

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2013 AND 2012

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
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YEARS ENDED JUNE 30, 2013 AND 2012

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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 year ended June 30, 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 audit. 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 percent, 100 percent and 100 percent, 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 audit 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.

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

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

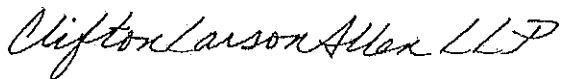
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-12 and the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 51 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.

Other Information

The financial statements of West Chester University of Pennsylvania of the State System of Higher Education as of June 30, 2012, were audited by other auditors whose report dated November 9, 2012, expressed an unmodified opinion on those statements.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 29, 2013

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(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, 2013 and 2012. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

West Chester University is a public university of the Commonwealth of Pennsylvania (Commonwealth) and a member of the Pennsylvania State System of Higher Education (PASSHE). As such, the University is charged with providing high-quality education at the lowest possible cost to its students. With over 15,400 students enrolled, the University is the largest of the PASSHE universities.

The University functions independently, but being part of PASSHE enables the University to share resources and benefit from economies of scale. Following is an overview of the University's financial activities for the years ended June 30, 2013 and 2012.

Financial Highlights

- The total Commonwealth appropriation to PASSHE for operations in fiscal year 2012-13 was \$412.8 million, the same amount as received in fiscal year 2011-12. This is 11.3% less than the General Fund appropriations received in fiscal year 2010-11 and the same level of funding PASSHE received in fiscal year 1997-98 – fifteen years ago.
- The majority of the Commonwealth funding to PASSHE is distributed to each institution based on an allocation formula, which has been approved by PASSHE's Board of Governors (the "Board"). The University received approximately \$43.7 million in funding through the allocation formula in fiscal year 2012-13, which was an 2.3% increase from the \$42.7 million received in fiscal year 2011-12.
- The University also received an allocation of Commonwealth funding that PASSHE set aside for performance. The performance funding plan is part of PASSHE's continuing commitment to ensure the high quality of university programs. It rewards universities for success on measures such as productivity, diversity, and student advancement. In fiscal year 2012-13, the University received \$5.2 million in performance funding; in the prior fiscal year, the University received \$4.7 million in performance funding.
- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2012-13 were \$48.9 million; in the prior fiscal year, they were \$47.4 million.
- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, totaled \$1.3 million in fiscal year 2012-13 and \$0.8 million in fiscal year 2011-12.

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(UNAUDITED)

Financial Highlights (Continued)

- The PASSHE Board approved a tuition increase of 3.0% for resident and out-of-state students at the undergraduate level for fiscal year 2012-13; the increase for 2011-12 was 7.5%. For graduate students the increase was 3.1% for in-state students and 3.2% for out-of-state students for fiscal year 2012-13. The PASSHE Board also increased the undergraduate technology tuition fee by 2.9% for in-state students and by 3.0% for out-of-state students in fiscal year 2012-13. The technology tuition fee in fiscal year 2011-12 increased 50.0% for in-state students and 50.3% for out-of-state students. Universities must use the technology tuition fee to support instructional technology.
- Mandatory fees for all undergraduate students set by the University increased by 2.5% in fiscal year 2012-13 and by 2.93% in fiscal year 2011-12. Mandatory fees for graduate students increased by 2.8% in fiscal year 2012-13 and by 3.06% in fiscal year 2011-12. Room rates (North and South Campus) remained the same in fiscal year 2012-13. Food service fees increased 2.3% for 14-meal plans in fiscal year 2012-13, compared to 2.44% for the 14-meal plan for fiscal year 2011-12.
- Tuition and fee revenue (net of discounts) was \$123.9 million for fiscal year 2012-13 and \$116.1 million for fiscal year 2011-12. In addition, revenue from auxiliary enterprises (net of discounts) was \$38.2 million in fiscal year 2012-13 and \$34.0 million in fiscal year 2011-12. Auxiliary enterprise revenues are generated primarily from room and food service charges.
- The University purchased \$27.1 million in capital assets in fiscal year 2012-13, as compared to \$29.6 million in fiscal year 2011-12. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, and the construction of the Student Recreation Center.
- The University generally utilizes PASSHE to facilitate the issuance of bonds to raise capital for major projects. Given the efficiencies of PASSHE acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. Although the University did not obtain any additional bond funding for projects in fiscal year 2012-13, \$27.8 million of additional bond financing was obtained for projects in fiscal year 2011-12.
- During fiscal year 2002-03, the University entered into an agreement with the Borough of West Chester to construct and operate two parking garages. The University has recorded this agreement as a capital lease obligation. One parking garage was completed in the fall of 2003, while the other was completed in the fall of 2004. The projects were financed through a general revenue bond issuance of \$9.6 million, issued by the Borough of West Chester. The net amount outstanding on this debt was \$7.0 million and \$7.3 million at June 30, 2013 and 2012, 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 at June 30, 2013.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 \$18.2 million and \$21.2 million in fiscal years 2012-13 and 2011-12, respectively.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(UNAUDITED)

The Financial Statements (Continued)

Balance Sheet (Continued)

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Capital Assets, Net	\$ 189.5	\$ 176.1
Other Assets	<u>228.1</u>	<u>214.6</u>
Total Assets	<u>\$ 417.6</u>	<u>\$ 390.7</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Workers' Compensation, Compensated Absences, and Postretirement Obligations	\$ 118.7	\$ 108.8
Bonds Payable	63.3	69.4
Other Liabilities	<u>54.9</u>	<u>50.0</u>
Total Liabilities	236.9	228.2
NET POSITION		
Net Investment in Capital Assets	111.3	104.1
Restricted	28.5	25.5
Unrestricted	<u>40.9</u>	<u>32.9</u>
Total Net Position	<u>180.7</u>	<u>162.5</u>
Total Liabilities and Net Position	<u>\$ 417.6</u>	<u>\$ 390.7</u>

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 PASSHE 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(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 \$9.8 million to \$104.9 million at June 30, 2013. Because this liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.
 2. The liability for compensated absences increased by \$0.7 million to \$12.7 million at June 30, 2013. 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(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):

	2013	2012
Operating Revenues:		
Tuition and Fees, Net	\$ 123.9	\$ 116.1
Grants and Contracts	12.9	16.9
Auxiliary Enterprises, Net	38.2	34.0
Other	5.7	5.9
Total Operating Revenues	180.7	172.9
Other Revenues:		
State Appropriations	50.3	48.2
Investment Income, Net (includes Unrealized Gains and Losses)	4.3	2.6
Gifts, Grants, and Other	16.6	15.2
Total Other Revenues	71.2	66.0
Total Revenues	251.9	238.9
Operating Expenses:		
Personnel Compensation:		
Salaries	103.1	98.1
Benefits	32.7	30.7
Post Retirement Expense	17.5	15.9
Student Wages	3.2	2.8
Total Personnel Compensation	156.5	147.5
Telecommunications Charges	0.8	0.8
Travel and Transportation	1.3	1.2
Computing and Data Processing	2.1	2.3
Professional and Contracted Services	6.1	5.4
Utilities	6.0	5.3
Food Supplies	12.0	11.2
Depreciation	13.6	12.7
Student Aid Expense	9.8	10.0
Supplies and Other Current Charges	23.3	18.6
Total Operating Expenses	231.5	215.0
Other Expenses:		
Interest Expense	2.2	2.7
Total Expenses	233.7	217.7
Change in Net Position	\$ 18.2	\$ 21.2

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(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 a 3.1% increase from the previous year. Waivers of tuition and fees are shown as a reduction of student tuition and fee revenues.
- Net investment income (including unrealized gains) for fiscal year 2012-13 was \$4.3 million, an increase of \$1.7 million from the prior year. This increase was due to an increase in unrealized gains on investments.
- The University spent \$103.1 million, or 44.5% of its operating expenses, on salaries in fiscal year 2012-13 as compared to \$98.1 million, or 45.6% of its operating expenses, in fiscal year 2011-12. Benefit costs increased in fiscal 2012-13 to \$32.7 million from \$30.7 million the prior year. Postretirement costs were \$17.5 million and \$15.9 million in fiscal years 2012-13 and 2011-12, respectively. In total, the University spent \$156.5 million on salaries, postretirement expense, wages, and benefits, or 67.6% of operating expenditures, in fiscal 2012-13, and \$147.5 million, or 68.6% of operating expenditures, in fiscal 2011-12.

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 2013-14, the Commonwealth will provide an appropriation for operations of \$412.8 million to PASSHE, which is the same amount of funding provided for fiscal year 2012-13. 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 PASSHE universities. However, to lessen the financial burden on two other PASSHE institutions that had experienced significant enrollment declines, PASSHE 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.
- In addition, the University will receive \$5.9 million in performance funding from PASSHE for fiscal year 2013-14.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012
(UNAUDITED)

The Financial Statements (Continued)

Future Economic Factors (Continued)

- The PASSHE Board approved tuition increases of 3.0% for both undergraduate students and graduate students for fiscal year 2013-14. In addition, the Board increased the technology tuition fee by 2.8% for resident undergraduate students; and 3.0% for non-resident undergraduate students. The technology tuition fee remained the same for both resident and non-resident graduate students. Mandatory student fees set by the University will increase 1.6% for undergraduate students and by 1.7% for graduate students. Room rates (North Campus and South Campus) will remain the same. Food service plans will increase 2.40% for both the 12 and 14-meal plan.
- West Chester University has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. However, several conditions could limit the University's financial flexibility in fiscal year 2013-14 and beyond:
 1. State Appropriations - Given the economic conditions of the nation and the Commonwealth, it is likely that Commonwealth appropriations to PASSHE will be flat or declining for the next several years.
 2. Plans for necessary facilities upgrades - These requirements could commit a significant portion of the University's available fund balance. However, the new fees to support investments in facilities and sustainable energy, which were implemented beginning in fiscal year 2009-10, generate approximately \$3.0 million per year. This additional revenue will ameliorate potential problems of inadequate funds for facilities improvements.
 3. Increased costs for salaries and benefits mandated by collective bargaining agreements - All collective bargaining agreements have been successfully renegotiated. These contracts are negotiated by PASSHE 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.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 PASSHE as a whole) started to share in the cost of health care. PASSHE also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. PASSHE currently is exploring a restructuring of its health care plans to further contain costs.

 6. Volatility in energy costs - To militate against this potential volatility, including the results of the recent deregulation of electric rates, the University contracted with an energy savings company to recommend and implement facilities improvements to help reduce the University's annual utility expense. Based on the recommended improvements, the University conservatively estimates almost \$8 million in net savings/cost avoidance over a 15-year period. Those estimated savings will be used to fund necessary deferred maintenance projects that will be accomplished at the same time as the energy-savings improvements. In addition, the University has embarked on a program to convert heating and cooling for most of its buildings to a geothermal system, which should provide significant long-term savings, as well as dramatically reduce particulates discharged into the atmosphere from the current coal-fired boilers. The geothermal project is being funded with federal and Commonwealth grants, direct appropriations from the Commonwealth, and funds from the University and USH.

 7. Revisions to the allocation formula - It is likely that within the next year PASSHE will revise the formula for allocating funding to the universities. The impact of this probable revision is unknown, but could result in a reduced level of funding for the University. In fiscal year 2013-14, PASSHE reallocated \$1.6 million of University funding to other PASSHE institutions.
- The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University is currently exploring various options, including changes to its budget allocation model.

 - The University, in conjunction with USH, has developed a housing master plan for the replacement of much of the older housing on campus. As currently envisioned, USH will develop and operate this housing. The first phase of the new housing, which opened fall semester 2009, accommodates approximately 1,258 students. Housing operated by USH was 99.8% leased at the beginning of fall semester 2012. USH 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Financial Statements (Continued)

Future Economic Factors (Continued)

- The enrollment demand at the University has remained strong, with over 14,600 freshmen applications for 2,298 openings for the fall of 2013.

Requests for Information

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

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

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

The West Chester University Foundation

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

Student Services, Inc.

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

The West Chester University Alumni Association

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2013 AND 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 197,627,909	\$ 181,270,926
Accounts Receivable:		
Governmental Grants and Contracts	1,011,018	5,527,631
Students, Net	2,378,921	1,982,696
Other	876,294	1,216,306
Inventory	98,190	94,701
Prepaid Expenses	625,287	505,713
Investment Income Receivable	202,623	233,843
Bond Issuance Costs	4,994	521
Loans Receivable, Net	1,162,080	1,184,234
Total Current Assets	203,987,316	192,016,571
NONCURRENT ASSETS		
Endowment Investments	18,289,949	16,621,160
Other Investments	7,339	17,343
Loans Receivable, Net	5,573,405	5,849,858
Capital Assets, Net	189,468,528	176,055,588
Bond Issuance Costs	26,694	49,216
Other Assets	281,478	109,481
Total Noncurrent Assets	213,647,393	198,702,646
 Total Assets	 \$ 417,634,709	 \$ 390,719,217

See accompanying Notes to Financial Statements.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2013 AND 2012

	2013	2012
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 17,472,959	\$ 20,630,737
Unearned Revenue	7,396,799	7,778,418
Students' Deposits	1,676,833	1,808,001
Other Deposit Liabilities	112,457	524,878
Workers' Compensation	674,734	737,176
Compensated Absences and Postretirement Benefit Obligations	7,989,734	7,273,753
Bonds Payable, Net	6,065,549	6,205,290
Capital Lease Obligation	781,538	477,583
Due to PASSHE, Academic Facilities Renovation Bond Program	406,065	390,564
Other Current Liabilities	84,839	52,116
Total Current Liabilities	42,661,507	45,878,516
NONCURRENT LIABILITIES		
Workers' Compensation	483,739	822,064
Compensated Absences and Postretirement Benefit Obligations	109,595,927	99,853,492
Bonds Payable, Net	57,173,387	63,254,265
Capital Lease Obligation	16,129,803	7,148,105
Due to PASSHE, Academic Facilities Renovation Bond Program	2,028,270	2,434,385
Unearned Revenue	39,531	63,327
Other Noncurrent Liabilities	8,753,805	8,697,171
Total Noncurrent Liabilities	194,204,462	182,272,809
Total Liabilities	236,865,969	228,151,325
NET POSITION		
Net Investment in Capital Assets	111,299,568	104,070,003
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	18,304,437	16,661,668
Expendable:		
Scholarships and Fellowships	2,689,260	2,820,051
Research	5,550	329,409
Capital Projects	4,811,239	2,947,195
Other	2,801,068	2,814,979
Unrestricted	40,857,618	32,924,587
Total Net Position	180,768,740	162,567,892
Total Liabilities and Net Position	\$ 417,634,709	\$ 390,719,217

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, 2013 AND 2012**

	2013	2012
OPERATING REVENUES		
Tuition and Fees	\$ 142,486,759	\$ 134,143,064
Less: Scholarship Discounts and Allowances	(18,581,905)	(18,002,832)
Net Tuition and Fees	123,904,854	116,140,232
Governmental Grants and Contracts:		
Federal	2,584,148	5,170,953
State	10,130,645	11,341,270
Local	118,888	249,740
Nongovernmental Grants and Contracts	106,935	119,601
Sales and Services of Educational Departments	3,818,299	3,168,966
Auxiliary Enterprises	38,211,285	33,955,748
Other Revenues	1,853,483	2,707,457
Total Operating Revenues	180,728,537	172,853,967
OPERATING EXPENSES		
Instruction	90,693,369	86,046,703
Research	1,404,382	1,843,729
Public Service	2,177,911	2,573,275
Academic Support	29,322,986	24,619,070
Student Services	15,868,701	14,954,260
Institutional Support	25,241,288	22,291,215
Operations and Maintenance of Plant	16,042,557	16,014,924
Depreciation	13,614,452	12,715,082
Student Aid	9,783,140	10,082,397
Auxiliary Enterprises	27,289,126	23,877,112
Total Operating Expenses	231,437,912	215,017,767
NET OPERATING LOSS	(50,709,375)	(42,163,800)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	48,935,460	47,447,959
Pell Grants	13,309,129	12,846,804
Investment Income, Net of Investment Expense of \$37,589 in 2013 and \$35,208 in 2012	2,256,417	2,377,664
Unrealized Gains on Investments	2,014,051	236,779
Gifts for Other than Capital Purposes	2,069,098	1,957,183
Interest Expense	(2,237,900)	(2,701,917)
Loss on Disposal of Assets	(52,838)	(262,680)
Other Nonoperating Revenue	132,880	176,180
Nonoperating Revenues, Net	66,426,297	62,077,972
INCOME BEFORE OTHER REVENUES	15,716,922	19,914,172
OTHER REVENUES		
State Appropriations, Capital	1,342,426	768,714
Capital Gifts and Grants	1,141,500	531,855
Total Other Revenues	2,483,926	1,300,569
INCREASE IN NET POSITION	18,200,848	21,214,741
Net Position - Beginning of Year	162,567,892	141,353,151
NET POSITION - END OF YEAR	\$ 180,768,740	\$ 162,567,892

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, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	\$ 123,553,127	\$ 115,722,817
Grants and Contracts	16,926,835	19,028,399
Payments to Suppliers for Goods and Services	(53,481,559)	(44,878,313)
Payments to Employees	(145,181,962)	(140,609,307)
Loans Issued to Students	(891,827)	(825,955)
Loans Collected from Students	1,190,434	1,343,487
Student Aid	(9,783,140)	(10,082,397)
Auxiliary Enterprise Charges	38,162,019	34,123,562
Sales and Services of Educational Departments	3,856,869	3,159,871
Other Operating Receipts	(505,449)	(91,168)
Net Cash Used by Operating Activities	(26,154,653)	(23,109,004)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	48,935,460	47,447,959
Gifts and Nonoperating Grants for Other than Capital Purposes	15,378,227	14,803,987
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	105,218,852	99,433,643
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(105,218,852)	(99,433,643)
Agency Transactions, Net	(412,421)	(50,232)
Other	132,880	176,180
Net Cash Provided by Noncapital Financing Activities	64,034,146	62,377,894
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Debt	-	28,902,457
Capital Appropriations	1,342,426	768,714
Capital Grants and Gifts Received	1,117,567	494,680
Proceeds from sales of capital assets	11,448	-
Purchases of Capital Assets	(17,235,891)	(29,558,890)
Principal Paid on Debt	(6,420,631)	(17,945,081)
Interest Paid on Debt	(2,980,332)	(1,415,608)
Net Cash Used by Capital Financing Activities	(24,165,413)	(18,753,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	497,428	450,634
Interest on Investments	2,287,637	2,399,598
Purchases of Investments	(142,162)	(482,117)
Net Cash Provided by Investing Activities	2,642,903	2,368,115
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,356,983	22,883,277
Cash and Cash Equivalents - Beginning of Year	181,270,926	158,387,649
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 197,627,909	\$ 181,270,926

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (50,709,375)	\$ (42,163,800)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	13,614,452	12,715,082
Changes in Assets and Liabilities:		
Receivables, Net	4,128,437	1,602,701
Inventories	(3,489)	(6,364)
Other Assets	40,392	220,702
Accounts Payable	(3,780,701)	(5,782,589)
Unearned Revenue	(405,415)	646,726
Students' Deposits	(131,168)	(45,172)
Compensated Absences	676,734	424,753
Loans to Students, Net	298,607	517,532
Other Liabilities	10,116,873	8,761,425
Net Cash Used by Operating activities	<u>\$ (26,154,653)</u>	<u>\$ (23,109,004)</u>
 SUPPLEMENTARY DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY		
Capital Assets Received Via Gift	<u>\$ 23,933</u>	<u>\$ 37,175</u>
Equipment Acquired Via Capital Lease	<u>\$ 9,831,855</u>	<u>\$ 65,977</u>
Net Book Value of Assets Traded in through Like-Kind Exchange	<u>\$ 55,031</u>	<u>\$ 2,123</u>

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, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 12,276,321	\$ 10,334,222
Accounts Receivable	391,165	266,488
Pledges Receivable, Net	1,477,048	1,704,981
Inventory	1,299,750	1,152,125
Due from the University	805,787	159,186
Total Current Assets	16,250,071	13,617,002
NONCURRENT ASSETS		
Restricted Cash	14,145,426	18,472,324
Capital Assets, Net	131,896,680	114,885,661
Investments	66,274,153	8,773,907
Other Assets	5,026,219	3,466,124
Total Noncurrent Assets	217,342,478	145,598,016
Total Assets	\$ 233,592,549	\$ 159,215,018
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,991,659	\$ 2,352,612
Current Portion of Bonds Payable	1,560,000	1,305,000
Other Deposit Liabilities	104,342	87,028
Due to the University	537,706	712,185
Total Current Liabilities	5,193,707	4,456,825
BONDS PAYABLE	193,260,000	137,285,000
OTHER LIABILITIES	44,708,320	41,661,266
Total Liabilities	243,162,027	183,403,091
NET ASSETS (DEFICIT)		
Unrestricted	(20,666,684)	(33,608,651)
Temporarily Restricted	4,346,502	4,479,943
Permanently Restricted	6,750,704	4,940,635
Total Net Assets (Deficit)	(9,569,478)	(24,188,073)
Total Liabilities and Net Assets (Deficit)	\$ 233,592,549	\$ 159,215,018

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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 787,248	\$ 818,059
Investment Income	620,851	529,885
University Store	2,064,126	1,856,970
Student Activity Fees	4,082,051	3,890,072
Rental Income	18,574,599	17,854,769
Other Revenues	3,708,593	5,205,036
Change in Interest Rate Swap Agreement	13,393,556	(21,287,645)
Net Assets Released from Restriction	2,561,902	1,099,507
Total Revenues and Other Additions	<u>45,792,926</u>	<u>9,966,653</u>
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	27,543,351	26,793,644
University Store	1,080,224	1,022,504
Management and General	2,463,704	2,496,779
Distributions to the University	1,763,680	1,725,860
Total Expenses and Other Deductions	<u>32,850,959</u>	<u>32,038,787</u>
Increase (Decrease) in Unrestricted Net Assets	12,941,967	(22,072,134)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,881,403	2,670,362
Investment (Losses) Gains	544,451	(35,301)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,561,902)	(1,099,507)
Other Income	-	2,770
Change in Split-Interest Agreements	2,607	68,084
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(133,441)</u>	<u>1,606,408</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,809,819	534,130
Other Income	250	-
Increases in Permanently Restricted Net Assets	<u>1,810,069</u>	<u>534,130</u>
CHANGE IN NET ASSETS (DEFICIT)	14,618,595	(19,931,596)
Net Assets (Deficit) - Beginning of Year	<u>(24,188,073)</u>	<u>(4,256,477)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (9,569,478)</u>	<u>\$ (24,188,073)</u>

See accompanying Notes to Financial Statements.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Reporting Entity

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, 2013 AND 2012

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, are recorded as operating expenses. Appropriations, gifts, interest income, capital grants, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as nonoperating revenue.

Scholarship Discounts and Allowances

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

Net Position (formerly referred to as Net Assets)

The University maintains the following classifications of net position. The term "net position" has 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*.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Net Position (formerly referred to as Net Assets) (continued)

Net investment in capital assets (previously referred to and the same as "Invested in capital assets, net of related debt"; the terminology was changed by GASB in Statement No. 63): Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted - nonexpendable: Net assets subject to externally imposed conditions requiring that the University maintain them in perpetuity.

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

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

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

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 \$527,000 in 2013 and \$848,000 in 2012. Loans receivable are reported net of an allowance for doubtful accounts of approximately \$591,000 in 2013 and 2012.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

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, 2013 or 2012.

Unearned Revenue (previously Deferred 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, 2013 AND 2012

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

Use of Estimates

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

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 2012 financial statements to conform to the 2013 presentation.

New Accounting Standards

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. The University was required to adopt Statement No. 60 for the fiscal year ending June 30, 2013. The University determined that Statement No. 60 has no effect on its financial statements.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

New Accounting Standards (continued)

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With Statements No. 63 and 65, GASB has reclassified certain assets and liabilities as "deferred outflows" and "deferred inflows" of resources. Further, GASB has replaced the term "net assets" with "net position," and has changed the balance sheet presentation to "assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position." The University was required to adopt Statement No. 63 for the fiscal year ending June 30, 2013, and is required to adopt Statement No. 65 for the fiscal year ending June 30, 2014. The University has determined that the adoption of Statement No. 63 has no effect on the substance of its financial statements but will increase the complexity of the financial statements to its readers, as the new presentation will differ from the traditional and familiar business reporting model. The University has determined that the adoption of Statement No. 65 will require that 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 will be expensed in the period incurred. The amount of fiscal year 2012/2013 bond issuance costs that will be restated as an expense on next year's financial statements is \$463,681.

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

In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*. Statement No. 69 established 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 will have no effect on its financial statements.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 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)

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2012:

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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			Total
	SSI	The Foundation	The Association	
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	7,288,751	37,896,402	607,773	45,792,926
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	6,402,255	26,029,029	419,675	32,850,959
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	-	1,810,069	-	1,810,069
CHANGE IN NET ASSETS (DEFICIT)	886,496	13,547,001	185,098	14,618,595
Net Assets (Deficit) - Beginning of Year	8,902,903	(34,273,087)	1,182,111	(24,188,073)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 9,789,399	\$ (20,726,086)	\$ 1,367,209	\$ (9,569,478)

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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JUNE 30, 2013 AND 2012

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, 2012:

	2012			Total
	SSI	The Foundation	The Association	
Changes in Unrestricted Net Assets:				
Revenues and Other Additions:				
Contributions	\$ -	\$ 513,391	\$ 304,668	\$ 818,059
Investment Income	57,904	463,098	8,883	529,885
University Store	1,856,970	-	-	1,856,970
Student Activity Fees	3,890,072	-	-	3,890,072
Rental Income	-	17,854,769	-	17,854,769
Other Revenues	1,226,394	3,861,316	117,326	5,205,036
Change in Interest Rate Swap Agreement	-	(21,287,645)	-	(21,287,645)
Net Assets Released from Restrictions	-	1,096,507	3,000	1,099,507
Total Revenues and Other Additions	7,031,340	2,501,436	433,877	9,966,653
Expenses and Other Deductions:				
Program Expenses	4,556,853	21,981,687	255,104	26,793,644
University Store	1,022,504	-	-	1,022,504
Management and General	937,982	1,383,360	175,437	2,496,779
Distributions to University	64,000	1,661,860	-	1,725,860
Total Expense and Other Deductions	6,581,339	25,026,907	430,541	32,038,787
Increase (Decrease) in Unrestricted Net Assets	450,001	(22,525,471)	3,336	(22,072,134)
Changes in Temporarily Restricted Net Assets:				
Contributions	-	2,670,362	-	2,670,362
Other Income	-	2,770	-	2,770
Investment Loss	-	(35,301)	-	(35,301)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(1,096,507)	(3,000)	(1,099,507)
Change in Split-Interest Agreements	-	68,084	-	68,084
Increase (Decrease) in Temporarily Restricted Net Assets	-	1,609,408	(3,000)	1,606,408
Changes in Permanently Restricted Net Assets:				
Contributions	-	534,130	-	534,130
Increase in Permanently Restricted Net Assets	-	534,130	-	534,130
CHANGE IN NET ASSETS (DEFICIT)	450,001	(20,381,933)	336	(19,931,596)
Net Assets (Deficit) - Beginning of Year	8,452,902	(13,891,154)	1,181,775	(4,256,477)
NET ASSETS (DEFICIT) - END OF YEAR	\$ 8,902,903	\$ (34,273,087)	\$ 1,182,111	\$ (24,188,073)

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with PASSHE. PASSHE maintains these and other PASSHE funds on a pooled basis. Although PASSHE pools its funds in a manner similar to an internal investment pool, individual PASSHE entities do not hold title to any assets in the fund. PASSHE as a whole owns title to all assets. The University does not participate in the unrealized gains or losses of the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1 and income is allocated based on the number of shares owned. Revenue realized at the PASSHE level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds was \$197,367,933 at June 30, 2013 and \$180,938,674 at June 30, 2012.

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

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

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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 PASSHE's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Moody's Rating: PASSHE 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: PASSHE 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. PASSHE maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. PASSHE's duration targets are not applicable to its long-term investments.

At June 30, 2013 and 2012, the carrying amount of the University's demand and time deposits was \$259,976 and \$332,252, respectively, as compared to bank balances of \$253,847 and \$120,031, respectively. The difference is primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2013 and 2012, \$253,847 and \$120,031, 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, 2013 is presented below:

	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
U.S. Treasury and Agency Obligations		0.20 - 0.70	\$ 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>

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2012 is presented below:

	<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	\$ 199,876
Fixed Income Mutual Funds		1.00	142,282
Equity Mutual Funds			15,499,088
Common Stocks			797,257
Total Investments			<u>\$ 16,638,503</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 \$7,339 in 2013 and \$17,343 in 2012. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was \$46,208 in 2013 and \$49,957 in 2012.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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JUNE 30, 2013 AND 2012**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2013</u>	<u>2012</u>
Employees	\$ 10,531,892	\$ 9,931,222
Suppliers and Services	3,193,751	4,353,021
Other	3,503,747	6,079,247
Interest	243,569	267,247
Total	<u>\$ 17,472,959</u>	<u>\$ 20,630,737</u>

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTE 7 BONDS PAYABLE

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

	2013				Balance June 30, 2013
	Weighted Average Interest Rate	Balance July 1, 2012	Bonds Issued	Bonds Redeemed	
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 Phillips)	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					2,740,200
Outstanding at End of Year					<u>\$ 63,238,936</u>

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 BONDS PAYABLE (CONTINUED)

	2012				
	Weighted Average Interest Rate	Balance July 1, 2011	Bonds Issued	Bonds Redeemed	Balance June 30, 2012
Series W Used to Advance Refund Series H, J and M	4.76%	\$ 616,493	\$ -	\$ (616,493)	\$ -
Series X Used to Current Refunds Series I and for Purchase of 1160 McDermott Drive	4.28%	13,520,099	-	(13,520,099)	-
Series AC Used for Dining Hall Project	4.90%	329,237	-	(16,866)	312,371
Series AE used for ESCO Project	4.99%	8,206,725	-	(646,573)	7,560,152
Series AF Used for ESCO Project and to Build a Recreation Center	4.95%	7,365,079	-	(472,289)	6,892,790
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.60%	3,962,835	-	(1,059,327)	2,903,508
Series AI Used for Sprinklers, Refunded V, Y, AB and AD	4.01%	6,435,660	-	(407,465)	6,028,195
Series AJ Used to Build a Recreation Center	4.90%	4,015,000	-	-	4,015,000
Series AK Used to Current Refund Series S (Harvey Green and Phillips)	3.66%	1,264,635	-	(123,210)	1,141,425
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	9,598,899	-	(234,390)	9,364,509
Series AM Used to Build a Recreation Center	4.62%	-	20,170,000	-	20,170,000
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)	4.78%	-	7,594,602	-	7,594,602
Total Bonds Payable		<u>\$ 55,314,662</u>	<u>\$ 27,764,602</u>	<u>\$ (17,096,712)</u>	65,982,552
Plus Unamortized Bond Premium Costs, Net					<u>3,477,003</u>
Outstanding at End of Year					<u>\$ 69,459,555</u>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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		2014	2015	2016	2017	2018	2019-2023	2024-2028	2029-2033	2034-2038	Total
AC	Principal	\$ 18,615	\$ 19,540	\$ 20,517	\$ 21,546	\$ 22,625	\$ 131,330	\$ 60,458	\$ -	\$ -	\$ 294,631
	Interest	14,422	13,491	12,514	11,488	10,411	33,908	4,099	-	-	100,333
	Total	33,037	33,031	33,031	33,034	33,036	165,238	64,557	-	-	394,964
AE	Principal	715,472	752,570	792,319	834,717	877,116	2,906,935	-	-	-	6,879,129
	Interest	351,694	314,132	274,622	233,025	189,203	295,463	-	-	-	1,658,139
	Total	1,067,166	1,066,702	1,066,941	1,067,742	1,066,319	3,202,398	-	-	-	8,537,268
AF	Principal	512,424	539,252	566,451	594,020	624,029	2,959,684	604,759	-	-	6,400,619
	Interest	320,037	294,416	267,453	239,130	209,429	546,413	77,460	-	-	1,954,338
	Total	832,461	833,668	833,904	833,150	833,458	3,506,097	682,219	-	-	8,354,957
AG	Principal	935,007	275,783	290,936	306,089	-	-	-	-	-	1,807,815
	Interest	76,366	43,640	29,851	15,304	-	-	-	-	-	165,161
	Total	1,011,373	319,423	320,787	321,393	-	-	-	-	-	1,972,976
AI	Principal	436,416	450,891	466,557	486,346	506,135	2,696,528	563,382	-	-	5,606,255
	Interest	229,820	214,545	197,637	178,974	159,520	470,284	35,397	-	-	1,486,177
	Total	666,236	665,436	664,194	665,320	665,655	3,166,812	598,779	-	-	7,092,432
AJ	Principal	165,000	170,000	180,000	190,000	200,000	1,155,000	1,465,000	335,000	-	3,860,000
	Interest	186,213	177,963	169,463	160,463	150,963	594,813	286,038	15,913	-	1,741,829
	Total	351,213	347,963	349,463	350,463	350,963	1,749,813	1,751,038	350,913	-	5,601,829
AK	Principal	130,910	134,388	138,362	144,075	149,292	317,711	-	-	-	1,014,738
	Interest	37,937	34,009	29,978	24,443	18,680	19,177	-	-	-	164,224
	Total	168,847	168,397	168,340	168,518	167,972	336,888	-	-	-	1,178,962
AL	Principal	336,758	347,422	368,590	385,142	406,685	2,259,538	2,728,318	1,816,215	400,000	9,048,668
	Interest	452,433	435,586	418,224	399,795	380,538	1,579,025	976,562	303,687	30,250	4,976,110
	Total	789,191	783,018	786,814	784,937	787,223	3,838,563	3,704,880	2,119,902	430,250	14,024,778
AM	Principal	490,000	515,000	540,000	565,000	595,000	3,425,000	4,345,000	5,375,000	3,845,000	19,695,000
	Interest	909,375	884,875	859,125	832,125	803,875	3,574,625	2,661,738	1,615,406	351,225	12,492,369
	Total	1,399,375	1,399,875	1,399,125	1,397,125	1,398,875	6,999,625	7,006,738	6,990,406	4,196,225	32,187,369
AN	Principal	1,796,152	461,880	480,366	498,433	521,067	2,133,983	-	-	-	5,891,881
	Interest	462,731	174,919	152,727	129,808	105,907	180,171	-	-	-	1,206,263
	Total	2,258,883	636,799	633,093	628,241	626,974	2,314,154	-	-	-	7,098,144
Total	Principal	5,536,754	3,666,726	3,844,098	4,025,368	3,901,949	17,985,709	9,766,917	7,526,215	4,245,000	60,498,736
	Interest	3,041,028	2,587,586	2,411,594	2,224,555	2,028,526	7,293,879	4,041,294	1,935,006	381,475	25,944,943
	Total	\$ 8,577,782	\$ 6,254,312	\$ 6,255,692	\$ 6,249,923	\$ 5,930,475	\$ 25,279,588	\$ 13,808,211	\$ 9,461,221	\$ 4,626,475	\$ 86,443,679

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 BONDS PAYABLE (CONTINUED)

The University participates in PASSHE's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across PASSHE. This program will provide \$100,000,000 in funding over the next several years. PASSHE will issue bonds to provide a pool for funding for AFRP (\$37,540,072 and \$41,271,274 was outstanding as of June 30, 2013 and 2012, 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 \$2,434,335 in 2013 and \$2,824,949 in 2012 to PASSHE for AFRP funding. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	<u>2013</u>	<u>2012</u>
Balance at July 1	\$ 2,824,949	\$ 2,698,738
Proceeds	-	505,015
Repayments	(390,614)	(378,804)
Balance at June 30	<u>\$ 2,434,335</u>	<u>\$ 2,824,949</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 copy machines. Charges in capital lease obligations are as follows:

	<u>2013</u>	<u>2012</u>
Balance at July 1	\$ 7,625,688	\$ 8,029,276
Increases	9,831,855	65,977
Repayments	(546,202)	(469,565)
Balance at June 30	<u>\$ 16,911,341</u>	<u>\$ 7,625,688</u>

Capital assets include a parking garage under capital lease of \$19,735,000 and \$9,915,000 in 2013 and \$9,915,000 in 2012 which is reported net of accumulated depreciation of \$3,701,372 in 2013 and \$3,286,511 in 2012. In addition, capital asset includes equipment under capital lease of \$273,653 in 2013 and \$574,879 in 2012 which are reported net of accumulated depreciation of \$123,045 in 2013 and \$257,202 in 2012.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 1,269,295
2015	1,234,900
2016	1,206,515
2017	1,196,510
2018	1,191,687
Thereafter	<u>16,552,907</u>
Total Minimum Lease Payments	22,651,814
Less: Amount Representing Interest	<u>(5,740,473)</u>
Net Present Value of Minimum Lease Payments	16,911,341
Less: Current Portion	<u>781,538</u>
Long-Term Capital Lease Obligations	<u>\$ 16,129,803</u>

NOTE 9 UNEARNED REVENUE

Unearned revenue consists of the following components at June 30:

	<u>2013</u>		<u>2012</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Student Tuition and Fees	\$ 5,316,620	\$ 9,155	\$ 5,192,052	\$ 7,323
Grants	714,421	-	1,244,815	-
Sales and Services	85,138	30,376	54,617	56,004
Other	1,280,620	-	1,286,934	-
Total	<u>\$ 7,396,799</u>	<u>\$ 39,531</u>	<u>\$ 7,778,418</u>	<u>\$ 63,327</u>

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

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

	2013		2012	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	\$ 676,734	\$ 12,033,288	\$ 424,753	\$ 11,608,535
Postretirement Benefit Obligations	7,313,000	97,562,639	6,849,000	88,244,957
Total	<u>\$ 7,989,734</u>	<u>\$ 109,595,927</u>	<u>\$ 7,273,753</u>	<u>\$ 99,853,492</u>

Compensated Absences

The changes in compensated absences are as follows:

	2013	2012
Balance at July 1	\$ 12,033,288	\$ 11,608,535
Current Changes in Estimate	1,462,026	1,371,510
Payouts	(785,292)	(946,757)
Balance at June 30	<u>\$ 12,710,022</u>	<u>\$ 12,033,288</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 PASSHE (the System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the PASSHE universities. Act 188 empowers the Board to establish and amend benefit provisions. The System Plan is unfunded, and no financial report is prepared.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. PASSHE paid premiums of \$42,975,000 and \$38,729,000 for the fiscal years ended June 30, 2013 and 2012, 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, 2013:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to January 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependants. The rate changes annually, 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 \$3,607,000 and \$3,189,000, or approximately 7.7% and 7.6% of the total premiums, for fiscal years ended June 30, 2013 and 2012, respectively.

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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:

Annual Required Contribution	\$ 15,643,000
Interest on Net OPEB Obligation	3,707,000
Adjustment to Annual Required Contribution	<u>(4,500,000)</u>
Annual OPEB Cost	14,850,000
Contributions Made	<u>(5,068,318)</u>
Increase in Net OPEB Obligation	9,781,682
Net OPEB Obligation, Beginning of Year	<u>95,093,957</u>
Net OPEB Obligation, End of Year	<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, 2013 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>
June 30, 2013	\$ 14,850,000	34.1 %	\$ 104,875,639
June 30, 2012	13,611,000	36.0 %	95,093,957
June 30, 2011	12,874,000	35.3 %	86,388,138

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 2012/13, PASSHE contributed \$265.00 for each current active employee per biweekly pay period. PASSHE made contributions of \$25,638,000, \$23,228,000 and \$20,069,000 for the fiscal years ended June 30, 2013, 2012 and 2011, 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 PASSHE.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 (PASSHE), and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class is selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 6.18% of annual covered payroll at June 30, 2013. The University's contributions to PSERS for the years ended June 30, 2013, 2012 and 2011 were approximately \$339,000, \$210,000 and \$122,000, 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 8.43% and 10.51% of an active member's annual covered payroll at June 30, 2013. The University's contributions to SERS for the years ended June 30, 2013, 2012 and 2011 were approximately \$2,491,000, \$1,613,000 and \$1,043,000, 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
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2013 and 2012 were approximately \$6,350,000 and \$6,090,000, respectively, from the University, and \$4,190,925 and \$4,019,412, respectively, from active members.

NOTE 12 WORKERS' COMPENSATION

The University Participates in PASSHE's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to \$100,000; for claims occurring on or after July 1, 1995, the University must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all universities of PASSHE contribute amounts as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$400,767 and \$205,003 to the Reserve Fund in 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the aggregate liability for claims under the self-insurance limit was \$1,158,473 and \$1,559,240, respectively. Changes in the workers compensation claims liability amount in fiscal years 2013 and 2012 follow:

	<u>2013</u>	<u>2012</u>
Balance at July 1	\$ 1,559,240	\$ 1,495,867
Current Year Claims and Changes in Estimates	-	268,376
Payments	<u>(400,767)</u>	<u>(205,003)</u>
Balance at June 30	<u>\$ 1,158,473</u>	<u>\$ 1,559,240</u>

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 13 COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Authorized expenditures for ongoing construction projects at June 30, 2013 were approximately \$6,472,798.

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
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NOTES TO FINANCIAL STATEMENTS
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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.

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

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JUNE 30, 2013 AND 2012

NOTE 14 GROUND LEASE (CONTINUED)

At June 30, 2013, 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>
2014	\$ 65,239	\$ 7,712
2015	67,196	7,944
2016	69,212	8,182
2017	71,288	8,428
2018	73,427	8,680
Thereafter	1,717,115	344,705

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE
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SUPPLEMENTARY SCHEDULES OF FUNDING PROGRESS
FOR THE SYSTEM PLAN AND REHP (OPEB)
YEARS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)

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, 2010	\$ -	\$ 159,042,000	\$ 159,042,000	0%	\$ 64,011,000	248.5%
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%

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, 2010	\$ 56,320	\$ 13,674,250	\$ 13,617,930	0.41%	\$ 3,786,000	360%
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%

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.