

ParenteBeard LLC

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

Financial Statements
For the Years Ended
June 30, 2009 and 2008
&
Independent Auditors' Report
&
Required Supplementary Information

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS:	
BALANCE SHEET- PRIMARY INSTITUTION.....	4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – PRIMARY INSTITUTION.....	6
STATEMENT OF CASH FLOWS – PRIMARY INSTITUTION	7
COMBINED BALANCE SHEET- COMPONENT UNITS	8
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – COMPONENT UNITS	9
NOTES TO FINANCIAL STATEMENTS	10
REQUIRED SUPPLEMENTARY INFORMATION,	
SCHEDULE OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)...	38

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, 2009 and 2008. 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 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, 2009 and 2008, 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 38 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.

Parente Beard LLC

Williamsport, Pennsylvania
December 10, 2009

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

**BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2009 AND 2008**

	2009	2008
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 34,867,560	\$ 33,947,936
Accounts receivable:		
Governmental grants and contracts	1,041,981	740,003
Students, net of allowance for doubtful accounts of \$1,561,060 in 2009 and \$1,450,000 in 2008	1,591,922	1,238,518
Other	503,260	1,168,451
Investment income receivable	105,415	37,733
Prepaid expenses	953,587	1,038,154
Loans receivable, net of allowance for doubtful accounts of \$300,000 in 2009 and 2008	93,220	92,888
Other current assets	<u>86,807</u>	<u>91,839</u>
Total current assets	<u>39,243,752</u>	<u>38,355,522</u>
NONCURRENT ASSETS:		
Loans receivable	838,981	835,992
Capital assets, net	<u>63,100,314</u>	<u>61,363,521</u>
Total noncurrent assets	<u>63,939,295</u>	<u>62,199,513</u>
TOTAL	<u><u>\$103,183,047</u></u>	<u><u>\$100,555,035</u></u>

LOCK HAVEN UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEET - PRIMARY INSTITUTION
JUNE 30, 2009 AND 2008

	2009	2008
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 7,916,110	\$ 9,246,778
Deferred revenue	2,015,349	1,263,364
Students' deposits	495,476	464,836
Workers' compensation	209,235	165,803
Compensated absences and postretirement benefit obligations	2,682,000	2,624,000
Current portion of bonds payable, net	832,142	803,943
Capitalized lease obligations	62,607	61,618
Due to System, Academic Facilities Renovation Bond Program (AFRP)	128,410	134,517
Other current liabilities	<u>44,088</u>	<u>31,394</u>
Total current liabilities	<u>14,385,417</u>	<u>14,796,253</u>
NONCURRENT LIABILITIES:		
Deferred revenue	88,551	111,882
Workers' compensation	256,987	108,055
Compensated absences and postretirement benefit obligations	30,901,850	28,010,093
Capitalized lease obligations	127,603	28,788
Bonds payable, net	10,950,519	11,776,830
Due to System, AFRP	2,080,322	2,205,328
Other noncurrent liabilities	<u>1,157,252</u>	<u>1,075,651</u>
Total noncurrent liabilities	<u>45,563,084</u>	<u>43,316,627</u>
Total liabilities	<u>59,948,501</u>	<u>58,112,880</u>
NET ASSETS:		
Invested in capital assets, net of related debt	48,918,711	46,352,496
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	20,965	20,965
Other	237,226	222,124
Expendable:		
Scholarships and fellowships	29,176	28,207
Other	3,567	9,936
Unrestricted	<u>(5,975,099)</u>	<u>(4,191,573)</u>
Total net assets	<u>43,234,546</u>	<u>42,442,155</u>
TOTAL	<u>\$ 103,183,047</u>	<u>\$ 100,555,035</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, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Tuition and fees	\$37,240,779	\$35,692,426
Less scholarship discounts and allowances	<u>8,827,811</u>	<u>8,172,749</u>
Net tuition and fees	28,412,968	27,519,677
Governmental grants and contracts:		
Federal	6,685,350	5,739,824
State and local	6,324,810	7,118,839
Other	123,252	86,987
Sales and services of educational departments	286,145	277,915
Auxiliary enterprises	13,739,967	12,768,925
Other revenues	<u>1,112,782</u>	<u>1,026,204</u>
Total operating revenues	<u>56,685,274</u>	<u>54,538,371</u>
OPERATING EXPENSES:		
Instruction	28,267,265	27,551,338
Research	62,153	82,922
Public service	901,629	1,126,943
Academic support	7,458,722	8,297,000
Student services	8,383,664	8,168,831
Institutional support	9,705,437	9,928,238
Operations and maintenance of plant	6,827,085	6,660,320
Depreciation	4,516,700	4,018,884
Student aid	3,411,840	3,845,381
Auxiliary enterprises	<u>11,229,483</u>	<u>10,551,020</u>
Total operating expenses	<u>80,763,978</u>	<u>80,230,877</u>
OPERATING LOSS	<u>(24,078,704)</u>	<u>(25,692,506)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations, general and restricted	23,087,122	23,771,499
Investment income, net of related investment expense of \$15,310 in 2009 and \$14,817 in 2008	1,157,305	1,724,669
Gifts for other than capital purposes	112,657	77,850
Interest expense on capital asset-related debt	(626,543)	(503,736)
Loss on disposal of assets	(41,019)	(49,939)
Other nonoperating revenue	<u>46,672</u>	<u>54,287</u>
Nonoperating revenues, net	<u>23,736,194</u>	<u>25,074,630</u>
LOSS BEFORE OTHER REVENUES	<u>(342,510)</u>	<u>(617,876)</u>
OTHER REVENUES:		
State appropriations, capital	617,704	651,793
Capital gifts and grants	<u>517,197</u>	<u>3,464,278</u>
Total other revenues	<u>1,134,901</u>	<u>4,116,071</u>
INCREASE IN NET ASSETS	792,391	3,498,195
NET ASSETS, beginning	<u>42,442,155</u>	<u>38,943,960</u>
NET ASSETS, ending	<u>\$43,234,546</u>	<u>\$42,442,155</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, 2009 AND 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net tuition and fees	\$ 28,231,846	\$ 27,918,564
Grants and contracts	13,491,263	13,364,860
Payments to suppliers for goods and services	(17,542,421)	(19,096,454)
Payments to employees	(51,652,276)	(49,949,954)
Loans issued to students	(128,243)	(95,713)
Loans collected from students	124,922	162,387
Student aid	(3,411,840)	(3,845,381)
Auxiliary enterprise charges	13,663,348	12,873,502
Sales and services of educational departments	286,145	277,915
Other receipts	136,381	1,944,825
	<u>(16,800,875)</u>	<u>(16,445,449)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	23,087,122	23,771,499
Gifts for other than capital purposes	112,657	77,850
PLUS, Stafford, and other loans receipts (non-Perkins)	40,474,273	29,657,684
PLUS, Stafford, and other loans disbursements (non-Perkins)	(40,474,273)	(29,657,684)
Agency transactions, net	(3,396)	7,261
Other	113,351	102,090
	<u>23,309,734</u>	<u>23,958,700</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds of debt	14,320	-
Capital appropriations	617,704	651,793
Capital grants and gifts received	517,197	3,464,278
Purchases of capital assets	(6,294,512)	(11,867,076)
Principal paid on debt	(858,982)	(982,493)
Interest paid on debt	(674,584)	(555,973)
	<u>(6,678,857)</u>	<u>(9,289,471)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest income	<u>1,089,622</u>	<u>1,720,415</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	919,624	(55,805)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>33,947,936</u>	<u>34,003,741</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 34,867,560</u>	<u>\$ 33,947,936</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (24,078,704)	\$ (25,692,506)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	4,516,700	4,018,884
Changes in assets and liabilities:		
Accounts receivables	(655,382)	780,589
Other assets	754,790	1,258,363
Accounts payable and accrued expenses	(1,330,668)	1,244,441
Deferred revenue	728,654	142,494
Students' deposits	30,640	102,365
Compensated absences	392,206	280,662
Loans receivable	(3,321)	66,674
Other liabilities	2,844,210	1,352,585
	<u>\$ (16,800,875)</u>	<u>\$ (16,445,449)</u>

See Notes to Financial Statements

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

COMBINED BALANCE SHEET - COMPONENT UNITS
JUNE 30, 2009 AND 2008

	2009	2008
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,343,916	\$ 1,048,151
Accounts receivable	154,575	277,810
Contributions/pledges receivable	479,144	609,449
Inventories	393,307	366,073
Short-term investments	<u>981,660</u>	<u>1,142,645</u>
Total current assets	<u>3,352,602</u>	<u>3,444,128</u>
NONCURRENT ASSETS:		
Investments	11,618,897	14,753,266
Capital assets, net	17,575,884	18,701,766
Other assets	<u>1,590,745</u>	<u>1,652,090</u>
Total noncurrent assets	<u>30,785,526</u>	<u>35,107,122</u>
TOTAL	<u>\$ 34,138,128</u>	<u>\$ 38,551,250</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 463,464	\$ 605,891
Annuity liabilities	577,296	671,169
Due to University	<u>21,815</u>	<u>-</u>
Total current liabilities	<u>1,062,575</u>	<u>1,277,060</u>
NONCURRENT LIABILITIES:		
Bonds payable	17,445,000	17,665,000
Notes payable	8,974,292	9,290,226
Other liabilities	<u>677,171</u>	<u>695,530</u>
Total noncurrent liabilities	<u>27,096,463</u>	<u>27,650,756</u>
Total liabilities	<u>28,159,038</u>	<u>28,927,816</u>
NET ASSETS (DEFICIT):		
Unrestricted	(2,549,243)	(1,172,192)
Temporarily restricted	2,868,932	3,962,944
Permanently restricted	<u>5,659,401</u>	<u>6,832,682</u>
Total net assets	<u>5,979,090</u>	<u>9,623,434</u>
TOTAL	<u>\$ 34,138,128</u>	<u>\$ 38,551,250</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
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES AND OTHER ADDITIONS:		
Sales and services	\$ 810,319	\$ 792,389
Contributions	131,715	261,825
Investment (loss) income	(360,423)	220,866
Student activity fees	1,401,582	1,316,313
Other revenues	3,729,975	3,403,160
Satisfaction of donor restrictions	<u>2,607,154</u>	<u>2,935,827</u>
Total revenues and other additions	<u>8,320,322</u>	<u>8,930,380</u>
EXPENSES AND OTHER DEDUCTIONS:		
Management and general	1,545,929	1,588,529
Program expenses	5,351,189	9,011,743
Scholarships	1,197,092	950,970
Student services	1,315,095	1,252,741
Other expenses	<u>288,068</u>	<u>255,445</u>
Total expenses and other deductions	<u>9,697,373</u>	<u>13,059,428</u>
Decrease in unrestricted net assets	<u>(1,377,051)</u>	<u>(4,129,048)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Sales and services	565,249	1,155,647
Contributions and support	491,863	1,422,161
Investment (loss) income	(579,912)	190,313
Other revenues	652,857	417,789
Satisfaction of donor restrictions	<u>(2,224,069)</u>	<u>(2,935,827)</u>
(Decrease) increase in temporarily restricted net assets	<u>(1,094,012)</u>	<u>250,083</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	684,160	715,142
Investment loss	(1,474,356)	(1,472,761)
Satisfaction of donor restrictions	<u>(383,085)</u>	<u>-</u>
Decrease in permanently restricted net assets	<u>(1,173,281)</u>	<u>(757,619)</u>
DECREASE IN NET ASSETS	<u>(3,644,344)</u>	<u>(4,636,584)</u>
NET ASSETS AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	9,623,434	14,376,595
RESTATEMENT	<u>-</u>	<u>(116,577)</u>
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	<u>9,623,434</u>	<u>14,260,018</u>
NET ASSETS, END OF YEAR	<u>\$ 5,979,090</u>	<u>\$ 9,623,434</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 June 30, 2009 and 2008.

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

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, 2009 and 2008.

During the years ended June 30, 2009 and 2008, the Lock Haven University Foundation awarded grants-in-aid and scholarships of \$1,197,092 and \$950,970. For the years ended June 30, 2009 and 2008, respectively, the Lock Haven University Foundation gifted \$670,000 and \$3,400,000 to the University for restricted purposes.

During the years ended June 30, 2009 and 2008, the Clearfield Educational Foundation, Inc. distributed \$12,050 and \$12,590 to the University for 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

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 \$223,847 and \$407,327 for the years ended June 30, 2009 and 2008, 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.

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.

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.

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. 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 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 2008 financial statements have been reclassified to conform to the 2009 presentation.

NEW ACCOUNTING STANDARDS

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments, and specifically requires endowments to report their land and other real estate investments at fair value. The University has determined that Statement No. 52, which is effective for the fiscal year ending June 30, 2009, has no effect on its balance sheet or statement of revenues, expenses, and changes in net assets.

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. The University is required to adopt Statement No. 51 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. The University is required to adopt Statement No. 53 for the fiscal year ending June 30, 2010. The University is evaluating, but has not determined, how the adoption of Statements No. 51 and 53 will affect its balance sheet and the statement of revenues, expenses, and changes in net assets.

2. CONDENSED COMPONENT UNIT INFORMATION

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

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Capital assets, net	\$15,874,098	\$1,701,786	\$17,575,884
Other assets	<u>14,472,071</u>	<u>2,090,173</u>	<u>16,562,244</u>
Total assets	<u>\$30,346,169</u>	<u>\$3,791,959</u>	<u>\$34,138,128</u>
Long-term debt	\$26,419,292	\$ -	\$26,419,292
Other liabilities	<u>1,449,144</u>	<u>290,602</u>	<u>1,739,746</u>
Total liabilities	<u>\$27,868,436</u>	<u>\$ 290,602</u>	<u>\$28,159,038</u>

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

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Net assets (deficit):			
Unrestricted	\$(5,841,786)	\$3,292,543	\$(2,549,243)
Temporarily restricted	2,868,932	-	2,868,932
Permanently restricted	<u>5,450,587</u>	<u>208,814</u>	<u>5,659,401</u>
Total net assets	<u>\$ 2,477,733</u>	<u>\$3,501,357</u>	<u>\$ 5,979,090</u>

The following represents combining condensed balance sheet information for the component units as of June 30, 2008:

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Capital assets, net	\$16,969,469	\$1,732,297	\$18,701,766
Other assets	<u>17,486,920</u>	<u>2,362,564</u>	<u>19,849,484</u>
Total assets	<u>\$34,456,389</u>	<u>\$4,094,861</u>	<u>\$38,551,250</u>
Long-term debt	\$26,419,847	-	\$26,419,847
Other liabilities	<u>2,137,087</u>	<u>370,882</u>	<u>2,507,969</u>
Total liabilities	<u>\$28,556,934</u>	<u>\$ 370,882</u>	<u>\$28,927,816</u>
Net assets (deficits):			
Unrestricted	(4,691,577)	\$3,519,385	\$ (1,172,192)
Temporarily restricted	3,962,944	-	3,962,944
Permanently restricted	<u>6,628,088</u>	<u>204,594</u>	<u>6,832,682</u>
Total net assets	<u>\$ 5,899,455</u>	<u>\$3,723,979</u>	<u>\$9,623,434</u>

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

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>
Decrease in unrestricted net assets	<u>(1,150,209)</u>	<u>(226,842)</u>	<u>(1,377,051)</u>
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	<u>(2,224,069)</u>	<u>-</u>	<u>(2,224,069)</u>
Decrease in temporarily restricted net assets	<u>(1,094,012)</u>	<u>-</u>	<u>(1,094,012)</u>
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	<u>(383,085)</u>	<u>-</u>	<u>(383,085)</u>
(Decrease) increase in permanently restricted net assets	<u>(1,177,501)</u>	<u>4,220</u>	<u>(1,173,281)</u>
Decrease in net assets	<u>\$(3,421,722)</u>	<u>\$ (222,622)</u>	<u>\$(3,644,344)</u>
Net assets beginning of year	<u>5,899,455</u>	<u>3,723,979</u>	<u>9,623,434</u>
Net assets end of year	<u>\$ 2,477,733</u>	<u>\$3,501,357</u>	<u>\$ 5,979,090</u>

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

The following represents combining statement of revenues, expenses, and changes in net assets for the component units for the year ended June 30, 2008:

	<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	\$ 19,649	\$ 772,740	\$ 792,389
Contributions	101,661	160,164	261,825
Investment income	271,222	(50,356)	220,866
Student activity fees	-	1,316,313	1,316,313
Other revenues	3,204,096	199,064	3,403,160
Satisfaction of donor restrictions	<u>2,927,119</u>	<u>8,708</u>	<u>2,935,827</u>
Total revenues and other additions	<u>6,523,747</u>	<u>2,406,633</u>	<u>8,930,380</u>
Expenses and other deductions:			
Management and general	215,640	1,372,889	1,588,529
Program expenses	8,977,149	34,594	9,011,743
Scholarships	950,970	-	950,970
Student services	-	1,252,741	1,252,741
Other expenses	<u>255,280</u>	<u>165</u>	<u>255,445</u>
Total expenses and other deductions	<u>10,399,039</u>	<u>2,660,389</u>	<u>13,059,428</u>
(Decrease) in unrestricted net assets	<u>(3,875,292)</u>	<u>(253,756)</u>	<u>(4,129,048)</u>
Changes in temporarily restricted net assets:			
Sales and services	1,155,647	-	1,155,647
Contributions and support	1,418,861	3,300	1,422,161
Investment income	184,905	5,408	190,313
Other revenues	417,789	-	417,789
Satisfaction of donor restrictions	<u>(2,927,119)</u>	<u>(8,708)</u>	<u>(2,935,827)</u>
Decrease in temporarily restricted net assets	<u>250,083</u>	<u>-</u>	<u>250,083</u>

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

	<u>LHU FOUNDATION</u>	<u>NON-MAJOR COMPONENT UNITS</u>	<u>TOTAL</u>
Changes in permanently restricted net assets:			
Contributions	\$ 708,842	\$ 6,300	\$ 715,142
Investment income	<u>(1,472,761)</u>	<u>-</u>	<u>(1,472,761)</u>
(Decrease)/Increase in permanently restricted net assets	<u>(763,919)</u>	<u>6,300</u>	<u>(757,619)</u>
Decrease in net assets	<u>(4,389,128)</u>	<u>(247,456)</u>	<u>(4,636,584)</u>
Net assets at beginning of year, as previously reported	10,288,583	4,088,012	14,376,595
Restatement	<u>-</u>	<u>(116,577)</u>	<u>(116,577)</u>
Net assets at beginning of year, as restated	<u>10,288,583</u>	<u>3,971,435</u>	<u>14,260,018</u>
Net assets end of year	<u>\$ 5,899,455</u>	<u>\$3,723,979</u>	<u>\$ 9,623,434</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 \$34,490,075 and \$33,530,844 at June 30, 2009 and 2008, respectively.

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

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 THE STATE SYSTEM OF HIGHER EDUCATION
 NOTES TO FINANCIAL STATEMENTS

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.

<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, 2009 and 2008, the carrying amount of the University's demand and time deposits were \$377,485 and \$417,092, respectively, compared to bank balances of \$455,199 and \$812,423, respectively. The difference is caused primarily by items in transit. Of the bank balances, \$280,042 and \$105,605, respectively, was covered by federal government depository insurance, and \$175,157 and \$706,818, 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, 2009 and 2008, none of the University's demand and time deposits is exposed to foreign currency risk.

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

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, 2009:

	Beginning Balance July 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Ending Balance June 30, <u>2009</u>
Land	\$ 2,280,661	\$ -	\$ -	\$ -	\$ 2,280,661
Construction In progress	<u>2,528,501</u>	<u>2,290,145</u>	<u>(27,882)</u>	<u>(2,252,685)</u>	<u>2,538,079</u>
Total capital assets not being depreciated	<u>4,809,162</u>	<u>2,290,145</u>	<u>(27,882)</u>	<u>(2,252,685)</u>	<u>4,818,740</u>
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	<u>4,009,265</u>	<u>119,345</u>	<u>(38,070)</u>	<u>-</u>	<u>4,090,540</u>
Total capital assets being depreciated	<u>85,404,784</u>	<u>4,004,367</u>	<u>(351,332)</u>	<u>2,252,685</u>	<u>91,310,504</u>
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	<u>(3,403,367)</u>	<u>(95,940)</u>	<u>38,070</u>	<u>-</u>	<u>(3,461,237)</u>
Total accumulated depreciation	<u>(28,850,425)</u>	<u>(4,516,700)</u>	<u>338,195</u>	<u>-</u>	<u>(33,028,930)</u>
Total capital assets being depreciated, net	<u>56,554,359</u>	<u>(512,333)</u>	<u>(13,137)</u>	<u>2,252,685</u>	<u>58,281,574</u>
Capital assets, net	<u>\$ 61,363,521</u>	<u>\$(1,777,812)</u>	<u>\$ (41,019)</u>	<u>\$ -</u>	<u>\$ 63,100,314</u>

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

For the year ended June 30, 2008:

	Beginning Balance July 1, <u>2007</u>	Additions	Retirements	Reclass	Ending Balance June 30, <u>2008</u>
Land	\$ 2,280,661				\$ 2,280,661
Construction in progress	<u>13,252,902</u>	<u>\$2,479,857</u>	<u>\$ (7,255)</u>	<u>\$(13,197,003)</u>	<u>2,528,501</u>
Total capital assets not being depreciated	<u>15,533,563</u>	<u>2,479,857</u>	<u>(7,255)</u>	<u>(13,197,003)</u>	<u>4,809,162</u>
Buildings, including improvements	53,468,970	7,474,724	(43,081)	13,197,003	74,097,616
Furnishings and equipment, including capital leases	5,747,748	1,790,197	(240,042)		7,297,903
Library books	<u>3,967,896</u>	<u>122,298</u>	<u>(80,929)</u>		<u>4,009,265</u>
Total capital assets being depreciated	<u>63,184,614</u>	<u>9,387,219</u>	<u>(364,052)</u>	<u>13,197,003</u>	<u>85,404,784</u>
Less accumulated depreciation:					
Buildings, including improvements	(18,584,455)	(3,061,979)	13,720		(21,632,714)
Furnishings and equipment, including capital leases	(3,152,046)	(871,960)	209,662		(3,814,344)
Library books	<u>(3,399,583)</u>	<u>(84,945)</u>	<u>81,161</u>		<u>(3,403,367)</u>
Total accumulated depreciation	<u>(25,136,084)</u>	<u>(4,018,884)</u>	<u>304,543</u>	<u>-</u>	<u>(28,850,425)</u>
Total capital assets being depreciated, net	<u>38,048,530</u>	<u>5,368,335</u>	<u>(59,509)</u>	<u>13,197,003</u>	<u>56,554,359</u>
Capital assets, net	<u>\$ 53,582,093</u>	<u>\$ 7,848,192</u>	<u>\$ (66,764)</u>	<u>\$ -</u>	<u>\$ 61,363,521</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:

<u>YEAR ENDING JUNE 30</u>	<u>AMOUNT</u>
2010	\$ 77,601
2011	58,007
2012	46,207
2013	36,269
2014	<u>5,509</u>
Total minimum lease payments	223,593
Less amount representing interest on capital leases	<u>33,383</u>
Present value of net minimum capital lease payment	<u>\$190,210</u>

Capital assets includes \$192,108 and \$81,107 of equipment acquired through leases that are capitalized at June 30, 2009 and 2008, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2009</u>	<u>2008</u>
Employees	\$5,205,793	\$5,001,623
Suppliers	2,686,521	4,217,072
Accrued interest payable	<u>23,796</u>	<u>28,083</u>
Total	<u>\$7,916,110</u>	<u>\$9,246,778</u>

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

7. BONDS PAYABLE

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

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 Center	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		\$12,320,310	\$ 818,446	\$(766,676)	\$(804,126)	11,567,954
Plus unamortized bond premium costs, net						223,557
Less unamortized loss on refunding						(8,850)
Outstanding at end of year						11,782,661
Less current portion						832,142
Noncurrent portion						<u>\$10,950,519</u>

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

For the year ended June 30, 2008 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2007	Bonds Issued	Bonds Redeemed	Bonds Refunded	Balance June 30, 2008
Series T used for sprinkler installation and Recreation Center	4.89%	\$ 6,065,152		\$(315,164)		\$ 5,749,988
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	4.55%	314,300		(99,695)		214,605
Series Y used for completion of various PASSHE wide capital projects	Variable	44,662				44,662
Series Z used to refund Series K Bonds	3.97%	630,135		(147,061)		483,074
Series AB used for PASSHE wide capital projects	Variable	214,145				214,145
Series AE used for PASSHE wide capital projects	4.99%	<u>5,238,465</u>	<u>-</u>	<u>(169,948)</u>	<u>-</u>	<u>5,068,517</u>
Total bonds payable		<u>\$13,052,178</u>	<u>\$ -</u>	<u>\$(731,868)</u>	<u>\$ -</u>	<u>12,320,310</u>
Plus unamortized bond premium costs, net						264,947
Less unamortized loss on refunding						(4,484)
Outstanding at end of year						12,580,773
Less current portion						803,943
Noncurrent portion						<u>\$11,776,830</u>

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

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

		2010	2011	2012	2013	2014	2015- 2019	2020- 2024	2025- 2029	Total
Series										
T	Principal	\$ 343,178	\$ 363,022	\$ 380,531	\$ 394,538	\$ 414,382	\$ 2,395,245	\$ 1,131,088	\$ -	\$ 5,421,984
	Interest	265,337	248,178	230,027	211,001	193,246	649,536	85,503	-	1,882,828
	Total	608,515	611,200	610,558	605,539	607,628	3,044,781	1,216,591	-	7,304,812
X	Principal	110,189	-	-	-	-	-	-	-	110,189
	Interest	5,509	-	-	-	-	-	-	-	5,509
	Total	115,698	-	-	-	-	-	-	-	115,698
Z	Principal	160,830	166,688	-	-	-	-	-	-	327,518
	Interest	13,100	6,668	-	-	-	-	-	-	19,768
	Total	173,930	173,356	-	-	-	-	-	-	347,286
AE	Principal	187,450	197,122	206,794	217,387	228,440	1,335,178	1,708,235	809,211	4,889,817
	Interest	247,606	238,134	228,278	217,938	206,525	840,254	466,875	61,186	2,506,696
	Total	434,956	435,256	435,072	435,325	434,965	2,175,432	2,175,110	870,397	7,396,513
AI	Principal	-	-	-	-	-	-	818,446	-	818,446
	Interest	36,082	36,082	36,082	36,082	36,082	180,410	130,015	-	490,835
	Total	36,082	36,082	36,082	36,082	36,082	180,410	948,461	-	1,309,281
Total	Principal	801,847	726,832	587,325	611,925	642,822	3,730,423	3,657,769	809,211	11,567,954
	Interest	567,534	529,062	494,387	465,021	435,853	1,670,200	682,393	61,186	4,905,636
	Total	\$ 1,369,181	\$ 1,255,894	\$ 1,081,712	\$ 1,076,946	\$ 1,078,675	\$ 5,400,623	\$ 4,340,162	\$ 870,397	\$ 16,473,590

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

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 (\$49,354,148 and \$50,008,222 was outstanding as of June 30, 2009 and 2008). 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.

Changes in the balance owed by the University to the AFRP pool of funding in 2009 were as follows:

Balance at July 1	\$2,339,845
Proceeds	-
Repayments	<u>(131,113)</u>
Balance at June 30	<u>\$2,208,732</u>

8. DEFERRED REVENUE

Deferred revenue consisted of the following at June 30:

	<u>2009</u>		<u>2008</u>	
	<u>CURRENT</u>	<u>NONCURRENT</u>	<u>CURRENT</u>	<u>NONCURRENT</u>
Student tuition and fees	\$1,249,109		\$1,160,754	
Grants	716,668		56,839	
Other	<u>49,572</u>	<u>\$88,551</u>	<u>45,771</u>	<u>\$111,882</u>
Total	<u>\$2,015,349</u>	<u>\$88,551</u>	<u>\$1,263,364</u>	<u>\$111,882</u>

9. COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

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

	2009		2008	
	<u>CURRENT</u>	<u>NONCURRENT</u>	<u>CURRENT</u>	<u>NONCURRENT</u>
Compensated absences	\$ 300,000	\$ 3,974,279	\$ 300,000	\$ 3,582,073
Post-retirement benefit obligations	<u>2,382,000</u>	<u>26,927,571</u>	<u>2,324,000</u>	<u>24,428,020</u>
Total	<u>\$2,682,000</u>	<u>\$30,901,850</u>	<u>\$2,624,000</u>	<u>\$28,010,093</u>

COMPENSATED ABSENCES

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

	<u>2009</u>	<u>2008</u>
Balance July 1	\$3,882,073	\$3,601,411
Current changes in estimate	569,957	791,932
Payouts	<u>(177,751)</u>	<u>(511,270)</u>
Balance June 30	<u>\$4,274,279</u>	<u>\$3,882,073</u>

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.

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 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. 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 \$43,847,000 and \$32,570,000 for the fiscal years ended June 30, 2009 and 2008, 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, 2009 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 \$1,951,000 and \$1,644,000, or approximately 4.4% and 5.0% of the total premiums for the fiscal years ending June 30, 2009 and 2008, respectively.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 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	\$ 4,183,000
Interest on net OPEB obligation	1,271,000
Adjustment to annual required contribution	<u>(1,281,000)</u>
Annual OPEB cost (expense)	4,173,000
Contributions made	<u>(1,615,449)</u>
Increase in net OPEB obligation	2,557,551
Net OPEB obligation at July 1, 2008	<u>26,752,020</u>
Net OPEB obligation at June 30, 2009	<u>\$29,309,571</u>

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, 2008, 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 5.0% after six years. The UAAL is being amortized as a level percentage of payroll, on a closed basis. The remaining amortization period at July 1, 2008, was 27 years.

RETIRED EMPLOYEES HEALTH PROGRAM

PLAN DESCRIPTION

Employee members of the American Federation of State, County and Municipal Employees; Pennsylvania Doctors Alliance; and Pennsylvania Social Services Union participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with health care benefits. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

FUNDING POLICY

The contribution requirements of plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members receiving benefits who retired prior to July 1, 2004 are not required to make contributions. Beginning July 1, 2005, plan members receiving benefits who retired after July 1, 2004 contribute at a rate of 1.0% of their final salary. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2008/09, PASSHE contributed \$248.68 for each current active employee per biweekly pay period. PASSHE made contributions of \$26,131,000, \$24,858,000 and \$24,675,000 for the fiscal years ending June 30, 2009, 2008, and 2007, 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 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.

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 2.380% and 3.565% of annual covered payroll at June 30, 2009 and 2008, respectively. The University's contributions to PSERS for the years ended June 30, 2009, 2008 and 2007 were approximately \$36,000, \$48,000, and \$39,000, 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 2.64% or 3.29% of an active member's annual covered payroll at June 30, 2009. The University's contributions to SERS for the years ended June 30, 2009, 2008, and 2007, were approximately \$561,000, \$574,000, and \$546,000, 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.

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, 2009 and 2008 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2009 and 2008 were approximately \$1,549,000 and \$1,539,000, respectively, from the University, and \$764,000 and \$723,000, respectively, from active members.

11. 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 the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$36,444 and \$24,538 to the Reserve Fund during the years ended June 30, 2009 and 2008, respectively.

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

The liability for claims under the self-insurance limit for the years ended June 30, 2009 and 2008 was \$466,222 and \$273,858 respectively. Changes in the University's claims liability were as follows:

	<u>2009</u>	<u>2008</u>
Balance at July 1	\$ 273,858	\$ 330,618
Current year claims and changes in estimates	326,124	182,740
Payments	<u>(133,760)</u>	<u>(239,500)</u>
Balance at June 30	<u>\$ 466,222</u>	<u>\$ 273,858</u>

12. COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction projects unexpended as of June 30, 2009 and 2008 were approximately \$8,756,000 and \$3,558,000, 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 (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.

13. SUBSEQUENT EVENT

On July 9, 2009, PASSHE issued bond series AJ, which was used for various PASSHE-wide capital projects. As of July 9, 2009, the University's share of Bond AJ funding was \$8,730,000.

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

**REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008
(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, 2006	\$0	\$49,173	\$49,173	0%	\$21,306	215%
July 1, 2007	0	51,091	51,091	0%	21,945	217%
July 1, 2008	0	51,222	51,222	0%	24,301	211%

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	47,920	13,257,570	13,209,650	.36%	4,093,000	323%