

**West Chester University of
Pennsylvania of the State
System of Higher Education**

Financial Statements and
Supplementary Information

June 30, 2012 and 2011



West Chester University of Pennsylvania of the State System of Higher Education

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June 30, 2012 and 2011

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Independent Auditors' Report

Council of Trustees

West Chester University of Pennsylvania of the State System of Higher Education

We have audited the accompanying financial statements of West Chester University of Pennsylvania of the State System of Higher Education (the "University") and its aggregate discretely presented component units as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Student Services, Inc. and West Chester University Alumni Association, which represent 8 percent of the assets as of June 30, 2012 and 2011, and 24 and 20 percent of the revenues for the years ended June 30, 2012 and 2011, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Student Services, Inc. and West Chester University Alumni Association is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") on pages 3 through 12 and the Schedule of Funding Progress for the System Plan and the REHP (OPEB) on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Parente Beard LLC

Philadelphia, Pennsylvania
November 9, 2012

West Chester University of Pennsylvania of the State System of Higher Education

Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of West Chester University of Pennsylvania of the State System of Higher Education ("the University") for the years ended June 30, 2012 and 2011. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

West Chester University is a public university of the Commonwealth of Pennsylvania ("Commonwealth") and a member of the Pennsylvania State System of Higher Education ("PASSHE"). As such, the University is charged with providing high-quality education at the lowest possible cost to its students. With over 15,000 students enrolled, the University is the second largest of the PASSHE universities.

The University functions independently, but being part of PASSHE enables the University to share resources and benefit from economies of scale. Following is an overview of the University's financial activities for the years ended June 30, 2012 and 2011.

Financial Highlights

- The total Commonwealth appropriation to PASSHE for operations in fiscal year 2011-12 was \$419.6 million, a decrease of \$45.6 million from fiscal year 2010-11.
- The majority of the Commonwealth funding to PASSHE is distributed to each institution based on an allocation formula, which has been approved by PASSHE's Board of Governors (the "Board"). The University received approximately \$42.8 million in funding through the allocation formula in fiscal year 2011-12, which was an 8.5% decrease from the \$46.8 million received in fiscal year 2010-11.
- The University also received an allocation of Commonwealth funding that PASSHE set aside for performance. The performance funding plan is part of PASSHE's continuing commitment to ensure the high quality of university programs. It rewards universities for success on measures such as productivity, diversity, and student advancement. In fiscal year 2011-12, the University received \$4.7 million in performance funding; in the prior fiscal year, the University received \$5.2 million in performance funding.
- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2011-12 were \$47.4 million; in the prior fiscal year, they were \$52.0 million. In addition, the University did not receive federal stimulus funding in fiscal year 2011-12 but received \$4.5 million in fiscal year 2010-11.
- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, totaled \$0.8 million in fiscal year 2011-12 and \$0.0 million in fiscal year 2010-11.

West Chester University of Pennsylvania of the State System of Higher Education

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- The PASSHE Board approved a tuition increase of 7.5% for resident and out-of-state students at both the undergraduate and graduate levels for fiscal year 2011-12; the increase for 2010-11 was 4.5%. The PASSHE Board also increased the technology tuition fee by 50.0% for in-state students and by 50.3% for out-of-state students in fiscal year 2011-12. The technology tuition fee in fiscal year 2010-11 increased 12.6% for in-state students and 12.9% for out-of-state students. Universities must use the technology tuition fee to support instructional technology.
- Mandatory fees for all undergraduate students set by the University increased by 2.93% in fiscal year 2011-12 and by 2.4% in fiscal year 2010-11. Mandatory fees for graduate students increased by 3.06% in fiscal year 2011-12 and by 4.0% in fiscal year 2010-11. Room rates (North and South Campus) increased by 0.79% in fiscal year 2011-12 and by 2.5% in fiscal year 2010-11. Food service fees increased 2.44% for 14-meal plans in fiscal year 2011-12, compared to 1.6% for the 14-meal plan for fiscal year 2010-11. The 19-meal plan was discontinued in fiscal year 2011-12 and replaced with a 12-meal plan.
- Tuition and fee revenue (net of discounts) was \$116.1 million for fiscal year 2011-12 and \$103.6 million for fiscal year 2010-11. In addition, revenue from auxiliary enterprises (net of discounts) was \$34.0 million in fiscal year 2011-12 and \$30.3 million in fiscal year 2010-11. Auxiliary enterprise revenues are generated primarily from room and food service charges.
- The University purchased \$29.6 million in capital assets in fiscal year 2011-12, as compared to \$19.4 million in fiscal year 2010-11. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, construction of the Student Recreation Center, and the renovation and expansion of the E.O. Bull Center.
- The University generally utilizes PASSHE to facilitate the issuance of bonds to raise capital for major projects. Given the efficiencies of PASSHE acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. Through this financing arrangement, the University obtained \$27.8 million of additional bond funding for projects in fiscal year 2011-12 and \$9.7 million of additional bond financing for projects in fiscal year 2010-11.
- During fiscal year 2002-03 the University entered into an agreement with the Borough of West Chester to construct and operate two parking garages. The University has recorded this agreement as a capital lease obligation. One parking garage was completed in the fall of 2003, while the other was completed in the fall of 2004. The projects were financed through a general revenue bond issuance of \$9.6 million, issued by the Borough of West Chester. The net amount outstanding on this debt was \$7.3 million and \$7.7 million at June 30, 2012 and 2011, respectively. In May 2011 the Borough of West Chester refunded the 2003 bonds. The new bond issue added a \$125,000 commitment from the University to the Borough to repave the portion of Church Street running through the University's campus. However, even with the additional commitment, the net present value savings to the University resulting from the refunding was approximately \$210,000 over the life of the bonds (through 2028).

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- The West Chester University Foundation (the "Foundation"), previously known as the Fund for West Chester University, was established in 2001 with the specific purpose of performing fundraising for the educational, charitable and scientific interests of the University. The Foundation, a component unit of the University that is reflected in the audited financial statements, includes a wholly-owned subsidiary, University Student Housing, LLC ("USH").
- The purpose of USH is to develop, design, finance, construct and operate new housing for the students of the University. USH and the University entered into a ground lease by which USH agreed to construct apartment-style housing (The Village) on South Campus and suite-style housing (University Hall) on North Campus; in total, the housing accommodates approximately 800 students. Revenue bonds of \$42.3 million dollars were issued by USH through the Chester County Industrial Development Authority in August 2003. These bonds are non-recourse to the University. Construction began shortly thereafter and was completed in the first half of fiscal year 2004-05.
- In March of 2008, USH issued \$100.3 million in revenue bonds through the Chester County Industrial Development Authority for the first phase of a proposed three-phase Housing Renewal Initiative. This initiative is intended to replace most of the University's existing housing. The first phase, comprised of two buildings (Allegheny and Brandywine) and were completed and occupied at the start of the 2009 Fall semester.

The Financial Statements

Balance Sheet

This statement reports the balances of the assets, liabilities and net assets of the University as of the end of the fiscal year. Assets include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets and liabilities is reported as net assets. Net assets increased by \$21.2 million and \$18.5 million in fiscal years 2011-12 and 2010-11, respectively.

West Chester University of Pennsylvania of the State System of Higher Education

Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Following is a summary of the balance sheet at June 30 (in millions):

| | <u>2012</u> | <u>2011</u> |
|--|-----------------|-----------------|
| Assets: | | |
| Capital assets, net | \$ 176.1 | \$ 159.4 |
| Other assets | 214.6 | 194.1 |
| | <u>214.6</u> | <u>194.1</u> |
| Total assets | <u>\$ 390.7</u> | <u>\$ 353.5</u> |
| Liabilities and net assets: | | |
| Liabilities: | | |
| Workers' compensation, compensated absences, and postretirement obligations | \$ 108.8 | \$ 99.5 |
| Bonds payable | 69.4 | 57.2 |
| Other liabilities | 50.0 | 55.4 |
| | <u>50.0</u> | <u>55.4</u> |
| Total liabilities | <u>228.2</u> | <u>212.1</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 104.1 | 95.1 |
| Restricted | 25.5 | 25.7 |
| Unrestricted | 32.9 | 20.6 |
| | <u>32.9</u> | <u>20.6</u> |
| Total net assets | <u>162.5</u> | <u>141.4</u> |
| Total liabilities and net assets | <u>\$ 390.7</u> | <u>\$ 353.5</u> |

Amounts were rounded; consequently some totals may appear not to add exactly.

- Invested in capital assets (net of related debt) is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation and less any associated debt such as bonds payable. This balance is not available for the University's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits PASSHE from selling university land and buildings without prior approval.
- Restricted net assets represent the balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. Nonexpendable restricted net assets represent corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net assets are available for expenditure as long as any external purpose and time restrictions are met.

West Chester University of Pennsylvania of the State System of Higher Education

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- Unrestricted net assets include all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net assets have been reduced by two unfunded liabilities:
 1. The liability for postretirement benefits increased by \$8.7 million to \$95.1 million at June 30, 2012. Because this liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.
 2. The liability for compensated absences increased by \$0.4 million to \$12.0 million at June 30, 2012. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it becomes due.

Statement of Revenues, Expenses, and Changes in Net Assets

This statement reports the revenues earned and the expenses incurred in the fiscal year. The result is reported as an increase or decrease in net assets. In accordance with Governmental Accounting Standards Board ("GASB") requirements, the University has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' state appropriations are nonoperating revenues. In addition, GASB requires classification of gifts, investment income and expenses, and losses on disposals of assets as nonoperating; the University classifies all of its remaining activities as operating.

West Chester University of Pennsylvania of the State System of Higher Education

Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Following is a summary of revenues, expenses, and changes in net assets for the years ending June 30 (in millions):

| | <u>2012</u> | <u>2011</u> |
|---|----------------|----------------|
| Operating revenues: | | |
| Tuition and fees, net | \$ 116.1 | \$ 103.6 |
| Grants and contracts | 29.7 | 25.8 |
| Auxiliary enterprises, net | 34.0 | 30.3 |
| Other | <u>5.9</u> | <u>4.9</u> |
| Total operating revenues | <u>185.7</u> | <u>164.6</u> |
| Other revenues: | | |
| State appropriations | 48.2 | 52.0 |
| Federal appropriations (ARRA funds) | 0.0 | 4.5 |
| Investment income, net (includes unrealized gains and losses) | 2.6 | 5.1 |
| Gifts, grants, and other | <u>2.4</u> | <u>3.4</u> |
| Total other revenues | <u>53.2</u> | <u>65.0</u> |
| Total revenues | <u>238.9</u> | <u>229.6</u> |
| Operating expenses: | | |
| Personnel compensation: | | |
| Salaries | 98.1 | 97.2 |
| Benefits | 30.7 | 30.0 |
| Post retirement expense | 15.9 | 14.9 |
| Student wages | <u>2.8</u> | <u>3.0</u> |
| Total personnel compensation | 147.5 | 145.1 |
| Telecommunications charges | 0.8 | 0.9 |
| Travel and transportation | 1.2 | 1.2 |
| Computing and data processing | 2.3 | 2.2 |
| Professional and contracted services | 5.4 | 4.8 |
| Utilities | 5.3 | 6.4 |
| Food supplies | 11.2 | 9.5 |
| Depreciation | 12.7 | 12.3 |
| Student aid expense | 10.0 | 9.5 |
| Supplies and other current charges | <u>18.6</u> | <u>16.6</u> |
| Total operating expenses | 215.0 | 208.5 |
| Interest expense | <u>2.7</u> | <u>2.6</u> |
| Total expenses | <u>217.7</u> | <u>211.1</u> |
| Increase in net assets | <u>\$ 21.2</u> | <u>\$ 18.5</u> |

Amounts were rounded; consequently some totals may appear not to add exactly.

West Chester University of Pennsylvania of the State System of Higher Education

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In addition to the changes to the appropriation and tuition revenue discussed in the Financial Highlights section of this analysis, following are the more significant revenue and expense items:

- Financial aid to students in the form of waivers and scholarships was \$18.0 million, which was a 13.2% increase from the previous year. Waivers of tuition and fees are shown as a reduction of student tuition and fee revenues.
- Net investment income (including unrealized gains) for fiscal year 2011-12 was \$2.6 million, a decrease of \$2.5 million from the prior year. This decrease was due to a decrease in unrealized gains on investments.
- The University spent \$98.1 million, or 45.6% of its operating expenses, on salaries in fiscal year 2011-12 as compared to \$97.2 million, or 46.6% of its operating expenses, in fiscal year 2010-11. Benefit costs increased in fiscal 2011-12 to \$30.7 million from \$30.0 million the prior year. Postretirement costs were \$15.9 million and \$14.9 million in fiscal years 2011-12 and 2010-11, respectively. In total, the University spent \$147.5 million on salaries, postretirement expense, wages, and benefits, or 68.6% of operating expenditures, in fiscal 2011-12, and \$145.1 million, or 69.6% of operating expenditures, in fiscal 2010-11.

Statement of Cash Flows

This statement's primary purpose is to provide relevant information about the cash receipts and cash payments of the University. It may be used to determine the University's ability to generate future net cash flows and meet its obligations as they come due, as well as its possible need for external financing.

Future Economic Factors

- For fiscal year 2012-13, the Commonwealth will provide an appropriation for operations of \$412.8 million to PASSHE, which is the same amount of funding provided for fiscal year 2011-12. However, the University's share of the appropriation increased by \$0.9 million to \$43.7 million due primarily to the University's enrollment increases and enrollment decreases at many of the other PASSHE universities.
- In addition, the University will receive \$5.23 million in performance funding from PASSHE for fiscal year 2012-13.

West Chester University of Pennsylvania of the State System of Higher Education

Management's Discussion and Analysis (Unaudited)
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- The PASSHE Board approved tuition increases of 3.0% for undergraduate students and 3.1% for graduate students for fiscal year 2012-13. In addition, the Board increased the technology tuition fee by 2.9% for resident undergraduate students; 3.0% for non-resident undergraduate students; 5.0% for resident graduate students; and 3.3% for non-resident graduate students. Mandatory student fees set by the University will increase 19.9% for undergraduate students and by 21.5% for graduate students. This large increase primarily reflects the full phase-in of the fee of \$133 per semester in fiscal year 2012-13 to support the Student Recreation Center, which opened at the beginning of fall semester of 2012. Room rates (North Campus and South Campus) will remain the same. Food service plans will increase 2.4% for both the 12 and 14-meal plan.
- West Chester University has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. However, several conditions could limit the University's financial flexibility in fiscal year 2012-13 and beyond:
 1. State Appropriations - Given the economic conditions of the nation and the Commonwealth, it is likely that Commonwealth appropriations to PASSHE will be flat or declining for the next several years.
 2. Plans for necessary facilities upgrades - These requirements could commit a significant portion of the University's available fund balance. However, the new fees to support investments in facilities and sustainable energy, which were implemented beginning in fiscal year 2009-10, generate approximately \$3.0 million per year. This additional revenue will ameliorate potential problems of inadequate funds for facilities improvements.
 3. Increased costs for salaries and benefits mandated by collective bargaining agreements - Only three of the collective bargaining agreements have been successfully renegotiated. The remaining contracts, including the contract for faculty, expired June 30, 2011 or shortly thereafter. These contracts are being negotiated by PASSHE; their potential financial impact is uncertain at this time.
 4. Increases in employer retirement contributions - While employer retirement contribution rates had held fairly steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System ("SERS") ended starting in fiscal year 2010-11. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, decisions by the SERS Board to defer funding obligations, and previous investment losses, rates are projected to rise significantly over the next several years.
 5. Increased health care costs - As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, employees of the University (and PASSHE as a whole) started to share in the cost of health care. PASSHE also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. PASSHE currently is exploring a restructuring of its health care plans to further contain costs.

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6. Volatility in energy costs - To militate against this potential volatility, including the results of the recent deregulation of electric rates, the University contracted with an energy savings company to recommend and implement facilities improvements to help reduce the University's annual utility expense. Based on the recommended improvements, the University conservatively estimates almost \$8 million in net savings/cost avoidance over a 15-year period. Those estimated savings will be used to fund necessary deferred maintenance projects that will be accomplished at the same time as the energy-savings improvements. In addition, the University has embarked on a program to convert heating and cooling for most of its buildings to a geothermal system, which should provide significant long-term savings, as well as dramatically reduce particulates discharged into the atmosphere from the current coal-fired boilers. The geothermal project is being funded with federal and Commonwealth grants, direct appropriations from the Commonwealth, and funds from the University and USH.
 7. Revisions to the allocation formula - It is likely that within the next several years PASSHE will revise the formula for allocating funding to the universities. The impact of this probable revision is unknown, but could result in a reduced level of funding for the University.
- The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University is currently exploring various options, including changes to its budget allocation model.
 - The University, in conjunction with USH, has developed a housing master plan for the replacement of much of the older housing on campus. As currently envisioned, USH will develop and operate this housing. The first phase of the new housing, which opened fall semester 2009, accommodates approximately 1,258 students. Housing operated by USH was 99.8% leased at the beginning of fall semester 2012. USH currently is designing a 240-bed addition to its apartment-style housing on south campus and is planning a high-rise facility with over 650 beds on north campus.
 - The enrollment demand at the University has remained strong, with over 14,000 freshmen applications for 2,344 openings for the fall of 2012.

West Chester University of Pennsylvania of the State System of Higher Education

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Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

(Mr.) Mark P. Mixner
Vice President for Administration & Finance
Philips Memorial Building, Room 203
West Chester University
West Chester, PA 19383

Complete financial statements of the individual component units can be requested from their respective administrative offices, as follows:

The West Chester University Foundation

(Mr.) Richard Przywara
Executive Director
West Chester University Foundation
P.O. Box 541
West Chester, PA 19381

Student Services, Inc.

(Ms.) Mary Ellen Josephs
Executive Director
Student Services, Inc.
Sykes Student Union, Room 259
West Chester University
West Chester, PA 19383

The West Chester University Alumni Association

(Mr.) Jeff Stein
President
West Chester University Alumni Association
806 S. Church Street
West Chester, PA 19383

**West Chester University of Pennsylvania of the
State System of Higher Education**

Balance Sheet - Primary Institution
June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 181,270,926 | \$ 158,387,649 |
| Accounts receivable: | | |
| Governmental grants and contracts | 5,527,631 | 6,923,342 |
| Students, net | 1,982,696 | 1,932,961 |
| Other | 1,216,306 | 1,598,063 |
| Inventory | 94,701 | 88,337 |
| Prepaid expenses | 505,713 | 526,587 |
| Investment income receivable | 233,843 | 255,777 |
| Bond issuance costs | 521 | 37,100 |
| Loans receivable, net | <u>1,184,234</u> | <u>1,111,116</u> |
| Total current assets | <u>192,016,571</u> | <u>170,860,932</u> |
| Noncurrent Assets | | |
| Endowment investments | 16,621,160 | 16,335,958 |
| Other investments | 17,343 | 34,284 |
| Loans receivable, net | 5,849,858 | 6,440,508 |
| Capital assets, net | 176,055,588 | 159,371,307 |
| Bond issuance costs | 49,216 | 232,079 |
| Other assets | <u>109,481</u> | <u>184,277</u> |
| Total noncurrent assets | <u>198,702,646</u> | <u>182,598,413</u> |
| Total assets | <u>\$ 390,719,217</u> | <u>\$ 353,459,345</u> |

See notes to financial statements

**West Chester University of Pennsylvania of the
State System of Higher Education**

Balance Sheet - Primary Institution

June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| Liabilities and Net Assets | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 20,630,737 | \$ 26,274,800 |
| Deferred revenue | 7,778,418 | 7,113,386 |
| Students' deposits | 1,808,001 | 1,853,173 |
| Other deposit liabilities | 524,878 | 575,110 |
| Workers' compensation | 737,176 | 738,966 |
| Compensated absences and postretirement benefit obligations | 7,273,753 | 6,475,354 |
| Bonds payable, net | 6,205,290 | 4,999,072 |
| Capital lease obligation | 477,583 | 458,269 |
| Due to PASSHE, Academic Facilities Renovation Bond Program | 390,564 | 377,252 |
| Other current liabilities | 52,116 | 87,349 |
| | <u>45,878,516</u> | <u>48,952,731</u> |
| Total current liabilities | | |
| Noncurrent liabilities: | | |
| Workers' compensation | 822,064 | 756,901 |
| Compensated absences and postretirement benefit obligations | 99,853,492 | 91,521,319 |
| Bonds payable, net | 63,254,265 | 52,233,160 |
| Capital lease obligation | 7,148,105 | 7,571,007 |
| Due to PASSHE, Academic Facilities Renovation Bond Program | 2,434,385 | 2,321,486 |
| Deferred revenue | 63,327 | 81,633 |
| Other noncurrent liabilities | 8,697,171 | 8,667,957 |
| | <u>182,272,809</u> | <u>163,153,463</u> |
| Total noncurrent liabilities | | |
| Total liabilities | | |
| | <u>228,151,325</u> | <u>212,106,194</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 104,070,003 | 95,098,694 |
| Restricted for: | | |
| Nonexpendable, | | |
| Scholarships and fellowships | 16,661,668 | 16,504,676 |
| Expendable: | | |
| Scholarships and fellowships | 2,820,051 | 3,036,259 |
| Research | 329,409 | 1,036,880 |
| Capital projects | 2,947,195 | 2,185,800 |
| Other | 2,814,979 | 2,852,970 |
| Unrestricted | 32,924,587 | 20,637,872 |
| | <u>162,567,892</u> | <u>141,353,151</u> |
| Total net assets | | |
| Total liabilities and net assets | | |
| | <u>\$ 390,719,217</u> | <u>\$ 353,459,345</u> |

See notes to financial statements

**West Chester University of Pennsylvania of the
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Statement of Revenues, Expenses, and Changes in Net Assets - Primary Institution

Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| Operating Revenues | | |
| Tuition and fees | \$ 134,143,064 | \$ 119,490,913 |
| Less scholarship discounts and allowances | <u>(18,002,832)</u> | <u>(15,858,962)</u> |
| Net tuition and fees | 116,140,232 | 103,631,951 |
| Governmental grants and contracts: | | |
| Federal | 18,017,757 | 17,153,244 |
| State | 11,341,270 | 8,101,706 |
| Local | 249,740 | 359,937 |
| Nongovernmental grants and contracts | 119,601 | 201,534 |
| Sales and services of educational departments | 3,168,966 | 2,964,477 |
| Auxiliary enterprises | 33,955,748 | 30,320,964 |
| Other revenues | <u>2,707,457</u> | <u>1,903,280</u> |
| Total operating revenues | <u>185,700,771</u> | <u>164,637,093</u> |
| Operating Expenses | | |
| Instruction | 86,046,703 | 83,388,794 |
| Research | 1,843,729 | 1,970,051 |
| Public service | 2,573,275 | 2,514,887 |
| Academic support | 24,619,070 | 23,411,660 |
| Student services | 14,954,260 | 14,383,607 |
| Institutional support | 22,291,215 | 22,153,063 |
| Operations and maintenance of plant | 16,014,924 | 16,512,892 |
| Depreciation | 12,715,082 | 12,326,765 |
| Student aid | 10,082,397 | 9,452,495 |
| Auxiliary enterprises | <u>23,877,112</u> | <u>22,387,079</u> |
| Total operating expenses | <u>215,017,767</u> | <u>208,501,293</u> |
| Net operating loss | <u>(29,316,996)</u> | <u>(43,864,200)</u> |
| Nonoperating Revenues (Expenses) | | |
| State appropriations, general and restricted | 47,447,959 | 52,049,723 |
| ARRA State Fiscal Stabilization Funds | - | 4,479,639 |
| Investment income, net of investment expense of \$35,208 in 2012 and \$35,095 in 2011 | 2,377,664 | 2,684,094 |
| Unrealized gains on investments | 236,779 | 2,379,320 |
| Gifts for other than capital purposes | 1,957,183 | 2,341,250 |
| Interest expense | (2,701,917) | (2,649,774) |
| Loss on disposal of assets | (262,680) | (32,473) |
| Other nonoperating revenue | <u>176,180</u> | <u>136,370</u> |
| Nonoperating revenues, net | <u>49,231,168</u> | <u>61,388,149</u> |
| Income before other revenues | <u>19,914,172</u> | <u>17,523,949</u> |
| Other Revenues | | |
| State appropriations, capital | 768,714 | - |
| Capital gifts and grants | <u>531,855</u> | <u>927,408</u> |
| Total other revenues | <u>1,300,569</u> | <u>927,408</u> |
| Increase in net assets | 21,214,741 | 18,451,357 |
| Net Assets, Beginning of Year | <u>141,353,151</u> | <u>122,901,794</u> |
| Net Assets, End of Year | <u>\$ 162,567,892</u> | <u>\$ 141,353,151</u> |

See notes to financial statements

**West Chester University of Pennsylvania of the
State System of Higher Education**

Statement of Cash Flows - Primary Institution
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| Cash Flows from Operating Activities | | |
| Net tuition and fees | \$ 115,722,817 | \$ 103,665,338 |
| Grants and contracts | 31,875,203 | 24,038,643 |
| Payments to suppliers for goods and services | (44,878,313) | (41,953,036) |
| Payments to employees | (140,609,307) | (135,539,166) |
| Loans issued to students | (825,955) | (700,762) |
| Loans collected from students | 1,343,487 | 1,504,795 |
| Student aid | (10,082,397) | (9,452,495) |
| Auxiliary enterprise charges | 34,123,562 | 30,072,668 |
| Sales and services of educational departments | 3,159,871 | 2,852,598 |
| Other operating receipts | (91,168) | 6,378,725 |
| | <u>(10,262,200)</u> | <u>(19,132,692)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 47,447,959 | 56,529,362 |
| Gifts for other than capital purposes | 1,957,183 | 2,341,250 |
| PLUS, Stafford, and other loans receipts (non-Perkins) | 99,433,643 | 89,706,103 |
| PLUS, Stafford, and other loans disbursements (non-Perkins) | (99,433,643) | (89,706,103) |
| Agency transactions, net | (50,232) | 39,388 |
| Other | 176,180 | 136,370 |
| | <u>49,531,090</u> | <u>59,046,370</u> |
| Cash Flows from Capital Financing Activities | | |
| Proceeds from debt | 28,902,457 | 10,617,477 |
| Capital appropriations | 768,714 | - |
| Capital grants and gifts received | 494,680 | 905,433 |
| Purchases of capital assets | (29,558,890) | (19,367,589) |
| Principal paid on debt | (17,945,081) | (9,737,609) |
| Interest paid on debt | (1,415,608) | (2,931,244) |
| | <u>(18,753,728)</u> | <u>(20,513,532)</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sales and maturities of investments | 450,634 | 14,552,657 |
| Interest on investments | 2,399,598 | 2,710,515 |
| Purchases of investments | (482,117) | (14,548,255) |
| | <u>2,368,115</u> | <u>2,714,917</u> |
| Net cash flows from investing activities | <u>2,368,115</u> | <u>2,714,917</u> |
| Net increase in cash and cash equivalents | 22,883,277 | 22,115,063 |
| Cash and Cash Equivalents, Beginning of Year | <u>158,387,649</u> | <u>136,272,586</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 181,270,926</u> | <u>\$ 158,387,649</u> |
| Reconciliation of Operating Loss to Net Cash Used in Operating Activities | | |
| Operating loss | \$ (29,316,996) | \$ (43,864,200) |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | |
| Depreciation expense | 12,715,082 | 12,326,765 |
| Changes in assets and liabilities: | | |
| Receivables, net | 1,602,701 | (1,913,198) |
| Inventories | (6,364) | 23,547 |
| Other assets | 220,702 | (422,768) |
| Accounts payable | (5,782,589) | 5,500,698 |
| Deferred revenue | 646,726 | 57,944 |
| Students' deposits | (45,172) | 22,195 |
| Compensated absences | 424,753 | 113,354 |
| Loans to students | 517,532 | 804,033 |
| Other liabilities | 8,761,425 | 8,218,938 |
| | <u>\$ (10,262,200)</u> | <u>\$ (19,132,692)</u> |
| Supplementary Disclosure of Noncash Capital Financing Activity | | |
| Capital assets received via gift | \$ 37,175 | \$ 21,976 |
| Equipment acquired via capital lease | 65,977 | 331,071 |
| Net book value of assets traded in through like-kind exchange | 2,123 | - |

See notes to financial statements

**West Chester University of Pennsylvania of the
State System of Higher Education**

Combined Balance Sheet - Component Units
June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 10,334,222 | \$ 8,273,783 |
| Accounts receivable | 266,488 | 529,319 |
| Pledges receivable | 1,704,981 | 1,314,820 |
| Inventory | 1,152,125 | 1,230,932 |
| Due from the University | 159,186 | 160,934 |
| | <u>13,617,002</u> | <u>11,509,788</u> |
| Noncurrent Assets | | |
| Restricted cash | 18,472,324 | 17,444,100 |
| Capital assets, net | 114,885,661 | 113,362,704 |
| Investments | 8,773,907 | 9,463,478 |
| Other assets | 3,466,124 | 3,884,892 |
| | <u>145,598,016</u> | <u>144,155,174</u> |
| Total noncurrent assets | <u>145,598,016</u> | <u>144,155,174</u> |
| Total assets | <u>\$ 159,215,018</u> | <u>\$ 155,664,962</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,352,612 | \$ 2,753,045 |
| Current portion of bonds payable | 1,305,000 | 485,000 |
| Other deposit liabilities | 87,028 | 101,009 |
| Due to the University | 712,185 | 1,066,992 |
| | <u>4,456,825</u> | <u>4,406,046</u> |
| Total current liabilities | 4,456,825 | 4,406,046 |
| Bonds Payable | 137,285,000 | 138,590,000 |
| Other Liabilities | 41,661,266 | 16,925,393 |
| | <u>183,403,091</u> | <u>159,921,439</u> |
| Total liabilities | <u>183,403,091</u> | <u>159,921,439</u> |
| Net Assets (Deficit) | | |
| Unrestricted | (33,608,651) | (12,466,819) |
| Temporarily restricted | 4,479,943 | 3,803,837 |
| Permanently restricted | 4,940,635 | 4,406,505 |
| | <u>(24,188,073)</u> | <u>(4,256,477)</u> |
| Total net deficit | <u>(24,188,073)</u> | <u>(4,256,477)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 159,215,018</u> | <u>\$ 155,664,962</u> |

See notes to financial statements

**West Chester University of Pennsylvania of the
State System of Higher Education**

Combined Statements of Revenues, Expenses, and Changes in Net Assets - Component Units
Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|------------------------|-----------------------|
| Changes in Unrestricted Net Assets | | |
| Revenues and other additions: | | |
| Contributions | \$ 818,059 | \$ 648,660 |
| Investment income | 529,885 | 756,808 |
| University store | 1,856,970 | 1,814,189 |
| Student activity fees | 3,890,072 | 3,757,164 |
| Rental income | 17,854,769 | 16,920,934 |
| Other revenues | 5,205,036 | 2,938,414 |
| Change in interest rate swap agreement | (21,287,645) | 3,224,296 |
| Net assets released from restriction | <u>1,099,507</u> | <u>2,251,403</u> |
| Total revenues and other additions | <u>9,966,653</u> | <u>32,311,868</u> |
| Expenses and other deductions: | | |
| Program expenses | 26,793,644 | 25,600,614 |
| University store | 1,022,504 | 1,034,860 |
| Management and general | 2,496,779 | 1,958,907 |
| Distributions to the University | <u>1,725,860</u> | <u>2,152,820</u> |
| Total expenses and other deductions | <u>32,038,787</u> | <u>30,747,201</u> |
| (Decrease) increase in unrestricted net assets | <u>(22,072,134)</u> | <u>1,564,667</u> |
| Changes in Temporarily Restricted Net Assets | | |
| Contributions | 2,670,362 | 2,012,807 |
| Investment (losses) gains | (35,301) | 549,754 |
| Net assets released from restrictions, satisfaction of program restrictions | (1,099,507) | (2,251,403) |
| Other income | 2,770 | 211,206 |
| Change in split-interest agreements | <u>68,084</u> | <u>152,445</u> |
| Increase in temporarily restricted net assets | <u>1,606,408</u> | <u>674,809</u> |
| Changes in Permanently Restricted Net Assets | | |
| Contributions | 534,130 | 606,767 |
| Other income | <u>-</u> | <u>13,243</u> |
| Increases in permanently restricted net assets | <u>534,130</u> | <u>620,010</u> |
| (Decrease) increase in net deficit | (19,931,596) | 2,859,486 |
| Net Deficit, Beginning | <u>(4,256,477)</u> | <u>(7,115,963)</u> |
| Net Deficit, Ending | <u>\$ (24,188,073)</u> | <u>\$ (4,256,477)</u> |

See notes to financial statements

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

1. Nature of Operations and Summary of Significant Accounting Policies

Organization

West Chester University of Pennsylvania of the State System of Higher Education (the "University"), a public four-year institution located in West Chester, Pennsylvania, was founded in 1871. The University is one of fourteen universities of the Pennsylvania State System of Higher Education ("PASSHE"). PASSHE was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended ("Act 188"). PASSHE is a component unit of the Commonwealth of Pennsylvania (the "Commonwealth").

Reporting Entity

In accordance with Government Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB 14*, the University has determined that Student Services, Inc. ("SSI"), the West Chester University Foundation and Subsidiary (the "Foundation"), and West Chester University Alumni Association (the "Association") are separate legal entities for which the University has oversight responsibility and should be included in the University's financial statements as aggregate discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

SSI operates the campus bookstore and manages various student activities. The Foundation promotes the charitable, scientific and educational interests of the University by soliciting funds and other property. The Foundation also includes the operations of University Student Housing, LLC, which was formed to construct, operate and manage student housing facilities for the benefit of the University. The Association was formed to promote the interests of the University in all areas of academic, cultural and social needs and to increase alumni awareness of the University's needs.

Complete financial statements for SSI, the Foundation, and the Association 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.

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, student financial aid, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All other revenues are reported as nonoperating revenues. Expenses, with the exception of interest expense, are recorded as operating expenses. Appropriations, gifts, interest income, 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.

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 the University maintain them 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 assets are available for expenditure, the decision as to which assets are used first is left to the discretion of the University.

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

Cash Equivalents

The University considers all demand and time deposits, money market funds, and overnight repurchase agreements to be cash equivalents. Restricted amounts are held for use on specific bond projects.

Accounts and Loans Receivable

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

Accounts and loans receivable are reported at net realizable value. Accounts and loans are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Allowances for doubtful accounts are estimated based upon the University's historical losses and periodic review of individual accounts and loans. Accounts receivable are reported net of an allowance for doubtful accounts of approximately \$848,000 in 2012 and \$809,000 in 2011. Loans receivable are reported net of an allowance for doubtful accounts of approximately \$591,000 in 2012 and \$559,000 in 2011.

Investments

Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of revenues, expenses, and changes in net assets.

Inventory

Inventory consists mainly of supplies and is stated at the lower of cost or market, with cost determined principally on the weighted average method.

Capital Assets

Land and buildings 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.

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

Buildings, equipment, and furnishings acquired or constructed after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. All capital assets, except land and construction in progress, are depreciated. Land is never depreciated. Construction in progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Deferred Revenue

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

Compensated Absences

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

Income Taxes

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

Use of Estimates

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

Pension Plans

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

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

Reclassifications

Certain reclassifications were made to the 2011 financial statements to conform to the 2012 presentation.

New Accounting Standards

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. The University is required to adopt Statement No. 60 for the fiscal year ending June 30, 2013. The University has not yet determined the effect of Statement No. 60 on its financial statements.

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

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

**West Chester University of Pennsylvania of the
State System of Higher Education**

Notes to Financial Statements
June 30, 2012 and 2011

2. Condensed Component Units Information

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

| | June 30, 2012 | | | |
|---------------------------------------|----------------------|---------------------------|----------------------------|------------------------|
| | SSI | The Foundation | The Association | Total |
| Due from University | \$ 91,811 | \$ 67,375 | \$ - | \$ 159,186 |
| Capital assets, net | 438,971 | 114,382,208 | 64,482 | 114,885,661 |
| Other assets | 10,223,782 | 32,769,330 | 1,177,059 | 44,170,171 |
| Total assets | \$ 10,754,564 | \$ 147,218,913 | \$ 1,241,541 | \$ 159,215,018 |
| Due to University | \$ 17,299 | \$ 694,583 | \$ 303 | \$ 712,185 |
| Long-term debt | - | 138,590,000 | - | 138,590,000 |
| Other liabilities | 1,834,362 | 42,207,417 | 59,127 | 44,100,906 |
| Total liabilities | \$ 1,851,661 | \$ 181,492,000 | \$ 59,430 | \$ 183,403,091 |
| Net assets (deficit): | | | | |
| Unrestricted | \$ 8,902,903 | \$ (43,655,040) | \$ 1,143,486 | \$ (33,608,651) |
| Temporarily restricted | - | 4,441,318 | 38,625 | 4,479,943 |
| Permanently restricted | - | 4,940,635 | - | 4,940,635 |
| Total net assets (deficit) | \$ 8,902,903 | \$ (34,273,087) | \$ 1,182,111 | \$ (24,188,073) |

**West Chester University of Pennsylvania of the
State System of Higher Education**

Notes to Financial Statements
June 30, 2012 and 2011

The following represents combining condensed balance sheet information for the discretely presented component units as of June 30, 2011:

| | June 30, 2011 | | | |
|---------------------------------------|----------------------|---------------------------|----------------------------|-----------------------|
| | SSI | The Foundation | The Association | Total |
| Due from University | \$ 28,826 | \$ 132,108 | \$ - | \$ 160,934 |
| Capital assets, net | 398,438 | 112,896,431 | 67,835 | 113,362,704 |
| Other assets | 10,045,224 | 30,915,333 | 1,180,767 | 42,141,324 |
| Total assets | \$ 10,472,488 | \$ 143,943,872 | \$ 1,248,602 | \$ 155,664,962 |
| Due to University | \$ 10,570 | \$ 1,056,422 | \$ - | \$ 1,066,992 |
| Long-term debt | - | 139,075,000 | - | 139,075,000 |
| Other liabilities | 2,009,016 | 17,703,604 | 66,827 | 19,779,447 |
| Total liabilities | \$ 2,019,586 | \$ 157,835,026 | \$ 66,827 | \$ 159,921,439 |
| Net assets (deficit): | | | | |
| Unrestricted | \$ 8,452,902 | \$ (22,059,871) | \$ 1,140,150 | \$ (12,466,819) |
| Temporarily restricted | - | 3,762,212 | 41,625 | 3,803,837 |
| Permanently restricted | - | 4,406,505 | - | 4,406,505 |
| Total net assets (deficit) | \$ 8,452,902 | \$ (13,891,154) | \$ 1,181,775 | \$ (4,256,477) |

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

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

| | June 30, 2012 | | | |
|--|------------------|----------------------|--------------------|--------------------|
| | SSI | The Foundation | The Association | Total |
| Changes in unrestricted net assets: | | | | |
| Revenues and other additions: | | | | |
| Contributions | \$ - | \$ 513,391 | \$ 304,668 | \$ 818,059 |
| Investment income | 57,904 | 463,098 | 8,883 | 529,885 |
| University store | 1,856,970 | - | - | 1,856,970 |
| Student activity fees | 3,890,072 | - | - | 3,890,072 |
| Rental income | - | 17,854,769 | - | 17,854,769 |
| Other revenues | 1,226,394 | 3,861,316 | 117,326 | 5,205,036 |
| Change in interest rate swap agreement | - | (21,287,645) | - | (21,287,645) |
| Net assets released from restriction | - | 1,096,507 | 3,000 | 1,099,507 |
| Total revenues and other additions | 7,031,340 | 2,501,436 | 433,877 | 9,966,653 |
| Expenses and other deductions: | | | | |
| Program expenses | 4,556,853 | 21,981,687 | 255,104 | 26,793,644 |
| University store | 1,022,504 | - | - | 1,022,504 |
| Management and general | 937,982 | 1,383,360 | 175,437 | 2,496,779 |
| Distributions to University | 64,000 | 1,661,860 | - | 1,725,860 |
| Total expenses and other deductions | 6,581,339 | 25,026,907 | 430,541 | 32,038,787 |
| Increase (decrease) in unrestricted net assets | 450,001 | (-22,525,471) | 3,336 | -22,072,134 |
| Changes in temporarily restricted net assets: | | | | |
| Contributions | - | 2,670,362 | - | 2,670,362 |
| Other income | - | 2,770 | - | 2,770 |
| Investment gain | - | (35,301) | - | (35,301) |
| Net assets released from restrictions, satisfaction of program restrictions | - | (1,096,507) | (3,000) | (1,099,507) |
| Change in split-interest agreements | - | 68,084 | - | 68,084 |
| Increase (decrease) in temporarily restricted net assets | - | 1,609,408 | (3,000) | 1,606,408 |

West Chester University of Pennsylvania of the State System of Higher Education

Notes to Financial Statements
June 30, 2012 and 2011

| | June 30, 2012 | | | |
|---|---------------------|------------------------|---------------------|------------------------|
| | SSI | The Foundation | The Association | Total |
| Change in permanently restricted net assets: | | | | |
| Contributions | \$ - | \$ 534,130 | \$ - | \$ 534,130 |
| Other income | - | - | - | - |
| Increase in permanently restricted net assets | - | 534,130 | - | 534,130 |
| Increase (decrease) in net assets | 450,001 | (20,381,933) | 336 | (19,931,596) |
| Net assets (deficit), beginning | 8,452,902 | (13,891,154) | 1,181,775 | (4,256,477) |
| Net assets (deficit), ending | <u>\$ 8,902,903</u> | <u>\$ (34,273,087)</u> | <u>\$ 1,182,111</u> | <u>\$ (24,188,073)</u> |

The following represents combining statement of revenues, expenses, and changes in net assets for the discretely presented component units for the year ended June 30, 2011:

| | June 30, 2011 | | | |
|--|------------------|-------------------|--------------------|-------------------|
| | SSI | The Foundation | The Association | Total |
| Changes in unrestricted net assets: | | | | |
| Revenues and other additions: | | | | |
| Contributions | \$ - | \$ 425,645 | \$ 223,015 | \$ 648,660 |
| Investment income | 65,013 | 477,474 | 214,321 | 756,808 |
| University store | 1,814,189 | - | - | 1,814,189 |
| Student activity fees | 3,757,164 | - | - | 3,757,164 |
| Rental income | - | 16,920,934 | - | 16,920,934 |
| Other revenues | 1,068,423 | 1,754,631 | 115,360 | 2,938,414 |
| Change in interest rate swap agreement | - | 3,224,296 | - | 3,224,296 |
| Net assets released from restriction | - | 2,248,403 | 3,000 | 2,251,403 |
| Total revenues and other additions | <u>6,704,789</u> | <u>25,051,383</u> | <u>555,696</u> | <u>32,311,868</u> |
| Expenses and other deductions: | | | | |
| Program expenses | 4,426,954 | 20,944,473 | 229,187 | 25,600,614 |
| University store | 1,034,860 | - | - | 1,034,860 |
| Management and general | 872,084 | 953,874 | 132,949 | 1,958,907 |
| Distributions to University | 64,000 | 2,088,820 | - | 2,152,820 |
| Total expenses and other deductions | <u>6,397,898</u> | <u>23,987,167</u> | <u>362,136</u> | <u>30,747,201</u> |
| Increase in unrestricted net assets | <u>306,891</u> | <u>1,064,216</u> | <u>193,560</u> | <u>1,564,667</u> |

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| | June 30, 2011 | | | |
|---|---------------|-------------------|--------------------|----------------|
| | SSI | The Foundation | The Association | Total |
| Changes in temporarily restricted net assets: | | | | |
| Contributions | \$ - | \$ 2,012,807 | \$ - | \$ 2,012,807 |
| Other income | - | 211,206 | - | 211,206 |
| Investment gain | - | 549,754 | - | 549,754 |
| Net assets released from restrictions, satisfaction of program restrictions | - | (2,248,403) | (3,000) | (2,251,403) |
| Change in split-interest agreements | - | 152,445 | - | 152,445 |
| Increase (decrease) in temporarily restricted net assets | - | 677,809 | (3,000) | 674,809 |
| Change in permanently restricted net assets: | | | | |
| Contributions | - | 606,767 | - | 606,767 |
| Other income | - | 13,243 | - | 13,243 |
| Increase in permanently restricted net assets | - | 620,010 | - | 620,010 |
| Increase in net assets | 306,891 | 2,362,035 | 190,560 | 2,859,486 |
| Net assets (deficit), beginning | 8,146,011 | (16,253,189) | 991,215 | (7,115,963) |
| Net assets (deficit), ending | \$ 8,452,902 | \$ (13,891,154) | \$ 1,181,775 | \$ (4,256,477) |

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 of 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 was \$180,938,674 at June 30, 2102 and \$157,869,913 at June 30, 2011.

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PASSHE invests its funds in accordance with the PASSHE Board of Governors' (the "Board") Investment Policy, which authorizes PASSHE to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board or University Trustees may be invested in the investments described above, as well as corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as cash deposits. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, PASSHE recognizes a fiduciary responsibility to invest all funds prudently and in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

Safety of principal and liquidity are the top priorities for the investment of PASSHE's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed; this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities.

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

West Chester University of Pennsylvania of the State System of Higher Education

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

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

At June 30, 2012 and 2011, the carrying amount of the University's demand and time deposits was \$332,252 and \$517,736, respectively, as compared to bank balances of \$120,031 and \$265,135, respectively. The difference is primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2012 and 2011, \$120,031 and \$265,135, respectively, were covered by federal government depository insurance. All bank balances were covered by federal depository insurance or were collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve Banks in the name of the banking institutions, or uninsured but covered under the collateralization provisions of the Commonwealth's Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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Notes to Financial Statements
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The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2012 is presented below:

| | Moody's Rating (If Applicable) | Modified Duration (Range) (If Applicable) | Fair Value |
|--------------------------------------|---|--|----------------------|
| U.S. Treasury and agency obligations | | 0.20 - 0.70 | \$ 199,876 |
| Fixed income mutual funds | | 1.00 | 142,282 |
| Equity mutual funds | | | 15,499,088 |
| Common stocks | | | 797,257 |
| | | | <u>16,638,503</u> |
| Total investments | | | <u>\$ 16,638,503</u> |

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2011 is presented below:

| | Moody's Rating (If Applicable) | Modified Duration (Range) (If Applicable) | Fair Value |
|--------------------------------------|---|--|----------------------|
| U.S. Treasury and agency obligations | | 0.20 - 1.60 | \$ 179,567 |
| Fixed income mutual funds | | 1.00 | 202,696 |
| Equity mutual funds | | | 15,164,465 |
| Common stocks | | | 823,514 |
| | | | <u>16,370,242</u> |
| Total investments | | | <u>\$ 16,370,242</u> |

The University has no exposure to foreign currency risk.

4. Split-Interest Agreements

The University is a party to various charitable gift annuity contracts in which the University receives assets from the donor and agrees to pay the donors an annuity over the life of the donor. Assets received are carried at fair value and were \$17,343 in 2012 and \$34,284 in 2011. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was \$49,957 in 2012 and \$56,679 in 2011.

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Notes to Financial Statements
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5. Capital Assets

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

| | Estimated Lives (in Years) | Balance July 1, 2011 | Additions | Retirements | Reclassifications | Balance June 30, 2012 |
|--|-------------------------------|-------------------------|---------------|--------------|-------------------|--------------------------|
| Capital assets not being depreciated: | | | | | | |
| Construction in progress | | \$ 18,265,155 | \$ 27,142,362 | \$ (49,214) | \$ (13,636,050) | \$ 31,722,253 |
| Land | | 5,695,071 | - | | 307,367 | 6,002,438 |
| Total cost of capital assets not being depreciated | | 23,960,226 | 27,142,362 | (49,214) | (13,328,683) | 37,724,691 |
| Capital assets being depreciated, Cost: | | | | | | |
| Buildings and improvements | 10-40 | 179,705,470 | - | (170,715) | 11,020,763 | 190,555,518 |
| Furnishings and equipment | 3-40 | 70,461,672 | 2,283,723 | (233,282) | 2,307,920 | 74,820,033 |
| Library books | 10 | 7,620,984 | 238,081 | (50,200) | - | 7,808,865 |
| Total cost of capital assets being depreciated | | 257,788,126 | 2,521,804 | (454,197) | 13,328,683 | 273,184,416 |
| Less accumulated depreciation: | | | | | | |
| Buildings and improvements | | (69,948,495) | (7,352,638) | 3,201 | - | (77,297,932) |
| Furnishings and equipment | | (46,476,841) | (5,005,334) | 185,207 | - | (51,296,968) |
| Library books | | (5,951,709) | (357,110) | 50,200 | - | (6,258,619) |
| Total accumulated depreciation | | (122,377,045) | (12,715,082) | 238,608 | - | (134,853,519) |
| Capital assets being depreciated, net | | 135,411,081 | (10,193,278) | (215,589) | 13,328,683 | 138,330,897 |
| Capital assets, net | | \$ 159,371,307 | \$ 16,949,084 | \$ (264,803) | \$ - | \$ 176,055,588 |

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| | <u>Estimated Lives (in Years)</u> | <u>Balance July 1, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>Reclassifications</u> | <u>Balance June 30, 2011</u> |
|--|---------------------------------------|---------------------------------|---------------------|--------------------|--------------------------|----------------------------------|
| Capital assets not being depreciated: | | | | | | |
| Construction in progress | | \$ 4,338,335 | \$ 17,183,542 | \$ (7,971) | \$ (3,248,751) | \$ 18,265,155 |
| Land | | 5,466,150 | - | - | 228,921 | 5,695,071 |
| | | | | | | |
| Total cost of capital assets not being depreciated | | <u>9,804,485</u> | <u>17,183,542</u> | <u>(7,971)</u> | <u>(3,019,830)</u> | <u>23,960,226</u> |
| Capital assets being depreciated, Cost: | | | | | | |
| Buildings and improvements | 10-40 | 177,048,190 | 112,472 | - | 2,544,808 | 179,705,470 |
| Furnishings and equipment | 3-40 | 68,136,936 | 2,156,298 | (306,584) | 475,022 | 70,461,672 |
| Library books | 10 | 7,487,310 | 268,324 | (134,650) | - | 7,620,984 |
| | | | | | | |
| Total cost of capital assets being depreciated | | <u>252,672,436</u> | <u>2,537,094</u> | <u>(441,234)</u> | <u>3,019,830</u> | <u>257,788,126</u> |
| Less accumulated depreciation: | | | | | | |
| Buildings and improvements | | (62,899,834) | (7,048,661) | - | - | (69,948,495) |
| Furnishings and equipment | | (41,854,583) | (4,904,340) | 282,082 | - | (46,476,841) |
| Library books | | (5,712,595) | (373,764) | 134,650 | - | (5,951,709) |
| | | | | | | |
| Total accumulated depreciation | | <u>(110,467,012)</u> | <u>(12,326,765)</u> | <u>416,732</u> | <u>-</u> | <u>(122,377,045)</u> |
| Capital assets being depreciated, net | | <u>142,205,424</u> | <u>(9,789,671)</u> | <u>(24,502)</u> | <u>3,019,830</u> | <u>135,411,081</u> |
| Capital assets, net | | <u>\$ 152,009,909</u> | <u>\$ 7,393,871</u> | <u>\$ (32,473)</u> | <u>\$ -</u> | <u>\$ 159,371,307</u> |

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6. Accounts Payable and Accrued Expenses

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

| | <u>2012</u> | <u>2011</u> |
|------------------------|----------------------|----------------------|
| Employees | \$ 9,931,222 | \$ 12,977,287 |
| Suppliers and services | 4,353,021 | 3,786,675 |
| Other | 6,079,247 | 9,383,865 |
| Interest | <u>267,247</u> | <u>126,973</u> |
| Total | <u>\$ 20,630,737</u> | <u>\$ 26,274,800</u> |

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 on under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. PASSHE's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University are as follows:

| | <u>Weighted Average Interest Rate</u> | <u>Balance July 1, 2011</u> | <u>Bonds Issued</u> | <u>Bonds Redeemed</u> | <u>Balance June 30, 2012</u> |
|--|---|---------------------------------|-------------------------|---------------------------|----------------------------------|
| Series W used to advance refund Series H, J and M | 4.76% | \$ 616,493 | \$ - | \$ (616,493) | \$ - |
| Series X used to current refund Series I and for purchase of 1160 McDermott Drive | 4.28% | 13,520,099 | - | (13,520,099) | - |
| Series AC used for dining hall project | 4.90% | 329,237 | - | (16,866) | 312,371 |
| Series AE used for ESCO project | 4.99% | 8,206,725 | - | (646,573) | 7,560,152 |
| Series AF used for ESCO project and to build a recreation center | 4.95% | 7,365,079 | - | (472,289) | 6,892,790 |
| Series AG used for 201 Carter Drive and West Chester Sykes Union Hall | 4.60% | 3,962,835 | - | (1,059,327) | 2,903,508 |

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| | <u>Weighted Average Interest Rate</u> | <u>Balance July 1, 2011</u> | <u>Bonds Issued</u> | <u>Bonds Redeemed</u> | <u>Balance June 30, 2012</u> |
|---|---|---------------------------------|-------------------------|---------------------------|----------------------------------|
| Series AI used for sprinklers, refunded V, Y, AB and AD | 4.01% | \$ 6,435,660 | \$ - | \$ (407,465) | \$ 6,028,195 |
| Series AJ used to build a Recreation Center | 4.90% | 4,015,000 | - | - | 4,015,000 |
| Series AK used to current refund Series S (Harvey Green and Phillips) | 3.66% | 1,264,635 | - | (123,210) | 1,141,425 |
| Series AL used to current refund Series T and new financing of purchasing College Arms, and building Parking Garage and Recreation Center | 5.00% | 9,598,899 | - | (234,390) | 9,364,509 |
| Series AM used to build a Recreation Center | 4.62% | - | 20,170,000 | - | 20,170,000 |
| Series AN used to current refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union) | 4.78% | - | <u>7,594,602</u> | - | <u>7,594,602</u> |
| Total | | <u>\$ 55,314,662</u> | <u>\$ 27,764,602</u> | <u>\$ (17,096,712)</u> | 65,982,552 |
| Plus unamortized bond premium costs, net | | | | | <u>3,477,003</u> |
| Outstanding at end of year | | | | | <u>\$ 69,459,555</u> |

West Chester University of Pennsylvania of the State System of Higher Education

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| | Weighted Average Interest Rate | Balance July 1, 2010 | Bonds Issued | Bonds Redeemed | Balance June 30, 2011 |
|--|--------------------------------------|-------------------------|---------------------|-----------------------|-----------------------------|
| Series T used for LAN installation | 4.86% | \$ 378,789 | \$ - | \$ (378,789) | \$ - |
| Series W used to advance refund Series H, J and M | 4.76% | 811,928 | - | (195,435) | 616,493 |
| Series X used to current refund Series I and for purchase of 1160 McDermott Drive | 4.28% | 15,020,534 | - | (1,500,435) | 13,520,099 |
| Series AC used for dining hall project | 4.90% | 345,332 | - | (16,095) | 329,237 |
| Series AE used for ESCO project | 4.99% | 8,824,151 | - | (617,426) | 8,206,725 |
| Series AF used for ESCO project and to build a recreation center | 4.95% | 7,817,487 | - | (452,408) | 7,365,079 |
| Series AG used for 201 Carter Drive and West Chester Sykes Union Hall | 4.60% | 4,987,498 | - | (1,024,663) | 3,962,835 |
| Series AI used for sprinklers, refunded V, Y, AB and AD | 4.01% | 6,829,485 | - | (393,825) | 6,435,660 |
| Series AJ used to build a Recreation Center | 4.90% | 4,015,000 | - | - | 4,015,000 |
| Series AK used to current refund Series S (Harvey Green and Phillips) | 3.66% | 1,373,685 | - | (109,050) | 1,264,635 |
| Series AL used to current refund Series T and new financing of College Arms, and building Parking Garage and Recreation Center | 5.00% | - | 9,670,577 | (71,678) | 9,598,899 |
| Total | | <u>\$ 50,403,889</u> | <u>\$ 9,670,577</u> | <u>\$ (4,759,804)</u> | 55,314,662 |
| Plus unamortized bond premium costs, net | | | | | <u>1,917,570</u> |
| Outstanding at end of year | | | | | <u><u>\$ 57,232,232</u></u> |

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

| Series | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018-2022 | 2023-2027 | 2028-2032 | 2033-2037 | Total |
|--------|-----------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|---------------|
| AC | Principal | \$ 17,740 | \$ 18,615 | \$ 19,540 | \$ 20,517 | \$ 21,546 | \$ 125,057 | \$ 89,356 | \$ - | \$ - | \$ 312,371 |
| | Interest | 15,309 | 14,422 | 13,491 | 12,514 | 11,488 | 40,161 | 8,257 | - | - | 115,642 |
| | Total | 33,049 | 33,037 | 33,031 | 33,031 | 33,034 | 165,218 | 97,613 | - | - | 428,013 |
| AE | Principal | 681,023 | 715,472 | 752,570 | 792,319 | 834,717 | 3,784,051 | - | - | - | 7,560,152 |
| | Interest | 387,448 | 351,694 | 314,132 | 274,622 | 233,025 | 484,666 | - | - | - | 2,045,587 |
| | Total | 1,068,471 | 1,067,166 | 1,066,702 | 1,066,941 | 1,067,742 | 4,268,717 | - | - | - | 9,605,739 |
| AF | Principal | 492,171 | 512,424 | 539,252 | 566,451 | 594,020 | 3,450,079 | 738,393 | - | - | 6,892,790 |
| | Interest | 340,954 | 320,037 | 294,416 | 267,453 | 239,130 | 718,917 | 114,386 | - | - | 2,295,293 |
| | Total | 833,125 | 832,461 | 833,668 | 833,904 | 833,150 | 4,168,996 | 852,779 | - | - | 9,188,083 |
| AG | Principal | 1,095,692 | 935,007 | 275,783 | 290,936 | 306,090 | - | - | - | - | 2,903,508 |
| | Interest | 113,345 | 76,366 | 43,640 | 29,851 | 15,304 | - | - | - | - | 278,506 |
| | Total | 1,209,037 | 1,011,373 | 319,423 | 320,787 | 321,394 | - | - | - | - | 3,182,014 |
| AI | Principal | 421,940 | 436,416 | 450,891 | 466,557 | 486,346 | 2,740,242 | 1,025,803 | - | - | 6,028,195 |
| | Interest | 243,533 | 229,820 | 214,545 | 197,637 | 178,974 | 584,222 | 80,980 | - | - | 1,729,711 |
| | Total | 665,473 | 666,236 | 665,436 | 664,194 | 665,320 | 3,324,464 | 1,106,783 | - | - | 7,757,906 |
| AJ | Principal | 155,000 | 165,000 | 170,000 | 180,000 | 190,000 | 1,100,000 | 1,400,000 | 655,000 | - | 4,015,000 |
| | Interest | 193,963 | 186,213 | 177,963 | 169,463 | 160,463 | 649,813 | 351,288 | 46,625 | - | 1,935,791 |
| | Total | 348,963 | 351,213 | 347,963 | 349,463 | 350,463 | 1,749,813 | 1,751,288 | 701,625 | - | 5,950,791 |
| AK | Principal | 126,687 | 130,910 | 134,388 | 138,362 | 144,075 | 467,003 | - | - | - | 1,141,425 |
| | Interest | 41,737 | 37,937 | 34,009 | 29,978 | 24,443 | 37,857 | - | - | - | 205,961 |
| | Total | 168,424 | 168,847 | 168,397 | 168,340 | 168,518 | 504,860 | - | - | - | 1,347,386 |
| AL | Principal | 315,841 | 336,758 | 347,422 | 368,590 | 385,142 | 2,197,962 | 2,596,469 | 2,231,325 | 585,000 | 9,364,509 |
| | Interest | 468,225 | 452,433 | 435,596 | 418,224 | 399,795 | 1,688,923 | 1,106,386 | 415,253 | 59,500 | 5,444,335 |
| | Total | 784,066 | 789,191 | 783,018 | 786,814 | 784,937 | 3,886,885 | 3,702,855 | 2,646,578 | 644,500 | 14,808,844 |
| AM | Principal | 475,000 | 490,000 | 515,000 | 540,000 | 565,000 | 3,265,000 | 4,160,000 | 5,140,000 | 5,020,000 | 20,170,000 |
| | Interest | 923,625 | 909,375 | 884,875 | 859,125 | 832,125 | 3,731,925 | 2,847,513 | 1,851,775 | 575,656 | 13,415,994 |
| | Total | 1,398,625 | 1,399,375 | 1,399,875 | 1,399,125 | 1,397,125 | 6,996,925 | 7,007,513 | 6,991,775 | 5,595,656 | 33,585,994 |
| AN | Principal | 1,702,720 | 1,796,152 | 461,880 | 480,366 | 498,433 | 2,193,275 | 461,776 | - | - | 7,594,602 |
| | Interest | 602,046 | 462,731 | 174,919 | 152,727 | 129,808 | 283,636 | 2,443 | - | - | 1,808,310 |
| | Total | 2,304,766 | 2,258,883 | 636,799 | 633,093 | 628,241 | 2,476,911 | 464,219 | - | - | 9,402,912 |
| Total | Principal | 5,483,814 | 5,536,754 | 3,666,726 | 3,844,098 | 4,025,369 | 19,322,669 | 10,471,797 | 8,026,325 | 5,605,000 | 65,982,552 |
| | Interest | 3,330,185 | 3,041,028 | 2,587,586 | 2,411,594 | 2,224,555 | 8,220,120 | 4,511,253 | 2,313,653 | 635,156 | 29,275,130 |
| | Total | \$ 8,813,999 | \$ 8,577,782 | \$ 6,254,312 | \$ 6,255,692 | \$ 6,249,924 | \$ 27,542,789 | \$ 14,983,050 | \$ 10,339,978 | \$ 6,240,156 | \$ 95,257,682 |

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The University participates in PASSHE's Academic Facilities Renovation Bond Program ("AFRP"), which was established for the purpose of renovating the academic facilities across PASSHE. This program will provide \$100,000,000 in funding over the next several years. PASSHE will issue bonds to provide a pool for funding for AFRP (\$41,271,274 and \$44,384,646 was outstanding as of June 30, 2012 and 2011, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. The University owed \$2,824,949 in 2012 and \$2,698,738 in 2011 to PASSHE for AFRP funding. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------|---------------------|---------------------|
| Balance at July 1 | \$ 2,698,738 | \$ 3,067,073 |
| Proceeds | 505,015 | - |
| Repayments | <u>(378,804)</u> | <u>(368,335)</u> |
| Balance at June 30 | <u>\$ 2,824,949</u> | <u>\$ 2,698,738</u> |

8. Capital Lease Obligation

The University and the Borough of West Chester entered into a capital lease obligation relating to two parking garages. The University also has various equipment under capital leases consisting primarily of copy machines. Charges in capital lease obligations are as follows:

| | <u>2012</u> | <u>2011</u> |
|--------------------|---------------------|---------------------|
| Balance at July 1 | \$ 8,029,276 | \$ 8,107,675 |
| Increases | 65,977 | 331,071 |
| Repayments | <u>(469,565)</u> | <u>(409,470)</u> |
| Balance at June 30 | <u>\$ 7,625,688</u> | <u>\$ 8,029,276</u> |

Capital assets include a parking garage under capital lease of \$9,915,000 in both 2012 and 2011 which is reported net of accumulated depreciation of \$3,286,511 in 2012 and \$2,871,650 in 2011. In addition, capital assets includes equipment under capital lease of \$574,879 in 2012 and \$541,448 in 2011 which are reported net of accumulated depreciation of \$257,202 in 2012 and \$187,303 in 2011.

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The following is a summary of future minimum lease payments along with the present value of the net minimum lease payments as of June 30, 2012:

| | |
|---|---------------------|
| Years ending June 30: | |
| 2013 | \$ 730,332 |
| 2014 | 720,709 |
| 2015 | 662,561 |
| 2016 | 621,001 |
| 2017 | 611,826 |
| Thereafter | <u>6,751,762</u> |
| Total minimum lease payments | 10,098,191 |
| Less amounts representing interest | <u>(2,472,503)</u> |
| Present value of net minimum lease payments | 7,625,688 |
| Current portion | <u>477,583</u> |
| Long-term capital lease obligation | <u>\$ 7,148,105</u> |

9. Deferred Revenue

Deferred revenue consists of the following components at June 30:

| | <u>2012</u> | | <u>2011</u> | |
|--------------------------|---------------------|-------------------|---------------------|-------------------|
| | <u>Current</u> | <u>Noncurrent</u> | <u>Current</u> | <u>Noncurrent</u> |
| Student tuition and fees | \$ 5,192,052 | \$ 7,323 | \$ 5,604,737 | \$ - |
| Grants | 1,244,815 | - | 493,691 | - |
| Sales and services | 54,617 | 56,004 | 69,769 | 81,633 |
| Other | <u>1,286,934</u> | <u>-</u> | <u>945,189</u> | <u>-</u> |
| Total | <u>\$ 7,778,418</u> | <u>\$ 63,327</u> | <u>\$ 7,113,386</u> | <u>\$ 81,633</u> |

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10. Compensated Absences and Postretirement Benefits

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

| | 2012 | | 2011 | |
|------------------------------------|---------------------|----------------------|---------------------|----------------------|
| | Current | Noncurrent | Current | Noncurrent |
| Compensated absences | \$ 424,753 | \$ 11,608,535 | \$ 113,354 | \$ 11,495,181 |
| Postretirement benefit obligations | 6,849,000 | 88,244,957 | 6,362,000 | 80,026,138 |
| Total | <u>\$ 7,273,753</u> | <u>\$ 99,853,492</u> | <u>\$ 6,475,354</u> | <u>\$ 91,521,319</u> |

Compensated Absences

The changes in compensated absences are as follows:

| | 2012 | 2011 |
|-----------------------------|----------------------|----------------------|
| Balance at July 1 | \$ 11,608,535 | \$ 11,495,181 |
| Current changes in estimate | 1,371,510 | 1,332,106 |
| Payouts | <u>(946,757)</u> | <u>(1,218,752)</u> |
| Balance at June 30 | <u>\$ 12,033,288</u> | <u>\$ 11,608,535</u> |

Postretirement Benefits

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefit plans referred to here as the "System Plan" and the "Retired Employees Health Program". These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

System Plan

Plan Description

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

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Funding Policy

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. PASSHE paid premiums of \$38,729,000 and \$37,245,000 for the fiscal years ending June 30, 2012 and 2011, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2012:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to January 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependants. The rate changes annually.
- Other eligible annuitants who retire after July 1, 2009, pay 15% of the plan premium in effect when they retired.

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

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Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over 30 years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

| | |
|--|-----------------------------|
| Annual required contribution | \$ 14,094,000 |
| Interest on net OPEB obligation | 3,527,000 |
| Adjustment to annual required contribution | <u>(4,010,000)</u> |
| Annual OPEB cost (expense) | 13,611,000 |
| Contributions made | <u>(4,905,181)</u> |
| Increase in net OPEB obligation | 8,705,819 |
| Net OPEB obligation at July 1, 2011 | <u>86,388,138</u> |
| Net OPEB obligation at June 30, 2012 | <u><u>\$ 95,093,957</u></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, 2012 and the two preceding years were as follows:

| | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------|-----------------------------|---|--------------------------------|
| June 30, 2012 | \$ 13,611,000 | 36.0 % | \$ 95,093,957 |
| June 30, 2011 | 12,874,000 | 35.3 % | 86,388,138 |
| June 30, 2010 | 10,918,000 | 39.7 % | 78,056,346 |

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Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011 the most recent actuarial valuation date, was as follows:

| | |
|---|-----------------------|
| Actuarial accrued liability (“AAL”) | \$ 166,048,000 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (“UAAL”) | <u>\$ 166,048,000</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0%</u> |
| Covered payroll | <u>\$ 65,931,330</u> |
| UAAL as a percentage of covered payroll | <u>251.8%</u> |

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

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation (revised November 2011), the projected unit credit method was used. The actuarial assumptions included a 4.5% investment rate of return, which is 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% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2011 was 24 years.

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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 on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2011/12, PASSHE contributed \$240.00 for each current active employee per biweekly pay period. PASSHE made contributions of \$23,228,000, \$20,069,000 and \$25,318,000 for the fiscal years ending June 30, 2012, 2011 and 2010, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

11. Pension Benefits

The University's employees participate in one of three retirement plans.

The Public School Employees' Retirement System (“PSERS”) and the Commonwealth of Pennsylvania State Employees' Retirement System (“SERS”) are governmental cost-sharing multiple employer defined benefit plans. The Alternative Retirement Plan (“ARP”) is a defined contribution plan administered by PASSHE.

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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 (PASSHE), and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class is selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 4.325% of annual covered payroll at June 30, 2012. The University's contributions to PSERS for the years ended June 30, 2012, 2011 and 2010 were approximately \$210,000, \$122,000, and \$101,000, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

SERS also provides retirement, death, and disability benefits, and legislative mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (the University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. The University contributed at an actuarially determined rate of between 4.83% and 6.99% of an active member's annual covered payroll at June 30, 2012. The University's contributions to SERS for the years ended June 30, 2012, 2011 and 2010 were approximately \$1,612,810, \$1,042,847, and \$812,000, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, P.O. Box 1147, Harrisburg, PA 17108-0125.

Because the ARP is a defined contribution plan, benefits depend upon amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University's contribution rate on June 30, 2012 and 2011 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2012 and 2011 were approximately \$6,090,000 and \$5,961,000, respectively, from the University, and \$4,019,412 and \$3,934,034, respectively, from active members.

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12. Workers' Compensation

The University Participates in PASSHE's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to \$100,000; for claims occurring on or after July 1, 1995, the University must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund ("Reserve Fund"), to which all universities of PASSHE contribute amounts as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$205,003 and \$45,940 to the Reserve Fund in 2012 and 2011, respectively.

For the years ended June 30, 2012 and 2011, the aggregate liability for claims under the self-insurance limit was \$1,559,240 and \$1,495,867, respectively. Changes in the workers compensation claims liability amount in fiscal years 2012 and 2011 follow:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Balance at July 1 | \$ 1,495,867 | \$ 1,530,659 |
| Current year claims and changes in estimates | 268,376 | 11,148 |
| Payments | <u>(205,003)</u> | <u>(45,940)</u> |
| Balance at June 30 | <u>\$ 1,559,240</u> | <u>\$ 1,495,867</u> |

13. Commitments, Contingencies and Concentrations

Authorized expenditures for ongoing construction projects at June 30, 2012 were approximately \$14,115,776.

The nature of the education industry is such that, from time to time, the University is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. The University is self insured for workers' compensation up to stated limits (Note 12). 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.

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

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

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

14. Ground Lease

University Student Housing, LLC ("USH"), a subsidiary of the Foundation, constructed, through tax exempt bond financing, two student housing facilities on the University's North and South campuses on land owned by the Commonwealth under the custody and control of the University. In August 2003, the University entered into a ground lease agreement with USH to lease the land on which the housing facilities were to be constructed. The lease agreement expires in August 2045 or 2035 if the related bond financings are satisfied by USH. Ownership to the facilities constructed on the land transfers to the University at the end of the lease term.

The agreement calls for an annual base rent of \$50,000, commencing August 2004, with annual increases of 3%, and a system fee payment based upon revenues of the facility as defined in the agreement.

The University has subordinated its rights to base and percentage rent payments to any payments due by USH on their related bond financing. Any unpaid amounts accrue interest at prevailing prime rates.

USH constructed, through tax exempt bond financing, two student housing buildings, Allegheny and Brandywine, to replace the University's dormitory-style student housing on land owned by the Commonwealth under the custody and control of the University. In March 2008, the University entered into a second ground lease agreement with USH to lease the land on which the buildings were to be constructed. The lease agreement commenced on July 1, 2009 and expires on July 1, 2053 or 2043 if the related bond financings are satisfied by USH. Ownership to the facilities constructed on the land transfers to the University at the end of the lease term. The agreement calls for annual base rent of \$7,058, with annual increases of 3%, and a system fee payment based upon revenues of the facility as defined in the agreement.

The University has subordinated its rights to base and percentage rent payments to any payments due by USH on their related bond financing. Any unpaid amounts accrue interest at prevailing prime rates.

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At June 30, 2012, future minimum lease payments due under the ground leases are as follows:

| | <u>2003 Lease</u> | <u>2008 Lease</u> |
|-----------------------|-------------------|-------------------|
| Years ending June 30: | | |
| 2013 | \$ 63,339 | \$ 7,712 |
| 2014 | 65,239 | 7,945 |
| 2015 | 67,196 | 8,182 |
| 2016 | 69,212 | 8,428 |
| 2017 | 71,288 | 8,421 |
| Thereafter | 1,719,254 | 353,385 |

USH subleases 27,740 square feet of ground floor space in Allegheny and Brandywine to the University for \$20 per year. The University reports fair value rent expense beginning with the fiscal year ending June 30, 2011. The University is responsible for leasehold improvements. The lease term is 29.5 years.

15. Subsequent Event

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

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Supplementary Schedule of Funding Progress for the System Plan and REHP (OPEB)
Years Ended June 30, 2012 and 2011
(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability ("AAL") (b) | Unfunded AAL ("UAAL") (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-------------------------------------|--|--|--|-------------------------------|------------------------------------|--|
| July 1, 2009 | \$ - | \$ 133,973,000 | \$ 133,973,000 | - | \$ 59,554,000 | 225.0% |
| July 1, 2010 | - | 159,042,000 | 159,042,000 | - | 64,011,000 | 248.5% |
| July 1, 2011 | - | 166,048,000 | 166,048,000 | - | 65,931,330 | 251.8% |

**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, 2009 | \$ 47,920 | \$ 13,257,570 | \$ 13,209,650 | .36% | \$ 4,093,000 | 323.0% |
| July 1, 2010 | 56,320 | 13,674,250 | 13,617,930 | .41% | 3,786,000 | 360.0% |
| July 1, 2011 | 70,740 | 12,907,790 | 12,837,050 | .55% | 3,839,000 | 334.0% |

The information above relates to the Commonwealth's REHP as a whole; i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.