,767	(313,262)		7,945,408
Library books	4,009,265	119,345	(38,070)		4,090,540
Total capital assets being depreciated	85,404,784	4,004,367	(351,332)	2,252,685	91,310,504
Less accumulated depreciation:					
Buildings, including improvements	(21,632,714)	(3,406,556)			(25,039,270)
Furnishings and equipment, including capital leases	(3,814,344)	(1,014,204)	300,125		(4,528,423)
Library books	(3,403,367)	(95,940)	38,070		(3,461,237)
Total accumulation depreciation	(28,850,425)	(4,516,700)	338,195		(33,028,930)
Total capital assets being depreciation, net	56,554,359	(512,333)	(13,137)	2,252,685	58,281,574
Capital assets, net	\$ 61,363,521	\$ 1,777,812	\$ (41,019)	\$	\$ 63,100,314

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

4. Capital Assets (Continued)

Major Component Unit

Capital assets of the Lock Haven University Foundation consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 22,494	\$ 26,234
Land	538,700	538,700
Land improvements	46,163	46,163
Buildings	17,595,469	17,528,229
Fredericks guest house	347,039	347,039
Furniture, fixtures and equipment	1,640,377	1,589,548
Steinway piano	<u>58,665</u>	<u>58,665</u>
Total capital assets	20,248,907	20,134,578
Less: accumulated depreciation	<u>(5,128,514)</u>	<u>(4,260,480)</u>
Total	<u>\$ 15,120,393</u>	<u>\$ 15,874,098</u>

5. Leases

The University has entered into capital lease agreements 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:

Years ending June 30	<u>Amount</u>
2011	\$ 58,007
2012	46,207
2013	36,269
2014	5,509
2015	<u>-</u>
Total minimum lease payments	145,992
Less amount representing interest on capital leases	<u>18,389</u>
Present value of net minimum capital lease payment	<u>\$ 127,603</u>

Capital assets, net, includes \$112,029 and \$178,238 of equipment acquired through leases that are capitalized at June 30, 2010 and 2009, respectively.

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

6. Accounts Payable and Accrued Expenses

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

	<u>2010</u>	<u>2009</u>
Employees	\$ 6,336,960	\$ 5,205,793
Suppliers and services	3,343,442	2,685,951
Accrued interest payable	<u>38,974</u>	<u>23,796</u>
Total	<u>\$ 9,719,376</u>	<u>\$ 7,915,540</u>

7. Bonds Payable

Bonds payable consist of several outstanding tax-exempt revenue bonds issued by PASSHE through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, PASSHE entered into loan agreements with PHEFA on behalf of the University, under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loans constitute 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.

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

7. Bonds Payable (Continued)

The various bonds allocated to the University for the year ended June 30, 2010 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2009	Bonds Issued	Bonds Redeemed	Bonds Refunded	Balance June 30, 2010
Series T used for sprinkler installation and recreation	4.87 %	\$ 5,421,984		\$ (343,178)	\$ -	\$ 5,078,806
Series X used for completion of various PASSHE wide capital projects	4.37 %	110,189		(110,189)		-
Series Z used to refund Series K Bonds	3.96 %	327,518		(160,830)		166,688
Series AE used for PASSHE wide capital projects	4.99 %	4,889,817		(187,450)		4,702,367
Series AI used to refund Series V, Y, and AB Bonds	3.98 %	818,446				818,446
Series AJ used for PASSHE wide capital projects	4.85 %		\$ 8,730,000	(210,000)		8,520,000
Total bonds payable		<u>\$ 11,567,954</u>	<u>\$ 8,730,000</u>	<u>\$ (1,011,647)</u>	<u>\$ -</u>	<u>\$ 19,286,307</u>
Plus unamortized bond premium costs, net						730,415
Less unamortized loss on refunding						<u>(6,729)</u>
Outstanding at end of year						20,009,993
Less current portion						<u>1,015,067</u>
Noncurrent portion						<u>\$ 18,994,926</u>

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

7. Bonds Payable (Continued)

The various bonds allocated to the University for the year ended June 30, 2009 are as follows:

	Weighted Average Interest Rate		Balance July 1, 2008	Bonds Issued	Bonds Redeemed	Bonds Refunded	Balance June 30, 2009
Series T used for sprinkler installation and recreation	4.88 %	\$	5,749,988	\$	(328,004)	\$	5,421,984
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	4.48 %		214,605		(104,416)		110,189
Series Y used for completion of various PASSHE wide capital projects	Variable		44,662			(44,662)	
Series Z used to refund Series K Bonds	3.96 %		483,074		(155,556)		327,518
Series AB used for PASSHE wide capital projects	Variable		214,145			(214,145)	
Series AE used for PASSHE wide capital projects	4.99 %		5,068,517		(178,700)		4,889,817
Series AI used to refund Series V, Y, and AB Bonds	3.95 %			\$ 818,446			\$ 818,446
Total bonds payable			<u>\$ 12,320,310</u>	<u>\$ 818,446</u>	<u>\$ (766,676)</u>	<u>\$ (804,126)</u>	<u>\$ 11,567,954</u>
Plus unamortized bond premium costs, net							223,557
Less unamortized loss on refunding							<u>(8,850)</u>
Outstanding at end of year							11,782,661
Less current portion							<u>832,142</u>
Noncurrent portion							<u>\$ 10,950,519</u>

**Lock Haven University of Pennsylvania
of the State System of Higher Education**

Notes to Financial Statements
June 30, 2010 and 2009

7. Bonds Payable (Continued)

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

		2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	Total
Series										
T	Principal	\$ 363,022	\$ 380,531	\$ 394,538	\$ 414,382	\$ 436,560	\$ 2,510,805	\$ 578,968	\$ -	\$ 5,078,806
	Interest	248,178	230,027	211,001	193,246	174,081	532,009	28,948	-	1,617,490
	Total	611,200	610,558	605,539	607,628	610,641	3,042,814	607,916	-	6,696,296
Z	Principal	166,688	-	-	-	-	-	-	-	166,688
	Interest	6,668	-	-	-	-	-	-	-	6,668
	Total	173,356	-	-	-	-	-	-	-	173,356
AE	Principal	197,122	206,794	217,387	228,440	240,415	1,403,802	1,793,900	414,507	4,702,367
	Interest	238,134	228,278	217,938	206,525	194,532	771,594	381,463	20,725	2,259,189
	Total	435,256	435,072	435,325	434,965	434,947	2,175,396	2,175,363	435,232	6,961,556
AI	Principal	-	-	-	-	-	-	818,446	-	818,446
	Interest	36,082	36,082	36,082	36,082	36,082	180,410	93,933	-	454,753
	Total	36,082	36,082	36,082	36,082	36,082	180,410	912,379	-	1,273,199
AJ	Principal	205,000	300,000	345,000	390,000	440,000	3,070,000	3,770,000	-	8,520,000
	Interest	421,900	415,750	400,750	383,500	364,000	1,434,750	492,500	-	3,913,150
	Total	626,900	715,750	745,750	773,500	804,000	4,504,750	4,262,500	-	12,433,150
Total	Principal	931,832	887,325	956,925	1,032,822	1,116,975	6,984,607	6,961,314	414,507	19,286,307
	Interest	950,962	910,137	865,771	819,353	768,695	2,918,763	996,844	20,725	8,251,250
	Total	\$ 1,882,794	\$ 1,797,462	\$ 1,822,696	\$ 1,852,175	\$ 1,885,670	\$ 9,903,370	\$ 7,958,158	\$ 435,232	\$ 27,537,557

In addition, 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 (\$47,857,567 and \$49,354,148 was outstanding as of June 30, 2010 and 2009). 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.

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

7. Bonds Payable (Continued)

Changes in the balance owed by the University to the AFRP pool of funding in 2010 were as follows:

Balance at July 1	\$ 2,208,732
Proceeds	-
Repayments	<u>(64,102)</u>
Total	<u>\$ 2,144,630</u>

Major Component Unit

Long-term debt of the Lock Haven University Foundation consisted of the following at June 30, 2010:

Note payable (First National Bank), due in monthly installments of \$27,222, including interest at 4.97%, until maturity during December 2010	\$ 765,643
Note payable (Sovereign Bank), due in varying monthly installments, including interest at 65% of LIBOR plus 170 basis points, until maturity during April 2023	877,473
Note payable (Jersey Shore State Bank), due in varying monthly installments, including interest at a five year adjustable rate ranging from 4.65% to 15%, based upon 75 percent of the bank prime rate, until maturity during January 2030	<u>2,961,332</u>
Total notes payable	4,604,448
Revenue bonds, Series 2003A, due in semi-annual installments, including interest at 3.0%, until maturity during 2034	<u>17,180,000</u>
Total long-term debt	<u>\$ 21,784,448</u>

The aggregate future principal payments on long-term debt at June 30, 2010 are as follows:

Years ending June 30:	
2011	\$ 741,316
2012	807,461
2013	704,426
2014	600,091
2015	661,829
Thereafter	<u>18,269,325</u>
Total	<u>\$ 21,784,448</u>

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8. Deferred Revenue

Deferred revenue consisted of the following at June 30:

	2010		2009	
	Current	Noncurrent	Current	Noncurrent
Student tuition and fees	\$ 1,129,166	\$ -	\$ 1,249,109	\$ -
Grants	84,700	-	716,668	-
Other	52,674	65,220	49,572	88,551
Total	\$ 1,266,540	\$ 65,220	\$ 2,015,349	\$ 88,551

9. Compensated Absences and Postretirement Benefits

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

	2010		2009	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	\$ 300,000	\$ 4,119,668	\$ 300,000	\$ 3,974,279
Post-retirement benefit obligations	2,370,000	29,664,844	2,382,000	26,927,571
Total	\$ 2,670,000	\$ 33,784,512	\$ 2,682,000	\$ 30,901,850

Compensated Absences

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

	2010	2009
Balance July 1	\$ 4,274,279	\$ 3,882,073
Current changes in estimate	550,869	569,957
Payouts	(405,480)	(177,751)
Balance June 30	\$ 4,419,668	\$ 4,274,279

Postretirement Benefits

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined health care benefits 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.

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Notes to Financial Statements
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9. Compensated Absences and Postretirement Benefits (Continued)

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 nonrepresented employees participate in a single-employer defined benefits healthcare plan administered by PASSHE (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. The State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188) empowers the Board to establish and amend benefits provisions. The System Plan is unfunded, and no financial report is prepared.

Funding Policy

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. PASSHE paid premiums of \$31,830,000 and \$43,847,000 for the fiscal years ended June 30, 2010 and 2009, respectively. Plan members receiving benefits who retired prior to July 1, 2005 are not required to make contributions. Plan members receiving benefits who retire after July 1, 2005 contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the date of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. As of June 30, 2010 the maximum rate being contributed by plan members was 10% of the premium currently paid by active employees. Total contributions made by plan members were \$2,080,000 and \$1,951,000, or approximately 6.1% and 4.3% of the total premiums for the fiscal years ending June 30, 2010 and 2009, respectively.

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
June 30, 2010 and 2009

9. Compensated Absences and Postretirement Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 4,539,000
Interest on net OPEB obligation	1,392,000
Adjustments to annual required contribution	<u>(1,446,000)</u>
Annual OPEB cost (expense)	4,485,000
Contributions made	<u>(1,759,727)</u>
Increase in net OPEB obligation	2,725,273
Net OPEB obligation at July 1, 2009	<u>29,309,571</u>
Net OPEB obligation at June 30, 2010	<u>\$ 32,034,844</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 4,485,000	39.2 %	\$ 32,035,000
June 30, 2009	4,173,000	38.7 %	29,310,000
June 30, 2008	4,138,000	29.7 %	26,752,000

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Notes to Financial Statements
June 30, 2010 and 2009

9. Compensated Absences and Postretirement Benefits (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System plan as of July 1, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 55,038,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 55,038,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	<u>\$ 25,030,000</u>
UAAL as a percentage of covered payroll	220%

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, 2009, 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 8.5% initially, reduced by decrements to an ultimate rate of 4.8% by 2020 and thereafter. The UAAL is being amortized as a level percentage of payroll, on a closed basis. The remaining amortization period at July 1, 2009, was 26 years.

9. Compensated Absences and Postretirement Benefits (Continued)

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 nonrepresented 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 upon the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2009/10, PASSHE contributed \$248.68 for each current active employee per biweekly pay period. PASSHE made contributions of \$25,318,000, \$26,131,000 and \$24,858,000 for the fiscal years ended June 30, 2010, 2009, and 2008 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.

10. Pension Benefits

The University's employees participate in one of three multi-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 the PASSHE.

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2010 and 2009

10. Pension Benefits (Continued)

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, the employer (the University) and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. The contribution rate for the University is an actuarially determined rate. The rates were 2.39% and 2.38% of annual covered payroll at June 30, 2010 and 2009, respectively. The University's contributions to PSERS for the years ended June 30, 2010, 2009 and 2008 were approximately \$43,000, \$36,000, and \$48,000, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

SERS also provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (the University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Active members contribute at a rate of either 5.0% or 6.25% of their qualifying compensation. The University contributed at an actuarially determined rate of either 2.52% or 3.15% of an active member's annual covered payroll at June 30, 2010. The University's contributions to SERS for the years ended June 30, 2010, 2009, and 2008, were approximately \$616,000, \$561,000, and \$574,000, 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 of Governors establishes the employee contribution rates. Active members contribute at a rate of 5.0% of their qualifying compensation. The University's contribution rate on June 30, 2010 and 2009 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2010 and 2009 were approximately \$1,652,000 and \$1,549,000, respectively, from the University, and \$889,000 and \$764,000, respectively, from active members.

Lock Haven University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements

June 30, 2010 and 2009

11. Termination Benefits

In March 2010, PASSHE's Board of Governors approved a Voluntary Retirement Incentive Program for both union and nonrepresented employees meeting certain age and service requirements. Eligible employees who, by May 28, 2010, indicated their intent to retire between June 18, 2010 and August 27, 2010, qualify for a cash incentive payout of between \$6,000 and \$30,000, depending on base salary and years of service. As of June 30, 2010, 2 eligible University employees accepted the offer by signing a release and settlement agreement releasing the University from all legal claims related to their employment and retirement. For the year ended June 30, 2010, the University recorded an expense of \$24,000 for the cash incentive and \$1,800 for associated Social Security and Medicare taxes, for a total expense of \$25,800. The cash incentive is not eligible for retirement benefits. The Association of Pennsylvania State College and University Faculties declined to participate in this program.

12. Workers' Compensation

The University participates in PASSHE's self-insured workers' compensation plan. 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 as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$45,249 and \$36,444 to the Reserve Fund during the years ended June 30, 2010 and 2009, respectively.

The liability for claims under the self-insurance limit for the years ended June 30, 2010 and 2009 was \$342,467 and \$466,222 respectively. Changes in the University's workers' compensation claims liability were as follows:

	<u>2010</u>	<u>2009</u>
Balance at July 1	\$ 466,222	\$ 273,858
Current year claims and changes in estimates	129,100	326,124
Claims payments	<u>(252,855)</u>	<u>(133,760)</u>
Balance at June 30	<u>\$ 342,467</u>	<u>\$ 466,222</u>

13. Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2010 and 2009 were approximately \$6,214,000 and \$8,756,000, respectively.

**Lock Haven University of Pennsylvania
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Notes to Financial Statements
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13. Commitments and Contingencies (Continued)

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 (see 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 commercial coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

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

14. Subsequent Event

On July 8, 2010, PHEFA issued Series AL tax-exempt revenue bonds. The net proceeds were used to finance various PASSHE-wide capital projects and advance refund the Series T revenue bonds. As of July 8, 2010, the University's share of Bond AL funding was \$4,677,733. In connection with the bond issuance, PASSHE entered into a loan agreement with PHEFA under which PASSHE pledged its full faith and credit for repayment of the bonds.

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Required Supplementary Information
June 30, 2010 and 2009 (Unaudited)

**Schedule Of Funding Progress For The System Plan (OPEB)
(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, 2007	\$0	\$51,091	\$51,091	0%	\$21,945	217%
July 1, 2008	0	51,222	51,222	0%	24,301	211%
July 1, 2009	0	55,038	55,038	0%	25,030	220%

The information below 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.

**Schedule Of Funding Progress For The REHP (OPEB)
(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, 2007	\$38,500	\$ 7,297,500	\$ 7,259,000	.52%	\$3,559,000	203%
July 1, 2008	60,000	12,863,270	12,803,270	.47%	3,559,000	360%
July 1, 2009	47,920	13,257,570	13,209,650	.36%	4,093,000	323%