

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

PAGE

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
FINANCIAL STATEMENTS	
Balance Sheets – Primary Institution	14
Statements of Revenues, Expenses, and Changes in Net Position – Primary Institution	16
Statements of Cash Flows – Primary Institution	17
Combined Statements of Financial Position – Component Units	19
Combined Statements of Activities – Component Units	20
 Notes to Financial Statements	 21
SUPPLEMENTARY INFORMATION	
Supplementary Schedules of Funding Progress for the System Plan and REHP (OPEB).....	52



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of West Chester University of Pennsylvania of the State System of Higher Education ("the University") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, West Chester University Student Services, Inc. (Student Services), West Chester University Foundation and Subsidiary (the Foundation) and West Chester University Alumni Association (the Association), which represent 100%, 100% and 100%, respectively, of the assets, net assets and revenues of the discretely presented component units. Those 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 the discretely presented component units, is based solely on the reports of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014, which represents a change in accounting principle. As of July 1, 2012, the net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 15. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3-13 and the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 52 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 17, 2014

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

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, 2014 and 2013. 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 (State System). As such, the University is charged with providing high-quality education at the lowest possible cost to its students. With over 15,400 students enrolled, the University is the largest of the State System universities.

The University functions independently, but being part of the State System 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, 2014 and 2013.

Financial Highlights

- The total Commonwealth appropriation to the State System for operations in fiscal year 2013-14 was \$412.8 million, the same amount as received in fiscal year 2012-13 as well as 2011-12. This is 11.3% less than the General Fund appropriations received in fiscal year 2010-11 and the same level of funding State System received in fiscal year 1997-98 – sixteen years ago.
- The University's share of the appropriation, through the allocation formula, increased by \$1.9 million to \$45.6 million due primarily to the University's enrollment increases and enrollment decreases at many of the other State System universities. However, to lessen the financial burden on two other State System institutions that had experienced significant enrollment declines, the State System reallocated \$1.6 million of the \$45.6 million due to the University. Consequently, the University's appropriation, through the allocation formula, was reduced to \$44.0 million. This represents a very modest 0.7% increase from FY 2012-13.
- The University also received an allocation of Commonwealth funding that the State System set aside for performance. The performance funding plan is part of State System'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 2013-14, the University received \$5.9 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 2013-14 were \$49.9 million; in the prior fiscal year, they were \$48.9 million.
- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, totaled \$1.5 million in fiscal year 2013-14 and \$1.3 million in fiscal year 2012-13.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

Financial Highlights (Continued)

- The State System's Board approved a tuition increase of 3.0% for resident and out-of-state students at the undergraduate level for fiscal year 2013-14; the increase for 2012-13 was 3.0% for both. For graduate students the increase was 3.0% for in-state students and out-of-state students for fiscal year 2013-14. The State System's Board also increased the undergraduate technology tuition fee by 2.8% for in-state students and by 3.0% for out-of-state students in fiscal year 2013-14. The technology tuition fee in fiscal year 2012-13 increased 2.9% for in-state students and 3.0% 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 1.6% in fiscal year 2013-14 and by 2.54% in fiscal year 2012-13. Mandatory fees for graduate students increased by 1.7% in fiscal year 2013-14 and by 2.8% in fiscal year 2012-13. Room rates (North and South Campus) remained the same in fiscal year 2013-14. Food service fees increased 2.0% for 14-meal plans in fiscal year 2013-14, compared to 2.3% for the 14-meal plan for fiscal year 2012-13.
- Tuition and fee revenue (net of discounts) was \$132.6 million for fiscal year 2013-14 and \$123.9 million for fiscal year 2012-13. In addition, revenue from auxiliary enterprises (net of discounts) was \$38.7 million in fiscal year 2013-14 and \$38.2 million in fiscal year 2012-13. Auxiliary enterprise revenues are generated primarily from room and food service charges.
- The University purchased \$19.3 million in capital assets in fiscal year 2013-14, as compared to \$27.1 million in fiscal year 2012-13. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, the construction of the New Street parking facility, renovation of Hollinger Fieldhouse and the Commonwealth Hall Health Center.
- The University generally utilizes the State System to facilitate the issuance of bonds to raise capital for major projects. Given the efficiencies of the State System acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. The University did not obtain any additional bond funding for projects in fiscal years 2013-14 and 2012-13.
- 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 \$6.6 million and \$7.0 million at June 30, 2014 and 2013, respectively.
- During fiscal year 2012-13, the University entered into an agreement with the Borough of West Chester to construct and operate the New Street parking garage. The University has recorded this agreement as a capital lease obligation. The projects were financed through a general revenue bond issuance of \$9.82 million, issued by the Borough of West Chester. The net amount outstanding on this debt was \$9.82 million and \$9.5 million at June 30, 2014 and 2013, respectively.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

Financial Highlights (Continued)

- 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.
- On June 22, 2012, the Foundation entered into a loan agreement with DNB First, NA in the amount of \$2.4 million for the purchase of real estate located at 202 Carter Drive, West Chester, PA.
- On August 28, 2012, USH obtained a commitment to borrow up to \$22.0 million as a loan payable to a bank. The proceeds from the loan are to be used solely to finance the construction of a new apartment style student housing building (East Village Housing).
- On February 1, 2013, USH entered into a loan agreement of \$57.5 million with Chester County Industrial Development Authority ("CCIDA"), for the construction of student housing facilities (Commonwealth Hall).

The Financial Statements

Balance Sheet

This statement reports the balances of the assets, liabilities and net position of the University as of the end of the fiscal year. Assets include cash; investments reported at fair 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 position. Net position increased by \$17.2 million and \$18.2 million in fiscal years 2013-14 and 2012-13, respectively.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Balance Sheet (Continued)

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

	2014	2013
ASSETS		
Capital Assets, Net	\$ 193.8	\$ 189.5
Other Assets	241.6	228.1
Total Assets	\$ 435.4	\$ 417.6
LIABILITIES AND NET POSITION		
LIABILITIES		
Workers' Compensation, Compensated Absences, and Postretirement Obligations	\$ 130.0	\$ 118.7
Bonds Payable	53.4	63.7
Other Liabilities	54.4	54.9
Total Liabilities	237.8	237.3
NET POSITION		
Net Investment in Capital Assets	122.3	110.8
Restricted	33.8	28.6
Unrestricted	41.5	40.9
Total Net Position	197.6	180.3
Total Liabilities and Net Position	\$ 435.4	\$ 417.6

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

- Net investment in capital assets 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 the State System from selling university land and buildings without prior approval.
- Restricted net position represents 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 position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Balance Sheet (Continued)

- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced by two unfunded liabilities:
 1. The liability for postretirement benefits increased by \$10.3 million to \$115.2 million at June 30, 2014. 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 \$1.1 million to \$13.8 million at June 30, 2014. 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 Position

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 position. 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 Pell grants, 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
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

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

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Tuition and Fees, Net	\$ 132.6	\$ 123.9
Grants and Contracts	12.7	12.9
Auxiliary Enterprises, Net	38.7	38.2
Other	9.0	5.7
Total Operating Revenues	<u>193.0</u>	<u>180.7</u>
Other Revenues:		
State Appropriations	51.4	50.3
Investment Income, Net (includes Unrealized Gains and Losses)	5.4	4.3
Gifts, Grants, and Other	17.0	16.6
Total Other Revenues	<u>73.8</u>	<u>71.2</u>
Total Revenues	266.8	251.9
Operating Expenses:		
Personnel Compensation:		
Salaries	108.7	103.1
Benefits	39.2	32.7
Post Retirement Expense	18.2	17.5
Student Wages	3.5	3.2
Total Personnel Compensation	<u>169.6</u>	<u>156.5</u>
Telecommunications Charges	0.5	0.8
Travel and Transportation	1.5	1.3
Computing and Data Processing	2.8	2.1
Professional and Contracted Services	5.6	6.1
Utilities	5.9	6.0
Food Supplies	12.1	12.0
Depreciation	14.7	13.6
Student Aid Expense	10.3	9.8
Supplies and Other Current Charges	24.2	23.3
Total Operating Expenses	<u>247.2</u>	<u>231.5</u>
Other Expenses:		
Interest Expense	2.4	2.2
Total Expenses	<u>249.6</u>	<u>233.7</u>
Change in Net Position	<u>\$ 17.2</u>	<u>\$ 18.2</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
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

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 \$18.5 million, which was the same amount as 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 2013-14 was \$5.4 million, an increase of \$1.1 million from the prior year. This increase was due to an increase in unrealized gains on investments.
- The University spent \$108.7 million, or 44.0% of its operating expenses, on salaries in fiscal year 2013-14 as compared to \$103.1 million, or 44.5% of its operating expenses, in fiscal year 2012-13. Benefit costs increased in fiscal 2013-14 to \$39.2 million from \$32.7 million the prior year. Postretirement costs were \$18.2 million and \$17.5 million in fiscal years 2013-14 and 2012-13, respectively. In total, the University spent \$169.6 million on salaries, postretirement expense, wages, and benefits, or 68.6% of operating expenditures, in fiscal 2013-14, and \$156.5 million, or 67.6% of operating expenditures, in fiscal 2012-13.

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 2014-15, the Commonwealth will provide an appropriation for operations of \$412.8 million to the State System, which is the same amount of funding provided for fiscal year 2013-14. The University's share of the appropriation, through the allocation formula, decreased by \$1.2 million due to the phasing in of the new allocation formula over a three year period. To mitigate the impact of this new formula, the State System made available one-time funds of \$1.2 million.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Future Economic Factors (Continued)

- The State System's Board approved tuition increases of 3.0% for both undergraduate and graduate students. In addition, the Board increased the technology fee by 14.7% for resident undergraduate students; and 15.1% for non-resident undergraduate students. The technology fee increased by 14.3% for resident graduate students and 16.1% for non-resident graduate students. Mandatory student fees set by the University will increase 2.3% for undergraduate students and by 2.5% for graduate students. Room rates (North Campus and South Campus) will remain the same. Food service plans will increase 1.7% for both the 12 and 14-meal plans.
- 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 2014-15 and beyond:
 1. State Appropriations - Given the economic conditions of the nation and the Commonwealth, it is likely that Commonwealth appropriations to the State System 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 over \$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 – Fiscal year 2014-15 represents the final year of contracts with most bargaining units. The 2014-15 fiscal impact of salary increases by bargaining unit (except for SPFPA, who represents police and security officers) ranges from 3.48% to 7.10%. The SPFPA contract expired on August 31, 2014; the effects of the new contract, which currently is being negotiated, are unknown. These contracts are negotiated by the State System or the Commonwealth of Pennsylvania; the financial impact is a continuing increase in salaries and benefits.
 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. In fiscal year 2014-15 the most common rates for the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS), in which almost half of the System's employees participate, increased approximately 32% and 26%, respectively. In total, employee benefits expenses are projected to increase 9.5%.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Future Economic Factors (Continued)

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 the State System as a whole) started to share in the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. The State System is currently exploring a restructuring of its health care plans to further contain costs.

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 – In the summer of 2014, the State System revised the formula for allocating the appropriation from the Commonwealth. This change, which became effective retroactively to July 1, 2014, is expected to result in a loss of approximately \$3.5 million for the University. This funding reduction will be phased in, with equal installments occurring in each year over a 3-year period (fiscal year 2014-15 through fiscal year 2016-17). Since the change was implemented after the beginning of the current fiscal year, universities were given an opportunity to petition for one-time funding to help with the transition. The University requested and was rewarded almost \$1.2 million for fiscal year 2014-15 only. The reduction discussed above is in addition to the State System's reallocation in fiscal 2013-14 of \$1.6 million of University funding to other State System institutions.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

Future Economic Factors (Continued)

- 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. USH constructed in the spring of 2013 a 264-bed addition to its apartment-style housing on south campus and started construction of a high-rise facility with over 650 beds on north campus. The 650-bed facility was opened for the first time at the beginning of fall semester 2014. Housing operated by USH was 99.8% leased at the beginning of fall semester 2013 and 99.9% occupied at the start of fall semester 2014.
- The enrollment demand at the University has remained strong, with about 15,000 freshmen applications for 2,350 openings for the fall of 2014.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(UNAUDITED)**

The Financial Statements (Continued)

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.) Rick Loughery
President
West Chester University Alumni Association
West Chester University
West Chester, PA 19383

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 189,926,485	\$ 197,627,909
Cash Whose Use Is Restricted	13,733,856	-
Accounts Receivable:		
Governmental Grants and Contracts	2,546,715	1,011,018
Students, Net	1,505,088	2,378,921
Other	2,552,251	876,294
Inventory	94,943	98,190
Prepaid Expenses	761,582	625,287
Investment Income Receivable	225,245	202,623
Loans Receivable, Net	1,173,658	1,162,080
Total Current Assets	212,519,823	203,982,322
NONCURRENT ASSETS		
Endowment Investments	21,195,179	18,289,949
Other Investments	4,880	7,339
Loans Receivable, Net	7,604,747	5,573,405
Capital Assets, Net	193,781,586	189,468,528
Other Assets	217,721	281,478
Total Noncurrent Assets	222,804,113	213,620,699
Total Assets	435,323,936	417,603,021
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	122,020	22,289
Total Assets and Deferred Outflows of Resources	\$ 435,445,956	\$ 417,625,310

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 20,829,713	\$ 17,472,959
Unearned Revenue	6,175,603	7,396,799
Students' Deposits	1,717,380	1,676,834
Other Deposit Liabilities	79,789	112,457
Workers' Compensation	584,089	674,734
Compensated Absences and Postretirement Benefit Obligations	8,814,752	7,989,734
Bonds Payable, Net	3,918,622	6,111,079
Capital Lease Obligation	768,852	781,538
Due to PASSHE, Academic Facilities Renovation Bond Program	422,989	406,065
Other Current Liabilities	60,741	84,839
Total Current Liabilities	43,372,530	42,707,038
NONCURRENT LIABILITIES		
Workers' Compensation	486,753	483,739
Compensated Absences and Postretirement Benefit Obligations	120,156,552	109,595,927
Bonds Payable, Net	49,444,778	57,577,376
Capital Lease Obligation	15,379,563	16,129,803
Due to PASSHE, Academic Facilities Renovation Bond Program	1,601,522	2,028,270
Unearned Revenue	8,410	39,531
Other Noncurrent Liabilities	7,342,465	8,753,805
Total Noncurrent Liabilities	194,420,043	194,608,451
Total Liabilities	237,792,573	237,315,489
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	99,732	4,762
NET POSITION		
Net Investment in Capital Assets	122,267,547	110,835,887
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	21,196,872	18,304,437
Other	2,057,286	-
Expendable:		
Scholarships and Fellowships	3,237,061	2,689,260
Research	-	5,550
Capital Projects	4,549,940	4,811,239
Other	2,743,118	2,801,068
Unrestricted	41,501,827	40,857,618
Total Net Position	197,553,651	180,305,059
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 435,445,956	\$ 417,625,310

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
OPERATING REVENUES		
Tuition and Fees	\$ 151,138,097	\$ 142,486,759
Less: Scholarship Discounts and Allowances	(18,555,043)	(18,581,905)
Net Tuition and Fees	132,583,054	123,904,854
Governmental Grants and Contracts:		
Federal	1,337,034	2,584,148
State	11,195,199	10,130,645
Local	-	118,888
Nongovernmental Grants and Contracts	184,927	106,935
Sales and Services of Educational Departments	5,171,956	3,818,299
Auxiliary Enterprises	38,732,237	38,211,285
Other Revenues	3,757,375	1,853,483
Total Operating Revenues	192,961,782	180,728,537
OPERATING EXPENSES		
Instruction	97,221,114	90,693,369
Research	1,253,152	1,404,382
Public Service	2,412,933	2,177,911
Academic Support	31,074,860	29,322,986
Student Services	16,844,567	15,868,701
Institutional Support	27,885,692	25,241,288
Operations and Maintenance of Plant	18,820,811	16,042,557
Depreciation	14,730,206	13,614,452
Student Aid	10,287,860	9,783,140
Auxiliary Enterprises	26,664,744	27,289,126
Total Operating Expenses	247,195,939	231,437,912
NET OPERATING LOSS	(54,234,157)	(50,709,375)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	49,914,169	48,935,460
Pell Grants	14,170,624	13,309,129
Investment Income, Net of Investment Expense of \$26,324 in 2014 and \$37,589 in 2013	2,106,623	2,256,417
Unrealized Gains on Investments	3,251,489	2,014,051
Gifts for Other than Capital Purposes	2,105,855	2,069,098
Interest Expense	(2,392,519)	(2,174,464)
Loss on Disposal of Assets	(246,608)	(52,838)
Other Nonoperating Revenue	113,851	132,880
Nonoperating Revenues, Net	69,023,484	66,489,733
INCOME BEFORE OTHER REVENUES	14,789,327	15,780,358
OTHER REVENUES		
State Appropriations, Capital	1,517,296	1,342,426
Capital Gifts and Grants	941,969	1,141,500
Total Other Revenues	2,459,265	2,483,926
INCREASE IN NET POSITION	17,248,592	18,264,284
Net Position - Beginning of Year	180,305,059	162,567,892
Restatement for bond issuance costs per GASB 65	-	(527,117)
Net Position - Beginning of Year, as restated	180,305,059	162,040,775
NET POSITION - END OF YEAR	\$ 197,553,651	\$ 180,305,059

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	\$ 133,160,531	\$ 123,553,127
Grants and Contracts	10,707,833	16,926,835
Payments to Suppliers for Goods and Services	(51,237,236)	(53,481,559)
Payments to Employees	(156,341,135)	(145,181,962)
Loans Issued to Students	(2,809,799)	(891,827)
Loans Collected from Students	766,879	1,190,434
Student Aid	(10,287,860)	(9,783,140)
Auxiliary Enterprise Charges	38,862,356	38,162,019
Sales and Services of Educational Departments	5,205,342	3,856,869
Other Operating Receipts	54,958	(505,449)
Net Cash Used in Operating Activities	(31,918,131)	(26,154,653)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	49,914,169	48,935,460
Gifts and Nonoperating Grants for Other than Capital Purposes	16,276,479	15,378,227
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	111,427,940	105,218,852
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(111,427,940)	(105,218,852)
Agency Transactions, Net	(32,668)	(412,421)
Other	113,851	132,880
Net Cash Provided by Noncapital Financing Activities	66,271,831	64,034,146
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Appropriations	1,517,298	1,342,426
Capital Grants and Gifts Received	529,148	1,117,567
Proceeds from sales of capital assets	-	11,448
Purchases of Capital Assets	(18,856,595)	(17,235,891)
Principal Paid on Debt	(10,787,747)	(6,420,631)
Interest Paid on Debt	(3,156,092)	(2,980,332)
Net Cash Used in Capital Financing Activities	(30,753,988)	(24,165,413)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	545,074	497,428
Interest on Investments	2,084,001	2,287,637
Purchases of Investments	(196,355)	(142,162)
Net Cash Provided by Investing Activities	2,432,720	2,642,903
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,032,432	16,356,983
Cash and Cash Equivalents - Beginning of Year	197,627,909	181,270,926
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 203,660,341	\$ 197,627,909

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (54,234,157)	\$ (50,709,375)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	14,730,206	13,614,452
Changes in Assets and Liabilities:		
Receivables, Net	(708,377)	4,128,437
Inventories	3,247	(3,489)
Other Assets	(1,701,982)	40,392
Accounts Payable	3,442,951	(3,780,701)
Unearned Revenue	(1,252,317)	(405,415)
Students' Deposits	40,547	(131,168)
Compensated Absences	1,093,753	676,734
Loans to Students, Net	(2,042,920)	298,607
Other Liabilities	8,710,918	10,116,873
Net Cash Used in Operating activities	\$ (31,918,131)	\$ (26,154,653)
 SUPPLEMENTARY DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Capital Assets Received Via Gift	\$ 254,869	\$ 23,933
Equipment Acquired Via Capital Lease	\$ 20,457	\$ 9,831,855
Net Book Value of Assets Traded in through Like-Kind Exchange	\$ 52,097	\$ 55,031
Capital Assets Included in Payables	\$ 157,952	\$ -

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,054,128	\$ 12,276,321
Accounts Receivable	728,964	391,165
Pledges Receivable, Net	1,797,226	1,477,048
Inventory	1,117,034	1,299,750
Due from the University	747,887	805,787
Total Current Assets	15,445,239	16,250,071
NONCURRENT ASSETS		
Restricted Cash	22,999,839	14,145,426
Capital Assets, Net	173,811,375	131,896,680
Investments	27,925,218	66,274,153
Other Assets	4,633,066	5,026,219
Total Noncurrent Assets	229,369,498	217,342,478
Total Assets	\$ 244,814,737	\$ 233,592,549
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 9,383,456	\$ 2,991,659
Current Portion of Bonds Payable	2,645,800	1,560,000
Other Deposit Liabilities	121,058	104,342
Due to the University	2,171,780	537,706
Total Current Liabilities	14,322,094	5,193,707
BONDS PAYABLE	214,778,373	193,260,000
OTHER LIABILITIES	23,634,361	44,708,320
Total Liabilities	252,734,828	243,162,027
NET ASSETS (DEFICIT)		
Unrestricted	(23,113,458)	(20,666,684)
Temporarily Restricted	6,204,654	4,346,502
Permanently Restricted	8,988,713	6,750,704
Total Net Assets (Deficit)	(7,920,091)	(9,569,478)
Total Liabilities and Net Assets (Deficit)	\$ 244,814,737	\$ 233,592,549

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 904,109	\$ 787,248
Investment Income	1,264,894	620,851
University Store	1,581,914	2,064,126
Student Activity Fees	4,178,594	4,082,051
Rental Income	21,581,978	18,574,599
Other Revenues	4,462,164	3,708,593
Change in Interest Rate Swap Agreement	(585,566)	13,393,556
Net Assets Released from Restriction	2,188,088	2,561,902
Total Revenues and Other Additions	35,576,175	45,792,926
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	30,718,547	27,543,351
University Store	1,177,613	1,080,224
Management and General	2,881,128	2,463,704
Distributions to the University	3,245,661	1,763,680
Total Expenses and Other Deductions	38,022,949	32,850,959
Increase (Decrease) in Unrestricted Net Assets	(2,446,774)	12,941,967
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,713,176	1,881,403
Investment (Losses) Gains	1,318,862	544,451
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,188,088)	(2,561,902)
Change in Split-Interest Agreements	14,202	2,607
Increase (Decrease) in Temporarily Restricted Net Assets	1,858,152	(133,441)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,238,009	1,809,819
Other Income	-	250
Increases in Permanently Restricted Net Assets	2,238,009	1,810,069
CHANGE IN NET ASSETS (DEFICIT)	1,649,387	14,618,595
Net Assets (Deficit) - Beginning of Year	(9,569,478)	(24,188,073)
NET ASSETS (DEFICIT) - END OF YEAR	\$ (7,920,091)	\$ (9,569,478)

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 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 (State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

Reporting Entity

The University functions as a business-type activity, as defined by Government Accounting Standards Board (GASB).

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.

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information presented herein.

Complete financial statements for SSI, the Foundation, and the Association may be obtained at the University's administrative office.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation

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.

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 and loss on disposal of assets, are recorded as operating expenses. Appropriations, Pell grants, 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.

Net Position

The University maintains the following classifications of net position. The term "net position" replaced the term "net assets" as required by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* beginning with the year ended June 30, 2013.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (continued)

Net investment in capital assets: 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 position subject to externally imposed conditions requiring that the University maintain them in perpetuity.

Restricted - expendable: Net position 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 position. Unrestricted net position 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.

Cash Equivalents and Investments

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. 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 position (University)/assets (Component Units).

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 \$635,000 in 2014 and \$527,000 in 2013. Loans receivable are reported net of an allowance for doubtful accounts of approximately \$13,000 in 2014 and \$591,000 in 2013.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at the University's campus acquired or constructed prior to the creation of the State System on July 1, 1983, are owned by the Commonwealth and made available to the University. Since the University neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed utilizing capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the University.

Buildings, equipment, and furnishings acquired or constructed 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.

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2014 or 2013.

Unearned Revenue

Unearned 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. The University previously referred to "unearned revenue" as "deferred revenue," but changed the terminology in accordance with the new GASB requirements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the State System, is tax exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets and liabilities, the balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

Deferred Outflow of Resources, reported after *Total Assets*, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). The University has one item that is required to be reported in this category: the deferred loss on bond defeasance, which results when the carrying value of a defeased bond is less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

Deferred Inflows of Resources, reported after *Total Liabilities*, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s). The University has one item that is required to be reported in this category: the deferred gain on bond defeasance, which results when the carrying value of a defeased bond is greater than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond, whichever is shorter.

Transactions are classified as deferred outflows of resources or deferred inflows of resources only when specifically prescribed by GASB standards.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarships and Waivers

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

Reclassifications

Certain reclassifications were made to the 2013 financial statements to conform to the 2014 presentation.

New Accounting Standards

The University has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and (b) recognize, as revenues or expenses, certain items that were previously reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, are now expensed in the period incurred. As detailed in Note 15, the fiscal year 2012/13 bond issuance costs expense of \$63,436 is included in the Statement of Revenues, Expenses and Changes in Net Position as a restatement to the *2013 Increase in Net Position*. The June 30, 2012, balance of the deferred bond issuances costs of \$527,117 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the *2013 Net position—beginning of year*.

Amounts representing the unamortized gain or loss on bond defeasance, which were previously netted and classified as other liabilities, are now reported as deferred outflows of resources (unamortized loss) or deferred inflows of resources (unamortized gain).

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 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, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. Statement No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. The University has determined that Statements No. 69 and 70 have no effect on its financial statements.

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed statement of financial position information for the discretely presented component units as of June 30, 2014:

	2014			
	SSI	The Foundation	The Association	Total
Due from University	\$ 220,583	\$ 527,304	\$ -	\$ 747,887
Capital Assets, Net	372,586	172,987,750	451,039	173,811,375
Other Assets	10,706,634	57,533,468	2,015,373	70,255,475
Total Assets	\$ 11,299,803	\$ 231,048,522	\$ 2,466,412	\$ 244,814,737
Due to University	\$ 44,108	\$ 2,127,672	\$ -	\$ 2,171,780
Long-Term Debt	-	217,424,173	-	217,424,173
Other Liabilities	1,523,441	31,113,540	501,894	33,138,875
Total Liabilities	\$ 1,567,549	\$ 250,665,385	\$ 501,894	\$ 252,734,828
Net Assets (Deficit):				
Unrestricted	\$ 9,732,254	\$ (34,777,605)	\$ 1,931,893	\$ (23,113,458)
Temporarily Restricted	-	6,172,029	32,625	6,204,654
Permanently Restricted	-	8,988,713	-	8,988,713
Total Net Assets (Deficit)	9,732,254	(19,616,863)	1,964,518	(7,920,091)
Total Liabilities and Net Assets (Deficit)	\$ 11,299,803	\$ 231,048,522	\$ 2,466,412	\$ 244,814,737

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining condensed statement of financial position information for the discretely presented component units as of June 30, 2013:

	2013			
	SSI	The Foundation	The Association	Total
Due from University	\$ 78,718	\$ 727,069	\$ -	\$ 805,787
Capital Assets, Net	400,097	131,435,256	61,327	131,896,680
Other Assets	10,878,792	88,642,200	1,369,090	100,890,082
Total Assets	\$ 11,357,607	\$ 220,804,525	\$ 1,430,417	\$ 233,592,549
Due to University	\$ 6,474	\$ 531,232	\$ -	\$ 537,706
Long-Term Debt	-	194,820,000	-	194,820,000
Other Liabilities	1,561,734	46,179,379	63,208	47,804,321
Total Liabilities	\$ 1,568,208	\$ 241,530,611	\$ 63,208	\$ 243,162,027
Net Assets (Deficit):				
Unrestricted	\$ 9,789,399	\$ (31,787,667)	\$ 1,331,584	\$ (20,666,684)
Temporarily Restricted	-	4,310,877	35,625	4,346,502
Permanently Restricted	-	6,750,704	-	6,750,704
Total Net Assets (Deficit)	9,789,399	(20,726,086)	1,367,209	(9,569,478)
Total Liabilities and Net Assets (Deficit)	\$ 11,357,607	\$ 220,804,525	\$ 1,430,417	\$ 233,592,549

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the discretely presented component units for the year ended June 30, 2014:

	2014			Total
	SSI	The Foundation	The Association	
Changes in Unrestricted Net Assets:				
Revenues and Other Additions:				
Contributions	\$ -	\$ 545,935	\$ 358,174	\$ 904,109
Investment Income	16,650	1,038,790	209,455	1,264,895
University Store	1,581,914	-	-	1,581,914
Student Activity Fees	4,178,594	-	-	4,178,594
Rental Income	-	21,581,977	-	21,581,977
Other Revenues	1,112,300	2,820,985	528,879	4,462,164
Change in Interest Rate Swap Agreement	-	(585,566)	-	(585,566)
Net Assets Released from Restrictions	-	2,185,088	3,000	2,188,088
Total Revenues and Other Additions	<u>6,889,458</u>	<u>27,587,209</u>	<u>1,099,508</u>	<u>35,576,175</u>
Expenses and Other Deductions:				
Program Expenses	4,589,178	25,830,902	298,467	30,718,547
University Store	1,177,613	-	-	1,177,613
Management and General	1,145,812	1,534,584	200,732	2,881,128
Distributions to University	34,000	3,211,661	-	3,245,661
Total Expense and Other Deductions	<u>6,946,603</u>	<u>30,577,147</u>	<u>499,199</u>	<u>38,022,949</u>
Increase (Decrease) in Unrestricted Net Assets	(57,145)	(2,989,938)	600,309	(2,446,774)
Changes in Temporarily Restricted Net Assets:				
Contributions	-	2,713,176	-	2,713,176
Investment Gain	-	1,318,862	-	1,318,862
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(2,185,088)	(3,000)	(2,188,088)
Change in Split-Interest Agreements	-	14,202	-	14,202
Increase (Decrease) in Temporarily Restricted Net Assets	-	1,861,152	(3,000)	1,858,152
Changes in Permanently Restricted Net Assets:				
Contributions	-	2,238,009	-	2,238,009
Increase in Permanently Restricted Net Assets	-	2,238,009	-	2,238,009
CHANGE IN NET ASSETS (DEFICIT)	(57,145)	1,109,223	597,309	1,649,387
Net Assets (Deficit) - Beginning of Year	9,789,399	(20,726,086)	1,367,209	(9,569,478)
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 9,732,254</u>	<u>\$ (19,616,863)</u>	<u>\$ 1,964,518</u>	<u>\$ (7,920,091)</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the discretely presented component units for the year ended June 30, 2013:

	2013			
	SSI	The Foundation	The Association	Total
Changes in Unrestricted Net Assets:				
Revenues and Other Additions:				
Contributions	\$ -	\$ 489,415	\$ 297,833	\$ 787,248
Investment Income	25,837	469,100	125,914	620,851
University Store	2,064,126	-	-	2,064,126
Student Activity Fees	4,082,051	-	-	4,082,051
Rental Income	-	18,574,599	-	18,574,599
Other Revenues	1,116,737	2,410,830	181,026	3,708,593
Change in Interest Rate Swap Agreement	-	13,393,556	-	13,393,556
Net Assets Released from Restrictions	-	2,558,902	3,000	2,561,902
Total Revenues and Other Additions	<u>7,288,751</u>	<u>37,896,402</u>	<u>607,773</u>	<u>45,792,926</u>
Expenses and Other Deductions:				
Program Expenses	4,417,803	22,901,802	223,746	27,543,351
University Store	1,080,224	-	-	1,080,224
Management and General	843,288	1,424,487	195,929	2,463,704
Distributions to University	60,940	1,702,740	-	1,763,680
Total Expense and Other Deductions	<u>6,402,255</u>	<u>26,029,029</u>	<u>419,675</u>	<u>32,850,959</u>
Increase in Unrestricted Net Assets	886,496	11,867,373	188,098	12,941,967
Changes in Temporarily Restricted Net Assets:				
Contributions	-	1,881,403	-	1,881,403
Investment Gain	-	544,451	-	544,451
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(2,558,902)	(3,000)	(2,561,902)
Change in Split-Interest Agreements	-	2,607	-	2,607
Decrease in Temporarily Restricted Net Assets	-	(130,441)	(3,000)	(133,441)
Changes in Permanently Restricted Net Assets:				
Contributions	-	1,809,819	-	1,809,819
Investment Income	-	250	-	250
Increase in Permanently Restricted Net Assets	<u>-</u>	<u>1,810,069</u>	<u>-</u>	<u>1,810,069</u>
CHANGE IN NET ASSETS (DEFICIT)	886,496	13,547,001	185,098	14,618,595
Net Assets (Deficit) - Beginning of Year	<u>8,902,903</u>	<u>(34,273,087)</u>	<u>1,182,111</u>	<u>(24,188,073)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 9,789,399</u>	<u>\$ (20,726,086)</u>	<u>\$ 1,367,209</u>	<u>\$ (9,569,478)</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System 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 State System 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 \$203,490,923 at June 30, 2014 and \$197,367,933 at June 30, 2013.

The State System invests its funds in accordance with the State System Board of Governors' (the Board) Investment Policy, which authorizes the State System 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, the State System 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 the State System'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.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The State System'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.)

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

CMO Risk: CMOs are sometimes based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in the State System's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

Modified Duration: The State System denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using *modified duration*. *Duration* is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. *Modified duration* takes into account changing interest rates. The State System 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. The State System's duration targets are not applicable to its long-term investments.

At June 30, 2014 and 2013, the carrying amount of the University's demand and time deposits was \$169,418 and \$259,976, respectively, as compared to bank balances of \$163,180 and \$253,847, respectively. The difference is primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2014 and 2013, \$163,180 and \$253,847, 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.

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2014 is presented below:

2014	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
U.S. Treasury and Agency Obligations		0.20 - 0.70	\$ 41,729
Fixed Income Mutual Funds		1.00	84,179
Equity Mutual Funds			20,074,937
Common Stocks			999,214
Total Investments			<u>\$ 21,200,059</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2013 is presented below:

2013	<u>Moody's Rating (If Applicable)</u>	<u>Modified Duration (Range) (If Applicable)</u>	<u>Fair Value</u>
U.S. Treasury and Agency Obligations		0.20 - 0.70	\$ 167,265
Fixed Income Mutual Funds		1.00	58,694
Equity Mutual Funds			17,191,043
Common Stocks			880,286
Total Investments			<u>\$ 18,297,288</u>

The University has no exposure to foreign currency risk.

NOTE 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 \$4,880 in 2014 and \$7,339 in 2013. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was \$41,430 in 2014 and \$46,208 in 2013.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 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	Beginning Balance July 1, 2013	Additions	Retirements	Reclassifications	Ending Balance June 30, 2014
Capital Assets Not Being Depreciated:						
Construction in Progress		\$ 24,656,462	\$ 15,890,350	\$ (173,249)	\$ (27,928,501)	\$ 12,445,062
Land		6,002,438	-	-	142,740	6,145,178
Total Capital Assets Not Depreciated		30,658,900	15,890,350	(173,249)	(27,785,761)	18,590,240
Capital Assets Being Depreciated, Cost:						
Buildings and Improvements	10-40	220,580,610	-	-	25,766,240	246,346,850
Furnishings and Equipment	3-40	78,105,709	3,184,709	(549,337)	2,019,521	82,760,602
Library Books	10	7,910,133	266,911	(129,530)	-	8,047,514
Total Capital Assets Being Depreciated		306,596,452	3,451,620	(678,867)	27,785,761	337,154,966
Less Accumulated Depreciation:						
Buildings and Improvements		(85,366,737)	(8,850,501)	-	-	(94,217,238)
Furnishings and Equipment		(55,965,755)	(5,590,726)	423,880	-	(61,132,601)
Library Books		(6,454,332)	(288,979)	129,530	-	(6,613,781)
Total Accumulated Depreciation		(147,786,824)	(14,730,206)	553,410	-	(161,963,620)
Total Capital Assets Being Depreciated, Net		158,809,628	(11,278,586)	(125,457)	27,785,761	175,191,346
Capital Assets, Net		<u>\$ 189,468,528</u>	<u>\$ 4,611,764</u>	<u>\$ (298,706)</u>	<u>\$ -</u>	<u>\$ 193,781,586</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Estimated Lives in Years	Beginning Balance July 1, 2012	Additions	Retirements	Reclassifications	Ending Balance June 30, 2013
Capital Assets Not Being Depreciated:						
Construction in Progress		\$ 31,722,253	\$ 23,420,219	\$ (11,592)	\$ (30,474,418)	\$ 24,656,462
Land		6,002,438	-	-	-	6,002,438
Total Capital Assets Not Depreciated		37,724,691	23,420,219	(11,592)	(30,474,418)	30,658,900
Capital Assets Being Depreciated, Cost:						
Buildings and Improvements	10-40	190,555,518	89,030	-	29,936,062	220,580,610
Furnishings and Equipment	3-40	74,820,033	3,404,873	(657,553)	538,356	78,105,709
Library Books	10	7,808,865	232,588	(131,320)	-	7,910,133
Total Capital Assets Being Depreciated		273,184,416	3,726,491	(788,873)	30,474,418	306,596,452
Less Accumulated Depreciation:						
Buildings and Improvements		(77,297,932)	(8,068,805)	-	-	(85,366,737)
Furnishings and Equipment		(51,296,968)	(5,218,614)	549,827	-	(55,965,755)
Library Books		(6,258,619)	(327,033)	131,320	-	(6,454,332)
Total Accumulated Depreciation		(134,853,519)	(13,614,452)	681,147	-	(147,786,824)
Total Capital Assets Being Depreciated, Net		138,330,897	(9,887,961)	(107,726)	30,474,418	158,809,628
Capital Assets, Net		\$ 176,055,588	\$ 13,532,258	\$ (119,318)	\$ -	\$ 189,468,528

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2014	2013
Employees	\$ 12,503,926	\$ 10,531,892
Suppliers and Services	4,655,117	3,193,751
Other	3,455,398	3,503,747
Interest	215,272	243,569
Total	<u>\$ 20,829,713</u>	<u>\$ 17,472,959</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System'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:

	2014				
	Weighted Average Interest Rate	Balance July 1, 2013	Bonds Issued	Bonds Redeemed	Balance June 30, 2014
Series AC Used for Dining Hall Project	4.90%	\$ 294,631	\$ -	\$ (18,615)	\$ 276,016
Series AE used for ESCO Project	4.99%	6,879,129	-	(715,472)	6,163,657
Series AF Used for ESCO Project and to Build a Recreation Center	4.95%	6,400,619	-	(512,424)	5,888,195
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.60%	1,807,815	-	(935,006)	872,809
Series AI Used for Sprinklers, Refunded V, Y, AB and AD	4.01%	5,606,255	-	(436,416)	5,169,839
Series AJ Used to Build a Recreation Center	4.90%	3,860,000	-	(165,000)	3,695,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)	3.66%	1,014,738	-	(130,910)	883,828
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	9,048,668	-	(336,758)	8,711,910
Series AM Used to Build a Recreation Center	4.62%	19,695,000	-	(4,547,787)	15,147,213
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)	4.78%	5,891,881	-	(1,796,152)	4,095,729
Total Bonds Payable		\$ 60,498,736	\$ -	\$ (9,594,540)	50,904,196
Plus Unamortized Bond Premium Costs, Net					<u>2,459,204</u>
Outstanding at End of Year					<u>\$ 53,363,400</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 BONDS PAYABLE (CONTINUED)

	2013				
	Weighted Average Interest Rate	Balance July 1, 2012	Bonds Issued	Bonds Redeemed	Balance June 30, 2013
Series AC Used for Dining Hall Project	4.90%	\$ 312,371	\$ -	\$ (17,740)	\$ 294,631
Series AE used for ESCO Project	4.99%	7,560,152	-	(681,023)	6,879,129
Series AF Used for ESCO Project and to Build a Recreation Center	4.95%	6,892,790	-	(492,171)	6,400,619
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.60%	2,903,508	-	(1,095,693)	1,807,815
Series AI Used for Sprinklers, Refunded V, Y, AB and AD	4.01%	6,028,195	-	(421,940)	5,606,255
Series AJ Used to Build a Recreation Center	4.90%	4,015,000	-	(155,000)	3,860,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)	3.66%	1,141,425	-	(126,687)	1,014,738
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	9,364,509	-	(315,841)	9,048,668
Series AM Used to Build a Recreation Center	4.62%	20,170,000	-	(475,000)	19,695,000
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)	4.78%	7,594,602	-	(1,702,721)	5,891,881
Total Bonds Payable		<u>\$ 65,982,552</u>	<u>\$ -</u>	<u>\$ (5,483,816)</u>	60,498,736
Plus Unamortized Bond Premium Costs, Net					<u>3,189,719</u>
Outstanding at End of Year					<u>\$ 63,688,455</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 BONDS PAYABLE (CONTINUED)

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

Series	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	2035-2036	Total
AC Principal	\$ 19,540	\$ 20,517	\$ 21,546	\$ 22,625	\$ 23,757	\$ 137,912	\$ 30,119	\$ -	\$ -	\$ 276,016
AC Interest	13,491	12,514	11,488	10,411	9,280	27,341	1,386	-	-	85,911
AC Total	33,031	33,031	33,034	33,036	33,037	165,253	31,505	-	-	361,927
AE Principal	752,570	792,319	834,717	877,115	922,164	1,984,772	-	-	-	6,163,657
AE Interest	314,132	274,622	233,025	189,203	145,347	150,117	-	-	-	1,306,446
AE Total	1,066,702	1,066,941	1,067,742	1,066,318	1,067,511	2,134,889	-	-	-	7,470,103
AF Principal	539,252	566,451	594,020	624,028	656,105	2,443,877	464,462	-	-	5,888,195
AF Interest	294,416	267,453	239,130	209,429	178,228	398,428	47,216	-	-	1,634,300
AF Total	833,668	833,904	833,150	833,457	834,333	2,842,305	511,678	-	-	7,522,495
AG Principal	275,783	290,936	306,090	-	-	-	-	-	-	872,809
AG Interest	43,640	29,851	15,304	-	-	-	-	-	-	88,795
AG Total	319,423	320,787	321,394	-	-	-	-	-	-	961,604
AI Principal	450,891	466,557	486,346	506,135	525,925	2,510,773	223,212	-	-	5,169,839
AI Interest	214,545	197,637	178,974	159,520	139,275	356,361	10,045	-	-	1,256,357
AI Total	665,436	664,194	665,320	665,655	665,200	2,867,134	233,257	-	-	6,426,196
AJ Principal	170,000	180,000	190,000	200,000	210,000	1,210,000	1,535,000	-	-	3,695,000
AJ Interest	177,963	169,463	160,463	150,963	140,963	537,063	218,738	-	-	1,555,616
AJ Total	347,963	349,463	350,463	350,963	350,963	1,747,063	1,753,738	-	-	5,250,616
AK Principal	134,388	138,362	144,075	149,292	155,999	161,712	-	-	-	883,828
AK Interest	34,009	29,978	24,443	18,680	12,708	6,469	-	-	-	126,287
AK Total	168,397	168,340	168,518	167,972	168,707	168,181	-	-	-	1,010,115
AL Principal	347,422	368,590	385,142	406,685	429,001	2,325,613	2,861,933	1,382,524	205,000	8,711,910
AL Interest	435,596	418,224	399,795	380,538	360,204	1,466,048	840,146	212,876	10,250	4,523,677
AL Total	783,018	786,814	784,937	787,223	789,205	3,791,661	3,702,079	1,595,400	215,250	13,235,587
AM Principal	406,181	425,898	445,616	469,277	488,994	2,839,320	3,568,868	4,436,438	2,066,621	15,147,213
AM Interest	884,875	859,125	832,125	803,875	780,075	3,401,488	2,476,825	1,366,405	178,200	11,582,993
AM Total	1,291,056	1,285,023	1,277,741	1,273,152	1,269,069	6,240,808	6,045,693	5,802,843	2,244,821	26,730,206
AN Principal	461,880	480,366	498,433	521,067	393,411	1,740,572	-	-	-	4,095,729
AN Interest	174,919	152,727	129,808	105,907	74,086	106,085	-	-	-	743,532
AN Total	636,799	633,093	628,241	626,974	467,497	1,846,657	-	-	-	4,839,261
Total Principal	3,557,907	3,729,996	3,905,985	3,776,224	3,805,356	15,354,551	8,683,594	5,818,962	2,271,621	50,904,196
Total Interest	2,587,586	2,411,594	2,224,555	2,028,526	1,840,165	6,449,400	3,594,356	1,579,281	188,450	22,903,913
Total	\$ 6,145,493	\$ 6,141,590	\$ 6,130,540	\$ 5,804,750	\$ 5,645,521	\$ 21,803,951	\$ 12,277,950	\$ 7,398,243	\$ 2,460,071	\$ 73,808,109

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 BONDS PAYABLE (CONTINUED)

The University participated in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program provided \$100,000,000 in funding over the next several years. The State System issued bonds to provide a pool for funding for AFRP (\$33,625,368 and \$37,540,072 was outstanding as of June 30, 2014 and 2013, 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 \$2,024,511 in 2014 and \$2,434,335 in 2013 to the State System for AFRP funding. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 2,434,335	\$ 2,824,949
Proceeds	-	-
Repayments	(409,824)	(390,614)
Balance at June 30	<u>\$ 2,024,511</u>	<u>\$ 2,434,335</u>

NOTE 8 CAPITAL LEASE OBLIGATION

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

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 16,911,341	\$ 7,625,688
Increases	20,457	9,831,855
Repayments	(783,383)	(546,202)
Balance at June 30	<u>\$ 16,148,415</u>	<u>\$ 16,911,341</u>

Capital assets include a parking garage under capital lease of \$20,721,825 and \$19,735,000 at June 30, 2014 and 2013, respectively, which is reported net of accumulated depreciation of \$4,366,928 in 2014 and \$3,701,372 in 2013. In addition, capital asset includes equipment under capital lease of \$248,083 at June 30, 2014 and \$273,653 at June 30, 2013 which are reported net of accumulated depreciation of \$160,197 at June 30, 2014 and \$123,045 at June 30, 2013.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 CAPITAL LEASE OBLIGATION (CONTINUED)

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, 2014:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,239,413
2016	1,213,139
2017	1,200,957
2018	1,194,781
2019	1,192,834
Thereafter	<u>15,360,331</u>
Total Minimum Lease Payments	21,401,455
Less: Amount Representing Interest	<u>(5,253,040)</u>
Net Present Value of Minimum Lease Payments	16,148,415
Less: Current Portion	768,852
Long-Term Capital Lease Obligations	<u><u>\$ 15,379,563</u></u>

NOTE 9 UNEARNED REVENUE

Unearned revenue consists of the following components at June 30:

	<u>2014</u>		<u>2013</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Student Tuition and Fees	\$ 5,115,329	\$ 3,662	\$ 5,316,620	\$ 9,155
Grants	240,791	-	714,421	-
Sales and Services	165,037	4,748	85,138	30,376
Other	654,446	-	1,280,620	-
Total	<u><u>\$ 6,175,603</u></u>	<u><u>\$ 8,410</u></u>	<u><u>\$ 7,396,799</u></u>	<u><u>\$ 39,531</u></u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

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

	2014		2013	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 1,093,752	\$ 12,710,023	\$ 676,734	\$ 12,033,288
Postretirement Benefit Obligations	<u>7,721,000</u>	<u>107,446,529</u>	<u>7,313,000</u>	<u>97,562,639</u>
Total	<u>\$ 8,814,752</u>	<u>\$ 120,156,552</u>	<u>\$ 7,989,734</u>	<u>\$ 109,595,927</u>

Compensated Absences

The changes in compensated absences are as follows:

	2014	2013
Balance at July 1	\$ 12,710,022	\$ 12,033,288
Current Changes in Estimate	1,542,647	1,462,026
Payouts	<u>(448,894)</u>	<u>(785,292)</u>
Balance at June 30	<u>\$ 13,803,775</u>	<u>\$ 12,710,022</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 non-represented employees participate in a single-employer defined benefits healthcare plan administered by the State System (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 State System universities. Act 188 empowers the Board to establish and amend benefit provisions. The System Plan is unfunded, and no financial report is prepared.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy

The contribution requirements of plan members and the State System 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. The State System paid premiums of \$44,201,000 and \$42,975,000 for the fiscal years ended June 30, 2014 and 2013, 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, 2014:

- 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 July 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, and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire after July 1, 2008, pay 15% of the plan premium in effect when they retired.

Total contributions made by plan members were \$3,969,000 and \$3,607,000, or approximately 8.2% and 7.7% of the total premiums, for fiscal years ended June 30, 2014 and 2013, respectively.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

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:

	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 16,651,000	\$ 15,643,000
Interest on Net OPEB Obligation	4,167,000	3,707,000
Adjustment to Annual Required Contribution	<u>(5,258,000)</u>	<u>(4,500,000)</u>
Annual OPEB Cost	15,560,000	14,850,000
Contributions Made	<u>(5,268,110)</u>	<u>(5,068,318)</u>
Increase in Net OPEB Obligation	10,291,890	9,781,682
Net OPEB Obligation, Beginning of Year	<u>104,875,639</u>	<u>95,093,957</u>
Net OPEB Obligation, End of Year	<u>\$ 115,167,529</u>	<u>\$ 104,875,639</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, 2014 and the two preceding years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 15,560,000	33.9 %	\$ 115,167,529
2013	14,850,000	34.1 %	104,875,639
2012	13,611,000	36.0 %	95,093,957

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013 the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 191,900,000
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 191,900,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>0%</u>
Covered Payroll	<u>\$ 72,850,870</u>
UAAL as a Percentage of Covered Payroll	<u>263.4%</u>

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

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio and an annual healthcare cost trend rate of 7.8% for pre-Medicare and 6.8% for post-Medicare 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, 2013 was 22 years.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of non-represented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005 are not required to make contributions. Plan members who enrolled after July 1, 2005 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 2013/14, the State System contributed \$305 for each current active employee per biweekly pay period. The State System made contributions of \$28,584,000, \$25,638,000, and \$23,228,000 for the fiscal years ended June 30, 2014, 2013 and 2012, 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.

NOTE 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 the State System.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS provides retirement and disability benefits, legislative mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§ 8101-8535) is the authority by which PSERS benefits provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (the State System), 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 8.465% and 6.18% of annual covered payroll at June 30, 2014 and 2013, respectively. The University's contributions to PSERS for the years ended June 30, 2014, 2013 and 2012 were approximately \$496,000, \$339,000, and \$210,000, 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 10.46% and 15.12% of an active member's annual covered payroll at June 30, 2014. The University's contributions to SERS for the years ended June 30, 2014, 2013 and 2012 were approximately \$3,772,000, \$2,491,000, and \$1,613,000, 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.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 11 PENSION BENEFITS (CONTINUED)

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, 2014 and 2013 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2014 and 2013 were approximately \$6,654,000 and \$6,350,000, respectively, from the University, and \$4,391,486 and \$4,190,925, respectively, from active members.

NOTE 12 WORKERS' COMPENSATION

The University Participates in the State System'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 the State System contribute amounts as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$87,631 and \$400,767 to the Reserve Fund in 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013, the aggregate liability for claims under the self-insurance limit was \$1,070,842 and \$1,158,473, respectively. Changes in the workers compensation claims liability amount in fiscal years 2014 and 2013 follow:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 1,158,473	\$ 1,559,240
Current Year Claims and Changes in Estimates	(31,531)	-
Payments	<u>(56,100)</u>	<u>(400,767)</u>
Balance at June 30	<u><u>\$ 1,070,842</u></u>	<u><u>\$ 1,158,473</u></u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 13 COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Authorized expenditures for ongoing construction projects at June 30, 2014 were approximately \$13,062,515.

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.

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.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 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.

USH constructed, through tax exempt bond financing, a student housing buildings, Commonwealth, to replace the University’s dormitory-style student housing on land owned by the Commonwealth under the custody and control of the University. In July 2012, the University entered into a third ground lease agreement with USH to lease the land on which the building was to be constructed. The lease agreement commenced on July 1, 2012 and expires on June 30, 2047. Ownership of 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 \$30,650, with annual increases of 1% with the lease year beginning on July 1, 2014 and ending with the lease year that begins on July 1, 2018. Thereafter, base rent shall increase by 2% each lease year beginning on July 1, 2019 through the lease year ending on June 30, 2023, and shall increase by 3% for each subsequent lease year for the duration of the term. The agreement also calls for 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.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 14 GROUND LEASE (CONTINUED)

At June 30, 2014, future minimum lease payments due under the ground leases are as follows:

<u>Year Ending June 30,</u>	<u>2003 Lease</u>	<u>2008 Lease</u>	<u>2013 Lease</u>
2015	\$ 67,196	\$ 7,944	\$ 30,956
2016	69,212	8,182	21,266
2017	71,288	8,428	31,579
2018	73,427	8,680	31,895
2019	75,629	9,209	32,213
Thereafter	1,641,486	335,496	1,371,852

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 of \$1,026,332 and \$853,070 for the years ended June 30, 2014 and 2013, respectively. The University is responsible for leasehold improvements. The lease term is 29.5 years.

NOTE 15 CHANGE IN ACCOUNTING PRINCIPLE

The University has implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that previously were reported as assets and liabilities; and (b) recognize, as revenues or expenses, certain items that previously were reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now are expensed in the period incurred.

The fiscal year 2012/13 bond issuance costs expense of \$63,436 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2013 Increase in Net Position. The June 30, 2012, balance of the deferred bond issuances costs of \$527,117 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the 2013 Net position—beginning of year. The effect of the adjustment is displayed below:

	<u>2013</u>
Net Position, Beginning of Year, as Previously Reported	\$ 162,567,892
Cumulative Effect of Adoption of New Accounting Standard, GASB 65	(527,117)
Net Position, Beginning of Year, as Restated	<u>\$ 162,040,775</u>
Increase in Net Position, as Previously Reported	\$ 18,200,848
FY 2012/13 Bond Issuance Costs	63,436
Increase in Net Position, as Restated	<u>\$ 18,264,284</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
SUPPLEMENTARY SCHEDULES OF FUNDING PROGRESS
FOR THE SYSTEM PLAN AND REHP (OPEB)
YEARS ENDED JUNE 30, 2014 AND 2013
(UNAUDITED)**

**Schedule of Funding Progress for the System Plan (OPEB)
(in Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b-a)/c]
July 1, 2011	\$ -	\$ 166,048,000	\$ 166,048,000	0%	\$ 65,931,330	251.8%
July 1, 2012	\$ -	\$ 184,981,000	\$ 184,981,000	0%	\$ 70,729,000	261.5%
July 1, 2013	\$ -	\$ 191,900,000	\$ 191,900,000	0%	\$ 72,850,870	263.4%

**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, 2011	\$ 70,740	\$ 12,907,790	\$ 12,837,050	0.55%	\$ 3,839,000	334%
July 1, 2012	\$ 71,630	\$ 12,843,700	\$ 12,772,070	0.56%	\$ 4,130,000	309%
July 1, 2013	\$ 82,060	\$ 13,234,040	\$ 13,151,980	0.62%	\$ 4,264,000	308%

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.