B&R Boyer & Ritter LLC
Certified Public Accountants and Consultants

Association of Pennsylvania State College & University Faculties

University Retrenchment Matter – Analysis of Financial Records

October 25, 2013

An Independent Member of BDO Seidman Alliance

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B&R Boyer & Ritter LLC
Certified Public Accountants and Consultants

October 25, 2013

Mr. Steve Hicks, President
Association of Pennsylvania State
College & University Faculties
319 North Front Street
Harrisburg, PA 17101

Re: University Retrenchment Matter – Analysis of Financial Records

Dear Mr. Hicks:

The Association of Pennsylvania State College & University Faculties retained Boyer & Ritter, LLC ("B&R") to conduct a retrenchment analysis for the following Pennsylvania Universities: Cheyney, Clarion, East Stroudsburg, Edinboro, Kutztown, Mansfield, and Slippery Rock ("Universities").

The time periods analyzed were the fiscal years ended June 30, 2009, 2010, 2011 and 2012. The fiscal year ended June 30, 2013 was analyzed to the extent information was available.

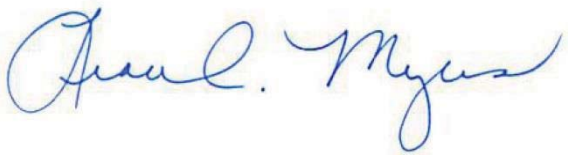
For each University, we performed:

- Trend analysis of annual financial data, as reflected in the audited external financial statements. Analysis included comparison of actual financial data to approved internal and PASSHE budgets, actual to actual financial data trending, and budget to budget financial data trending;

- Trend analysis of annualized full time enrollment and PASSHE In-State Tuition Rates, and their relationship to budgeted tuition revenues; and
- Cash flow and ratio analysis.

The results of our analyses are discussed in detail in the following report.

Best professional regards,



Lisa A. Myers, CPA, CFE, MAFF, FCPA
Principal
Boyer & Ritter, LLC

I. Executive Summary

In summary, analytical procedures performed during this engagement, provided insight into the financial strengths and weaknesses of each of the seven universities. This report includes an executive summary, by University, in the Results of Analysis section.

In general, there appears to be minimal accountability for budgeting at the University level with the PASSHE Board of Governors. Throughout this engagement, we were provided multiple "final" budgets generated at the University level. It is our understanding each University must submit a budget to the PASSHE Board of Governors for approval. In common practice, once an oversight board of an entity approves a budget, changes are not made without further oversight approval. Throughout this engagement, we noted various budget versions being utilized by each University. Additionally, for the years 2008/09 through 2012/13, we noted numerous discrepancies between budget and actual results. Without strict oversight of these budgets, University management should be extremely cautious when utilizing these budgets to project faculty and other personnel retrenchment in 2013/14 and forward.

II. Background

The Association of Pennsylvania State College & University Faculties ("APSCUF") represents more than 6,000 faculty and coaches who have devoted themselves to providing top quality higher education to students of the 14 universities that make up the Pennsylvania State System of Higher Education ("PASSHE"). APSCUF's goal is to protect and advance the rights of faculty and coaches in higher education.

With Governor Tom Corbett's budget cuts on higher education of 18 percent, and the lack of increase in the funding for public institutions over the last years, many PASSHE universities are facing financial issues. Several of the 14 PASSHE universities are indicating a need to layoff and/or terminate faculty positions in the upcoming budget years.

Steve Hicks, President of APSCUF, engaged Boyer & Ritter, LLC ("B&R") to analyze 7 of the 14 PASSHE universities' external, internal, and budgeted financial data for the years ended June 30, 2009 through 2013. The engagement requires B&R to conduct an independent and confidential analysis, followed by a written report. The engagement was restricted to the following PASSHE universities: Cheyney, Clarion, East Stroudsburg, Edinboro, Kutztown, Mansfield, and Slippery Rock ("Universities").

III. Scope of the Engagement

The objectives of the accounting team were as follows:

- Consulting and Review
  - Conduct consultative reviews with APSCUF representatives to gather and obtain pertinent information and documents relative to the engagement in order to acquire a basic understanding of the financial elements relative to the requested analyses. Request and obtain external, internal, and budgeted financial data from APSCUF and PASSHE for analysis purposes.
- Analysis
  - Analyze external, internal, and budgeted financial data received for the years ended June 30, 2009 through 2013 from APSCUF and PASSHE. Analysis should include, but is not limited to, Education & General budget to actual financial data comparisons; Education & General actual to actual financial data comparisons; Education & General budget to budget financial data comparisons; Education & General operating net income (loss) budget to actual comparisons; annualized full time enrollment and PASSHE In-State Tuition Rates, and their relationship to Education & General budgeted tuition revenues; and cash flows and ratio analysis, entity wide.
- Reporting
  - Prepare draft and final detailed report incorporating financial data facts and observations, including an executive summary for public dissemination.

IV. Approach

Boyer & Ritter, LLC Accountants on Engagement:

Engagement Leader: Lisa A. Myers, CPA, CFE, MAFF, FCPA, Principal

Assistance Provided by: Kira W. Santanna, CFE, MAFF, Manager; and Justin K. Schaffer, CPA, Manager

Procedures:

The initial phase involved meeting with representatives from the Association of Pennsylvania State College & University Faculties to review, gather and obtain pertinent information and documents relative to the engagement in order to acquire a basic understanding of the financial elements relative to the requested analyses of Cheyney University, Clarion University, East Stroudsburg University, Edinboro University, Kutztown University, Mansfield University, and Slippery Rock University.

The second phase involved analyzing the financial data obtained from APSCUF representatives, and any related correspondence relevant to the analysis. Data available for analysis consisted of audited external financial statements, internally prepared financial reports ("FINRPT")[1], budget reports submitted to PASSHE ("BUDRPT")[2], full-time equivalent ("FTE")[3] enrollment figures, annual enrollment per major[3], and tuition rates[3]. The FINRPT includes detailed balance sheets, statement of revenues, expenses, and changes in net assets (deficits), and statement of cash flows. In order to verify the accuracy and appropriateness of the FINRPTs, B&R compared summary data provided on

[1] FINRPTs were provided to APSCUF by PASSHE's Office of the Chancellor for years 2008/2009 through 2011/2012. FINRPTs for 2012/2013 were provided to APSCUF by each of the seven Universities' administration.

[2] BUDRPTs were provided to APSCUF by PASSHE; they were approved by PASSHE's Board of Governors.

[3] FTE enrollment figures, annual enrollment by major, and tuition rates were provided to APSCUF by PASSHE.

the FINRPT to the corresponding audited external financial statements.

The final phases of evaluation were to compare budget to actual significant areas of revenues, expenses, and operating net income (losses). Significant areas of revenues were deemed to be tuition, fees, and state subsidy. Significant areas of expenses were deemed to be compensation and benefits. Trend analysis was included for significant revenues and expenses. Trend analysis is the presentation of amounts as a percentage of the base year 2008/09. Additionally, an evaluation of cash flows and financial ratios was performed. Industry benchmarks were used for comparison in order to identify the financial trends, strengths, and weaknesses, and to evaluate the relative financial position and performance of each University. The source[4] of industry data are financial statements of financial institutions' borrowers and prospects. While the industry data presented may not be totally consistent with the University under analysis, it is a reasonable representation for the industry upon which to base comparative analysis. The industry benchmarks are based upon the North American Industrial Classification System ("NAICS") code 611310. The NAICS code is described as follows:

> ***NAICS Code 611310 Colleges, Universities, and Professional Schools:*** *This industry comprises establishments primarily engaged in furnishing academic courses and granting degrees at baccalaureate or graduate levels. The requirement for admission is at least a high school diploma or equivalent general academic training. Instruction may be provided in diverse settings, such as the establishment's or client's training facilities, educational institutions, the workplace, or the home, and through diverse means, such as correspondence, television, the Internet, or other electronic and distance-learning methods. The training provided by these establishments may include the use of simulators and simulation methods.*

[4] Benchmark information was obtained through an industry benchmarking resource. The source of the industry data are financial statements of financial institutions' borrowers and prospects.

Results of Analysis

A. Cheyney University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's Unrestricted Net Assets, net of GASB No. 45, indicates a **net deficit**. This is an indication the University is deficit spending; **operating expenses are consistently exceeding operating revenues**.

- **Enrollment has declined 17%** over the past five years.

- For the past four years, the University has **over-budgeted tuition** revenue. On average, they have over-budgeted by **4% - 6%** for the years 2008/09 through 2010/11. In 2011/12, the University over-budgeted tuition revenue by approximately **18% or $2.1 million**. During this same year (2011/12), enrollment declined 16%. The University projected tuition revenue for 2012/13 similar to 2011/12.

- The University has **under-budgeted fees revenue** by approximately **16%** during the years 2008/09 through 2011/12.

- The University has **over-budgeted state subsidy** by approximately **6%** during the years 2008/09 through 2011/12.

- The University has **over-budgeted salaries and wages** for the past four years; 2008/09 - $996,091, 2009/10 - $842,954, 2010/11 - $627,207, and 2011/12 - $1,739,585. This is an average of **7%** over-budget from 2008/09 through 2011/12. The University's projections for salaries and wages for 2012/13 were similar to 2011/12 actual salaries and wages.

- The University has **over-budgeted benefits**, adjusted for OPEB, by approximately **6%** during the years 2008/09 through 2010/11.

- The University issued approximately **$4 million and $16 million in bonds** for capital projects during 2008/09 and 2009/10, respectively. With the debt service burden and falling enrollment, the University indicates negative cash available for other activities, and in conjunction with a deficit in net assets, it appears the University is experiencing a structural deficit.

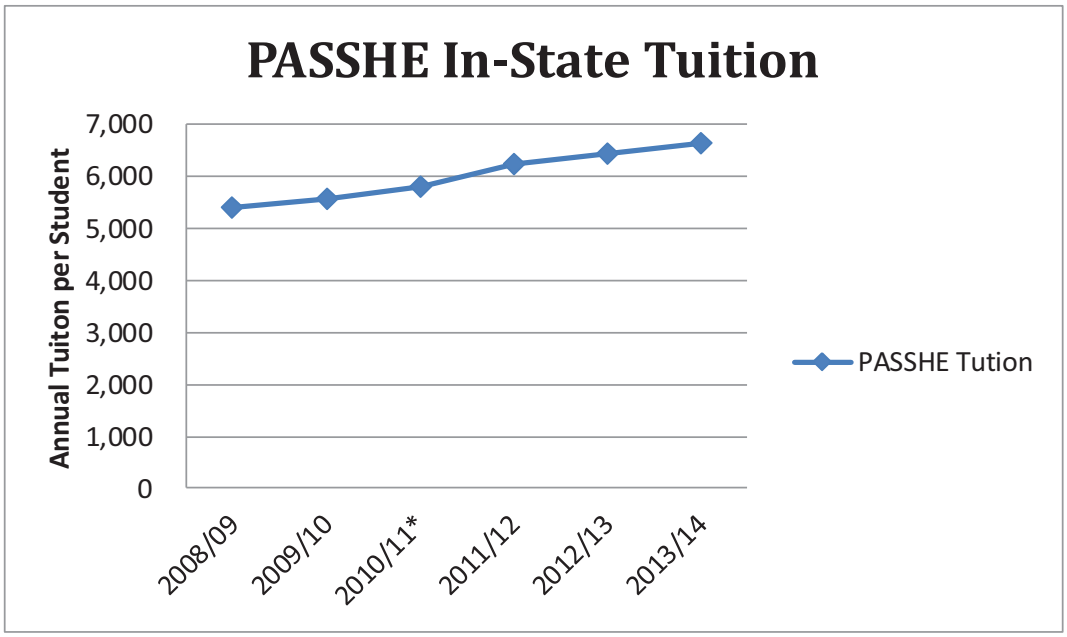
- The University's debt service payments (principal and interest) will **average $2 million** for the years 2013/14 through 2016/17.

- The University has approximately **one month** of cash and cash equivalents in reserve as of June 30, 2012.

- The University's liquidity ratio of **1.2 and 1.4 for 2011/12 and 2010/11**, respectively, ranks between the median and lower quartiles when compared to industry benchmarks. This metric indicates the University may struggle to meet its short-term obligations with its short-term assets in the near future.

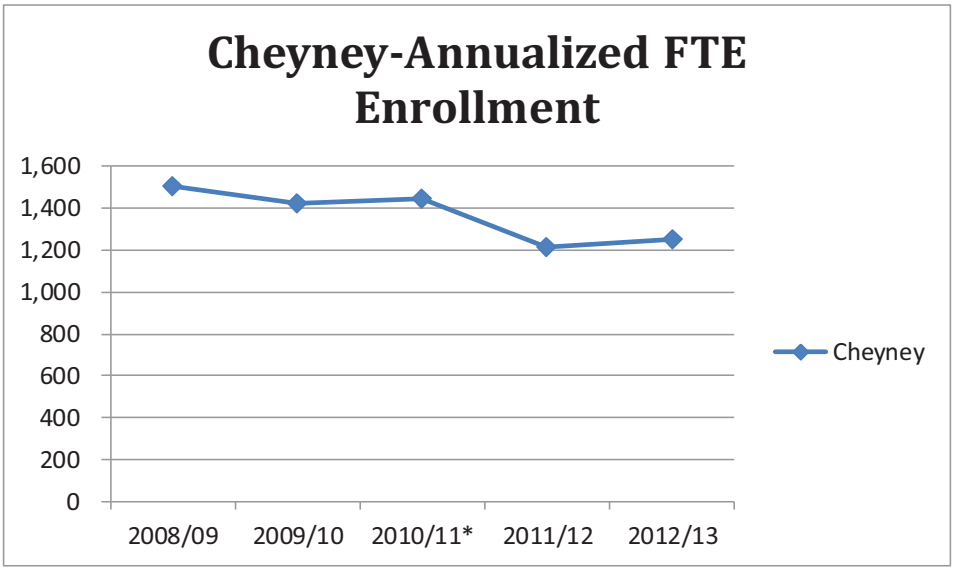
- The University's debt to worth ratio of **-2.3 and -2.1 for 2011/12 and 2010/11,** respectively, is calculated as a negative number as its total liabilities exceeded total assets. A negative debt/worth ratio indicates excess leverage; excess leverage indicates an extremely high credit risk. This metric measure how much the entity is financed by its debt holders.

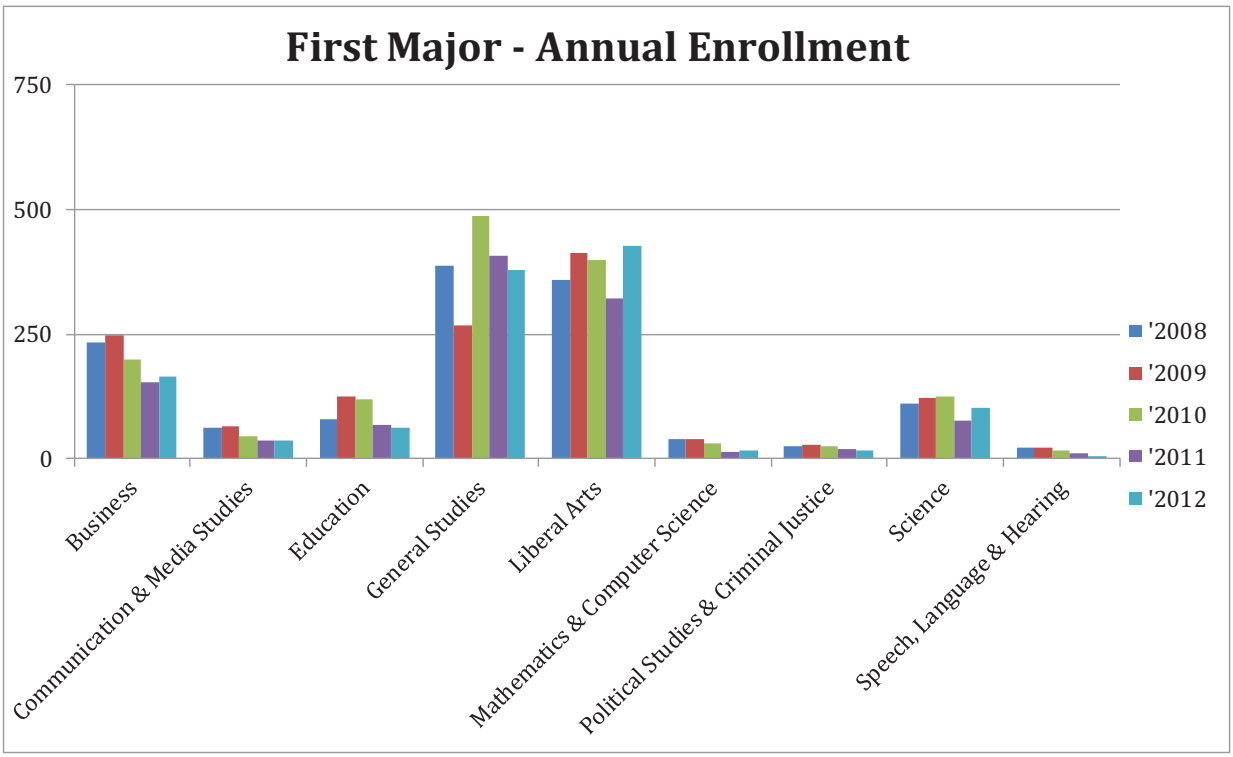
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment:





Full time equivalent ("FTE") enrollment has decreased by 17% since the 2008/09 fiscal year. During this same period, tuition rates have increased by 23%. Therefore, tuition revenues have remained relatively flat. State

Appropriations are a derivative of enrollment numbers and Commonwealth budget allocations. State Appropriations have declined due in part to enrollment numbers.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (25,179,275)	$ (22,298,155)	$ (19,010,718)	$ (21,539,360)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	17,396,711	18,837,698	20,263,804	21,353,960
Net Assets - Unrestricted, as adjusted	$ (7,782,564)	$ (3,460,457)	$ 1,253,086	$ (185,400)

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

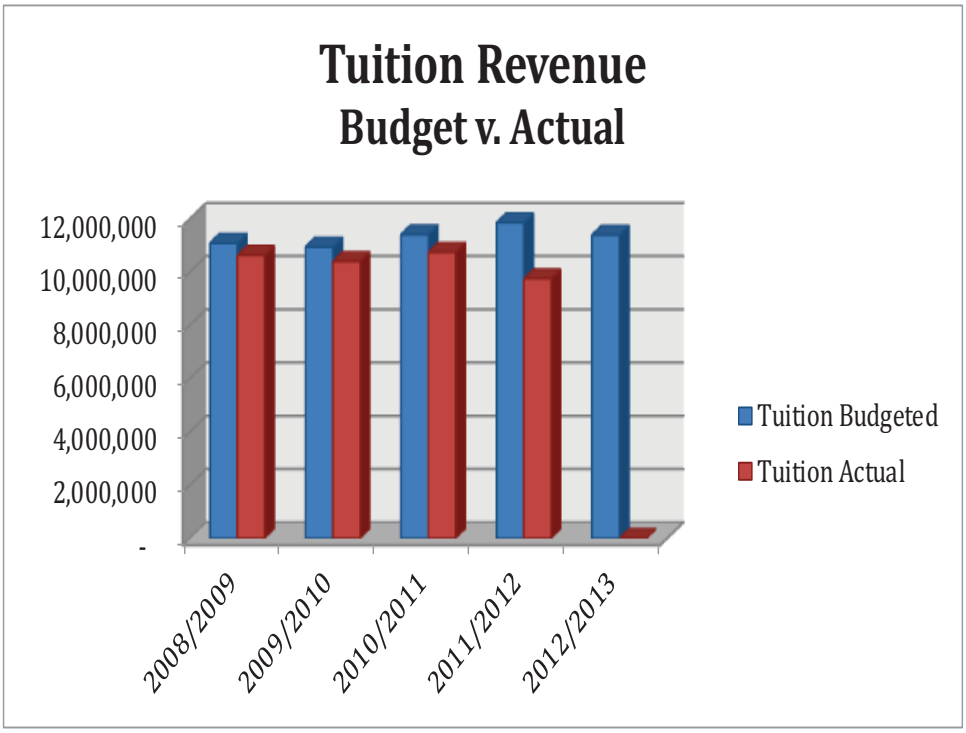
GASB No. 45 does not affect the daily operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates a net deficit. This is an indication the University is deficit spending; operating expenses are consistently exceeding operating revenues.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

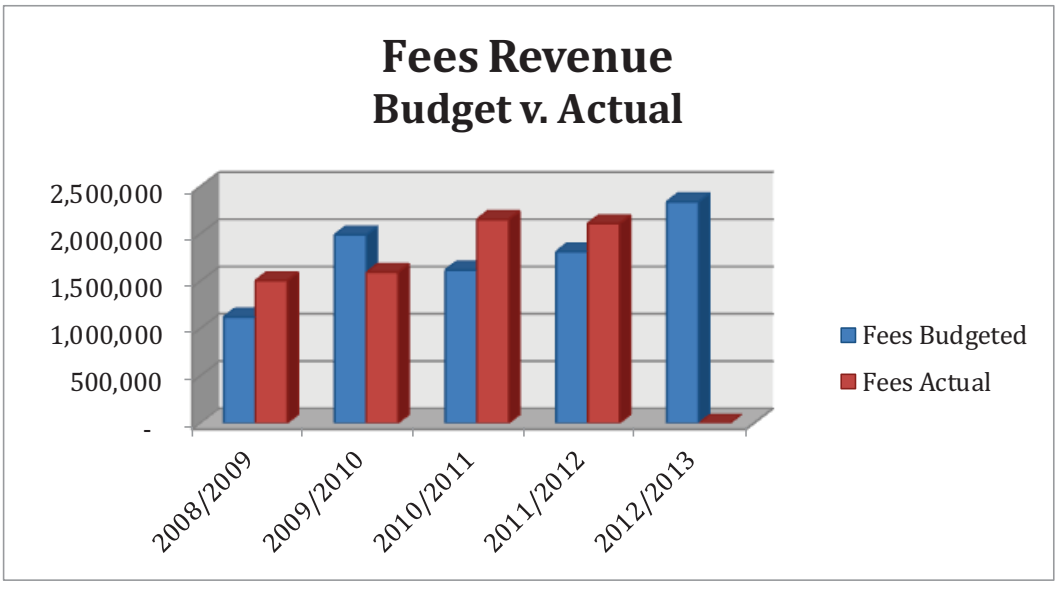
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 11,093,261	$ 10,639,112	$ 10,952,336	$ 10,414,454	$ 11,414,404	$ 10,756,765	$ 11,858,407	$ 9,759,095	$ 11,397,118	$ -
Fees	1,122,295	1,505,959	1,989,331	1,594,673	1,617,096	2,152,995	1,811,793	2,108,043	2,339,361	-
State Appropriation	15,423,071	15,667,781	16,909,899	14,240,296	14,118,100	13,833,077	14,461,854	13,438,800	12,981,585	-
All Other Revenue	644,389	881,683	369,945	2,357,504	1,376,024	1,617,654	2,009,834	466,923	1,259,260	-
Use of Carryforward Fund Balance	27,300	-	-	-	-	-	-	-	-	-
Total Revenue/Sources	$ 28,310,315	$ 28,694,535	$ 30,221,511	$ 28,606,927	$ 28,525,624	$ 28,360,491	$ 30,141,888	$ 25,772,861	$ 27,977,324	$ -

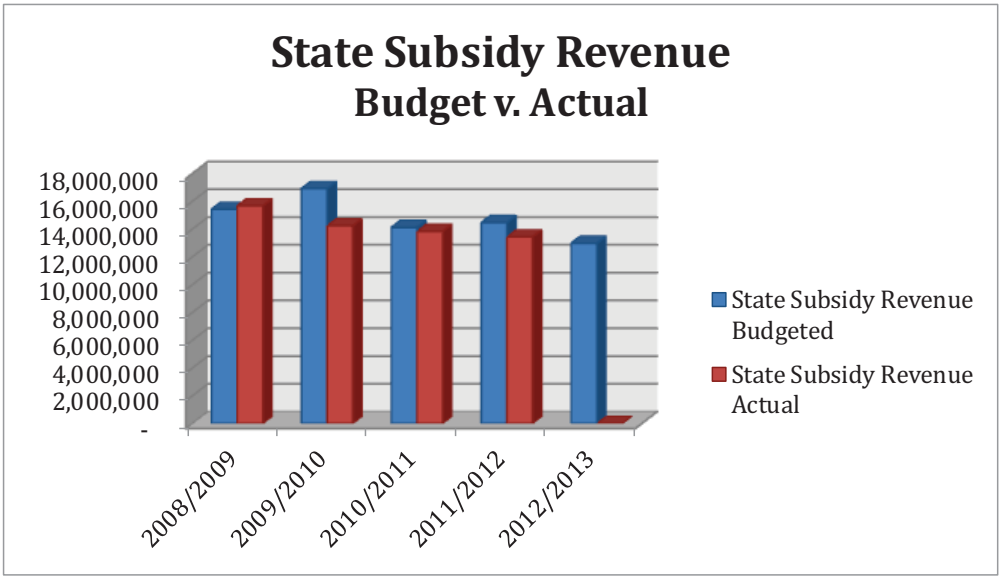


The University has over-budgeted tuition revenue for the past four years. On average, they have over-budgeted 4% - 6%. However, in 2011/12, the University has over-budgeted tuition revenue approximately 18%. During this same year (2011/12), enrollment declined 16%.



The University has under-budgeted fees revenue for three of the last four

years. On average, the University under-budgets fees revenue 16%.

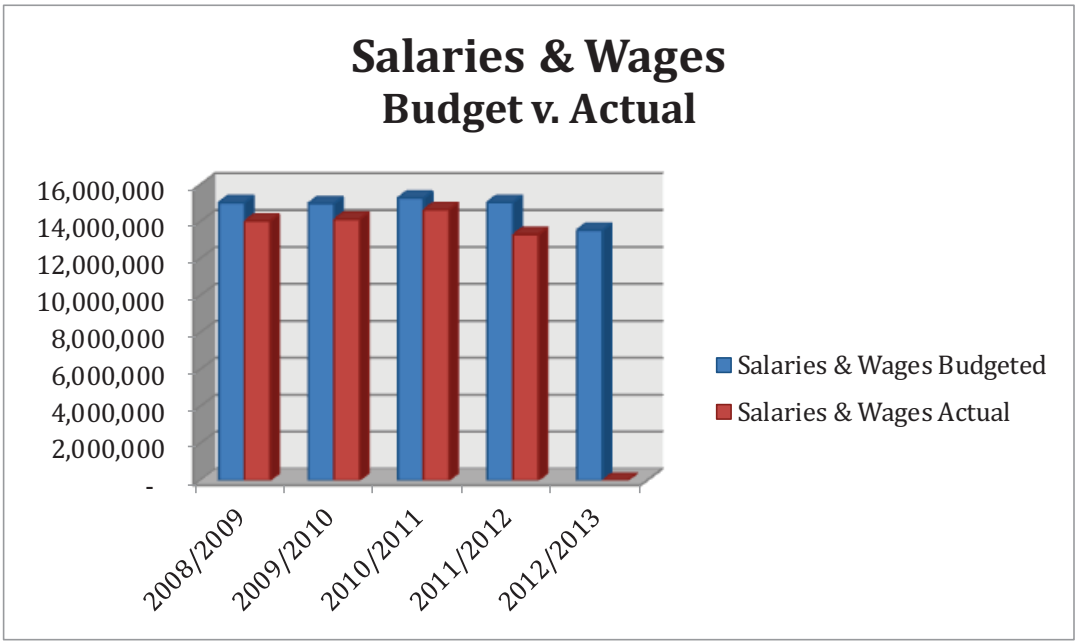


The University has over-budgeted state subsidy revenue, on average, 6% for the past four years. This directly correlates to the over-budgeted tuition revenue, which is a function of enrollment. As enrollment declined, actual revenues and state subsidy decreased.

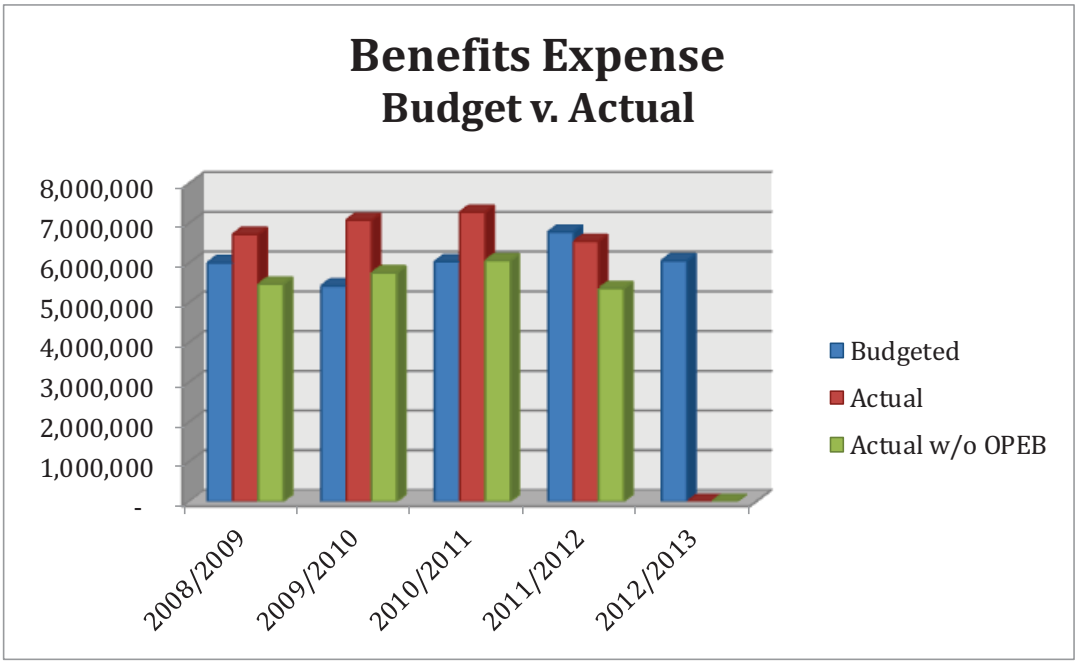
Expenses

Expenses and Transfers

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 15,041,817	$ 14,045,726	$ 14,985,418	$ 14,142,464	$ 15,286,351	$ 14,659,144	$ 15,055,376	$ 13,315,791	$ 13,542,905	$ -
Benefits	6,009,458	6,723,805	5,426,566	7,083,643	6,032,911	7,282,065	6,782,049	6,550,529	6,061,144	-
Utilities	1,788,401	1,575,827	-	1,151,895	1,216,134	1,059,507	1,196,784	1,009,945	1,206,425	-
Services & Supplies	4,634,956	5,987,115	8,430,128	4,239,835	5,091,936	5,369,345	5,562,906	5,461,445	6,303,902	-
Capital Expenses and Transfers	634,254	1,183,042	948,849	436,649	2,236,489	1,516,782	1,523,895	1,870,222	1,434,624	-
Total Expenses and Transfers	$ 28,108,885	$ 29,515,515	$ 29,790,961	$ 27,054,486	$ 29,863,821	$ 29,886,843	$ 30,121,010	$ 28,207,932	$ 28,549,001	$ -

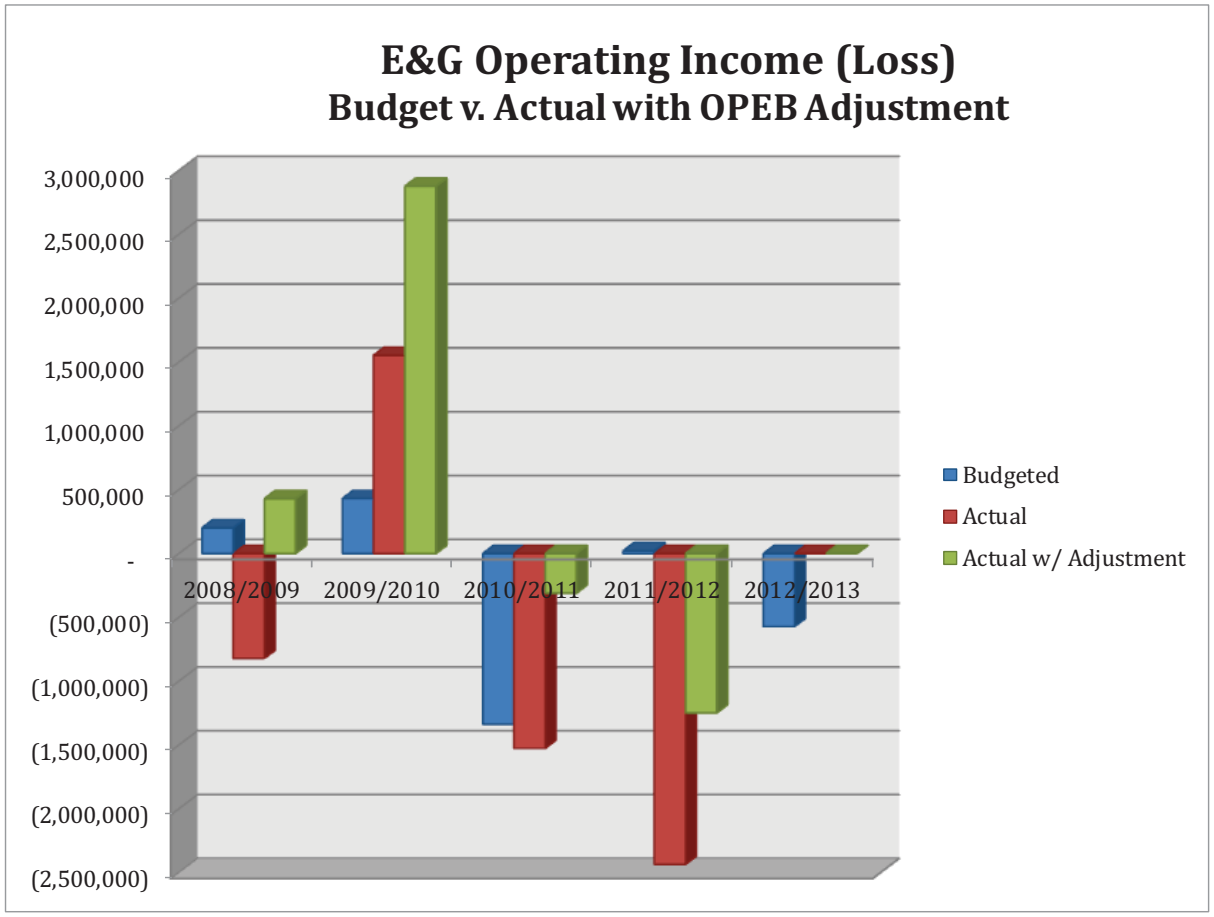


The University has over-budgeted salaries and wages for the past four years; an average of 7% over-budget from 2008/09 through 2011/12.



The University includes OPEB non pay-as-you go amounts in their actual financial statement figures, in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and financed on a pay-as-you

go basis. It appears the University followed this practice in 2008/09 through 2010/11. However, in 2011/12, the University budgeted for OPEB non pay-as-you go expenses. This indicates the University is attempting to set aside reserves for current and future retiree benefits.



Budget to actual comparison of the University's net income (loss) is skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University tends to under-budget net income and over-budget net losses. The exception is 2011/12 when the University optimistically budgeted to break-even; actual loss was $(2,435,071) and actual loss eliminating OPEB non pay-as-you go adjustment was $(1,249,509).

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (18,535,341)	$ (11,455,175)	$ (11,779,434)	$ (11,054,061)
Other additions to offset operations:				
State Appropriations	15,667,781	15,832,105	14,461,854	13,438,800
Gifts for other than Capital purposes	418,705	551,698	528,465	632,808
Cash provided (used) in operations:	(2,448,855)	4,928,628	3,210,885	3,017,547
Cash Flow from Financing Activities	1,138,390	(2,069,020)	(4,098,376)	(3,569,632)
Cash available (used) before investing activities	$ (1,310,465)	$ 2,859,608	$ (887,491)	$ (552,085)

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University were a stand-alone institute of higher education, the University would have a four year operating loss of approximately $53,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a more complete picture of the University's operations.

In 2008/09 and 2009/10, the University issued approximately $4 million and $16 million in bonds for capital projects. In 2009/10, the University saved approximately $7 million on payments for goods and services which accounts for the large increase in operational cash flows. With the additional debt service burden and falling enrollment, the University indicates negative cash available for other activities, and in conjunction with a deficit in net assets it appears the University is experiencing a structural deficit.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Cheyney				
Purchase of Capital Assets:	$ 318,164	$ 14,976,101	$ 1,823,398	$ 1,573,382
Principal / Interest on Debt:	$ 3,050,789	$ 3,768,594	$ 4,051,433	$ 2,353,482

The analysis below indicates the University has approximately **one** month of cash and cash equivalents in reserve as of June 30, 2012.

Cash Reserve on Hand:

		Cheyney
Operating Expense	$	43,956,839
Subtractions:		
Depreciation		(2,667,519)
OPEB		(1,394,778)
Additions:		
Interest Paid on Debt		1,038,028
Principal paid on debt including AFRP		1,315,454
Total Annual Operating Expense	$	42,248,024
Operating Expense per month	$	3,520,669
Cash and cash equivalents	$	4,915,181
Number of Months Cash on Hand		1.40

Financial Ratio Analysis:

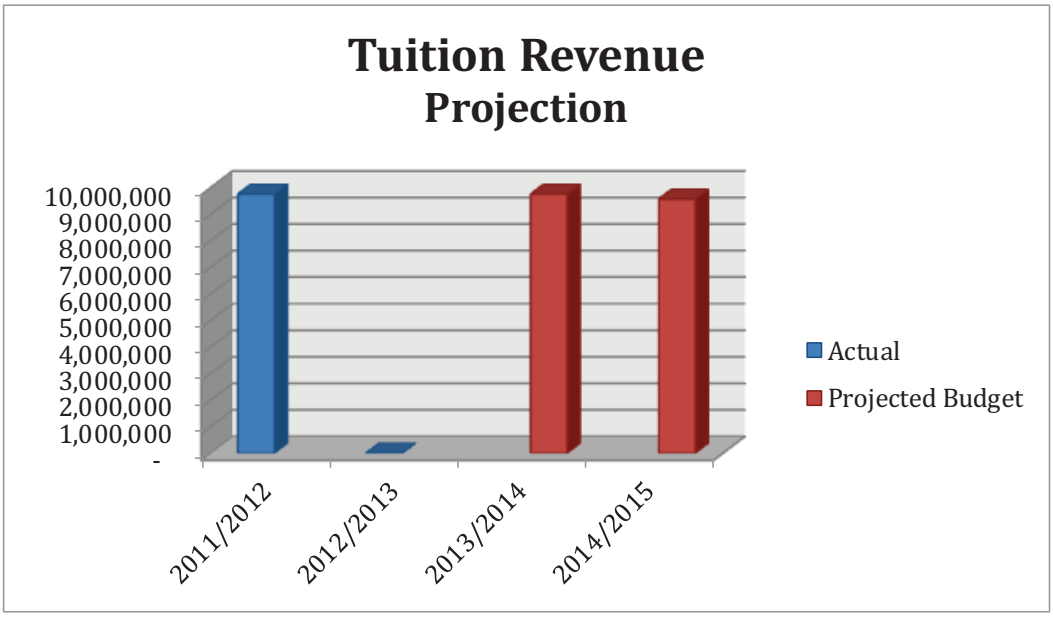
	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio - Benchmark	3.3	4.1
Median current ratio - Benchmark	1.6	1.7
Lower current ratio - Benchmark	0.9	0.9
Cheyney current ratio	1.2	1.4

This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University ranks between the median and lower quartiles when compared to industry benchmarks. This metric indicates the University may struggle to meet its short-term obligations with its short-term assets in the near future.

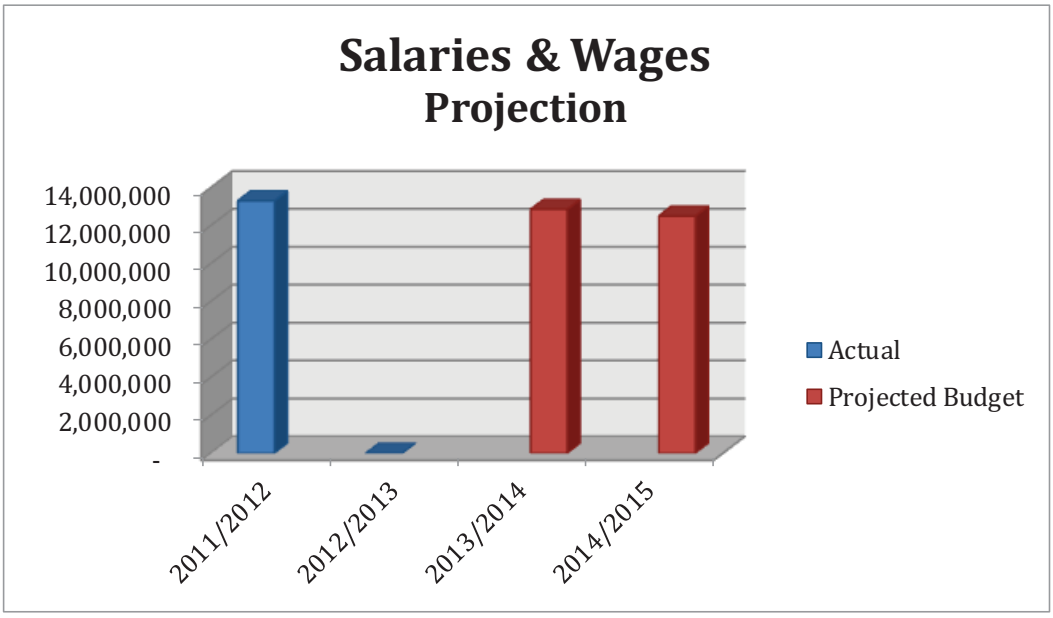
LEVERAGE RATIOS:	2012	2011
Upper debt/worth	0.5	0.4
Median debt/worth	1.0	0.8
Lower debt/worth	2.0	1.7
Cheyney debt/worth	-2.3	-2.1

An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

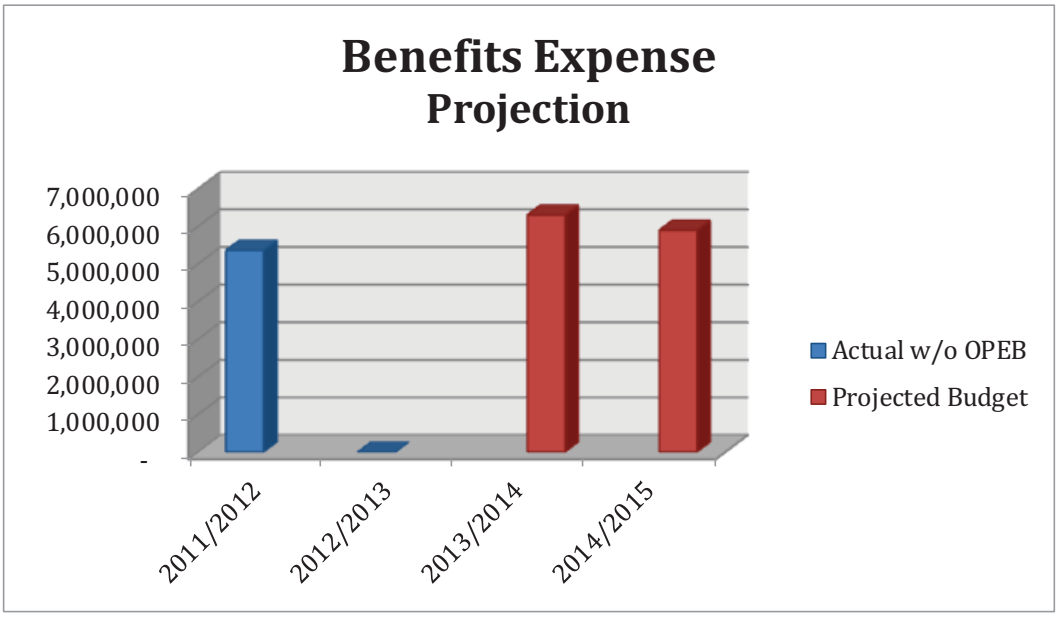
The University's debt to worth ratio is calculated as a negative number as its total liabilities exceeded total assets. A negative debt/worth ratio indicates excess leverage; excess leverage indicates an extremely high credit risk.



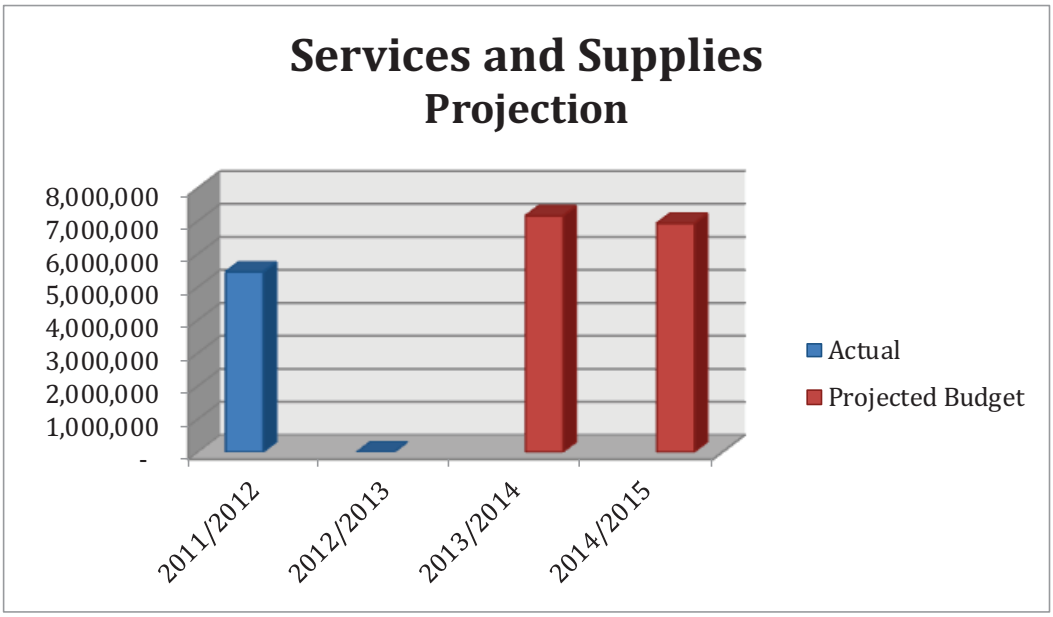
- 2011/12 Tuition Revenue – Actual = $9,759,095
- 2013/14 Tuition Revenue – Projected Budget = $9,759,465
- 2014/15 Tuition Revenue – Projected Budget = $9,573,156



- 2011/2012 – Salaries and Wages – Actual = $13,315,791
- 2013/2014 – Salaries and Wages – Projected Budget = $12,862,750
- 2014/2015 – Salaries and Wages – Projected Budget = $12,511,804



- 2011/2012 – Benefits – Actual = $5,364,967
- 2013/2014 – Benefits – Projected Budget = $6,307,280
- 2014/2015 – Benefits – Projected Budget = $5,899,381



- 2011/2012 – Services & Supplies – Actual = $5,461,445
- 2013/2014 – Services & Supplies – Projected Budget = $7,158,374
- 2014/2015 – Services & Supplies – Projected Budget = $6,928,031

B. Clarion University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - The University's **net assets have increased over the past four years by 84%**.
  - The University appears to be managing their revenues and expenses well, as operational revenues continue to exceed operating expenses.

- **Enrollment has declined 7%** over the past five years.

- For 2008/09 through 2011/2012, the University has budgeted tuition revenue relative to actual. The University anticipated tuition revenue to continue to increase in 2012/13. This did not occur, therefore, tuition revenue was **overbudgeted by approximately 9.3% or $4.2 million in 2012/2013.**

- The University has **under-budgeted fees revenue, on average, 10.8%** for the years 2008/09 through 2012/13. During 2011/12, the University **under-budgeted fees revenue by 36.5% or $3.3 million.**

- The University has **over-budgeted state subsidy,** on average, from 2008/09 through 2011/12, by **approximately 8.5% or $3 million** per year. For fiscal year 2012/13 the University was relatively on target for state subsidy, budgeting within 0.725% or approximately $165,000.

- The University has **over-budgeted salaries and wages** past three years: 2010/11 – **4.7% or $2.2 million**, 2011/12 – **5.7% or $2.7 million**, and 2012/13 -**1.7% or $779,688**.

- The University has **over-budgeted benefits**, adjusted for OPEB, on average by **approximately $1.6 million, per year**, for the years 2010/11 through 2012/13.

- The University operations has consistently out performed its annual budget except for 2012/13.
  - In 2010/11, the University **budgeted breakeven** (revenue equals expenses) and ended with a **$1.5 million profit** (adjusted for OPEB).
  - In 2011/2012, the University **budgeted a $894,000 loss**, however ended with a **$4.1 million profit** (adjusted for OPEB).
  - In 2012/13, due to a decrease in tuition revenue of approximately $2 million from prior year actual, and $4 million decrease from the projected tuition revenue, the University finished the year with a **greater loss than anticipated by approximately $500,000**.

- The University's cash flow from operations has consistently increased from 2008/09 through 2011/12. The additional cash flow has been used for debt service and capital projects. **Net cash provided by operations (not including state appropriations) has continued increase since 2008/09**. The University has experienced a **41% decrease in cash expenses in operations since 2008/09.**

- The University's debt service payments (principal and interest) will **average $2.1 million** for the years 2013/14 through 2016/17.

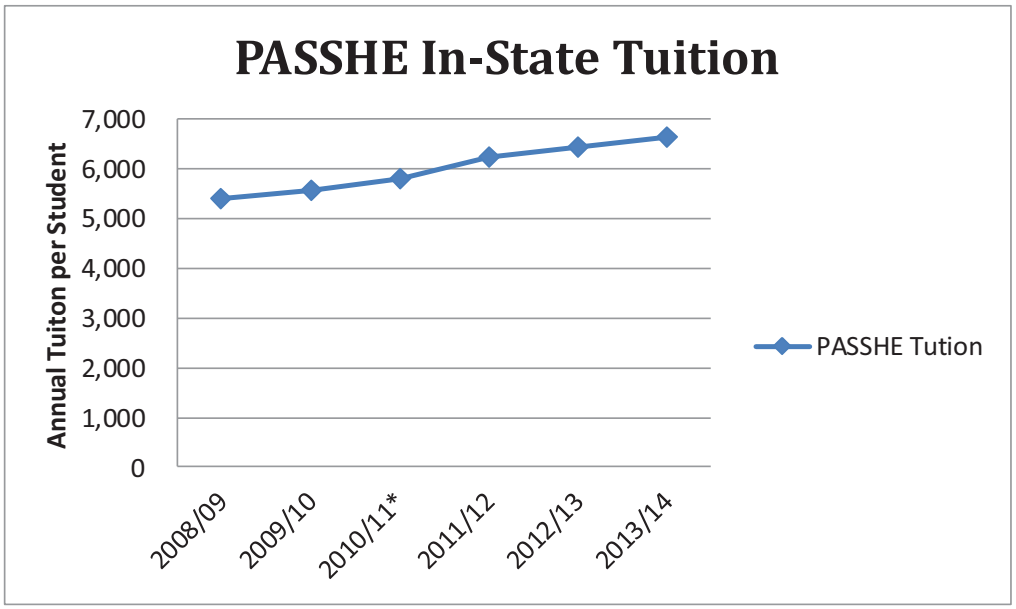
- The University has approximately **five months** of cash and cash equivalents in reserve as of June 30, 2012.

- The University's liquidity ratio of **3.4 and 2.9 for 2011/12 and 2010/11**, respectively, ranks near the upper quartiles when compared to industry benchmarks. This metric indicates the University has a good ratio of assets to current liabilities. (e.g. the University essentially has $3 for every $1 it has in current liabilities.)

- The University's debt/worth ratio, without component units' liabilities, of **.4 and .5 for 2011/12 and 2010/11**, respectively, ranks near the upper quartiles when compared to industry

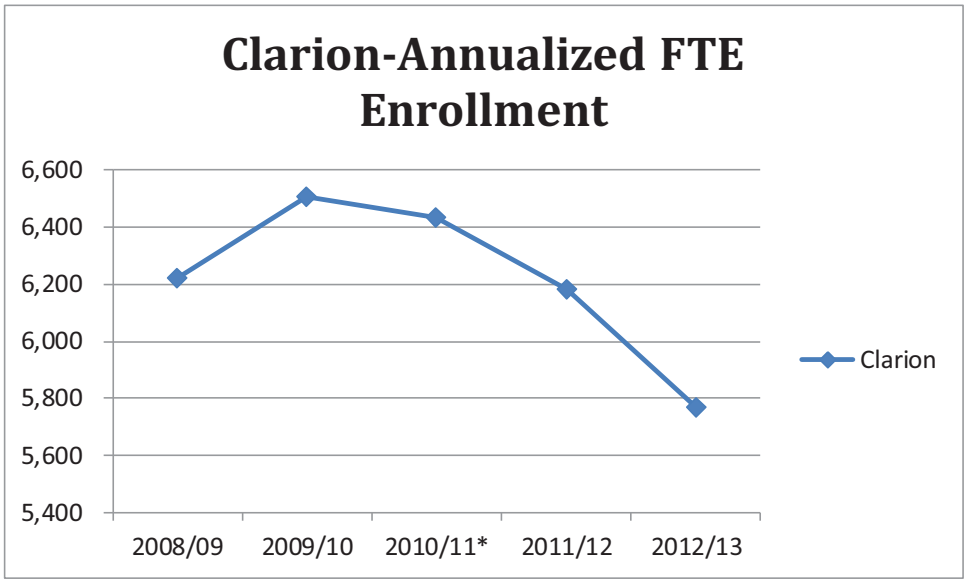
benchmarks. This metric indicates the University is carries less debt burden than most colleges and universities in the benchmark. However, University's debt/worth ratio, **with component units' liabilities**, of **.79** as of 2011/12 which indicates it is a little more of a credit risk as the component units are a little more leveraged. As of June 30, 2012 **the Foundation**, one of the component units of the University, **had $50,578,655 in long-term debt with unrestricted net assets of $8,309,038**.

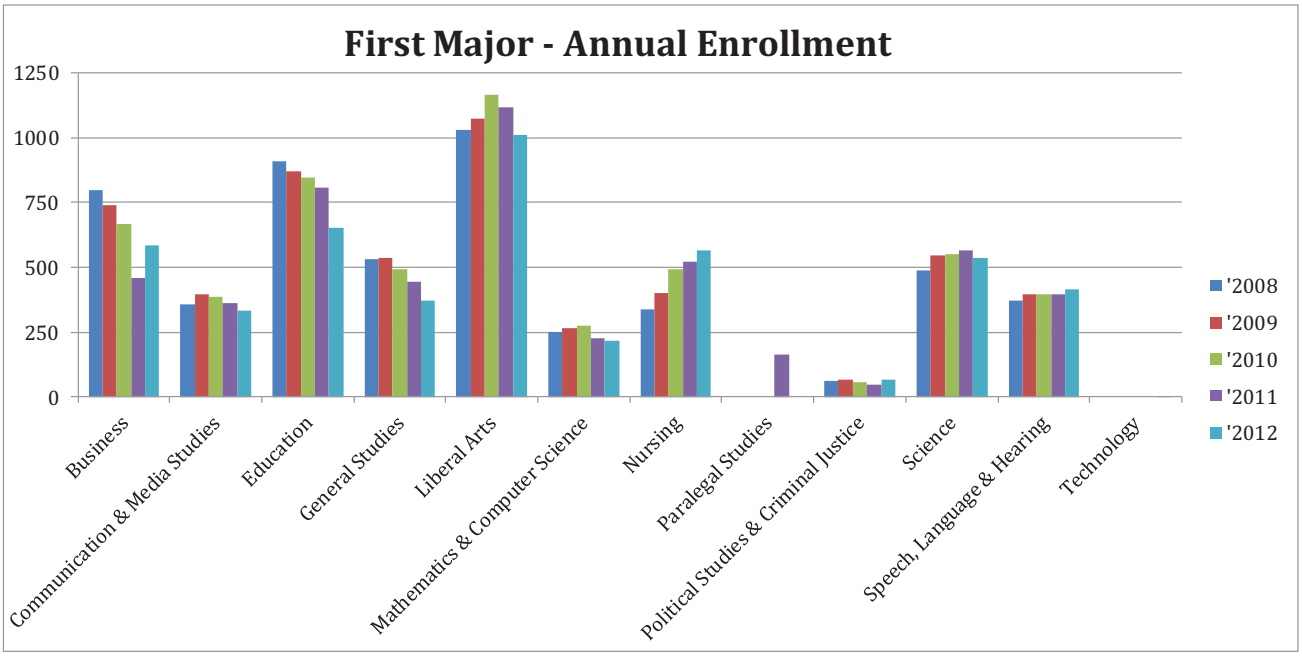
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment:





Full time equivalent ("FTE") enrollment has decreased by 7% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Therefore, tuition revenues have remained relatively flat. State Appropriations are a derivative of enrollment numbers and Commonwealth budget allocations. State Appropriations have declined due in part to enrollment numbers.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (26,817,207)	$ (28,244,721)	$ (27,594,825)	$ (23,476,836)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	46,723,529	52,580,502	55,997,575	60,202,510
Net Assets - Unrestricted, as adjusted	$ 19,906,322	$ 24,335,781	$ 28,402,750	$ 36,725,674

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are

part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

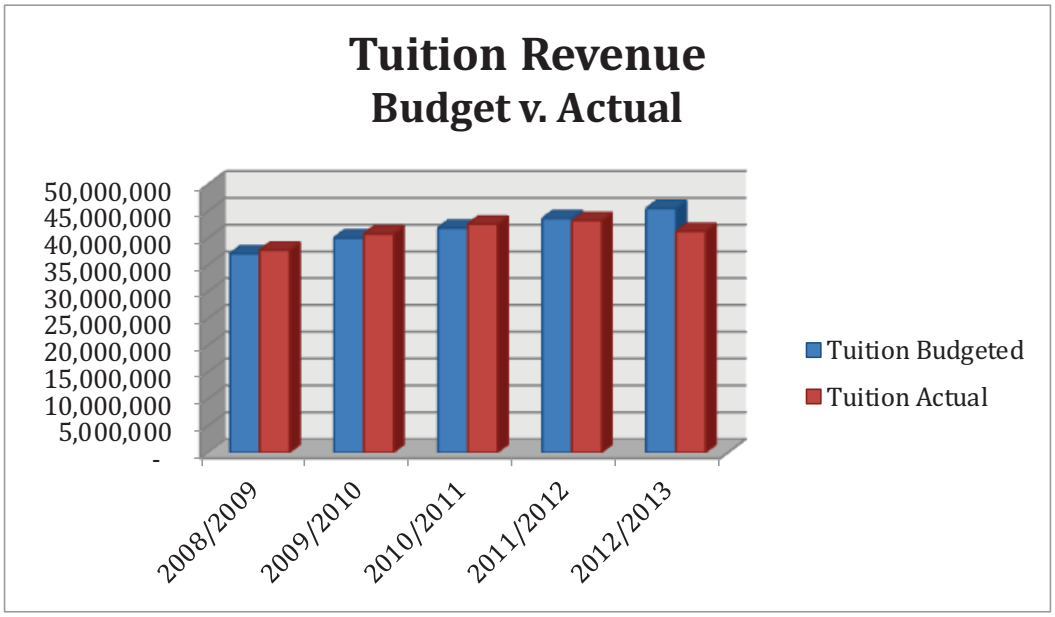
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

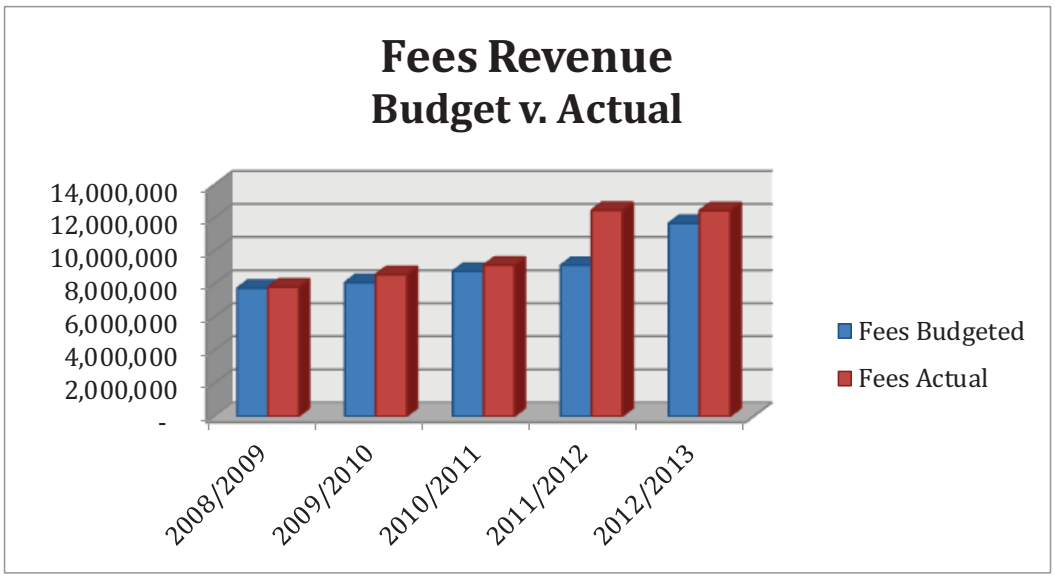
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 37,095,902	$ 37,774,566	$ 40,056,053	$ 40,796,070	$ 41,896,721	$ 42,621,226	$ 43,646,901	$ 43,292,689	$ 45,532,123	$ 41,311,182
Fees	7,744,497	7,822,756	8,097,951	8,575,779	8,771,203	9,137,934	9,131,949	12,462,451	11,662,952	12,436,491
State Appropriation	29,225,620	27,972,185	30,331,546	26,269,435	27,718,751	25,187,058	27,473,807	23,362,309	22,761,309	22,596,328
All Other Revenue	2,525,773	3,610,876	3,065,833	6,259,243	3,246,803	4,105,159	3,398,518	3,412,314	3,204,184	2,892,216
Use of Carryforward Fund Balance	926,012	-	-	-	-	-	-	-	-	-
Total Revenue/Sources	$ 77,517,805	$ 77,180,383	$ 81,551,383	$ 81,900,527	$ 81,633,478	$ 81,051,377	$ 83,651,175	$ 82,529,763	$ 83,160,568	$ 79,236,217

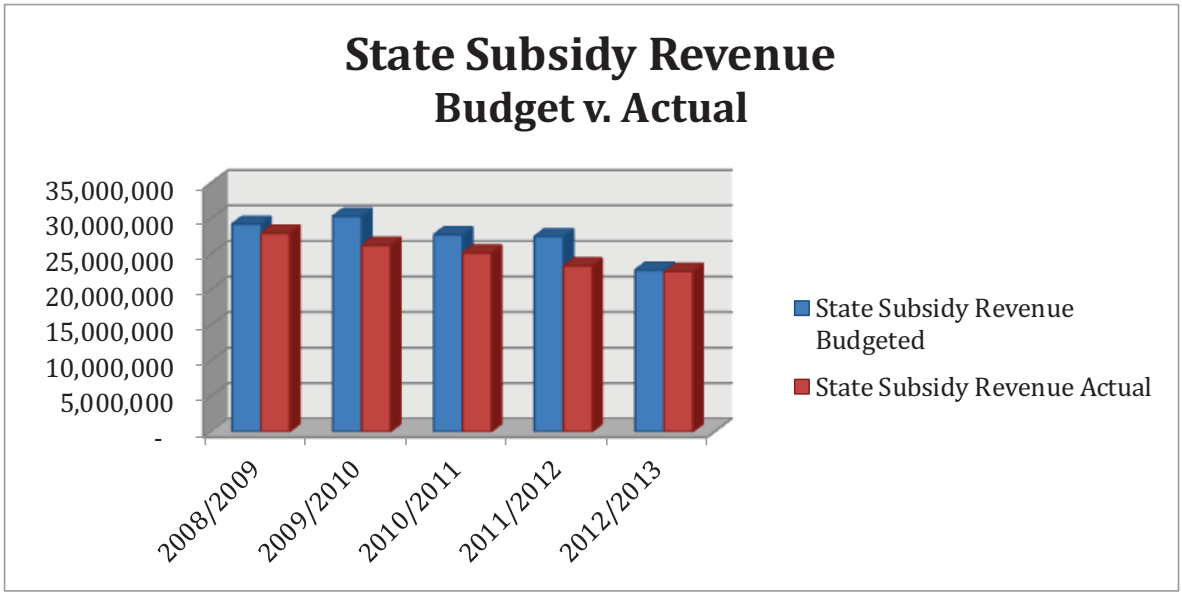


Overall, the University has budgeted tuition revenue relatively on target through 2011/12. During 2012/13, it appears the University anticipated higher enrollment numbers or higher tuition rates, as they over forecasted tuition revenue; actual tuition was $4.2 million less than expected or 9.3% less than budgeted.



The University has taken a conservative approach budgeting fees revenue. On average, the University has under-budgeted fees revenue

by approximately 12% through 2011/12. During 2012/13, the University appears to be budgeting more in line with actual fees revenue; actual was 6.6% more than budget.

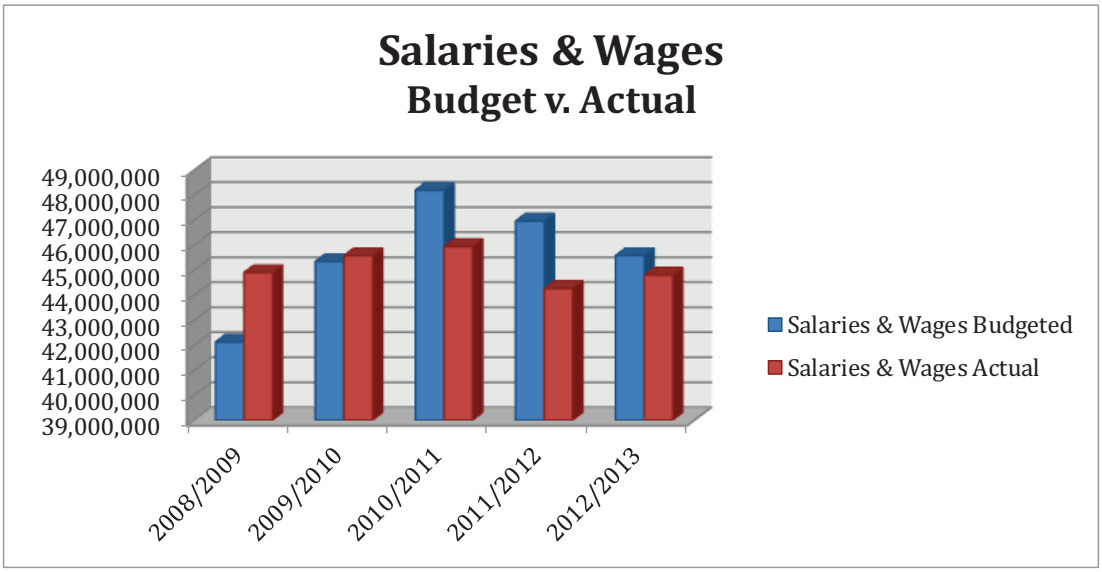


The University has over-budgeted state subsidy revenue, on average, 8.5% for the past four years. The University budgeted within 0.7% of actual State Subsidy during the 2012/13 year end. State Subsidy is a derivative of enrollment; enrollment has averaged a 7% decline since 2008/09.

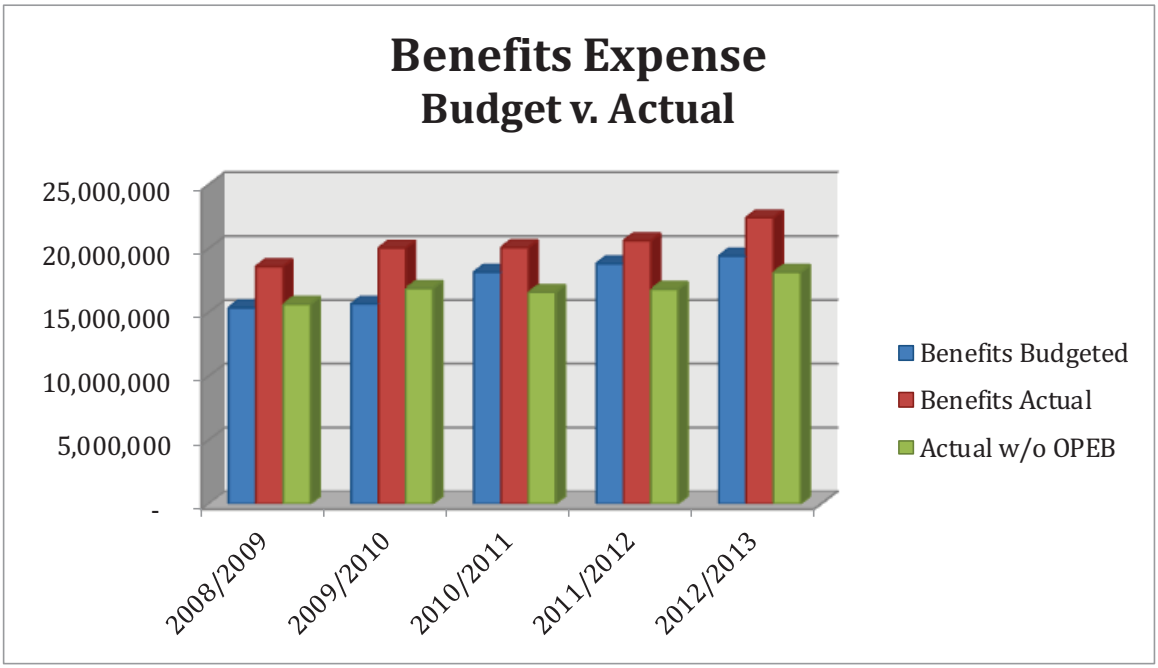
Expenses

Expenses and Transfers

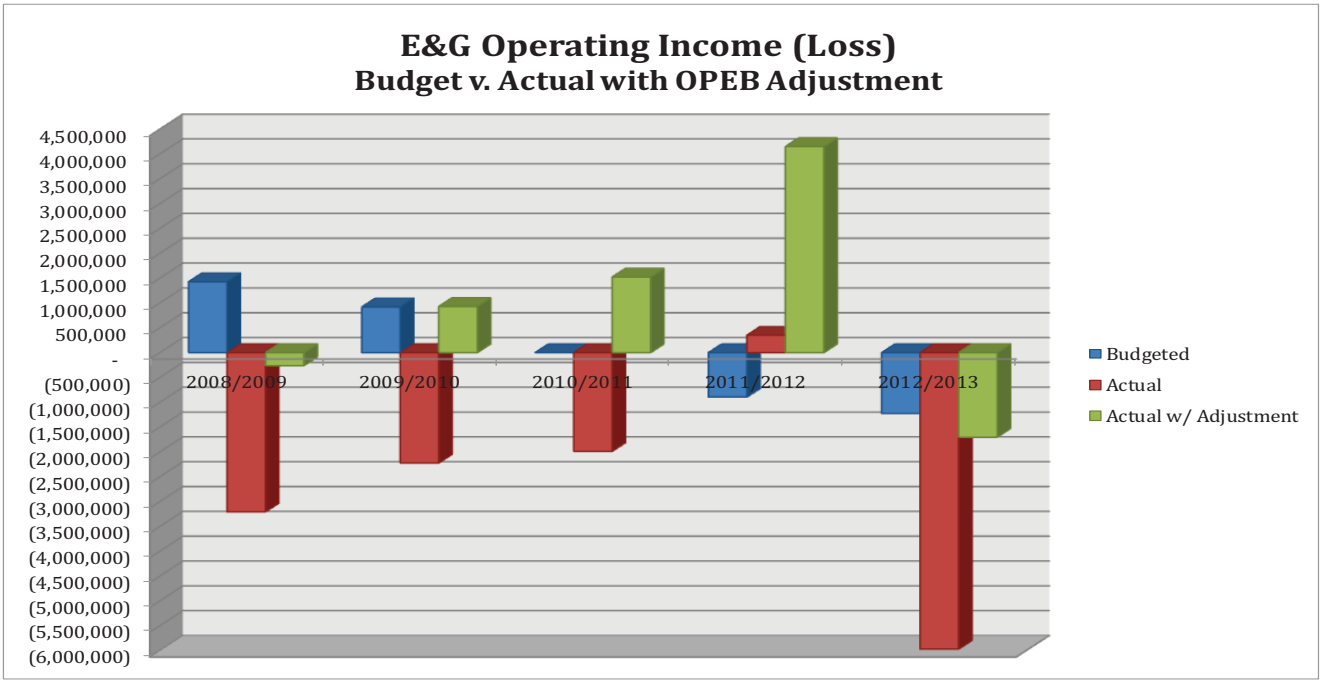
	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 42,122,386	$ 44,901,353	$ 45,345,167	$ 45,582,272	$ 48,203,015	$ 45,950,833	$ 46,961,406	$ 44,270,224	$ 45,583,288	$ 44,803,600
Benefits	15,379,196	18,605,217	15,674,064	20,048,776	18,157,117	20,096,376	18,831,247	20,626,359	19,426,408	22,428,303
Utilities	2,020,872	2,235,927	-	1,997,936	2,526,598	2,079,128	2,399,493	1,934,089	2,334,238	1,589,674
Services & Supplies	12,643,273	12,253,428	16,059,763	11,750,648	11,252,665	12,847,302	13,002,685	12,365,342	14,863,218	13,534,153
Capital Expenses and Transfers	3,925,431	2,390,314	3,552,182	4,742,584	1,494,083	2,065,934	3,351,045	2,983,323	2,177,761	2,850,197
Total Expenses and Transfers	$ 76,091,158	$ 80,386,239	$ 80,631,176	$ 84,122,216	$ 81,633,478	$ 83,039,573	$ 84,545,876	$ 82,179,337	$ 84,384,913	$ 85,205,927



From 2010/11 through 2012/13, the University has been budgeting for a slight increase in salaries and wage expenses. However, in these years, actual salaries and wages were approximately 4.6% or $2.2 million, 5.7% or $2.7 million, and 1.7% or $780,000 less than anticipated.



The University includes OPEB non pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis, as budgeted benefits are more in line with actual without OPEB.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University attempts to budget at a break-even point (revenues equalling expenses) or a slight loss. Based upon the above chart, the University has not accomplished this break-even status with actuals. The 2011/12 year appears to be the exception. Most likely this difference was due to the OPEB adjustment calculated by the actuaries. The 2012/13 year incurred a decrease in tuition revenue of $2 million.

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (25,850,155)	$ (19,738,888)	$ (19,624,386)	$ (15,129,649)
Other additions to offset operations:				
State Appropriations	27,972,185	30,140,093	27,473,807	23,362,309
Gifts for other than Capital purposes	151,337	119,005	63,283	35,351
Cash provided (used) in operations:	2,273,367	10,520,210	7,912,704	8,268,011
Cash Flow from Financing Activities	(2,785,972)	(8,038,394)	(3,960,574)	(3,389,363)
Cash available (used) before investing activities	$ (512,605)	$ 2,481,816	$ 3,952,130	$ 4,878,648

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a four year operating loss of approximately $80,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

In 2009/10, the University saved approximately $5 million on payments to goods and services which accounts for the large increase in operational cash flows which was used to fund approximately $7 million in purchases of capital assets as well as to service debt. During 2011/12, net tuition/fees increased by approximately $6 million with all other revenues/expenses remaining constant. This operational income was available for financing activities which includes debt service payments, proceeds and capital expenses.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Clarion				
Purchase of Capital Assets:	$ 8,505,648	$ 7,104,281	$ 6,244,998	$ 1,711,460
Principal / Interest on Debt:	$ 2,753,788	$ 2,662,179	$ 4,180,760	$ 2,576,808

Cash Reserves on Hand:

The analysis below indicates the University has approximately **five** months of cash and cash equivalents in reserve as of June 30, 2012.

	Clarion
Operating Expense	$ 104,253,797
Subtractions:	
Depreciation	(4,353,089)
OPEB	(3,800,323)
Additions:	
Interest Paid on Debt	897,531
Principal paid on debt including AFRP	1,679,277
Total Annual Operating Expense	$ 98,677,193
Operating Expense per month	$ 8,223,099
Cash and cash equivalents	$ 42,117,188
Number of Months Cash on Hand	5.12

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.5	3.8
Median current ratio	1.7	1.9
Lower current ratio	1.1	1.2
Clarion current ratio	3.4	2.9

This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks in the upper quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

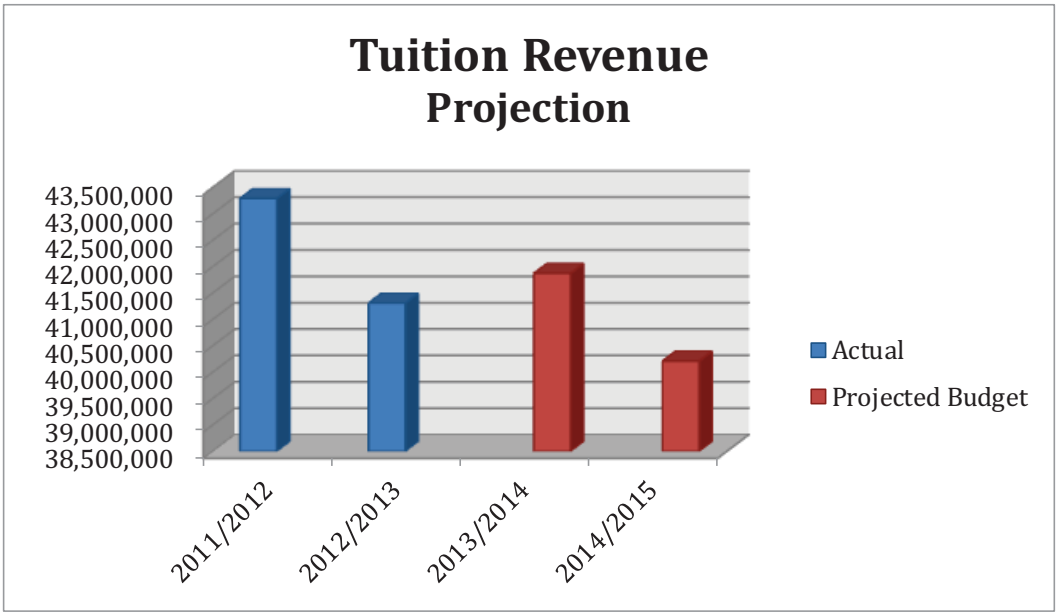
	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.4	0.4
Median debt/worth	0.6	0.6
Lower debt/worth	1.1	1.1
Clarion debt/worth	0.4	0.5

An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

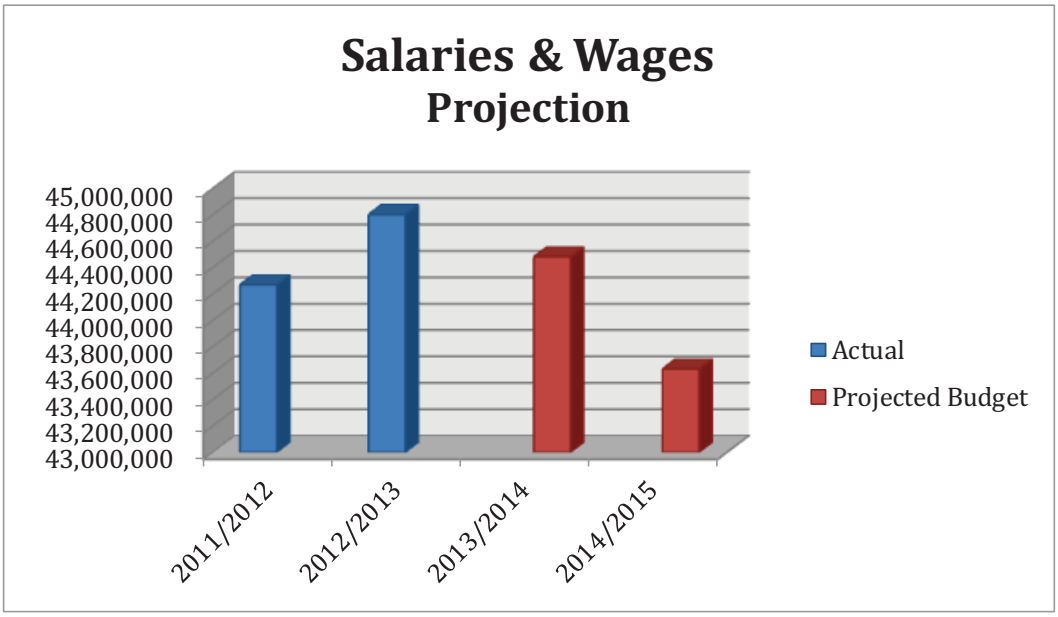
The University's debt/worth ratio, **without component units**, indicates it is in good financial standing, with a good ratio of debt to net assets. This indicates the University is less of a credit risk.

Including the component units liabilities, the University's debt/worth ratio is **.79** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the

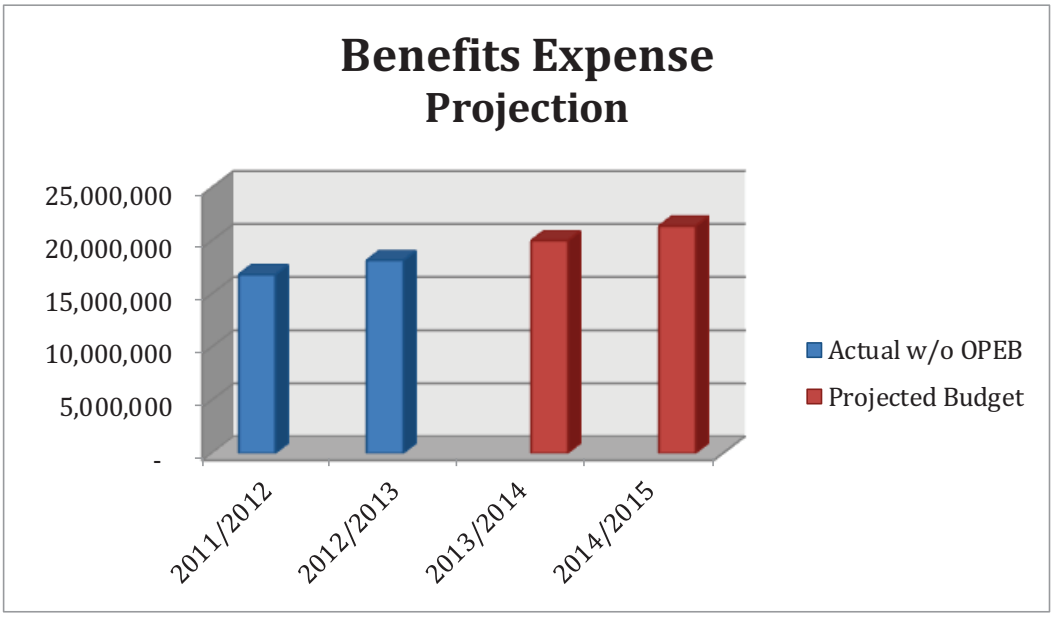
liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is slightly more leveraged than the median of colleges and universities within this study.



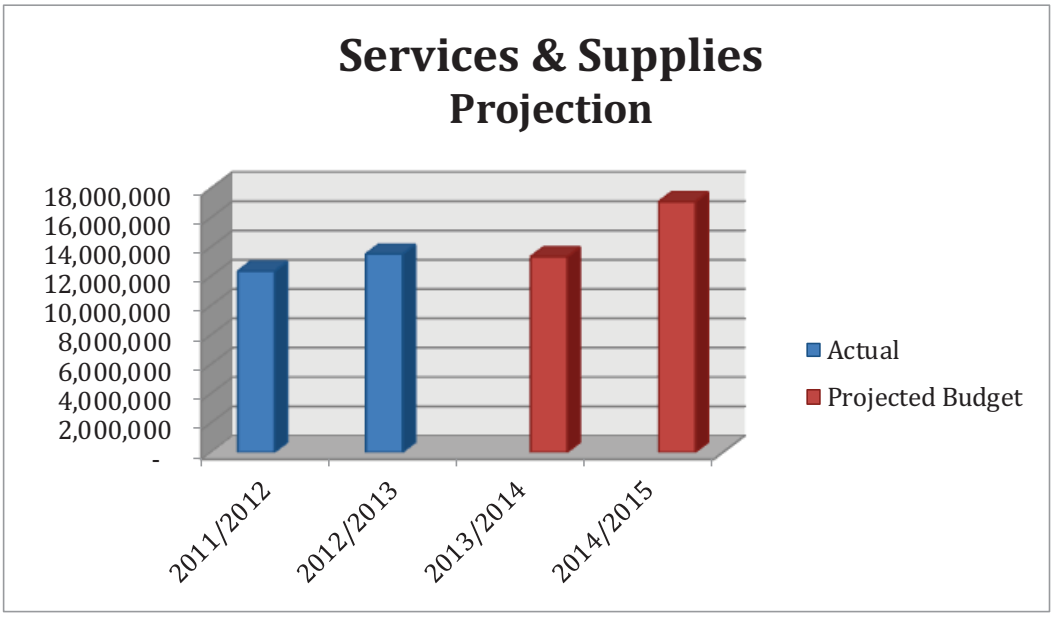
- 2011/12 Tuition Revenue – Actual = $43,292,689
- 2012/13 Tuition Revenue – Actual = $41,311,182
- 2013/14 Tuition Revenue – Projected Budget = $41,873,734
- 2014/15 Tuition Revenue – Projected Budget = $40,211,848



- 2011/2012 – Salaries and Wages – Actual = $44,270,224
- 2012/2013 – Salaries and Wages – Actual = $44,803,600
- 2013/2014 – Salaries and Wages – Projected Budget = $44,482,595
  - Projection appears to be in line with prior year's actual
- 2014/2015 – Salaries and Wages – Projected Budget = $43,631,840
  - Projection assumes a decrease of 1.9% in salaries and wages



- 2011/2012 – Benefits – Actual = $16,826,036
- 2012/2013 – Benefits – Actual = $18,161,774
- 2013/2014 – Benefits – Projected Budget = $20,015,474
  - Projection anticipates an 10.2% increase from prior year's actual
- 2014/2015 – Benefits – Projected Budget = $21,388,497
  - Projection anticipates a 6.8% increase



- 2011/2012 – Services & Supplies – Actual = $12,365,342
- 2012/2013 – Services & Supplies – Actual = $13,534,153
- 2013/2014 – Services & Supplies – Projected Budget = $13,349,358
  - Projects a 1% decrease from 2012/2013
- 2014/2015 – Services & Supplies – Projected Budget = $17,106,779
  - Projects a **26%** increase from 2012/2013

C. East Stroudsburg University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - **The University's net assets have increased over the past four years by 7.5%**.

- **Enrollment has declined by 7%** over the past five years.

- For the past four years, the University has **budgeted tuition revenue relative to actual**. Based on budgeted tuition trend analysis, the University anticipated tuition revenue to steadily increase. The University's actual tuition revenues did increase until 2012/13.
  - **In 2012/13, the University's tuition revenue fell short of budgeted projections by 5.9% or approximately $3.7 million.**

- The University has **under-budgeted fees revenue**, on average, by approximately **$600,000** per year from 2008/09 through 2012/13..

- The University has **over-budgeted state subsidy in 2011/12 and 2012/13** by **20.7% or $5.6 million** and **5.9% or $1.3 million**, respectively.

- The University has **over-budgeted salaries and wages 4.8% or $2.6 million, 7.5% or $3.9 million, and 2.4% or $1.1 million** for the years 2010/11, 2011/12, and 2012/13, respectively.

- The University has **over-budgeted benefits,** adjusted for OPEB**, 7.7% or $1.6 million, 13.8% or $2.9 million, and 12.7% or $2.7 million** for the years 2010/11, 2011/12, and 2012/13, respectively.

- During 2012/13, the University **wrote off $4.4 million in bad debt**

expense. This appears to be extraordinary based upon historical data available for the fiscal years 2008/09 through 2012/13. Furthermore, the University appears to have included this extraordinary expense into their forecasts for Service and Supplies expenses for fiscal years 2013/2014 and 2014/15. **Projections, for these years, show increases of 23% and 27%**, respectively when compared to 2011/12 actual (without the extraordinary expense).

- During 2012/13, the University **transferred $4.7 million from Educational & General Operations fund to the Plant Unrestricted fund**. Within the Plant Unrestricted fund, $1.3 million was charged to supplies. **Additionally, the University transferred $4.4 million to the Net Investment in Plant ("NIP") fund**. NIP charged **$2.3 million to interest expense; $3.2 million was used to pay down principal obligations of debt**.

- The University's **cash flow from operations remained consistent** from 2008/09 through 2011/12. The cash provided by operations has been used for debt service and capital projects. During this time the **University spent approximately $38 million on capital projects**, while continuing to issue debt to finance capital purchases as well as refinance existing debt. Throughout these financing activities, the University continued to maintain positive cash flows.

- The University's debt service payments (principal and interest) will **average $5.6 million** for the years 2013/14 through 2016/17.

- The University has approximately **five months** of cash and cash equivalents in reserve as of June 30, 2012.

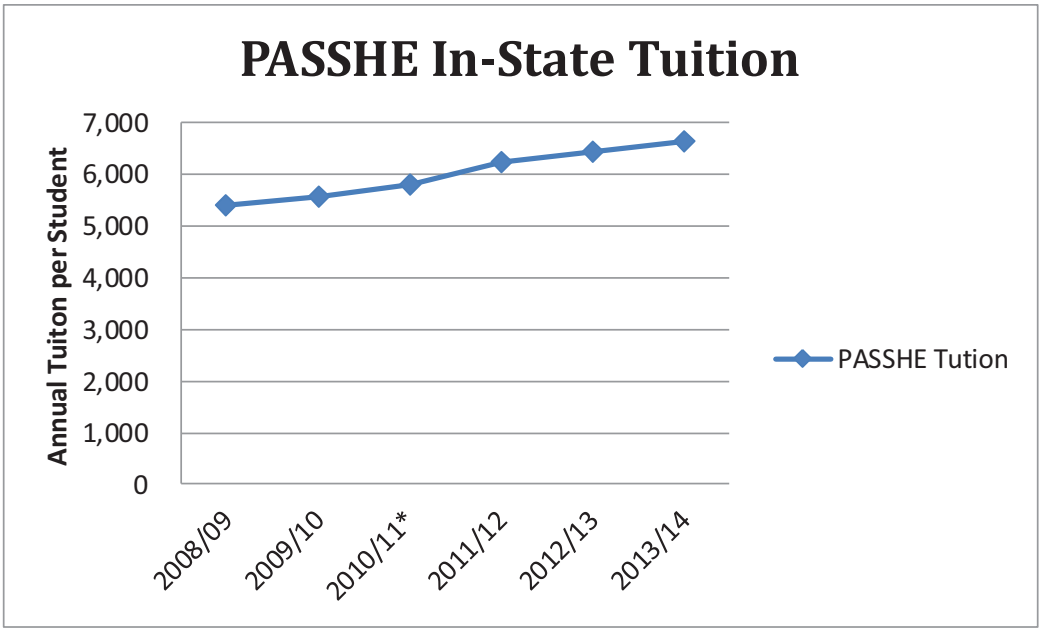
- The University's liquidity ratio of **2.6 and 2.8 for 2011/12 and 2010/11,** respectively ranks between the median and upper quartiles when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short term assets.

- The University, **without component unit liabilities**, has a debt to worth ratio of **0.9 and 1.0 for 2011/12 and 2010/11**, respectively, which indicates it is in the lower quartile when compared to the

industry benchmarks. However, in order to capture a truer picture of the University's debt burden to net worth, the University's component units must be included in this calculation. Including the component unit liabilities, the University's debt/worth ratio is **1.66** as of 2011/12, which indicates the component units and University have been aggressively financing capital projects (i.e. student housing). As of 2011/12, University Property, Inc., a component unit of the University, has an unrestricted net deficit of **($2,456,620)** and a debt/worth ratio, as a stand-alone entity, of **-41**.

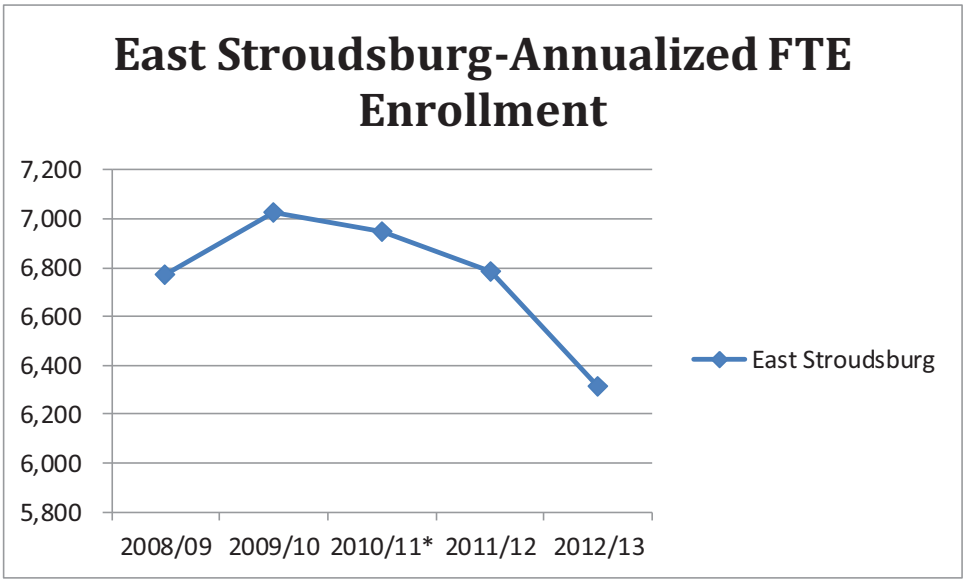
- The **University's capital expenses and transfers average 10% of total operating expenses** and transfers over the past five years. These expenses contribute to the University's decline in net assets.

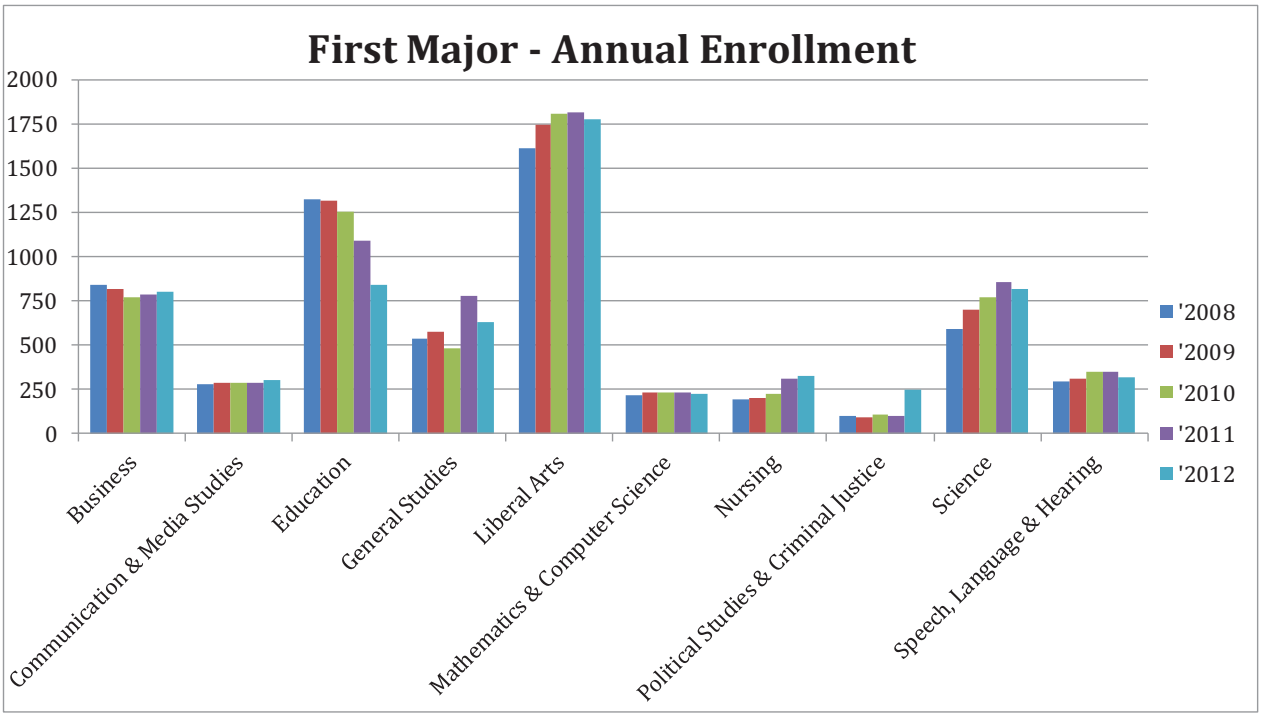
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment





Full time equivalent ("FTE") enrollment has decreased by 7% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Therefore, tuition revenues have remained relatively flat. State Appropriations are a derivative of enrollment numbers and Commonwealth

budget allocations. State Appropriations have declined due in part to enrollment numbers.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (5,924,469)	$ (14,089,507)	$ (13,838,128)	$ (16,142,537)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	42,170,507	45,811,105	50,167,530	55,102,459
Net Assets - Unrestricted, as adjusted	$ 36,246,038	$ 31,721,598	$ 36,329,402	$ 38,959,922

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

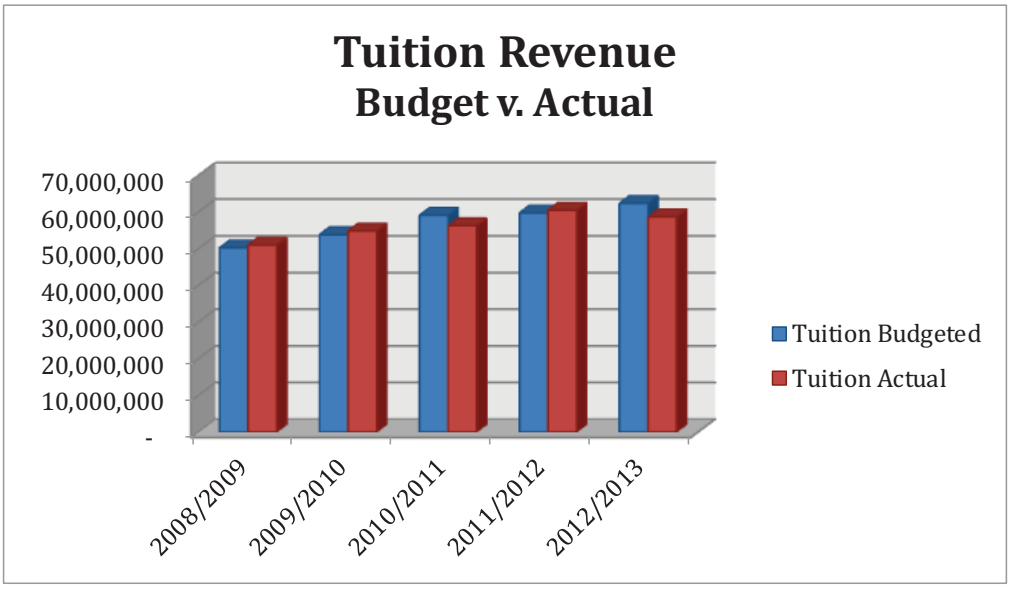
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

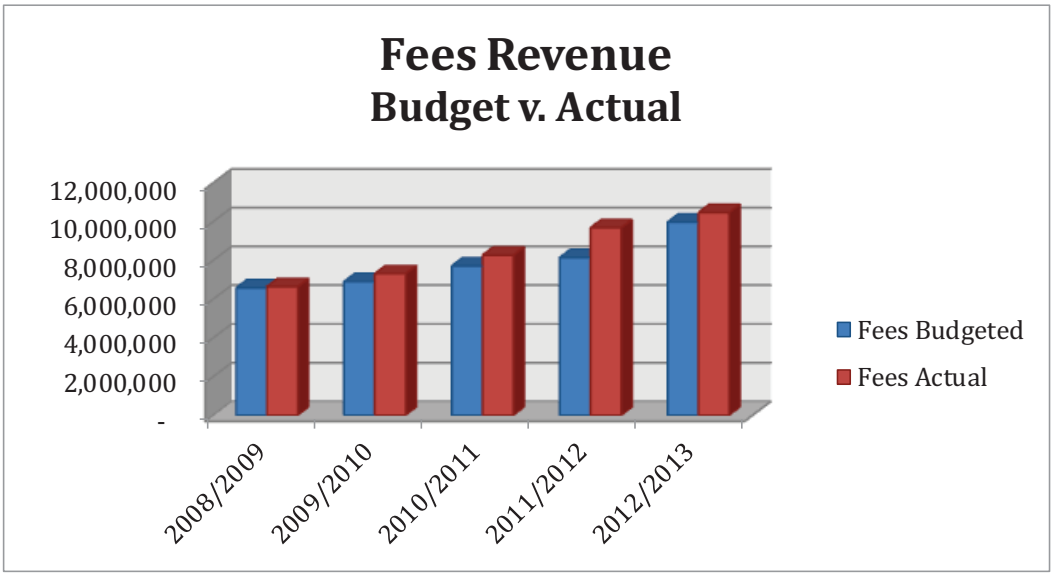
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 50,232,555	$ 51,027,387	$ 53,865,215	$ 54,870,954	$ 59,120,186	$ 56,302,557	$ 59,776,578	$ 60,492,184	$ 62,380,729	$ 58,708,392
Fees	6,581,647	6,646,236	6,903,194	7,313,674	7,717,960	8,277,180	8,145,060	9,687,574	9,974,208	10,474,161
State Appropriation	26,839,232	26,655,737	28,649,987	29,237,772	26,579,632	27,467,244	27,062,244	21,456,188	22,120,857	20,806,735
All Other Revenue	4,690,727	3,242,603	5,161,611	2,651,171	5,336,002	2,115,145	4,809,356	4,231,386	4,620,408	1,954,739
Use of Carryforward Fund Balance	-	-	-	-	576,215	-	-	-	-	-
Total Revenue/Sources	$ 88,344,160	$ 87,571,963	$ 94,580,007	$ 94,073,571	$ 99,329,995	$ 94,162,126	$ 99,793,237	$ 95,867,332	$ 99,096,202	$ 91,944,027

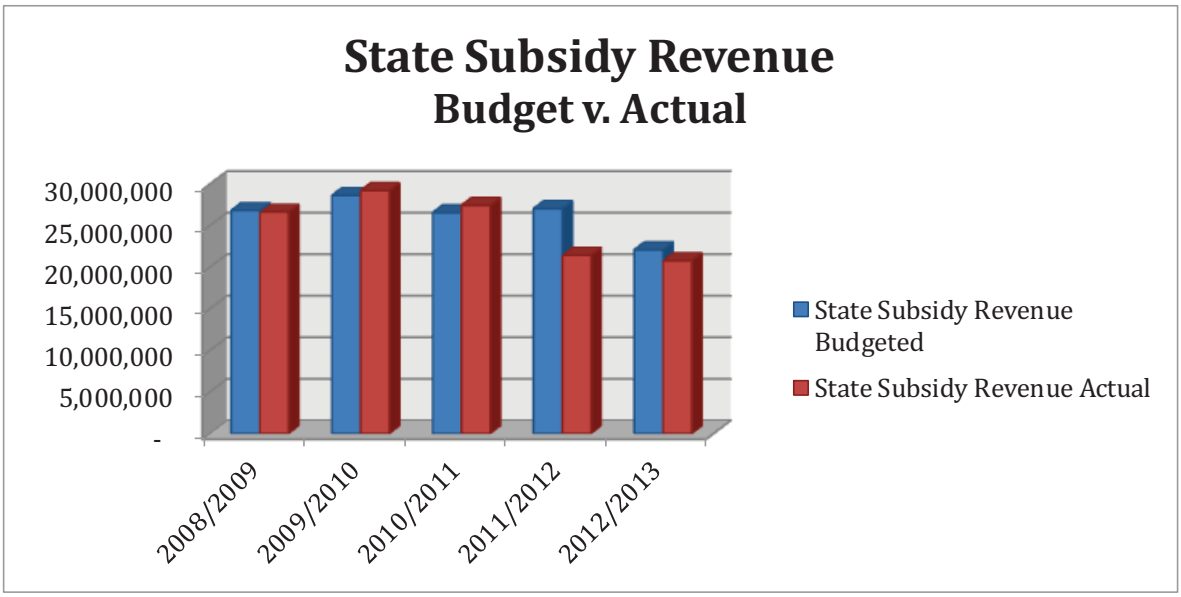


Overall, the University has budgeted tuition revenue relatively on target through 2011/12. During 2012/13, it appears the University anticipated higher enrollment numbers or higher tuition rates, as they over forecasted tuition revenue; actual tuition was $3.7 million less than expected; 5.9% less than budgeted.



The University has taken a conservative approach budgeting fees revenue. On average, the University has under-budgeted fees revenue

by approximately 8% through 2012/13. During 2012/13, the University appears to be budgeting more in line with prior year's actual fees revenue; actual was 5% more than budget and 8% greater than prior year's actual.

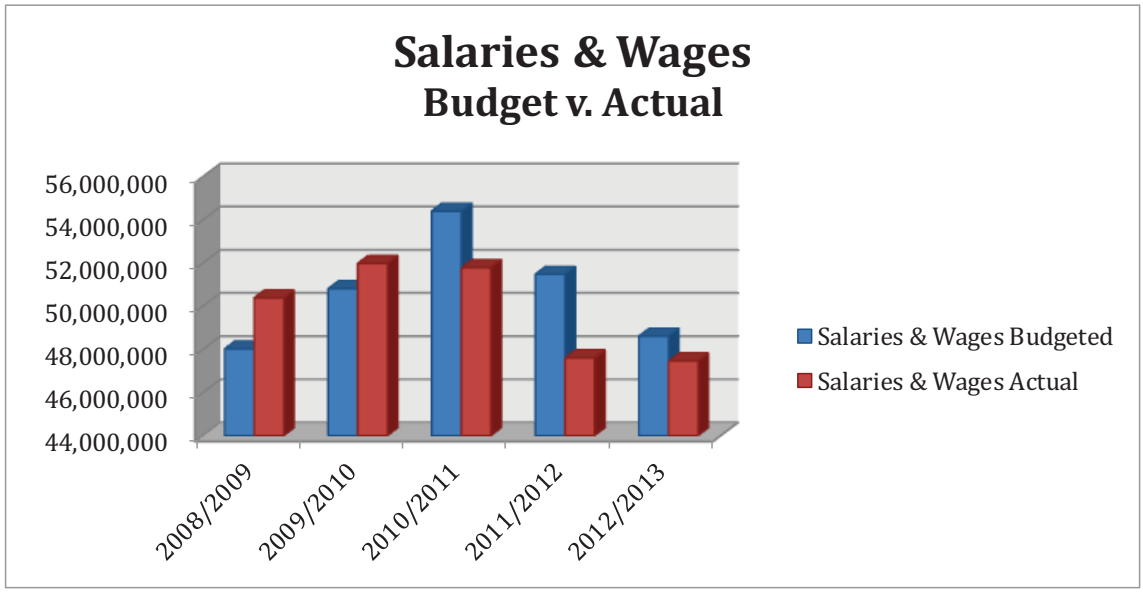


The University budgeted in line with actual State subsidy for the years 2008/09 through 2010/11. The University appears to have budgeted flat for 2011/12; however, actual State subsidy received was 20% under budget. The University over-budgeted by approximately 6% or $1.3 million of actual State Subsidy during the 2012/13 year end. State Subsidy is a derivative of enrollment; enrollment has averaged a 7% decline since 2008/09.

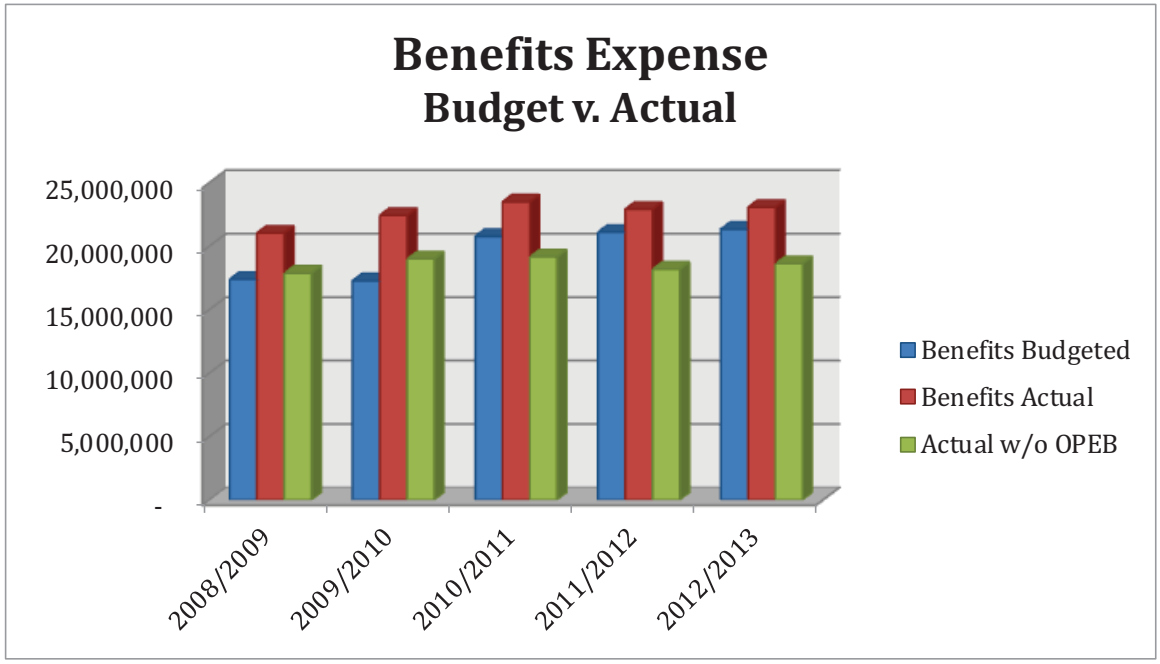
Expenses

Expenses and Transfers

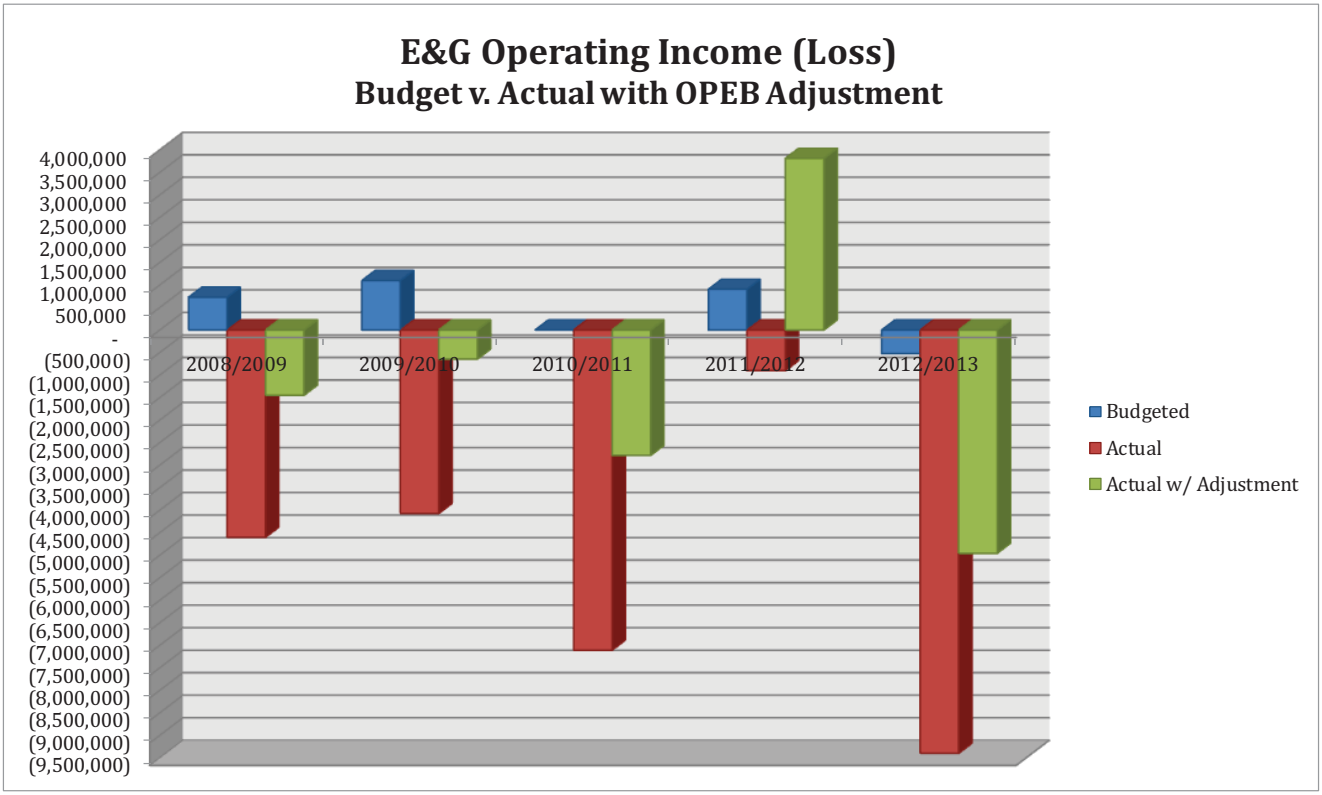
	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 48,029,389	$ 50,390,677	$ 50,820,400	$ 51,994,681	$ 54,419,976	$ 51,804,141	$ 51,489,878	$ 47,618,832	$ 48,621,531	$ 47,476,055
Benefits	17,380,757	21,035,908	17,263,434	22,423,125	20,770,798	23,487,375	21,094,647	22,906,157	21,322,396	23,055,943
Utilities	1,846,225	2,053,714	1,994,046	1,916,491	2,305,317	1,917,078	2,386,856	1,713,229	2,152,303	1,539,932
Services & Supplies	13,286,047	11,847,256	13,917,679	11,959,006	13,880,265	11,867,043	13,674,373	13,826,181	13,947,870	19,194,034
Capital Expenses and Transfers	7,075,805	6,846,361	9,487,028	9,853,014	7,953,639	12,195,690	10,243,967	10,705,531	13,572,575	10,077,195
Total Expenses and Transfers	$ 87,618,224	$ 92,173,916	$ 93,482,587	$ 98,146,317	$ 99,329,995	$ 101,271,327	$ 98,889,721	$ 96,769,930	$ 99,616,675	$ 101,343,159



The University under-budgeted salaries and wages during 2008/09 and 2009/10 by approximately 5% and 2%, respectively. From 2010/11 through 2012/13, the University was budgeting for a slight increase in salaries and wage expenses. However, in these years, actual salaries and wages were approximately 4.8% or $2.6 million, 7.5% or $3.9 million, and 2.4% or $1.1 million less than anticipated.



The University includes OPEB in excess of pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis, as budgeted benefits are more in line with actual without OPEB.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University attempts to budget at a break-even point (revenues equalling expenses). Based upon the above chart, the University has not accomplished this break-even status with actuals. The 2011/12 year appears to be the exception. Most likely this difference was due to the OPEB adjustment calculated by the actuaries. During 2012/13, the University wrote off $4.4 million in bad debt expenses. This bad debt write off does not appear to have been anticipated. Additionally, the University transferred $4.7 million from Educational & General to Plant Unrestricted.

Within the Plant Unrestricted fund, $1.3 million was charged to supplies. The University transferred $4.4. million to Net Investment in Plant ("NIP"). NIP charged $2.3 million to interest expense; $3.2 million was used to pay down principal obligations of debt.

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (16,570,333)	$ (17,672,880)	$ (16,437,806)	$ (13,472,989)
Other additions to offset operations:				
State Appropriations	26,655,737	29,237,772	27,467,244	21,456,188
Gifts for other than Capital purposes	863,717	1,167,805	1,324,439	2,362,382
Cash provided (used) in operations:	10,949,121	12,732,697	12,353,877	10,345,581
Cash Flow from Financing Activities	(3,179,497)	(12,542,642)	(12,277,851)	(6,075,094)
Cash available (used) before investing activities	$ 7,769,624	$ 190,055	$ 76,026	$ 4,270,487

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a Four year operating loss of approximately $64,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

From 2008/09 to 2011/12, the University spent approximately $38 million on capital expenses (see chart below). During this time the University continued to take on more debt to help finance the capital purchases as well as refinance existing debt. Even with these expenses the University managed to maintain positive cash flow. During 2011/12, net tuition/fees increased by approximately $5 million which helped offset the loss of approximately $6 million in state appropriations. This operational income was available for financing activities which includes debt service payments, proceeds and capital expenses.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
East Stroudsburg				
Purchase of Capital Assets:	$ 11,443,663	$ 11,172,884	$ 8,337,434	$ 7,766,657
Principal / Interest on Debt:	$ 8,559,136	$ 5,564,630	$ 10,410,849	$ 11,095,268

Cash Reserves on Hand:

The analysis below indicates the University has approximately **five** months of cash and cash equivalents in reserve as of June 30, 2012.

	East Stroudsburg
Operating Expense	$ 117,685,633
Subtractions:	
Depreciation	(7,667,120)
OPEB	(4,712,502)
Additions:	
Interest Paid on Debt	2,159,598
Principal paid on debt including AFRP	8,935,670
Total Annual Operating Expense	$ 116,401,279
Operating Expense per month	$ 9,700,107
Cash and cash equivalents	$ 49,182,816
Number of Months Cash on Hand	5.07

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.5	3.8
Median current ratio	1.7	1.9
Lower current ratio	1.1	1.2
East Stroudsburg current ratio	2.6	2.8

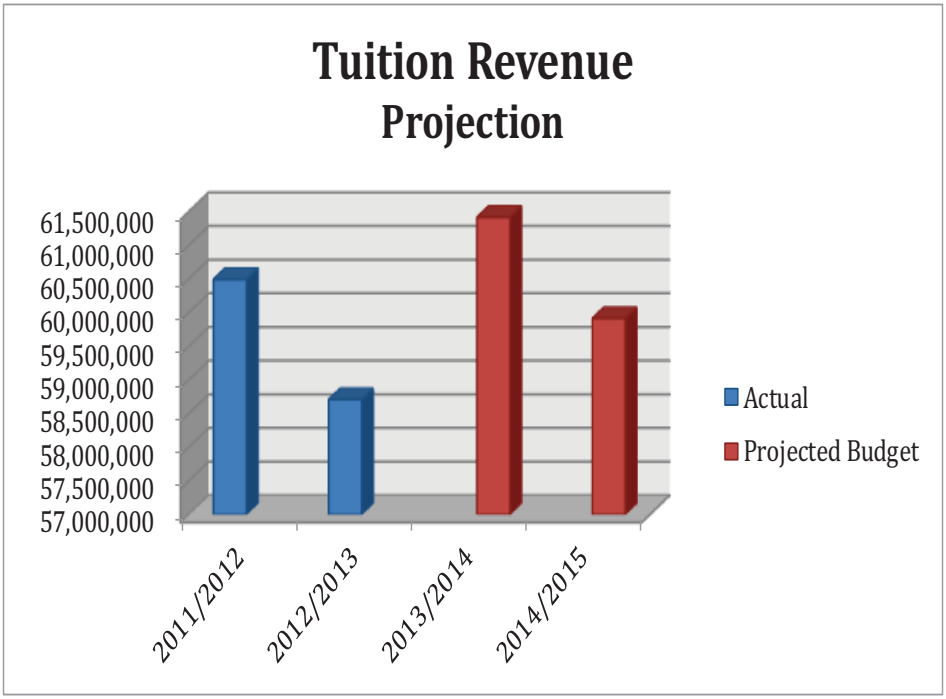
This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks between the Upper and Median quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.4	0.4
Median debt/worth	0.6	0.6
Lower debt/worth	1.1	1.1
East Stroudsburg debt/worth	0.9	1.0

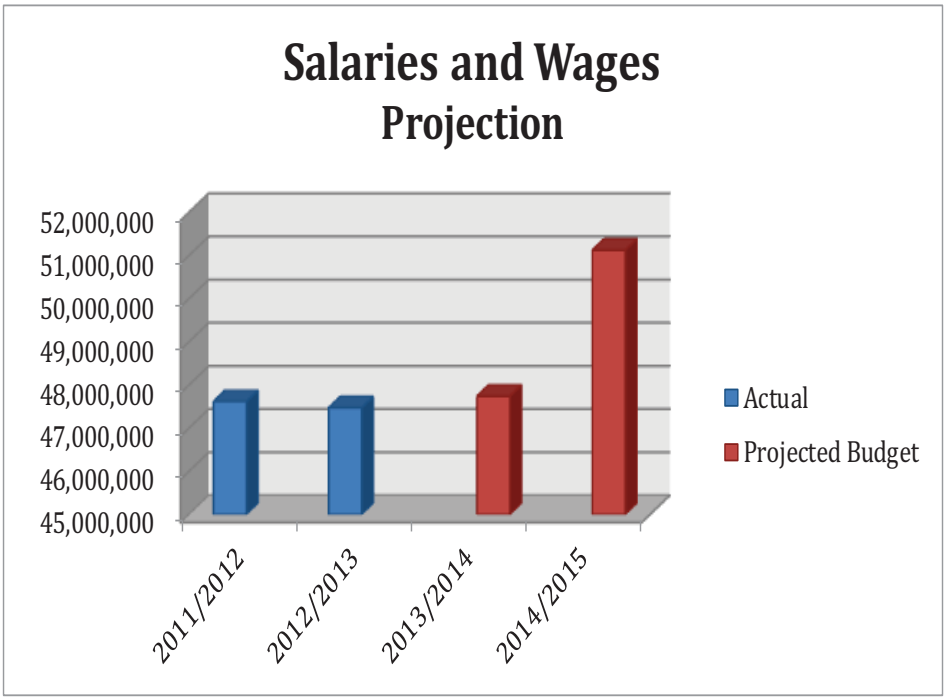
An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

The University's debt/worth ratio, **without component units**, indicates it is leveraged more than the median of colleges and universities in the study. This indicates the University's credit risk is higher than the median of college and universities within the benchmarking study.

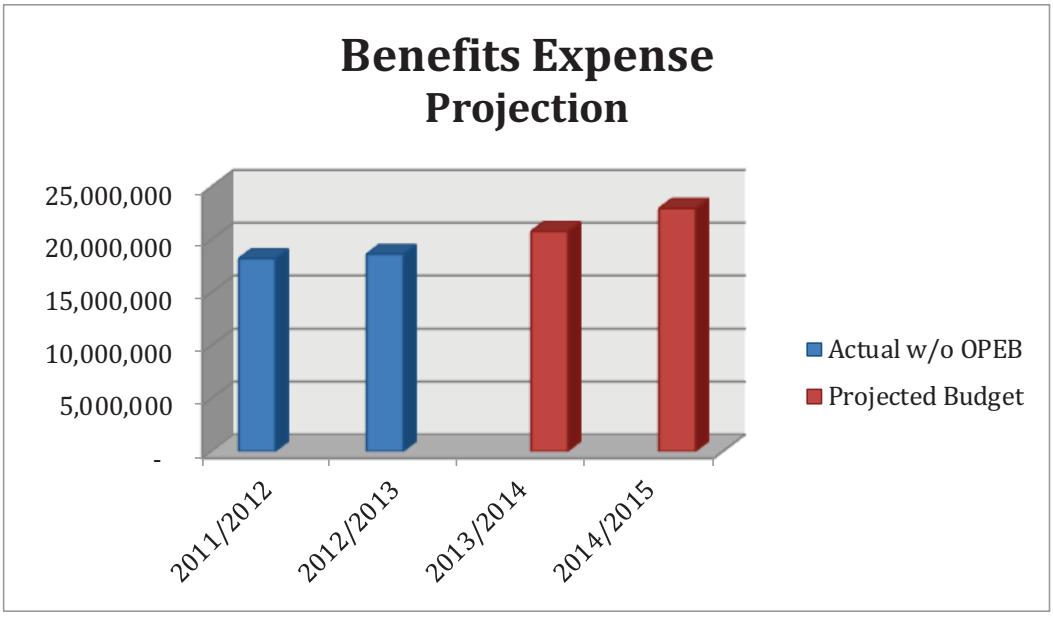
Including the component units liabilities, the University's debt/worth ratio is **1.66** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is extremely high.



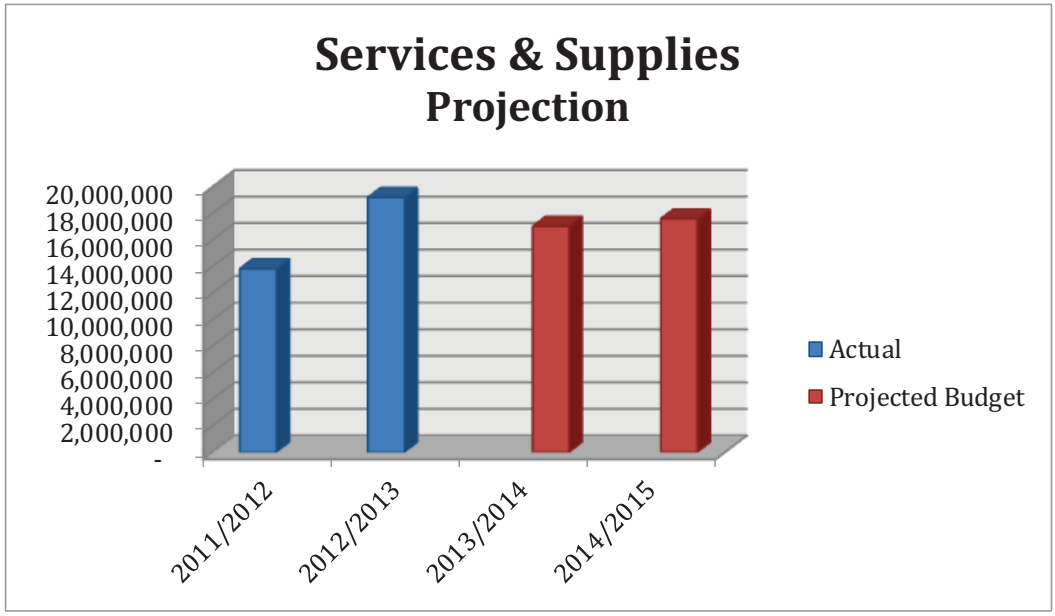
- 2011/12 Tuition Revenue – Actual = $60,492,184
- 2012/13 Tuition Revenue – Actual = $58,708,392
- 2013/14 Tuition Revenue – Projected Budget = $61,414,290
- 2014/15 Tuition Revenue – Projected Budget = $59,912,099



- 2011/2012 – Salaries and Wages – Actual = $47,618,832
- 2012/2013 – Salaries and Wages – Actual = $47,476,055
- 2013/2014 – Salaries and Wages – Projected Budget = $47,473,898
  - Projection appears to be in line with prior year's actual
- 2014/2015 – Salaries and Wages – Projected Budget = $51,125,354
  - Projection assumes a 7.7% increase in salaries and wages



- 2011/2012 – Benefits – Actual = $18,193,655
- 2012/2013 – Benefits – Actual = $18,614,992
- 2013/2014 – Benefits – Projected Budget = $20,763,045
  - Projection anticipates an 11.5% increase from prior year's actual
- 2014/2015 – Benefits – Projected Budget = $22,925,456
  - Projection anticipates a 10.4% increase



- 2011/2012 – Services & Supplies – Actual = $13,826,181
- 2012/2013 – Services & Supplies – Actual = $19,194,034
  - Includes bad debt write offs of $4.4 million
- 2013/2014 – Services & Supplies – Projected Budget = $17,015,876
  - Projects a 23% increase from 2011/2012
- 2014/2015 – Services & Supplies – Projected Budget = $17,582,231
  - Projects a 27% increase from 2011/2012

D. Edinboro University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered after they retire. On an annual basis, an adjustment is made to the university's liability account to record the "future" obligation which is based on an actuarial report. This obligation is not a current cash flow item for the University and therefore it is added back to the unrestricted net assets. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - **The University's net assets have increased over the past four years by 46%.**

- **Enrollment has increased by 2%** over the past five years.

- The University has **budgeted tuition revenues relative to actual through 2011/12**. However, during **2012/13, the University over-budgeted** tuition revenue by **approximately 6.3% or $3.4 million**.

- The University has **under-budgeted fees revenue,** on average, by approximately **$1 million per year** for the years 2008/09 through 2012/13.

- The University has **over-budgeted State Subsidies,** on average, by approximately **$2 million per year** for the years 2008/09 through 2012/13.

- The University has **over-budgeted**, on average, **salaries and wages** by approximately $1 **million per year** for the years 2008/09 through 2012/13.

- The University has **over-budgeted**, on average, benefits, adjusted for OPEB, by approximately **$1 million per year** for the years 2008/09 through 2012/13.

- Overall the University has budgeted conservatively. From 2008/09 through 2011/12, the University, on average, generated approximately **$3 million more in profits than budgeted** including an adjustment for OPEB in excess of pay-as-you go.
    - During 2012/13, an transfer from the Educational & General Operating fund of approximately **$30.5 million** to Plant Unrestricted occurred.

- The University's **cash flows provided by operations has increased** from 2008/09 through 2011/12. The additional cash flow has been used for debt service and capital projects.

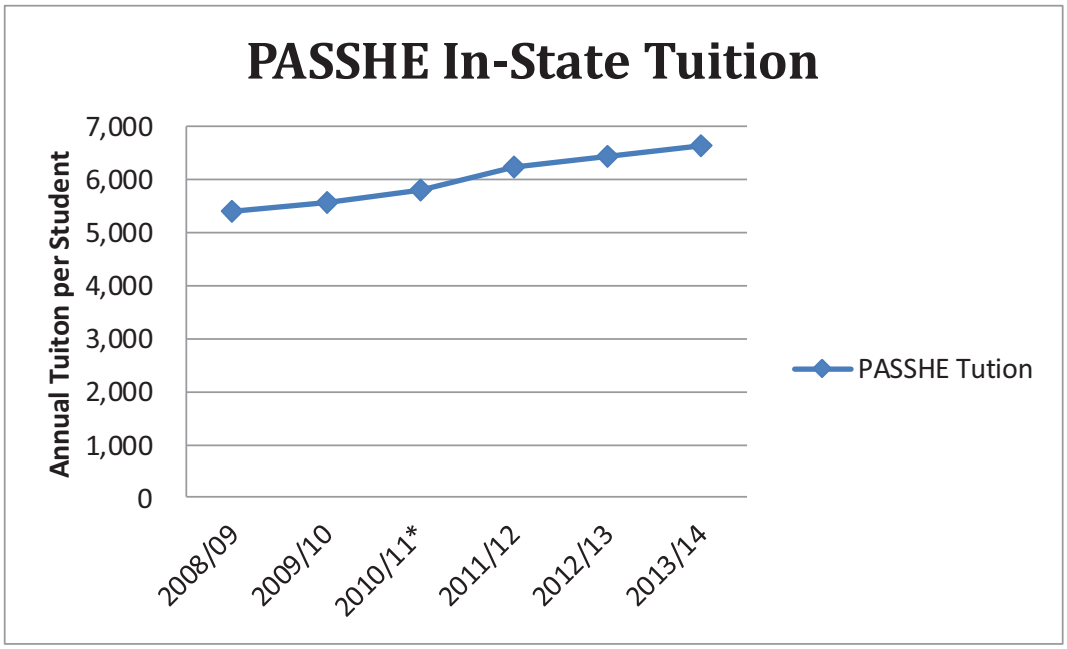
- The University's debt service payments (principal and interest) will **average $3.8 million** for the years 2013/14 through 2016/17.

- As of June 30, 2012, the University's **cash reserves on hand approximates 6 months** of operational expenses, including the University's debt service. This analysis does not include potential debt service from the Component Unit.

- The University's liquidity ratio of **3.5 for 2011/12 and 2010/11**, respectively, ranks near the upper quartiles when compared to industry benchmarks. This metric indicates the University has a good ratio of current assets to current liabilities, and has the ability to cover all liabilities as they come due (e.g. the University has approximately $3.5 for every $1 it has in current liabilities.)

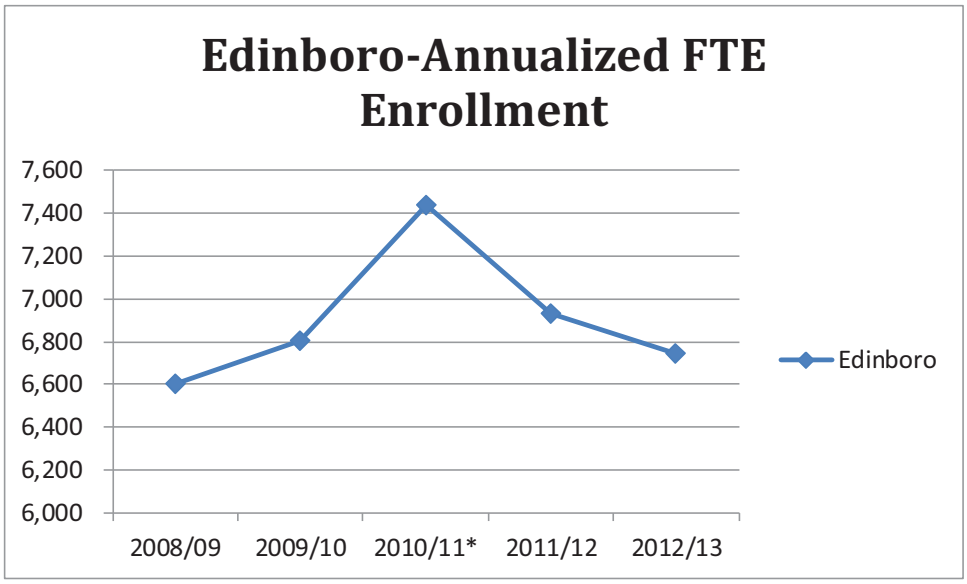
- The University, **without component unit liabilities**, has a debt to worth ratio of **0.8** for 2011/12 and 2010/11 respectively, which indicates it between the median and lower quartiles of colleges and universities included in the benchmark. However, in order to capture a truer picture of the University's debt burden to net worth, the University's component units must be included in this calculation. When including the component unit liabilities, the University's debt/worth ratio is **2.02** as of 2011/12, which indicates the Foundation and University have been aggressively financing capital projects (e.g. student housing). As of 2011/12 the **Foundation has an unrestricted net deficit of ($3,440,478)**.

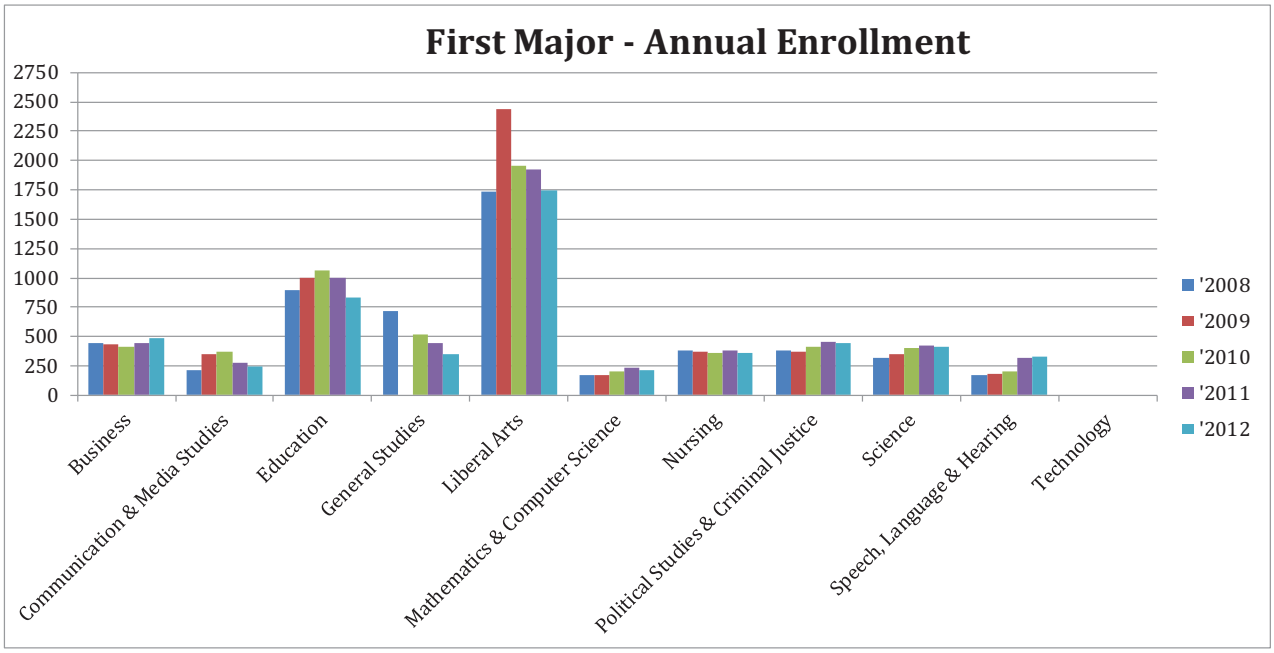
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment





Full time equivalent ("FTE") enrollment has increased by 2% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Tuition revenues have steadily increased until 2012/13. This appears to be a delayed affect from the declining enrollment. State

Appropriations are a derivative of enrollment numbers and Commonwealth budget allocations; State Appropriations have declined 10% since 2008/09.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (20,425,420)	$ (22,756,906)	$ (20,014,929)	$ (17,285,922)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	56,636,105	60,573,883	65,395,069	70,303,146
Net Assets - Unrestricted, as adjusted	$ 36,210,685	$ 37,816,977	$ 45,380,140	$ 53,017,224

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

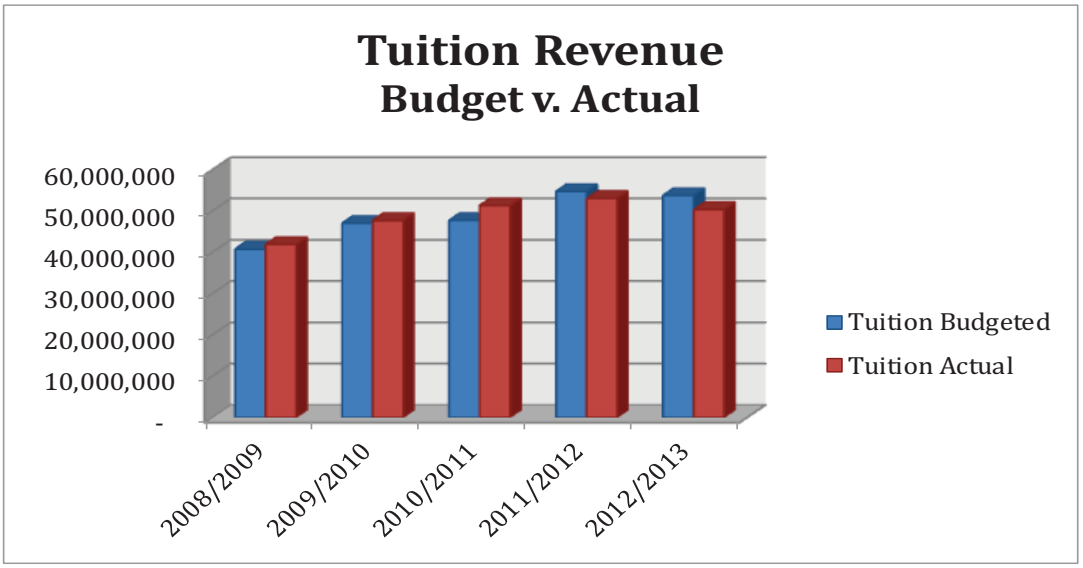
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

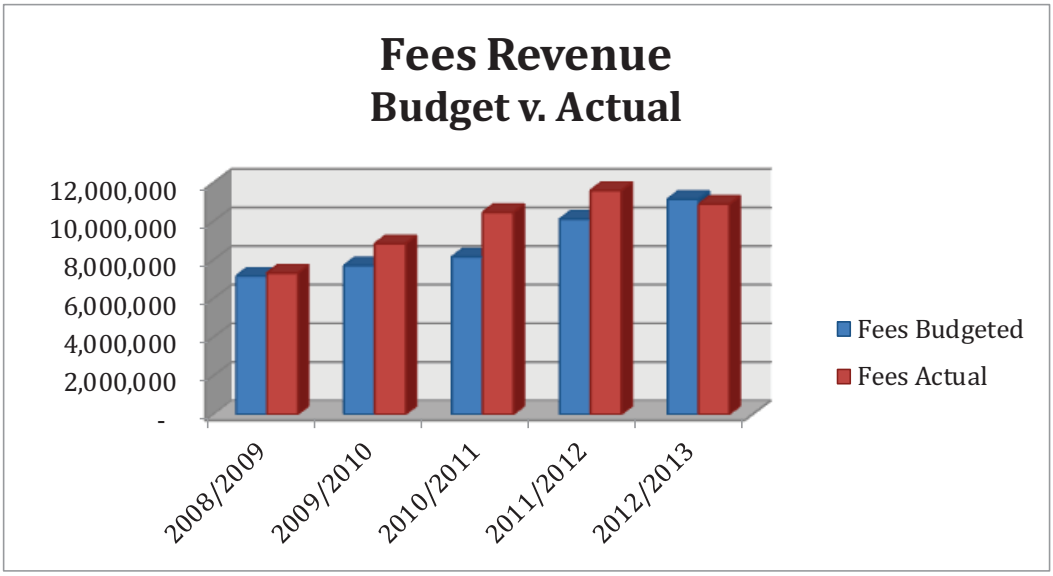
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 40,798,825	$ 41,923,876	$ 47,042,969	$ 47,704,815	$ 47,722,970	$ 51,326,202	$ 54,758,254	$ 53,076,383	$ 53,780,869	$ 50,390,476
Fees	7,170,063	7,326,454	7,713,587	8,850,980	8,162,949	10,471,719	10,117,155	11,605,482	11,153,264	10,896,822
State Appropriation	30,482,037	28,550,436	31,255,735	25,812,507	28,122,864	29,472,376	29,472,376	25,337,919	25,270,602	25,571,584
All Other Revenue	4,827,500	2,963,589	3,967,062	7,237,183	4,101,577	4,668,258	4,144,430	4,901,672	5,483,000	3,270,075
Use of Carryforward Fund Balance	240,000	-	(162,000)	-	1,359,225	-	-	-	1,183,295	-
Total Revenue/Sources	$ 83,518,425	$ 80,764,355	$ 89,817,353	$ 89,605,485	$ 89,469,585	$ 95,938,555	$ 98,492,215	$ 94,921,456	$ 96,871,030	$ 90,128,957

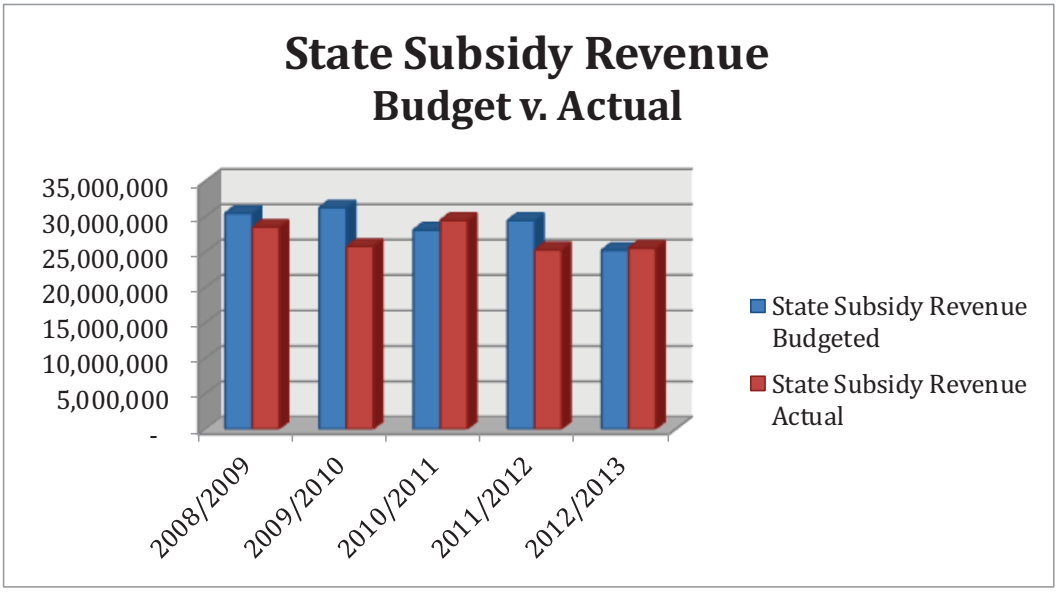


Overall, the University has budgeted tuition revenue relatively on target through 2011/12. During 2012/13, it appears the University anticipated higher enrollment numbers or higher tuition rates, as they over-forecasted tuition revenue; actual tuition was $3.4 million less than expected; 6.3% less than budgeted.



The University has taken a conservative approach budgeting fees revenue. On average, the University has under-budgeted fees revenue by approximately 15% through 2011/12. During 2012/13, the University appears to be budgeting more in line with actual fees

revenue; actual was 2.3% less than budget.

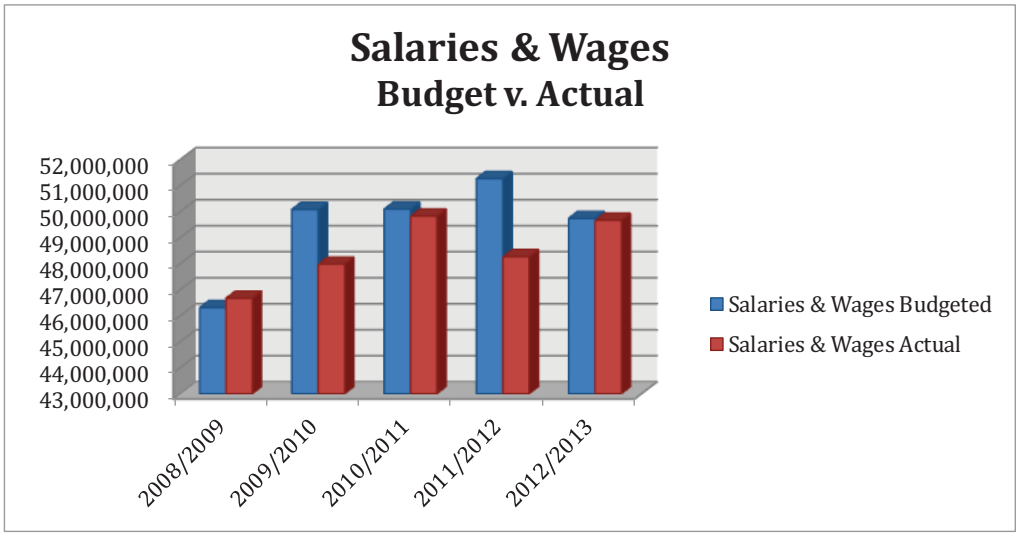


The University has over-budgeted state subsidy revenue, on average, 8.3% or $2.50 million for the years 2008/09 through 2011/12. The University budgeted within 1.2% of actual State Subsidy during the 2012/13 year end. State Subsidy is a derivative of enrollment; enrollment has averaged a 2% increase since 2008/09.

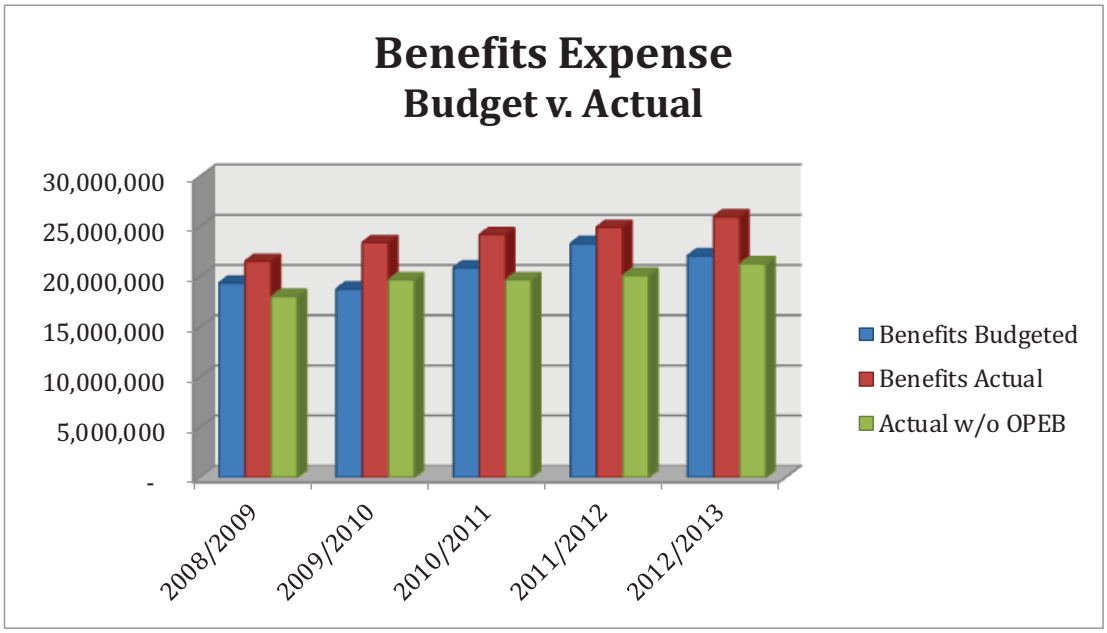
Expenses

Expenses and Transfers

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 46,314,357	$ 46,676,252	$ 50,093,233	$ 47,990,928	$ 50,101,570	$ 49,834,164	$ 51,274,542	$ 48,273,852	$ 49,749,925	$ 49,672,862
Benefits	19,378,540	21,548,150	18,787,854	23,409,776	20,892,860	24,200,347	23,316,186	24,933,348	22,090,780	25,986,521
Utilities	2,151,336	2,080,779	2,354,753	2,009,138	2,318,875	2,185,385	2,817,692	2,446,590	2,453,531	2,939,962
Services & Supplies	14,300,000	14,776,066	15,795,489	14,356,944	15,507,790	15,672,268	16,600,882	14,246,365	17,652,289	14,011,688
Capital Expenses and Transfers	1,570,000	955,512	2,348,588	1,246,537	750,490	3,561,055	3,791,969	4,446,652	7,564,126	35,091,116
Total Expenses and Transfers	$ 83,714,234	$ 86,036,759	$ 89,379,917	$ 89,013,323	$ 89,571,585	$ 95,453,219	$ 97,801,271	$ 94,346,807	$ 99,510,651	$ 127,702,149

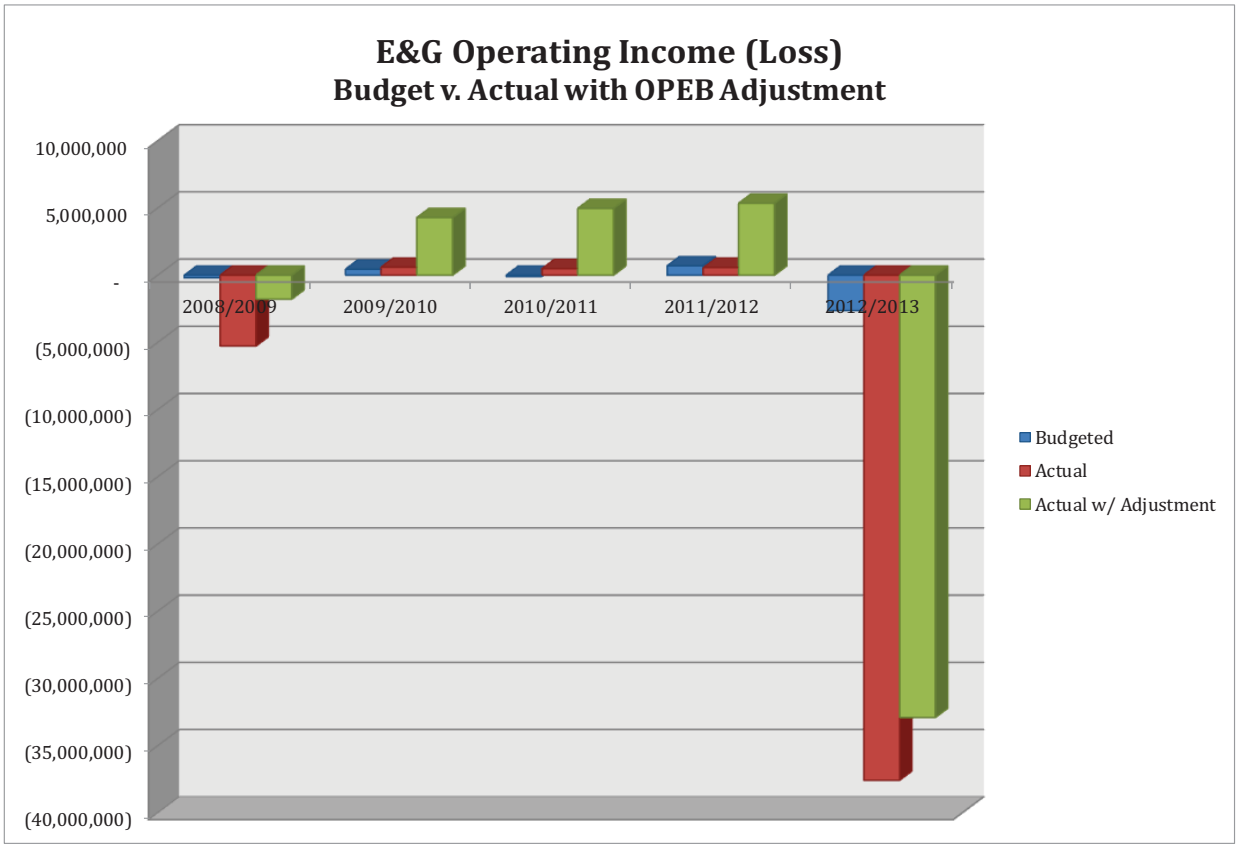


The University has over-budgeted salaries and wages for the past four years; an average of 2.45% or $1.25 million from 2008/09 through 2011/12. During 2012/13, the University budgeted within $77,000 of actual salaries and wages or 0.155%.



The University includes OPEB non pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and

financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis, as budgeted benefits are more in line with actual without OPEB.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University reasonably budgets their net income (losses). The exception year appears to be 2012/13 when the University budgeted for a $2.6 million net loss in the E&G fund. The actual net loss of the E&G fund for 2012/13 was approximately $37.5 million. In 2012/13, the University transferred $30,500,000 to Plant Unrestricted; this transfer was not budgeted.

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (28,646,114)	$ (23,302,897)	$ (24,234,622)	$ (16,145,828)
Other additions to offset operations:				
State Appropriations	28,550,436	29,826,969	29,472,376	25,337,919
Gifts for other than Capital purposes	1,764,556	2,084,131	3,462,215	5,709,964
Cash provided (used) in operations:	1,668,878	8,608,203	8,699,969	14,902,055
Cash Flow from Financing Activities	(13,309,748)	(8,690,310)	(4,495,592)	(8,788,709)
Cash available (used) before investing activities	$ (11,640,870)	$ (82,107)	$ 4,204,377	$ 6,113,346

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a four year operating loss of approximately $92,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

In 2009/10, the University saved approximately $5 million on payments to suppliers for goods and services which accounts for the large increase in operational cash flows. During 2011/12, net tuition/fees increased by approximately $3 million along with a $3.5 million increase in other operating receipts. This operational income was available for financing activities which includes debt service payments, proceeds and capital expenses.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Edinboro				
Purchase of Capital Assets:	$ 10,709,222	$ 4,633,430	$ 6,898,241	$ 5,046,698
Principal / Interest on Debt:	$ 7,075,707	$ 4,604,193	$ 5,529,909	$ 7,619,798

Cash Reserves on Hand:

The analysis below indicates the University has approximately **six** months of cash and cash equivalents in reserve as of June 30, 2012.

		Edinboro
Operating Expense	$	113,816,708
Subtractions:		
Depreciation		(8,394,769)
OPEB		(4,879,876)
Additions:		
Interest Paid on Debt		1,158,444
Principal paid on debt including AFRP		6,461,354
Total Annual Operating Expense	$	108,161,861
Operating Expense per month	$	9,013,488
Cash and cash equivalents	$	56,538,923
Number of Months Cash on Hand		6.27

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.5	3.8
Median current ratio	1.7	1.9
Lower current ratio	1.1	1.2
Edinboro current ratio	3.5	3.5

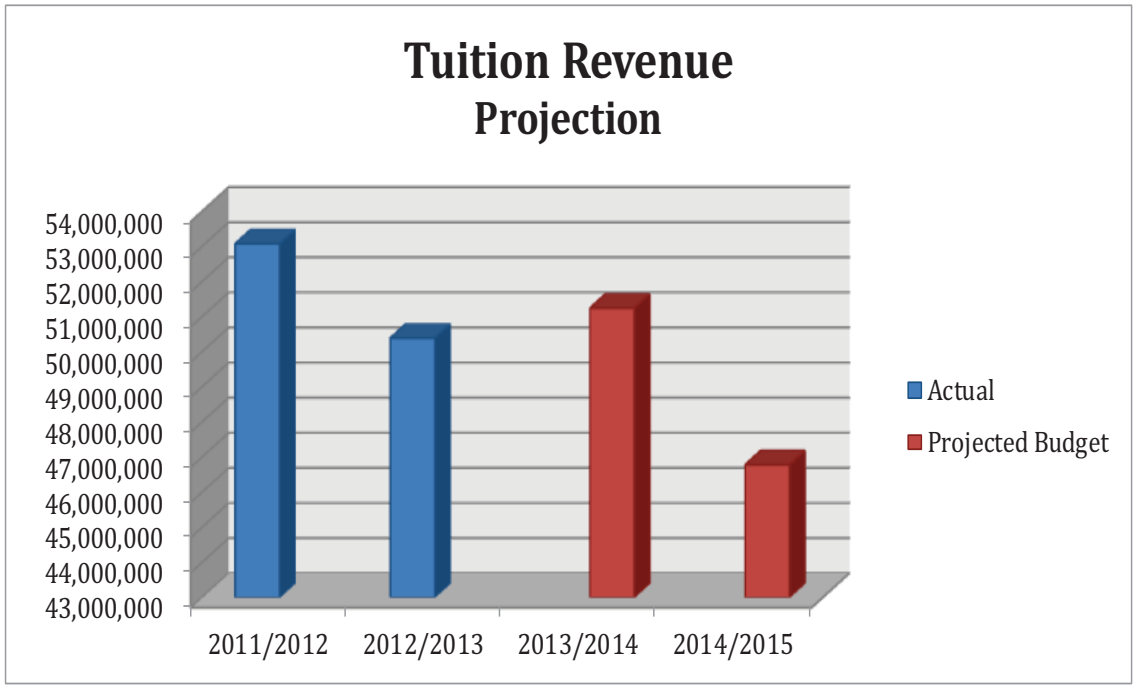
This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks in the upper quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.4	0.4
Median debt/worth	0.6	0.6
Lower debt/worth	1.1	1.1
Edinboro debt/worth	0.8	0.8

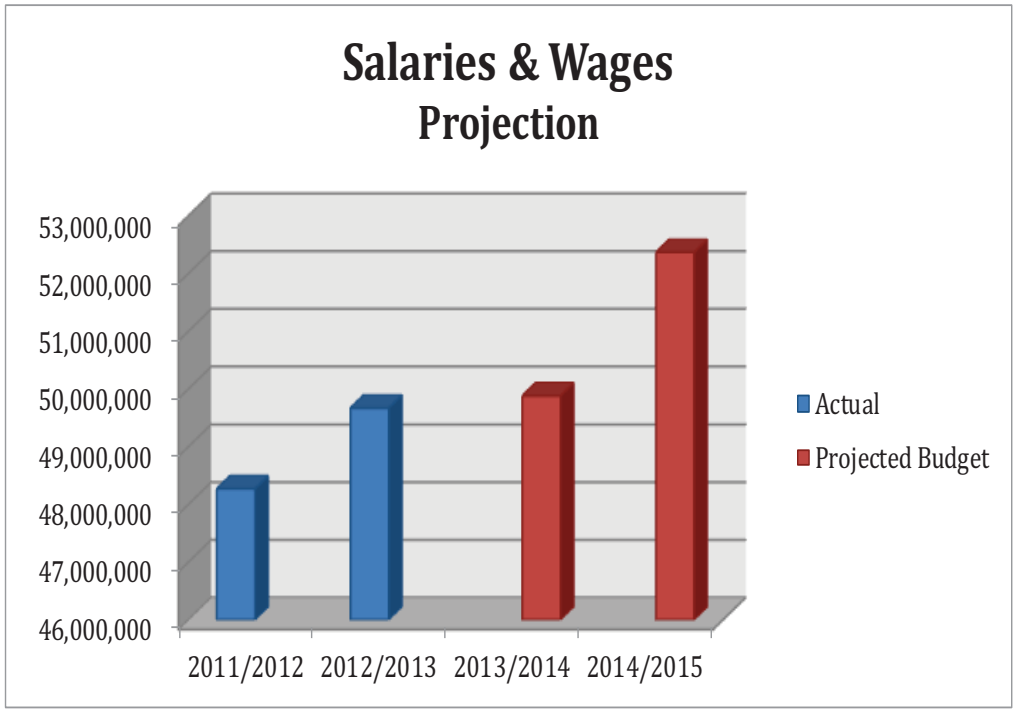
An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

The University's debt/worth ratio, **without component units**, indicates it is more highly leveraged than the median of colleges and universities in the study. This indicates the University is subject to a higher credit risk.

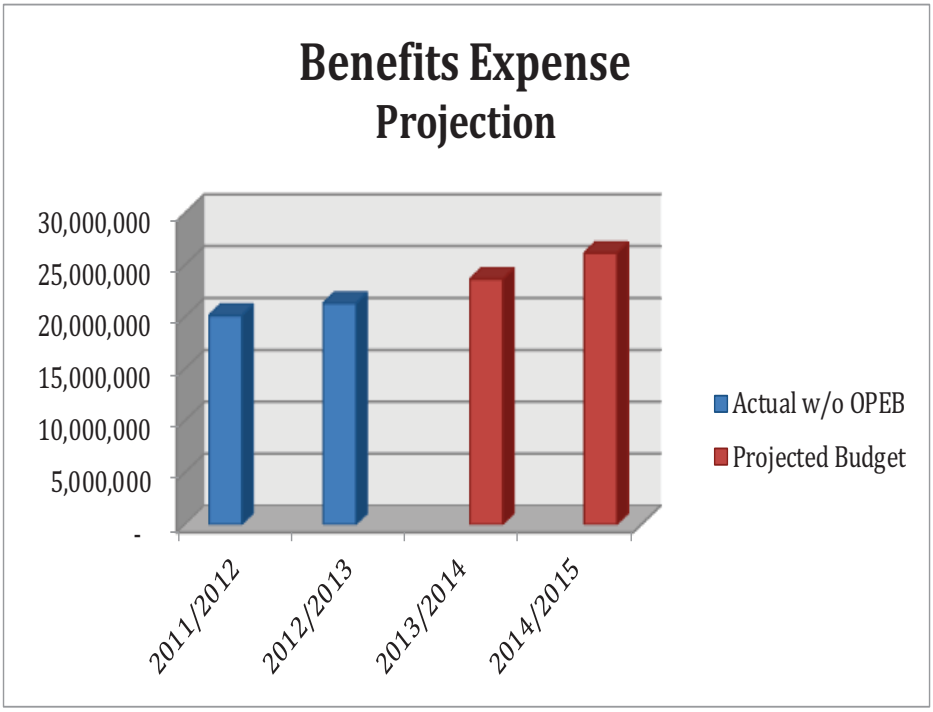
Including the component units liabilities, the University's debt/worth ratio is **2.02** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is more leveraged than the lower quartile colleges and universities within the Benchmark.



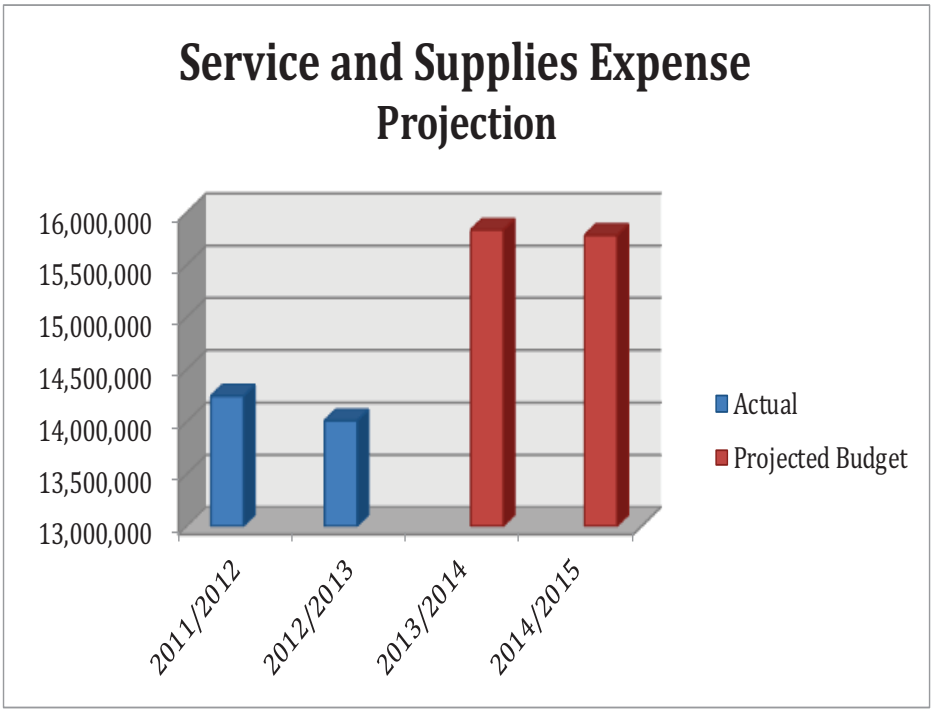
- 2011/12 Tuition Revenue – Actual = $53076,383
- 2012/13 Tuition Revenue – Actual = $50,390,476
- 2013/14 Tuition Revenue – Projected Budget = $51,244,759
- 2014/15 Tuition Revenue – Projected Budget = $46,780,680



- 2011/2012 – Salaries and Wages – Actual = $48,273,852
- 2012/2013 – Salaries and Wages – Actual = $49,672,862
- 2013/2014 – Salaries and Wages – Projected Budget = $49,884,399
  - Projection appears to be in line with prior year's actual
- 2014/2015 – Salaries and Wages – Projected Budget = $52,369,406
  - Projection assumes a 4.9% increase in salaries and wages



- 2011/2012 – Benefits – Actual = $20,157,358
- 2012/2013 – Benefits – Actual = $21,319,073
- 2013/2014 – Benefits – Projected Budget = $23,656,782
  - Projection anticipates an 10.9% increase from prior year's actual
- 2014/2015 – Benefits – Projected Budget = $26,172,127
  - Projection anticipates a 10.6% increase



- 2011/2012 – Services & Supplies – Actual = $14,246,365
- 2012/2013 – Services & Supplies – Actual = $14,011,688
- 2013/2014 – Services & Supplies – Projected Budget = $15,834,053
    - Projects a 13% increase from 2012/2013
- 2014/2015 – Services & Supplies – Projected Budget = $15,782,465
    - Projects a 12% increase from 2012/2013

E. Kutztown University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - **The University's net assets have increased over the past four years by 41%.**

- **Enrollment has declined 6%** over the past five years.

- The University has **under-budgeted tuition revenue** by approximately 3% or $2 million, on average, for the years 2009/10 through 2011/12.

- The University has under-budgeted fees revenue by approximately 4% for the years 2008/09 through 2010/11. During 2011/2012, the University **under-budgeted fees revenue by 12.8% or $1.4 million**.

- The University has **budgeted State subsidy relative to actual** for the years 2008/09 through 2010/11. During 2011/12 the University **over-budgeted State subsidy by approximately 15% or $4.7 million.**

- The University **over-budgeted for salaries and wages** by **2.1% or $1.3 million, 7.8% or $5.3 million, and 7.3% or $4.7 million** for the years 2008/09, 2010/11, and 2011/12, respectively.

- The University **over-budgeted for benefits,** adjusting for OPEB in excess of pay as you go, by **3.7% or $882,000, 5.8% or $1.5 million, and 15.4% or $4.4 million** for the years 2008/09, 2010/11, and 2011/12, respectively.

- The University **transferred $10.2 million, $8.2 million, $13.5**

million, and $5.8 million from Educational & General to Plant Unrestricted for 2011/12, 2010/11, 2009/10, and 2008/09, respectively.

- In 2011/2012, the University **saved approximately $6.7 million on payments to suppliers for goods and services** which accounts for the large increase in operational cash flows. During 2011/2012, **net tuition/fees increased by approximately $4.2 million**. Cash provided by operations was available for financing activities which included debt service payments and capital projects. The University **spent approximately $8.8 million on capital assets** and **paid principal and interest on capital and other debt of approximately $12.8 million** during 2011/12.

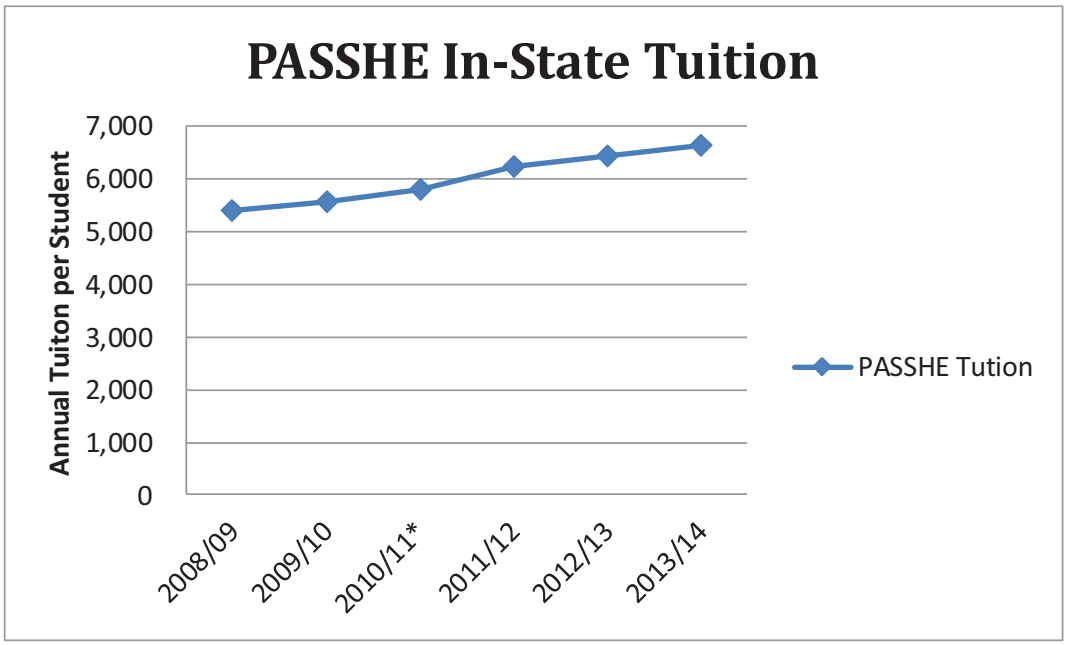
- The University's debt service payments (principal and interest) will **average $8.5 million** for the years 2013/14 through 2016/17.

- The University has approximately e**ight** months of cash and cash equivalents in reserve as of June 30, 2012.

- The University's liquidity ratio of **5.1 and 4.2 for 2011/12 and 2010/11**, respectively, ranks above the upper quartiles when compared to industry benchmarks for colleges and universities. This metric indicates the University should be able to satisfy its short term obligations with short-term assets.

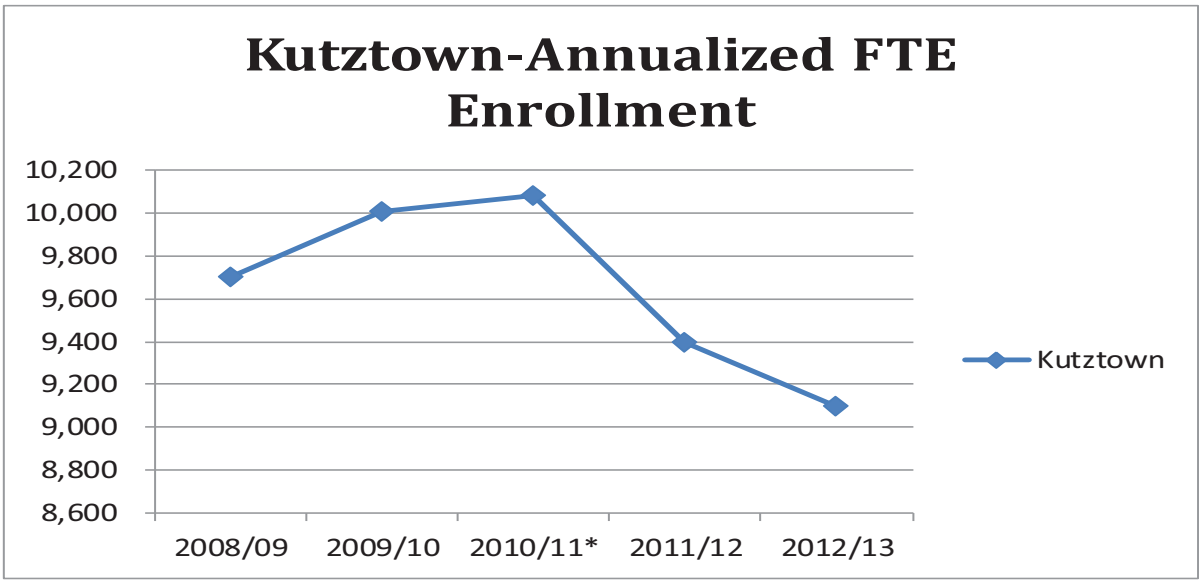
- The University's debt to worth ratio, **without component units**, is **.9 and 1.0 for 2011/12 and 2010/11**, respectively which indicates it is leveraged more than the median of colleges and universities in the industry benchmark. The component unit, Kutztown University Foundation, as a stand-alone entity, has a debt to equity ratio of **-4.85** as of 2011/12. Kutztown University Foundation has $42 million in long term debt and an unrestricted net deficit. The Foundation's major revenue stream appears to be rental income. As of 2011/12, the Foundation has an **unrestricted net deficit of ($8,664,341)**, which indicates their liabilities exceed their assets (cash on hand, accounts receivable, and buildings) by $8,664,341. The University has entered into two capital lease agreements with the Foundation for student housing. The capital lease funds the majority of the Foundation's long term debt.

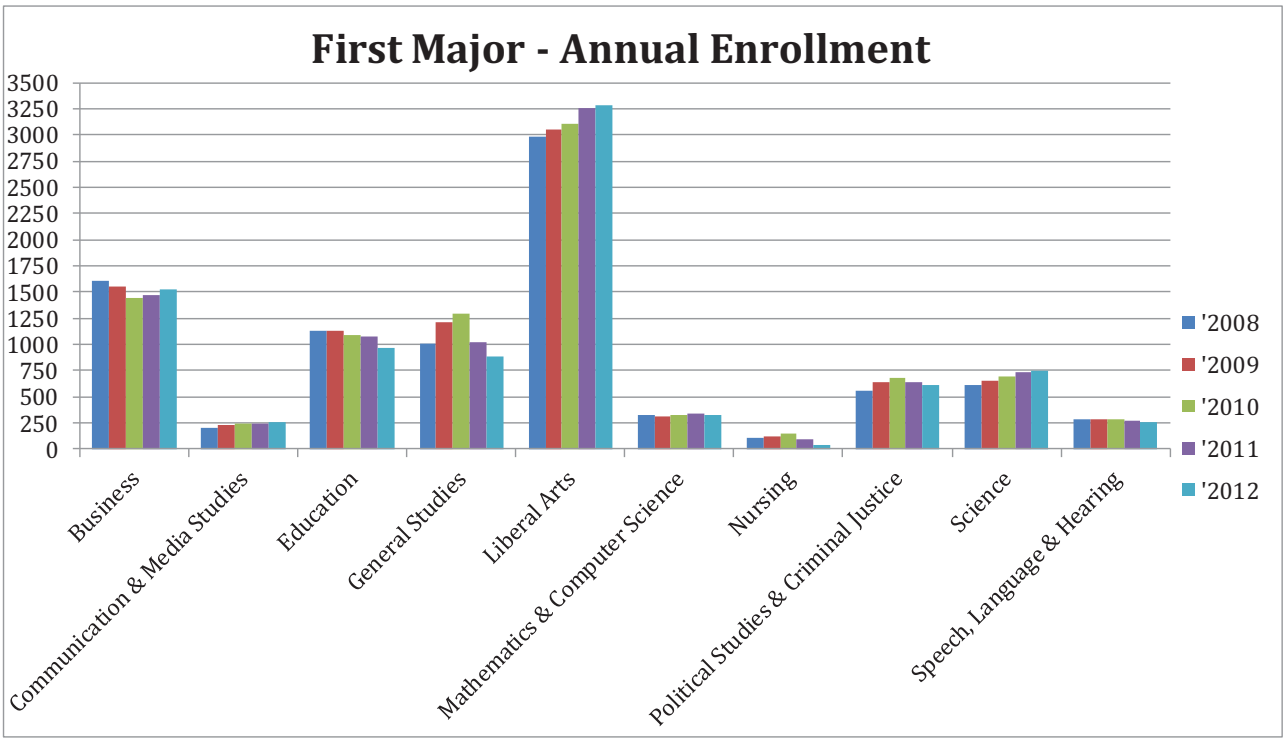
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment:





Full time equivalent ("FTE") enrollment has decreased by 6% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Therefore, tuition revenues have remained relatively flat. State

Appropriations are a derivative of enrollment numbers and Commonwealth budget allocations. State Appropriations have declined due in part to enrollment numbers.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (1,390,717)	$ (4,389,910)	$ 3,401,836	$ 3,391,600
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	58,187,185	63,374,281	69,726,249	76,837,267
Net Assets - Unrestricted, as adjusted	$ 56,796,468	$ 58,984,371	$ 73,128,085	$ 80,228,867

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

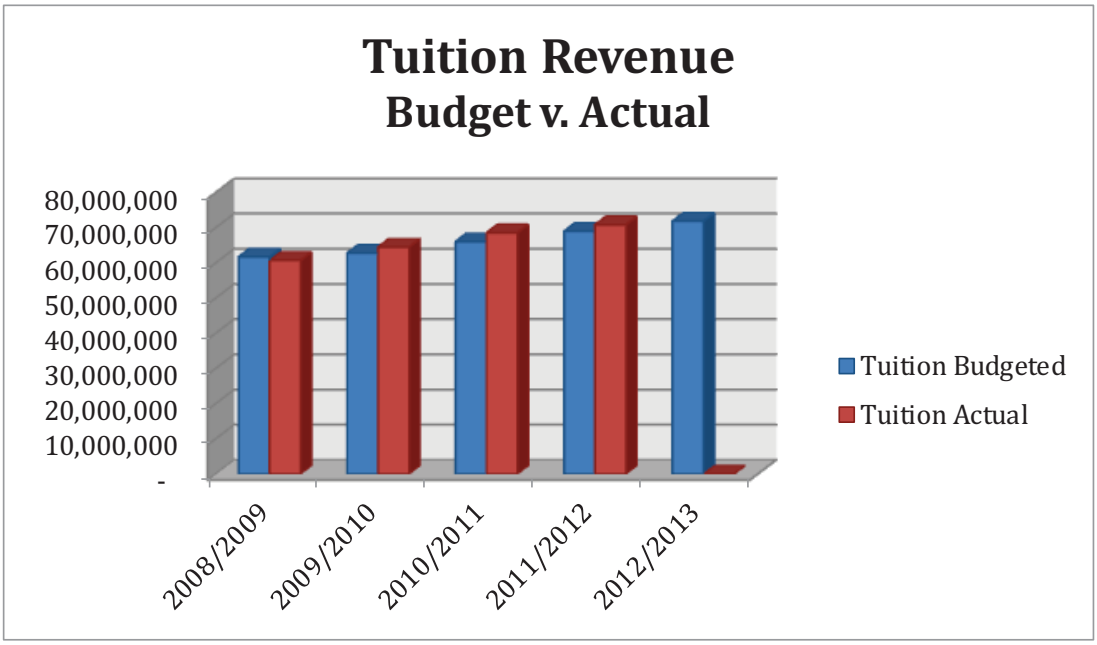
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets. This is an indication the University is spending less than they are receiving; operating revenues are consistently exceeding operating expenses.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

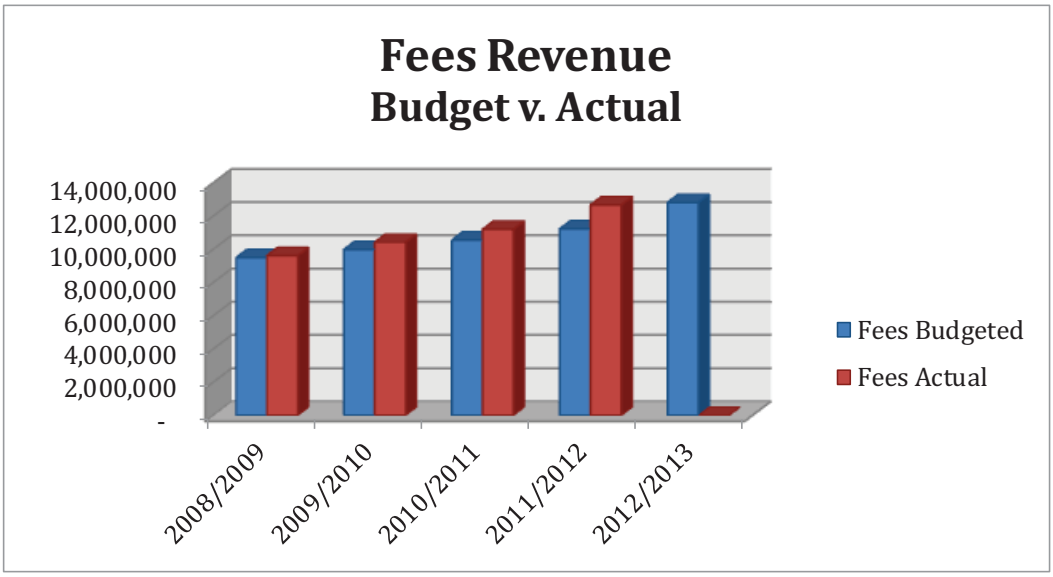
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 61,734,596	$ 60,754,430	$ 62,783,447	$ 64,541,705	$ 66,098,327	$ 68,624,135	$ 69,037,692	$ 70,890,591	$ 71,920,344	$ -
Fees	9,496,701	9,622,558	9,989,141	10,428,810	10,556,378	11,207,504	11,230,362	12,672,829	12,821,429	-
State Appropriation	42,601,284	41,746,416	45,073,532	44,188,455	41,612,928	41,358,378	40,953,378	34,862,527	34,030,092	-
All Other Revenue	6,007,561	3,915,904	5,371,177	4,067,710	4,774,851	4,396,895	5,168,985	5,163,084	5,630,225	-
Use of Carryforward Fund Balance	-	-	-	-	-	-	-	-	-	-
Total Revenue/Sources	$ 119,840,142	$ 116,039,308	$ 123,217,296	$ 123,226,680	$ 123,042,484	$ 125,586,912	$ 126,390,417	$ 123,589,031	$ 124,402,090	$ -

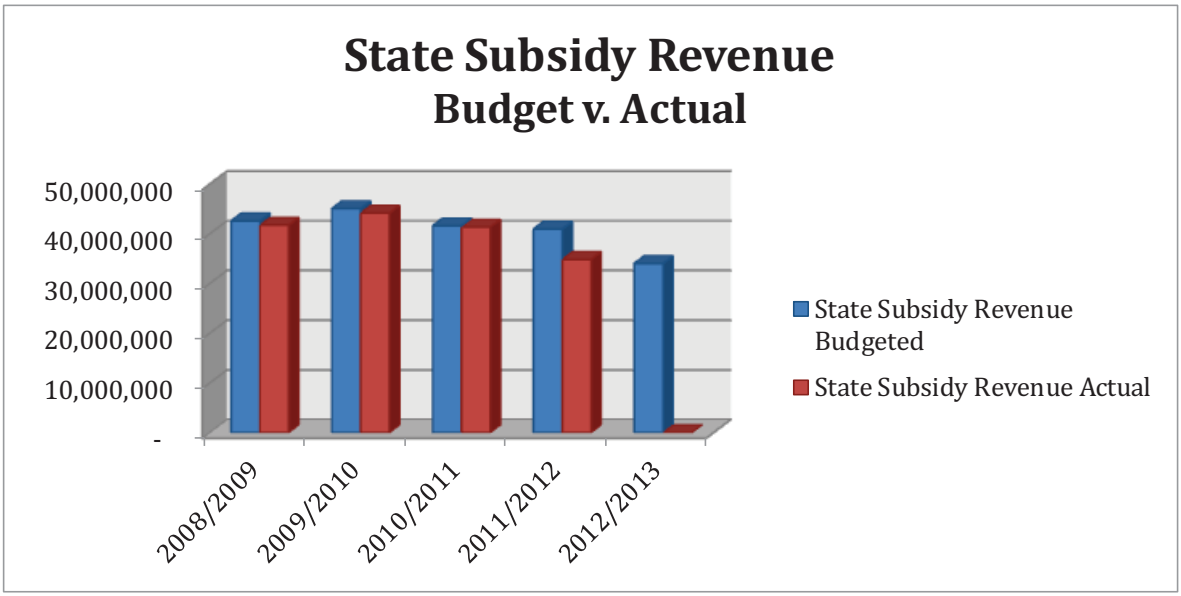


Overall, the University has under-budgeted budgeted tuition revenue by approximately 3% or $2 million on average, for the years 2009/10 through 2011/12.



The University has taken a conservative approach budgeting fees revenue. On average, the University has under-budgeted fees revenue by approximately 4% through 2010/11. During 2011/12, it appears the University was attempting to budget fees revenues based upon prior year actual. However, during 2011/12, actual fees revenue exceed prior

year by approximately 13%.

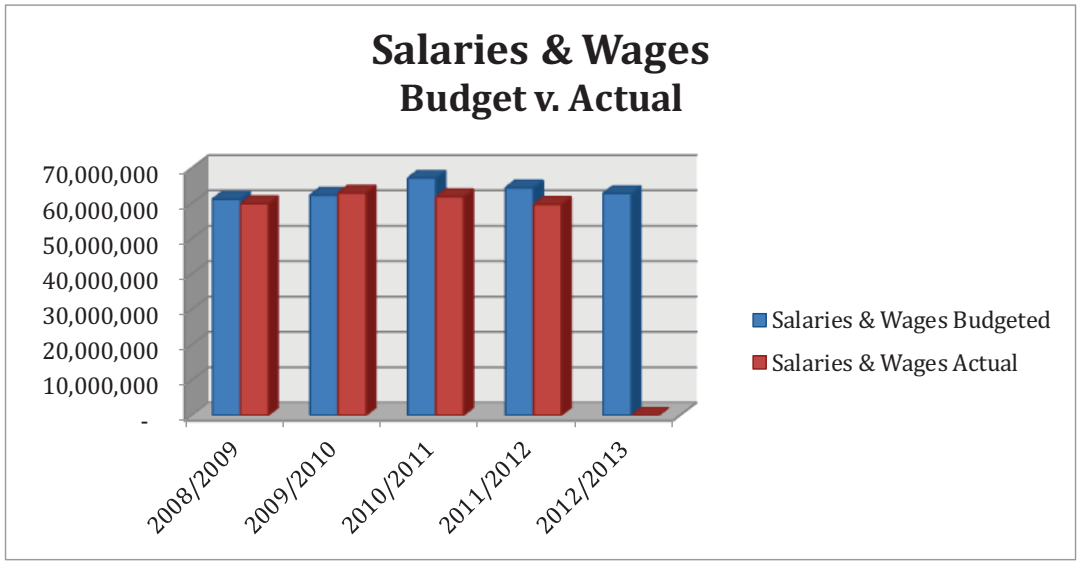


The University forecasted State subsidy relatively on target from 2008/09 through 2010/11. During 2011/12, the University over-forecasted State subsidy by approximately 15%. State Subsidy is a derivative of enrollment; enrollment has averaged a 6% decline since 2008/09.

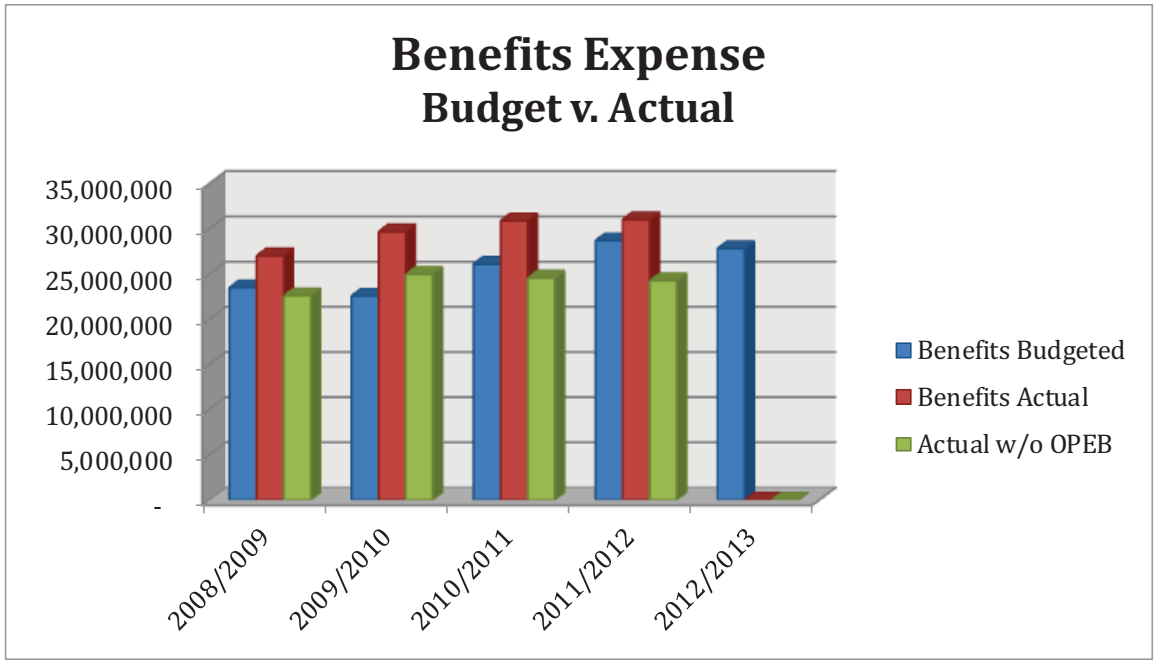
Expenses

Expenses and Transfers

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 61,173,515	$ 59,899,394	$ 62,310,935	$ 62,938,573	$ 67,127,791	$ 61,861,239	$ 64,384,759	$ 59,689,393	$ 62,772,791	$ -
Benefits	23,489,012	27,014,162	22,563,617	29,684,019	26,098,674	30,874,774	28,692,679	31,026,624	27,814,729	-
Utilities	3,669,924	3,541,412	3,914,464	2,752,269	3,702,000	2,870,765	3,393,655	2,582,569	3,265,167	-
Services & Supplies	19,935,190	19,935,120	22,485,470	17,836,258	21,342,631	18,058,916	20,080,433	20,260,539	20,439,004	-
Capital Expenses and Transfers	11,185,552	8,669,089	11,724,171	16,182,914	4,771,388	10,799,796	9,611,429	16,098,722	13,968,055	-
Total Expenses and Transfers	$ 119,453,193	$ 119,059,177	$ 122,998,657	$ 129,394,033	$ 123,042,484	$ 124,465,490	$ 126,162,955	$ 129,657,847	$ 128,259,746	$ -

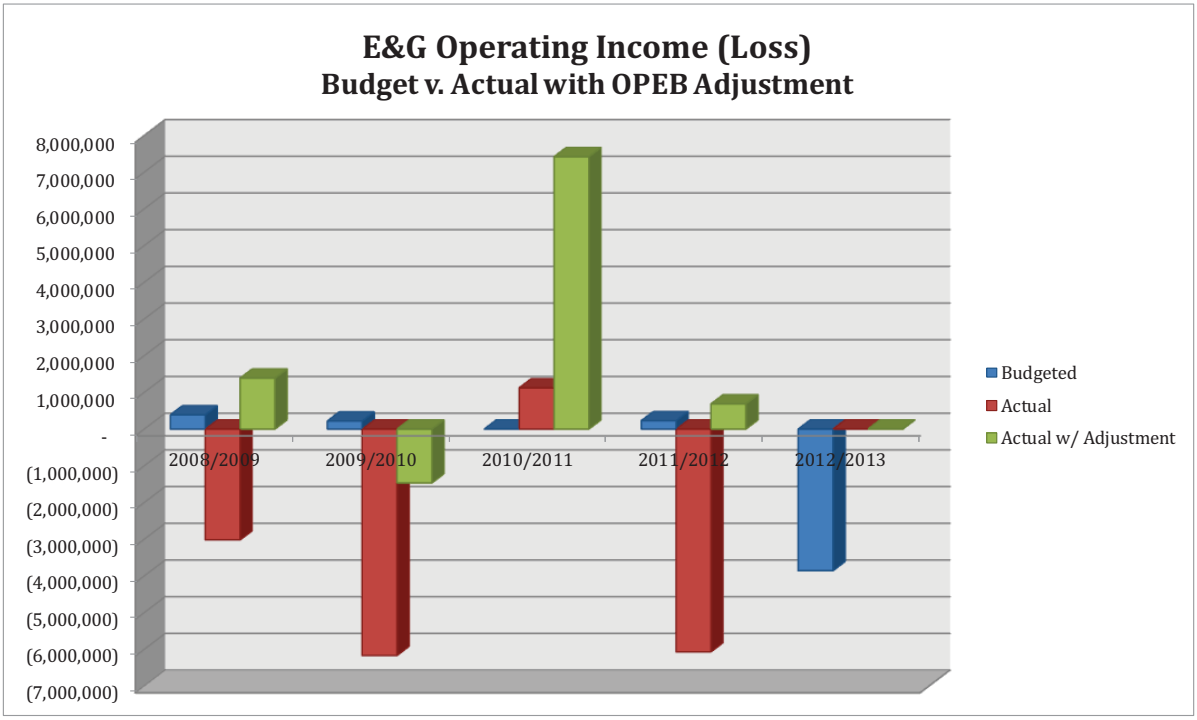


The University budgeted for anticipated increases in salaries and wages during 2010/11 and 2011/12. Actual salaries and wages were approximately 7.6% less than anticipated during those years.



The University includes OPEB non pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and

financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University attempted to budget at a break-even point (revenues equalling expenses). The 2010/11 year appears to be the exception. Most likely this difference was due to the OPEB adjustment calculated by the actuaries. The University transferred $10.2 million, $8.2 million, $13.5 million, and $5.8 million from Educational & General to Plant Unrestricted for 2011/12, 2010/11, 2009/10, and 2008/09, respectively.

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (6,777,609)	$ (13,332,363)	$ (13,182,775)	$ (8,154,105)
Other additions to offset operations:				
State Appropriations	41,746,416	44,188,455	41,358,378	34,862,527
Gifts for other than Capital purposes	-	-	-	-
Cash provided (used) in operations:	34,968,807	30,856,092	28,175,603	26,708,422
Cash Flow from Financing Activities	(11,832,901)	(26,671,857)	(22,125,053)	(20,964,375)
Cash available (used) before investing activities	$ 23,135,906	$ 4,184,235	$ 6,050,550	$ 5,744,047

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a four year operating loss of approximately $41,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

In 2011/12, the University saved approximately $6.7 million on payments to suppliers for goods and services which accounts for the large increase in operational cash flows. During 2011/12, net tuition/fees increased by approximately $4.2 million. This operational income was available for financing activities which includes debt service payments, proceeds and capital expenses. The University spent approximately $8.8 million on capital assets and paid principal and interest on capital and other debt of approximately $12.8 during 2011/12.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Kutztown				
Purchase of Capital Assets:	$ 25,802,424	$ 20,457,657	$ 9,240,931	$ 8,845,922
Principal / Interest on Debt:	$ 16,064,658	$ 18,942,087	$ 14,855,789	$ 12,847,780

The analysis below indicates the University has approximately **eight** months of cash and cash equivalents in reserve as of June 30, 2012.

Cash Reserves on Hand:

	Kutztown
Operating Expense	$ 160,444,404
Subtractions:	
Depreciation	(13,558,827)
OPEB	(6,754,227)
Additions:	
Interest Paid on Debt	6,733,915
Principal paid on debt including AFRP	6,113,865
Total Annual Operating Expense	$ 152,979,130
Operating Expense per month	$ 12,748,261
Cash and cash equivalents	$ 104,038,225
Number of Months Cash on Hand	8.16

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.5	3.8
Median current ratio	1.7	1.9
Lower current ratio	1.1	1.2
Kutztown current ratio	5.1	4.2

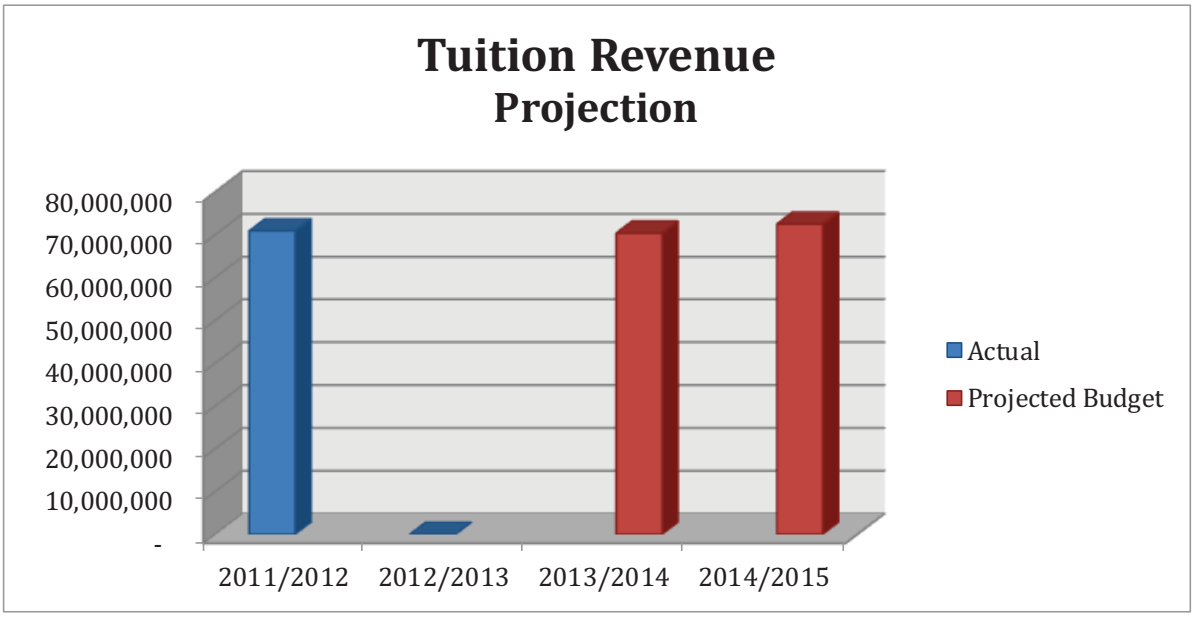
This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks above the upper quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.4	0.4
Median debt/worth	0.6	0.6
Lower debt/worth	1.1	1.1
Kutztown debt/worth	0.9	1.0

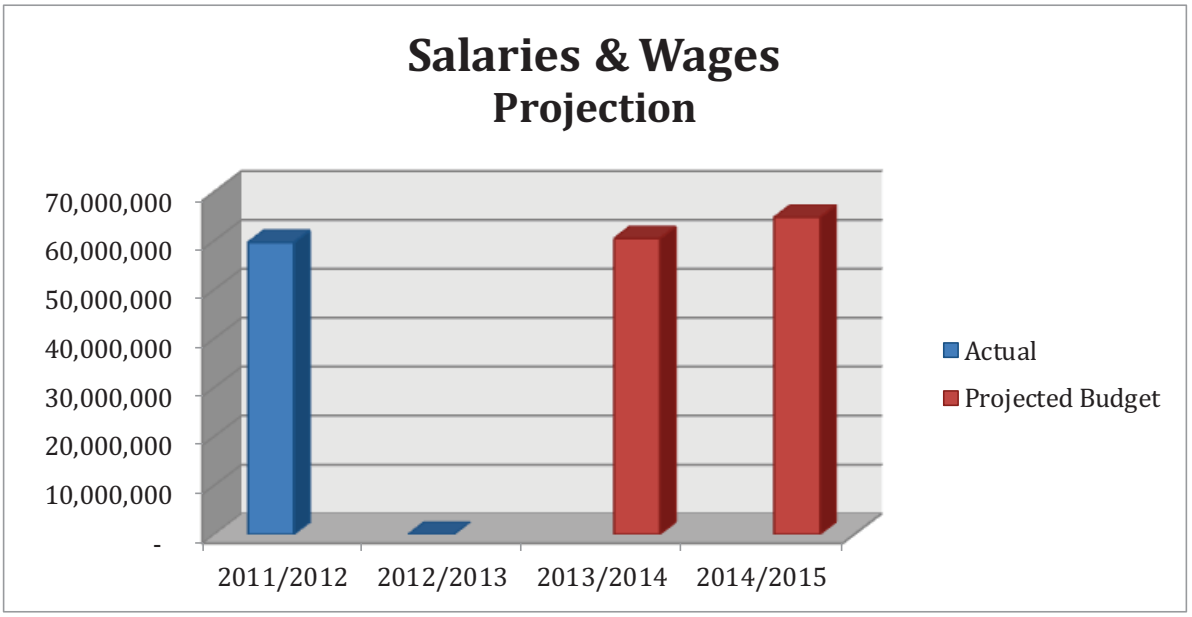
An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

The University's, **without component units**, debt to worth ratio indicates it is leveraged more than the median of colleges and universities in the study. This indicates the University's credit risk is higher than the median of college and universities within this benchmark.

Including the component units liabilities, the University's debt/worth ratio is **1.14** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is leveraged more than the lower quartile of colleges and universities within the benchmark.

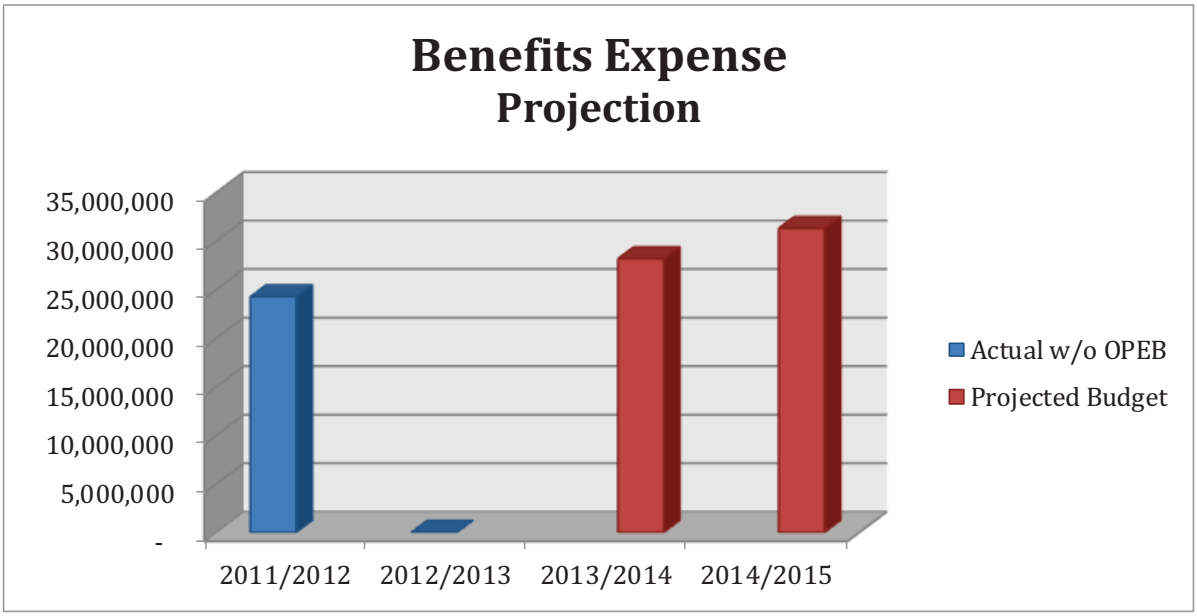


- 2011/12 Tuition Revenue – Actual = $70,890,591
- 2013/14 Tuition Revenue – Projected Budget = $70,376,972
- 2014/15 Tuition Revenue – Projected Budget = $72,472,562

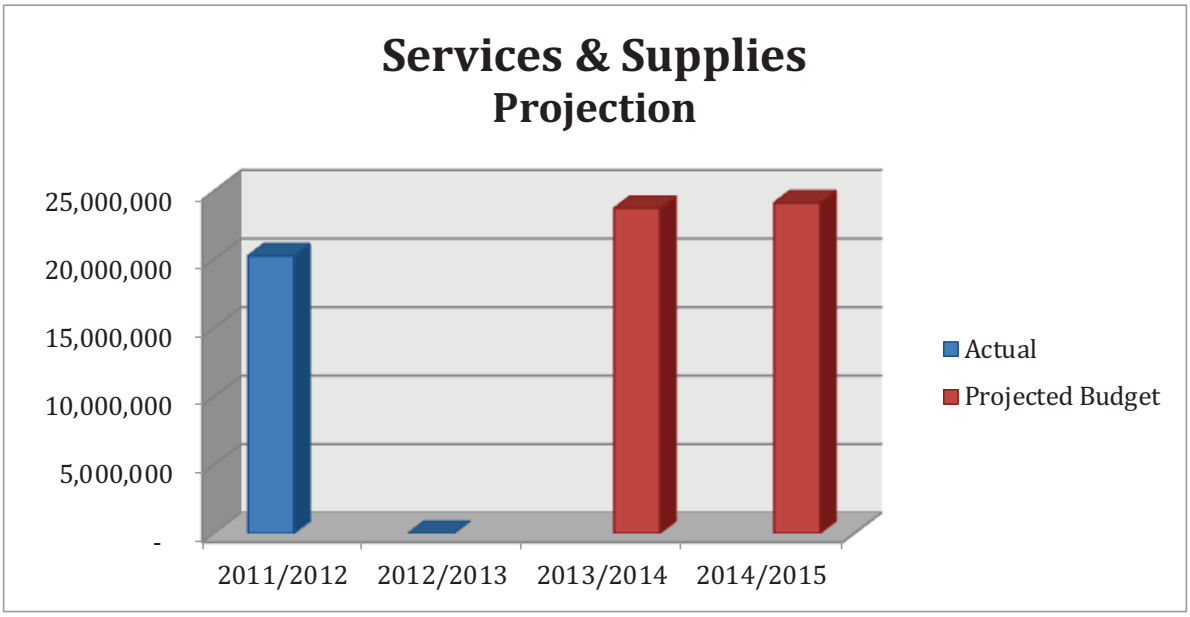


- 2011/2012 – Salaries and Wages – Actual = $59,689,393

- 2013/2014 – Salaries and Wages – Projected Budget = $60,466,350
  - Projection appears to be in line with 2011/12 actuals
- 2014/2015 – Salaries and Wages – Projected Budget = $64,794,877
  - Projection assumes an increase of 8.5% in salaries and wages from 2011/12 actuals



- 2011/2012 – Benefits – Actual = $24,272,397
- 2013/2014 – Benefits – Projected Budget = $28,186,043
  - Projection anticipates an 16.0% increase from 2011/12 actuals
- 2014/2015 – Benefits – Projected Budget = $31,320,650
  - Projection anticipates a 29.0% increase from 2011/12 actuals



- 2011/2012 – Services & Supplies – Actual = $20,260,539
- 2013/2014 – Services & Supplies – Projected Budget = $23,728,463
  - Projects a 17% decrease from 2011/2012
- 2014/2015 – Services & Supplies – Projected Budget = $24,131,800
  - Projects a 19% increase from 2011/2012

F. Mansfield University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered after they retire. On an annual basis, an adjustment is made to the university's liability account to record the "future" obligation which is based on an actuarial report. This obligation is not a current cash flow item for the University and therefore it is added back to the unrestricted net assets. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - **The University's net assets have increased over the past four years by 35%.**

- **Enrollment has declined 9%** over the past 5 years.

- The University **over-budgeted tuition revenue,** on average**, $1 million per year** for the years 2010/11 through 2012/13.

- The University has **budgeted fees revenue in line with actual** for the years 2008/09 though 2012/13.

- The University has **budgeted State Subsidies in line with actual** except for 2011/12 when it was over-budgeted by approximately 11% or $2.2 million.

- The University **over-budgeted salaries and wages** by approximately **4.4% or $1.2 million, 11.5% or $3.2 million, and 2.4% or $629,000** for years 2010/11, 2011/12, and 2012/13, respectively.

- The University budgeted **benefits in line with actual,** adjusting for OPEB in excess of pay-as-you go, for years 2008/09 through 2012/13, excluding 2011/12. During 2011/12, the University **over-budgeted benefits** by approximately **$1.3 million**.

- For the years 2008/09 through 2011/12, the U**niversity has**

generated cash flows from operations (including state appropriations). Cash provided by operations has been used for capital projects and debt service. Cash flow provided from operations and bond proceeds were not enough to cover capital projects of $4.5 million and $2.5 million and debt service of $2.7 million and $7.5 million, for the years 2008/09 and 2011/12 respectively. During these years, the University relied upon cash reserves set aside from previous years.

- The University's debt service payments (principal and interest) will **average $2.1 million** for the years 2013/14 through 2016/17.

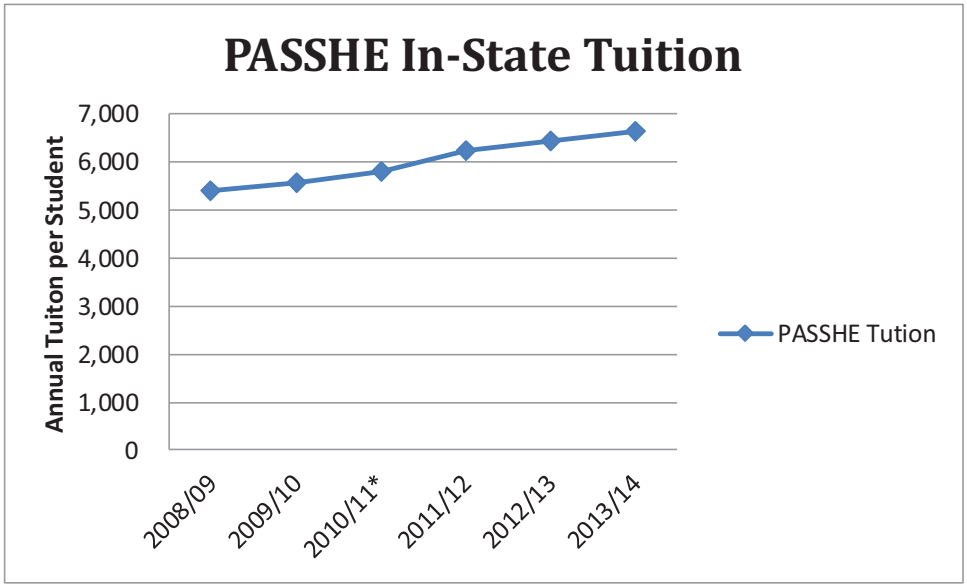
- As of June 30, 2012, the University's cash reserves on hand approximates **six months** of operational expenses, including debt service. This analysis does not include potential debt service from the Component Unit.

- The University's liquidity ratio of **4.0 for 2011/12 and 2010/11**, respectively, ranks near the upper quartiles when compared to industry benchmarks. This metric indicates the University has a good ratio of current assets to current liabilities, and has the ability to cover all liabilities as they come due (e.g.. the University essentially has $4 for every $1 it has in current liabilities.)

- The University, **without component units' liabilities**, has a debt to worth ratio of **0.7 for 2011/12 and 2010/11,** respectively, which is within the median quartile for colleges and universities included in the benchmark. However, in order to capture a truer picture of the University's debt burden to net assets, the University's Component Units must be included. The result is an increase in the debt to net worth ratio to **1.13**, which indicates the component units have significant debt compared to available net assets. Further analysis indicates the component unit, Mansfield Auxiliary Corporation ("MAC"), as a stand-alone entity has a debt to equity ratio of **-41**. MAC has $36 million in long term debt with a unrestricted net deficit. In 2011, MAC issued bonds for approximately $38 million. These bonds were used to finance the construction of student housing during 2011 and 2012. The MAC's main revenue stream is rental income; however, with the decline in enrollment, the

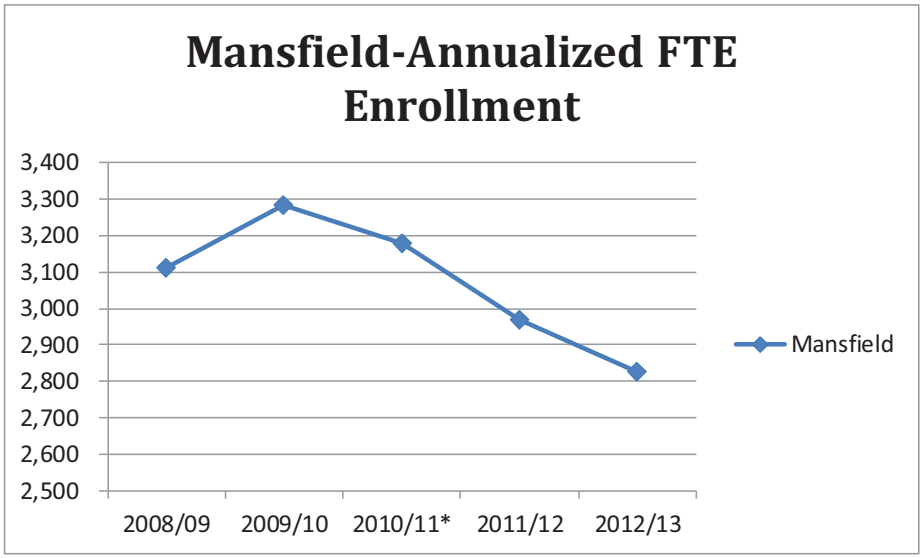
University may need to subsidize a portion of its debt service. As of 2011/12 MAC has an **unrestricted net deficit of ($955,590)**, which indicates their liabilities are exceeding their assets (cash on hand, accounts receivable and buildings) by $955,590

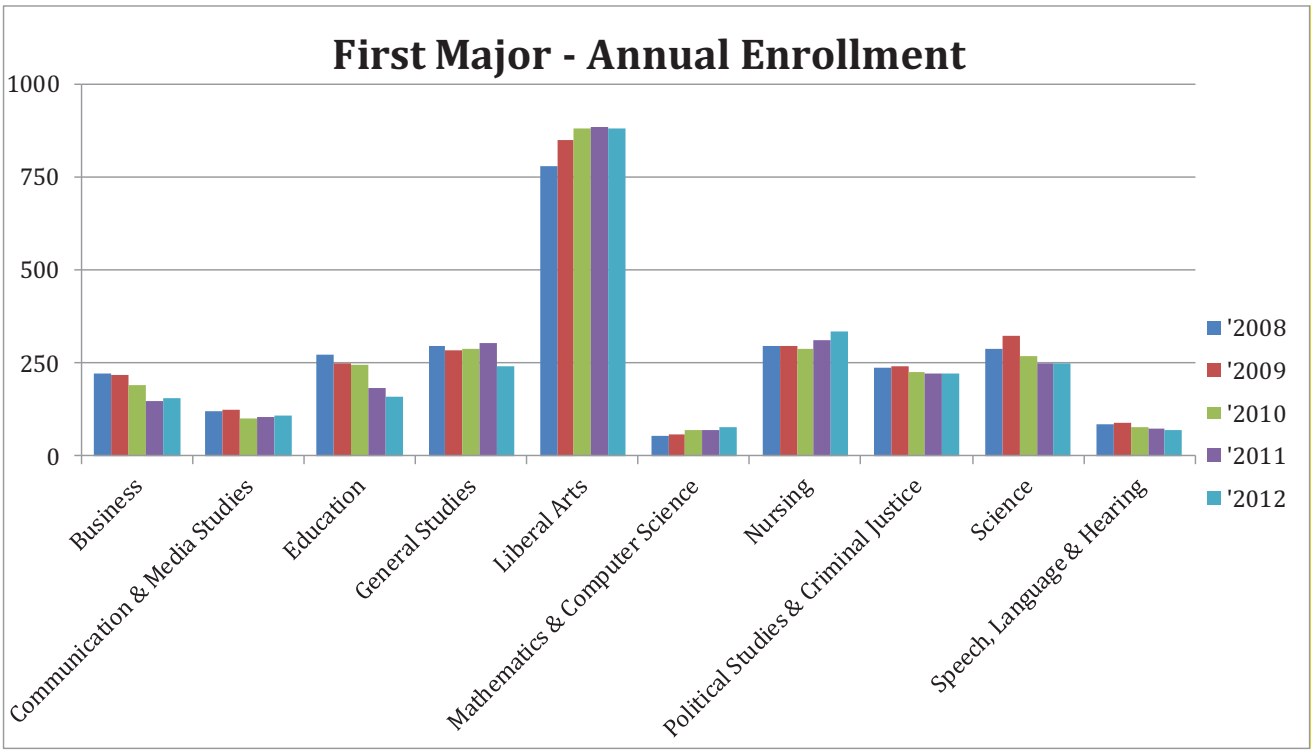
1. General Analysis



PASSHE tuition rates have increased 23% since 2008/09 fiscal year.

Full Time Equivalent Enrollment:





Full time equivalent ("FTE") enrollment has decreased by 9% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Therefore, tuition revenues have remained relatively flat. State Appropriations are a derivative of enrollment numbers and Commonwealth

budget allocations. State Appropriations have declined due in part to enrollment numbers.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (9,417,353)	$ (6,400,219)	$ (5,891,472)	$ (9,666,823)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	29,401,055	31,609,296	33,879,136	36,714,258
Net Assets - Unrestricted, as adjusted	$ 19,983,702	$ 25,209,077	$ 27,987,664	$ 27,047,435

GASB Statement No. 45, Accounting and financial report by employers for Post - Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

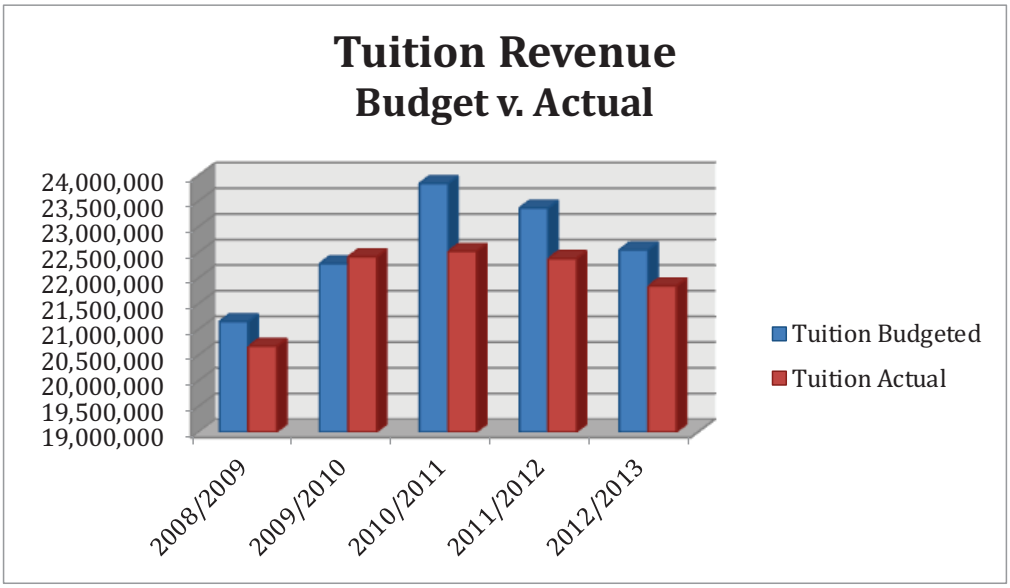
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets.

a. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

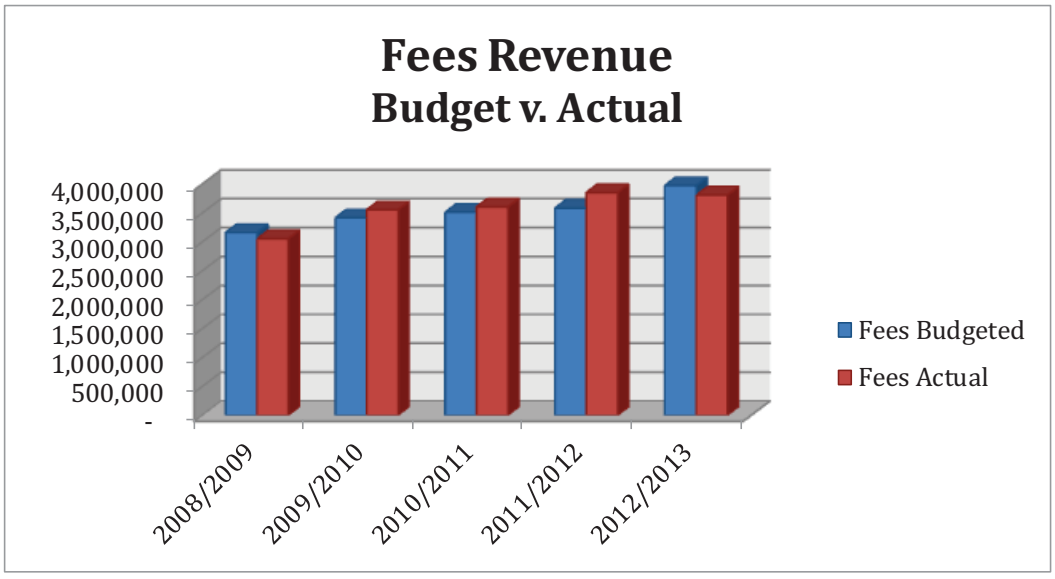
Revenue

Revenue/Sources

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 21,154,432	$ 20,673,728	$ 22,281,688	$ 22,416,645	$ 23,844,540	$ 22,525,372	$ 23,365,717	$ 22,384,162	$ 22,550,000	$ 21,849,926
Fees	3,161,459	3,056,386	3,417,600	3,556,037	3,513,500	3,606,601	3,585,200	3,854,964	3,975,000	3,812,066
State Appropriation	20,101,601	19,228,447	20,963,812	20,625,807	19,273,758	19,565,989	19,565,989	17,361,600	16,990,849	16,949,857
All Other Revenue	2,190,050	1,333,764	2,063,300	551,447	2,221,325	949,373	1,680,263	1,708,137	1,714,600	1,160,387
Use of Carryforward Fund Balance	-	-	-	-	405,397	-	-	-	-	-
Total Revenue/Sources	$ 46,607,542	$ 44,292,325	$ 48,726,400	$ 47,149,936	$ 49,258,520	$ 46,647,335	$ 48,197,169	$ 45,308,863	$ 45,230,449	$ 43,772,236

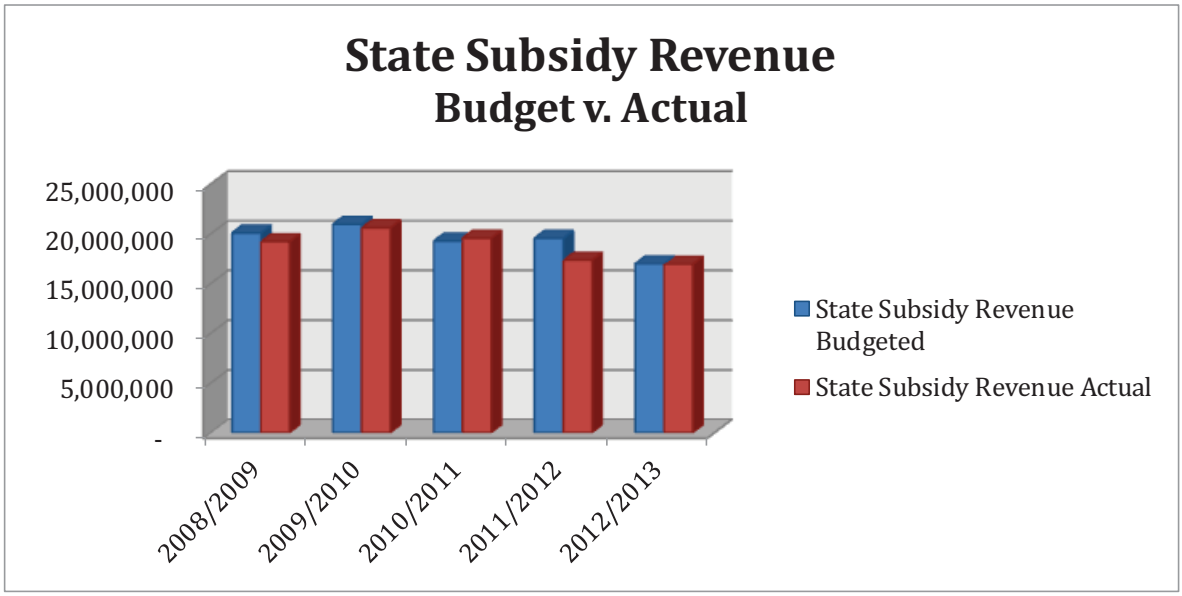


Overall, the University has budgeted tuition revenue relatively on target during 2008/09 and 2009/10. Over the next three years, the University anticipated tuition revenue would increase as they over-budgeted on average, 4.3%. Actual tuition was $3 million less than anticipated from 2010/11 through 2012/13.



Overall, the University has budgeted fees revenue relatively on target through 2010/11; budget to actual variances have been less than 1.2%.

During 2011/12, it appears the University attempted to budget fees revenue based upon prior year actual. The University exceeded budget as 2011/12 actual fees revenue exceeded prior year by approximately 7%. During 2012/13, the University appears to be budgeting more in line with actual fees revenue.

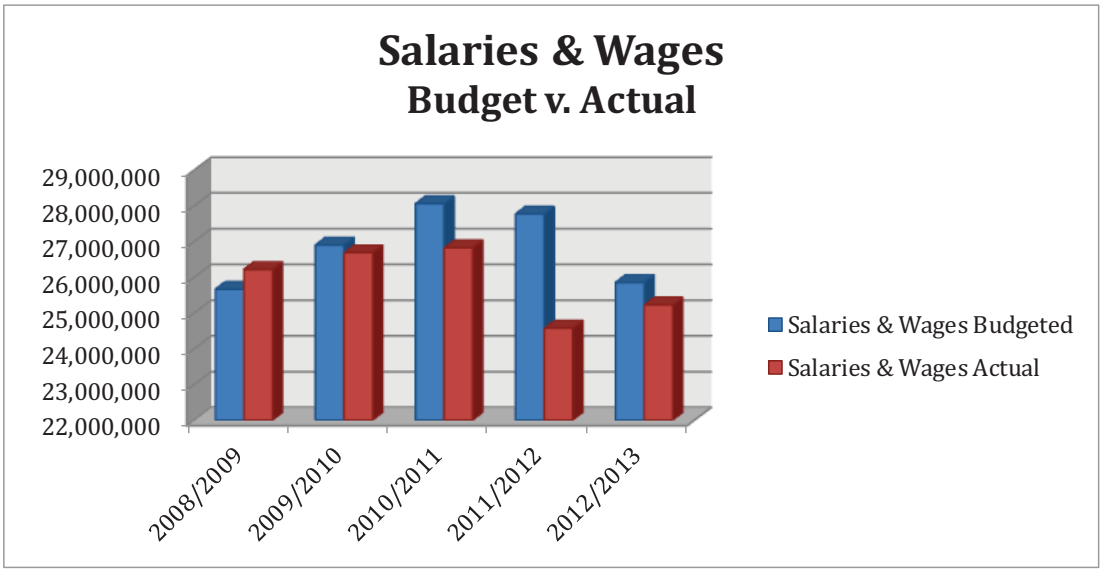


The University forecasted State subsidy relatively on target from 2008/09 through 2010/11. During 2011/12, the University over-forecasted State subsidy by approximately 11.3%. The University budgeted within 0.2% of actual state subsidy during the 2012/13 year end. State Subsidy is a derivative of enrollment; enrollment has averaged a 6% decline since 2008/09.

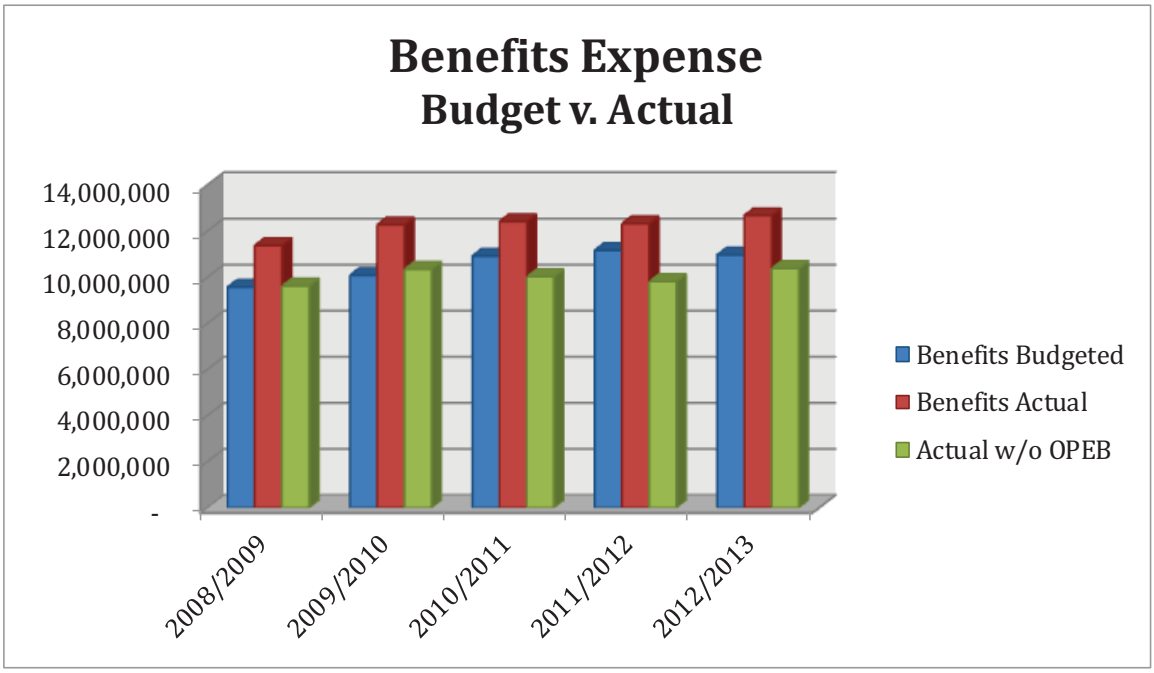
Expenses

Expenses and Transfers

	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 25,668,302	$ 26,223,559	$ 26,905,226	$ 26,691,260	$ 28,062,370	$ 26,826,569	$ 27,774,500	$ 24,577,416	$ 25,860,000	$ 25,230,616
Benefits	9,570,494	11,379,571	10,085,099	12,278,525	10,920,175	12,419,063	11,168,265	12,325,701	10,965,616	12,675,466
Utilities	1,120,645	1,035,245	1,110,700	774,954	1,076,000	882,936	990,000	900,210	1,005,000	986,137
Services & Supplies	6,869,105	5,921,709	7,636,610	5,292,582	7,087,290	5,479,926	6,845,000	5,769,768	6,634,000	6,577,074
Capital Expenses and Transfers	2,885,520	2,146,744	2,169,146	5,973,795	2,112,685	3,034,923	1,925,764	3,495,121	2,293,384	1,584,129
Total Expenses and Transfers	$ 46,114,066	$ 46,706,828	$ 47,906,781	$ 51,011,116	$ 49,258,520	$ 48,643,417	$ 48,703,529	$ 47,068,216	$ 46,758,000	$ 47,053,422

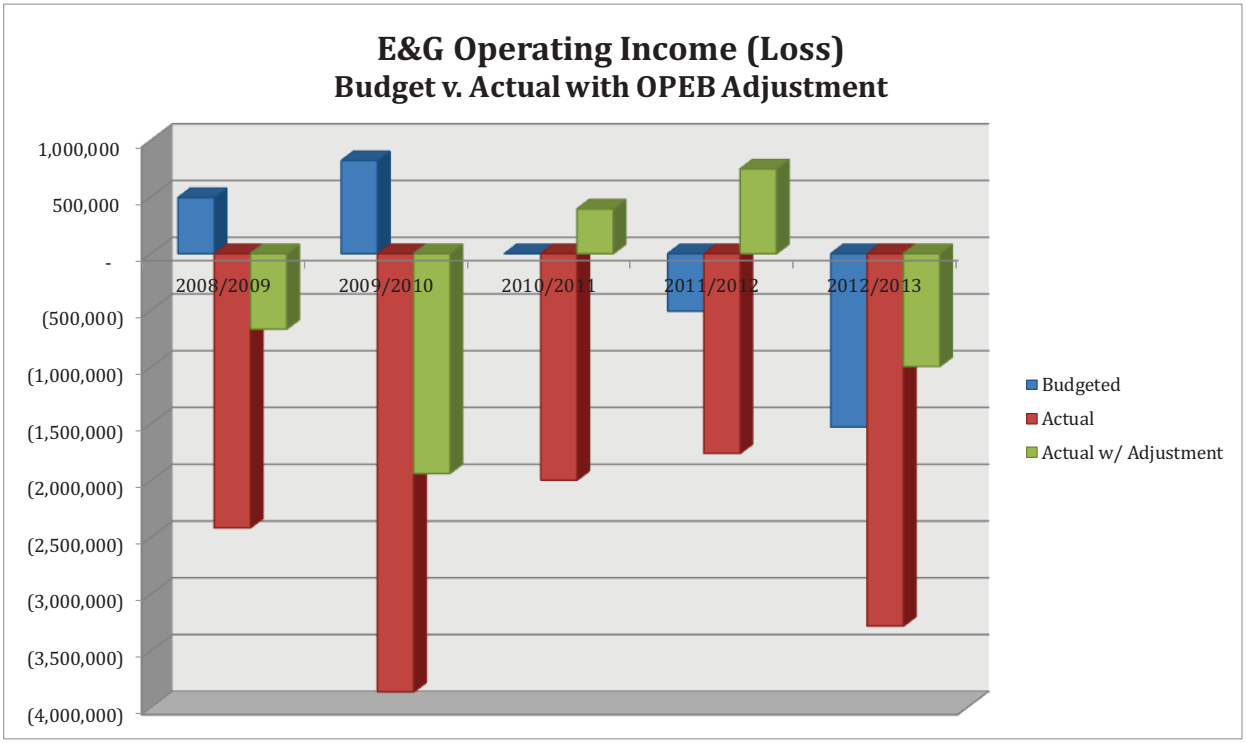


From 2010/11 through 2012/13, the University anticipated increases in salaries and wages. Actual salaries and wages were approximately 4.4% or $1.2 million, 11.5% or $3.2 million, and 2.4% or $629,000 less than anticipated.



The University includes OPEB non pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice,

most OPEB plans are budgeted and financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University attempted to budget as close to a break-even point (revenues equalling expenses) as possible from 2008/09 through 2011/12. After adjusting for OPEB in 2010/2011 and 2011/2012 the University ended up with actual profits of $393,895 and $746,561, respectively. In 2012/2013, the University projected a $1.5 million loss and actually realized a $1 million loss.

b. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (16,545,297)	$ (13,544,749)	$ (12,489,359)	$ (13,122,664)
Other additions to offset operations:				
State Appropriations	19,228,447	20,625,807	19,565,989	17,361,600
Gifts for other than Capital purposes	351,564	340,305	401,184	269,633
Cash provided (used) in operations:	3,034,714	7,421,363	7,477,814	4,508,569
Cash Flow from Financing Activities	(6,091,051)	(2,641,340)	(4,279,664)	(6,512,214)
Cash available (used) before investing activities	$ (3,056,337)	$ 4,780,023	$ 3,198,150	$ (2,003,645)

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a four year operating loss of approximately $56,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

In 2009/2010, total operating revenues, including Governmental grants and contracts, increased by approximately $3.4 million. Operating expenses increased approximately $1.9 million, netting an increase in operational receipts of approximately $1.5 million. During 2010/2011, net tuition/fees increased slightly, while other operating receipts increased by approximately $1.2 million. Total operating expenses during 2010/2011 remained consistent. The operational income in both 2009/2010 and 2010/011 were available for financing activities which includes debt service payments, proceeds and capital expenses.

During 2011/2012, net tuition/fees declined slightly, while other operating receipts decreased by approximately $2.2 million. Payments to suppliers for goods and services increased approximately $1.3 million, thus contributing to the decrease in cash available for other activities.

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Mansfield				
Purchase of Capital Assets:	$ 4,471,372	$ 7,889,734	$ 2,955,198	$ 2,537,736
Principal / Interest on Debt:	$ 2,771,242	$ 3,714,973	$ 3,575,548	$ 7,489,660

Cash Reserves on Hand:

The analysis below indicates the University has approximately **six** months of cash and cash equivalents in reserve as of June 30, 2012.

	Mansfield
Operating Expense	$ 61,989,707
Subtractions:	
Depreciation	(3,877,934)
OPEB	(2,655,108)
Additions:	
Interest Paid on Debt	302,320
Principal paid on debt including AFRP	7,187,340
Total Annual Operating Expense	$ 62,946,325
Operating Expense per month	$ 5,245,527
Cash and cash equivalents	$ 34,830,450
Number of Months Cash on Hand	6.64

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.8	3.4
Median current ratio	1.6	1.7
Lower current ratio	0.9	0.8
Mansfield current ratio	4.0	4.0

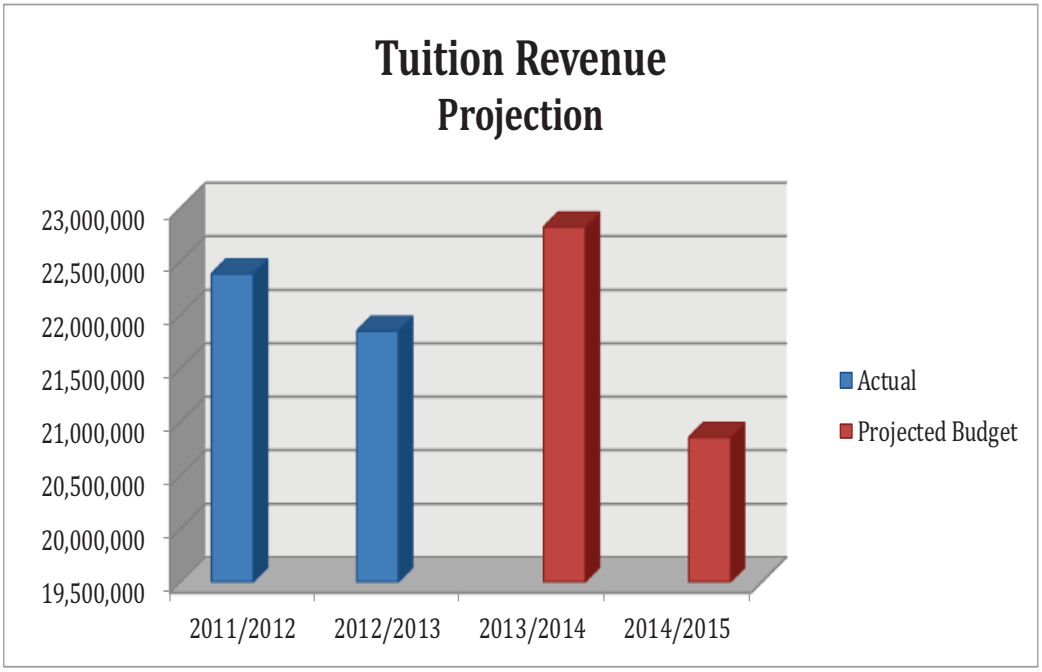
This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks above the upper quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.5	0.5
Median debt/worth	0.7	0.7
Lower debt/worth	1.6	1.3
Mansfield debt/worth	0.7	0.7

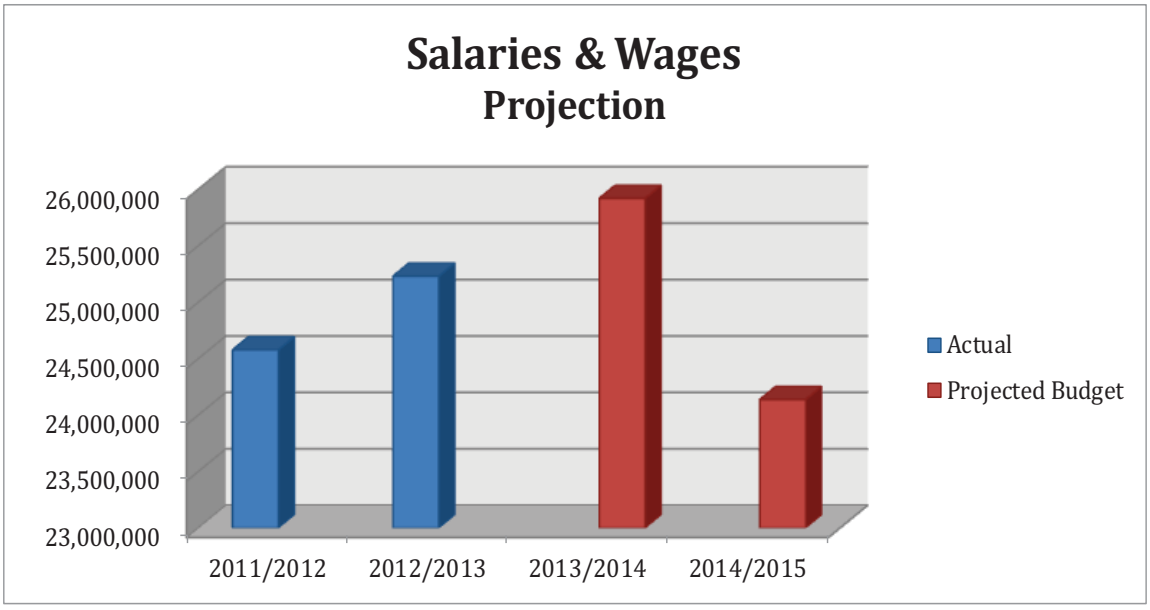
An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical; entities with lower debt/equity ratios are less risky than those with higher ratios.

The University's debt to worth ratio, **without component units**, indicates it is leveraged with the median of colleges and universities in the study. This indicates the University's credit risk approximates the median of college and universities within this study.

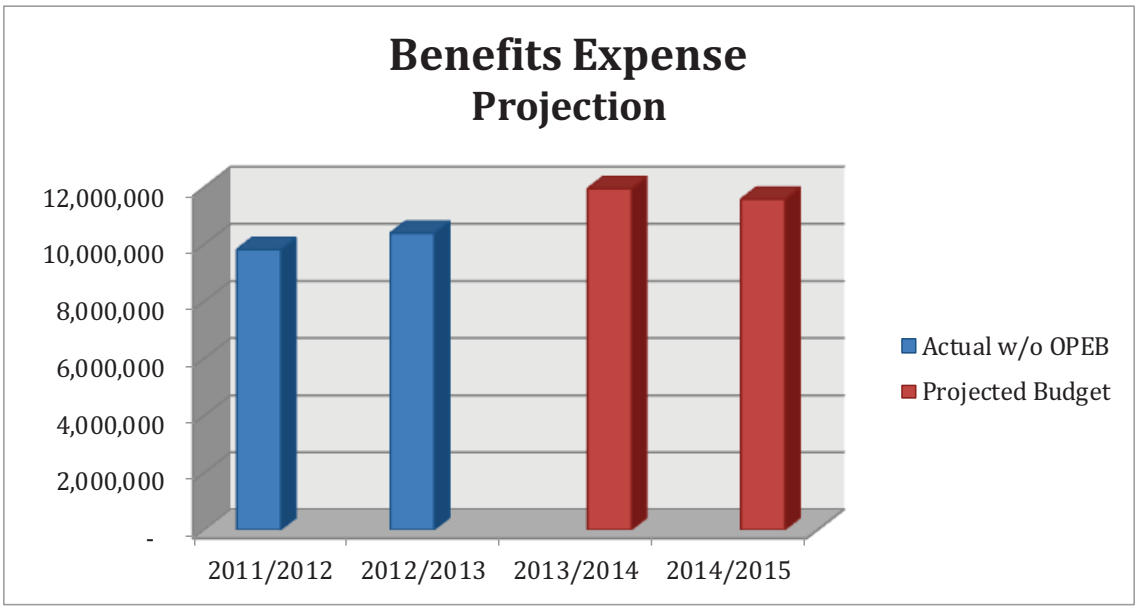
Including the component units liabilities, the University's debt/worth ratio is **1.13** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is slightly more leveraged than the median of colleges and universities within this study.



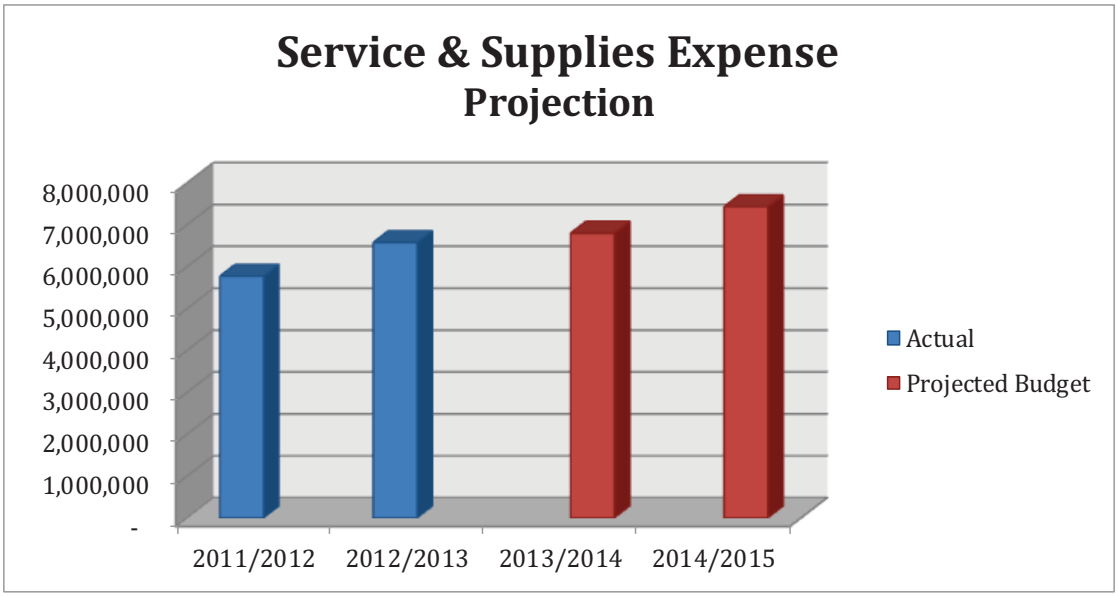
- 2011/12 Tuition Revenue – Actual = $22,384,162
- 2012/13 Tuition Revenue – Actual = $21,849,926
- 2013/14 Tuition Revenue – Projected Budget = $22,820,866
- 2014/15 Tuition Revenue – Projected Budget = $20,855,000



- 2011/2012 – Salaries and Wages – Actual = $24,577,416
- 2012/2013 – Salaries and Wages – Actual = $25,230,616
- 2013/2014 – Salaries and Wages – Projected Budget = $25,920,444
  - Projection appears to be in line with prior year's actual
- 2014/2015 – Salaries and Wages – Projected Budget = $24,137,584
  - Projection assumes a decrease of 6.0% in salaries and wages



- 2011/2012 – Benefits – Actual = $9,819,787
- 2012/2013 – Benefits – Actual = $10,388,653
- 2013/2014 – Benefits – Projected Budget = $11,950,124
  - Projection anticipates an 15.0% increase from prior year's actual
- 2014/2015 – Benefits – Projected Budget = $11,576,616
  - Projection a decline in benefits expense from their 2013/14 projections of 3.0%



- 2011/2012 – Services & Supplies – Actual = $5,769,768
- 2012/2013 – Services & Supplies – Actual = $6,577,074
- 2013/2014 – Services & Supplies – Projected Budget = $6,799,000
  - Projects a 3% increase from 2012/2013
- 2014/2015 – Services & Supplies – Projected Budget = $7,430,000
  - Projects a 9.3% increase from the 2013/2014 budget projection

G. Slippery Rock University of Pennsylvania

Executive Summary

- Post-Employment Benefits ("OPEB") are part of an exchange of salaries and benefits for employee services rendered after they retire. On an annual basis, an adjustment is made to the university's liability account to record the "future" obligation which is based on an actuarial report. This obligation is not a current cash flow item for the University and therefore it is added back to the unrestricted net assets. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. When adjusting the University's net assets for OPEB (removing the in excess of pay-as-you go expenses), the University's unrestricted net assets indicate positive net assets.
  - **The University's net assets have increased over the past four years by 22%.**

- **Enrollment has increased by 3%** during the years 2008/09 through 2012/13.

- The University has **under-budgeted tuition revenue, on average, $1.3 million** for the years 2008/09 through 2012/13. Actual tuition revenue has exceeded budgeted tuition revenue, on average, approximately 3% from 2008/09 through 2011/12. During 2012/13, the University budgeted within 0.78% or approximately $485,000 of actual tuition revenues received.

- The University has **under-budgeted fees revenue, on average, $1.2 million** for the years 2008/09 through 2011/12. During 2012/13, the University budgeted within 2.7% or approximately $349,000 of actual.

- The University has budgeted **State subsidies relative to actual** for years 2008/09 through 2012/13, excluding 2011/12. During 2011/12, the University **over-budgeted** State subsidies by **18% or approximately $7 million**.

- The University **over-budgeted salaries and wages by 3.2% or $1.9 million, 4.8% or $3 million, and 8.3% or $5.3 million** for years 2009/10, 2010/11, and 2011/12, respectively. During 2012/13, the University budgeted within 0.34% or $205,000 of actual salaries and wages expensed.

- The University **over-budgeted benefits,** adjusted for OPEB in excess of pay-as-you go, **on average $1.8 million per year** for the years 2008/09 through 2012/13.

- Overall, it appears the University has budgeted to break-even (revenue equal expenses) from 2008/09 through 2011/12. When compared to actual financial results for these years, it would appear the U**niversity has budgeted conservatively, consistently under-budgeting revenue and over-budgeting salaries and benefits.** This has created a large disparity in budget to actual Educational & General operational income.

- The University's **cash flow from operations has increased** from 2008/09 through 2010/11, with a $15 million decline in 2011/2012. The decline was due to a $7 million drop in state appropriations and $ 7 million decline in other operating receipts from 2010/11 (attributable to paying accounts payable, prepaying expense, etc.) Cash provided by operations was used for capital projects and debt service. The University has issued debt for construction/ maintenance of capital assets and refinancing of debt during the years 2008/09 through 2011/12. The **University's annual debt service requirements have increased approximately 44%** since 2008/2009.

- The University's debt service payments (principal and interest) will **average $5.4 million** for the years 2013/14 through 2016/17.

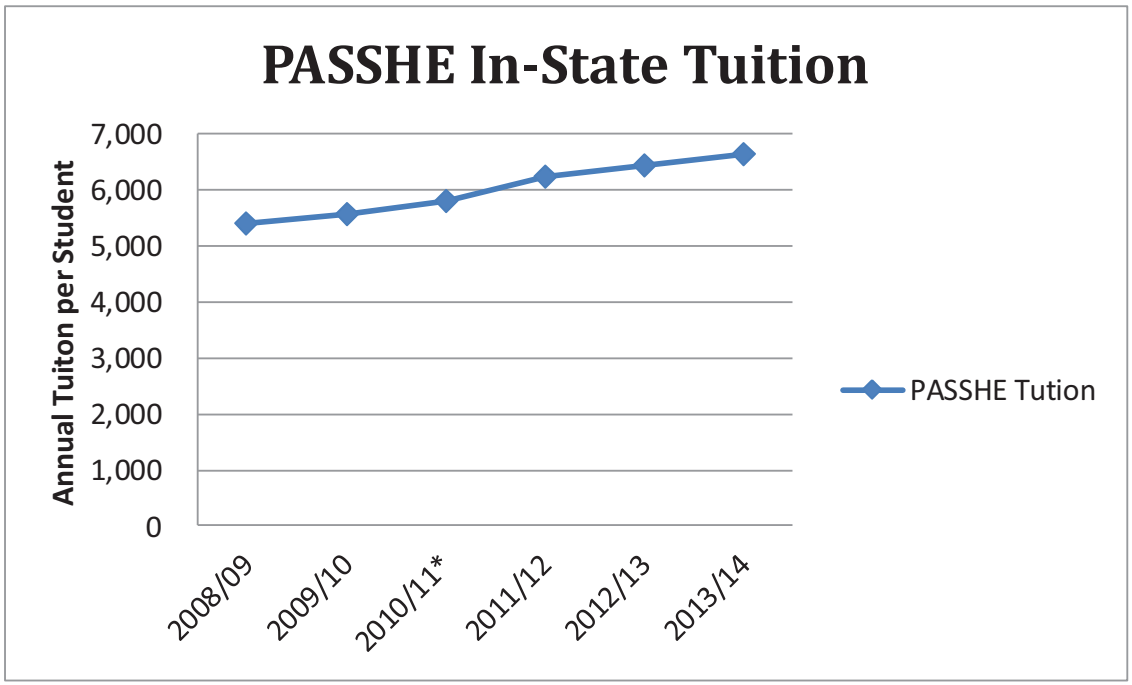
- As of June 30, 2012, the University's cash reserves on hand approximates **7 months** of operational expenses, including debt service. This analysis does not include potential debt service from the Component Unit.

- The University's liquidity ratio of **4.5 and 4.0 for 2011/12 and 2010/11**, respectively, ranks near the upper quartiles when compared to industry benchmarks. This metric indicates the University has a good ratio of current assets to current liabilities, and has the ability to cover all liabilities as they come due (e.g. the University has $4 for every $1 it has in current liabilities.)

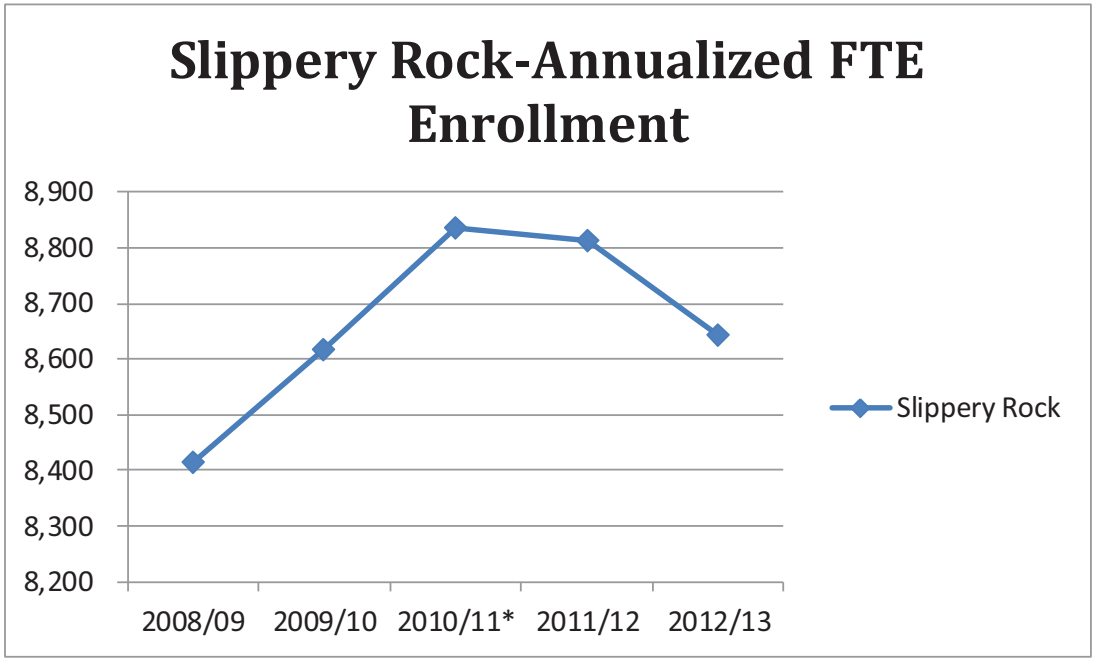
- The University, **without component units' liabilities**, has a debt to worth ratio of **.6 for 2011/12 and 2010/11**, respectively, which indicates it is in the median quartile with the colleges and universities included in the benchmark. However, in order to capture a truer picture of the University's debt burden to net assets, the University's component units must be included. The result is an increase in the debt to net worth ratio to **1.33**, which indicates the component units have significant debt to available net assets. The Slippery Rock Foundation has a debt to equity ratio of **-27.9** (this ratio does not include $5 million in Temporary Restricted Net Assets, and $12 million in Permanently Restricted Net Assets, as it is not clear if these assets

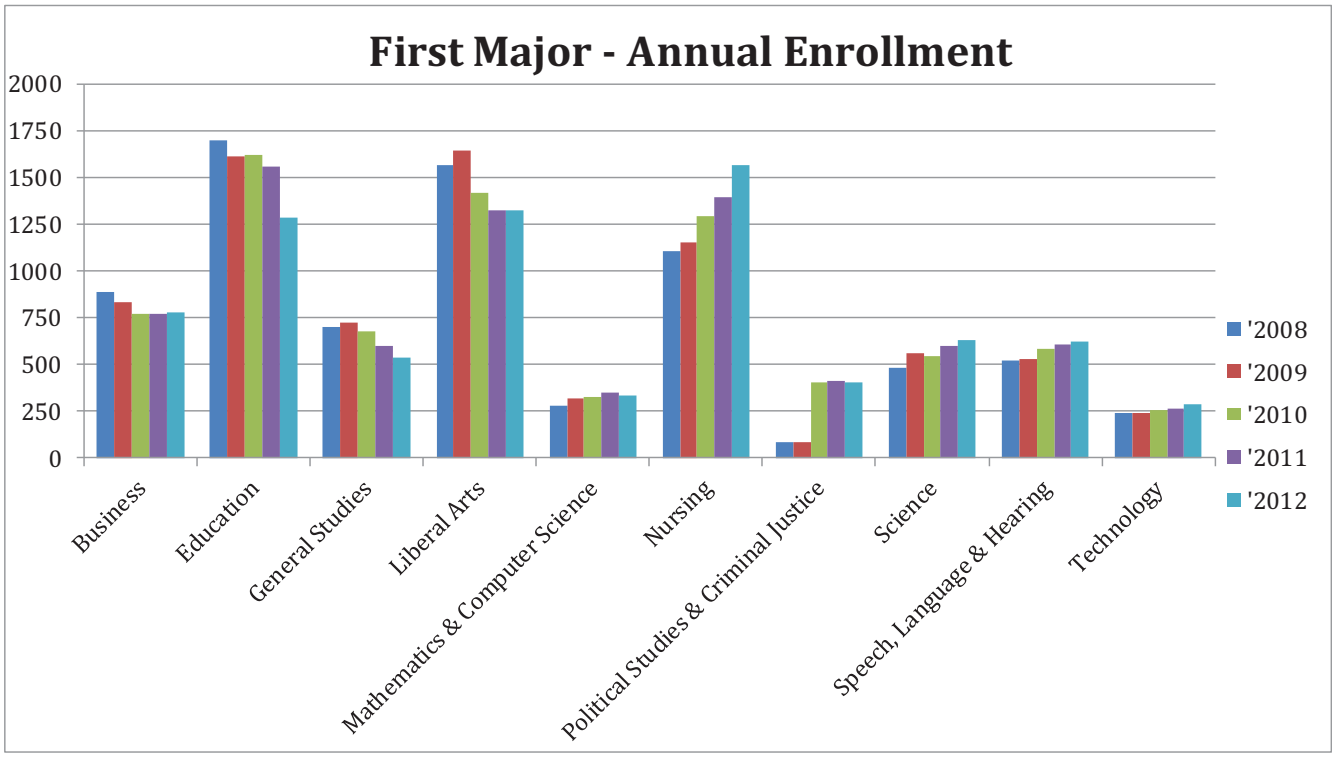
could be used for debt service.) Slippery Rock **Foundation has $124 million of long term debt** with an **unrestricted net deficit of approximately ($4,000,000)** The net deficit indicates the assets of the Foundation, (e.g cash on hand, accounts receivable and building) is less than their liabilities, excluding restricted net assets. It appears the Foundation is relying on rental income to pay for the debt service on the student housing, unless private funding is established. The Foundation's cash and cash equivalents were not disclosed in the footnotes to the University's financial statements for the year ended June 30, 2012.

1. General Analysis



Full Time Equivalent Enrollment:





Full time equivalent ("FTE") enrollment has increased by 3% since the 2008/09 fiscal year. During this same period tuition rates have increased by 23%. Tuition revenues have steadily increased until 2012/13. This appears to be a delayed affect from the declining enrollment. State Appropriations are a derivative of enrollment numbers and Commonwealth budget allocations; State Appropriations have declined 10% since 2008/09.

Other Post-Employment Benefits ("OPEB")

	08/09	09/10	10/11	11/12
Net Assets -Unrestricted per Audited Financial Statements	$ (8,164,957)	$ (10,850,724)	$ (6,956,855)	$ (12,767,596)
Add back:				
Compensated absences and OPEB liability (In excess of pay-as-you go per Audited Financial Statements)	58,704,858	63,142,047	68,348,242	74,483,020
Net Assets - Unrestricted, as adjusted	$ 50,539,901	$ 52,291,323	$ 61,391,387	$ 61,715,424

GASB Statement No. 45, Accounting and financial report by employers for Post-Employment Benefits, other than pensions ("OPEB"), was implemented as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), and note disclosures. Post-Employment Benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including Post-Employment healthcare and other OPEB, are taken after the employees' services have ended. The statement requires employers to report the financial effects of OPEB on their financial statements until the promised benefits are paid.

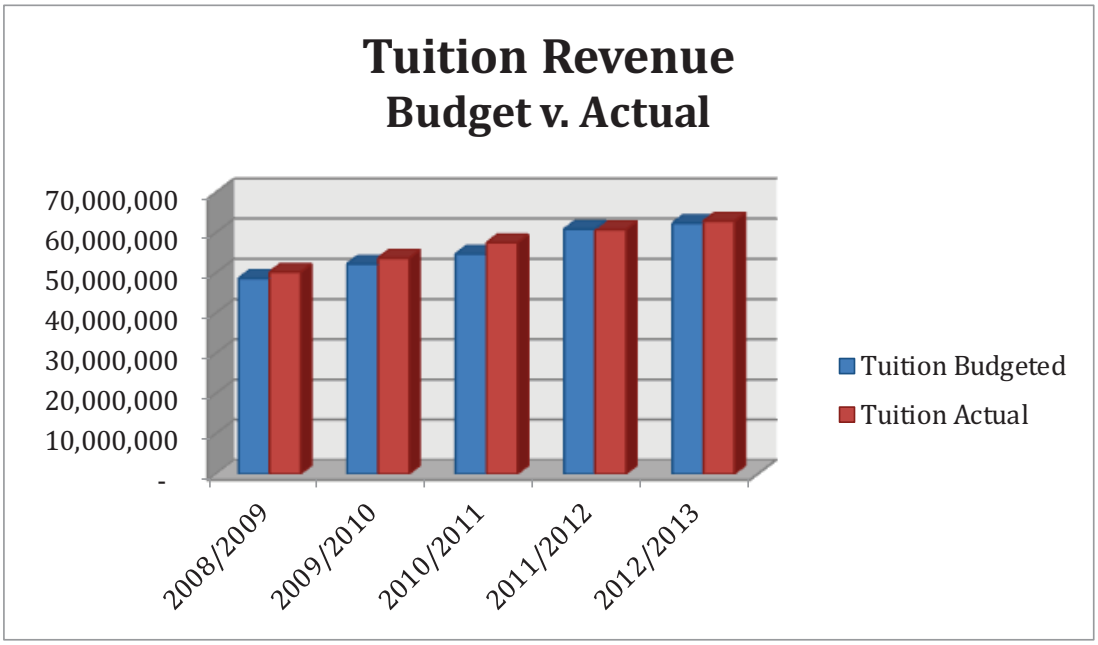
GASB No. 45 does not affect the operations of the University. In current practices, most OPEB plans are budgeted and financed on a pay-as-you go basis. The University's Unrestricted Net Assets, net of GASB No. 45, indicates positive net assets.

2. Budget to Actual Comparisons (Budgets per "BUDRPT" / Actual per "FINRPT")

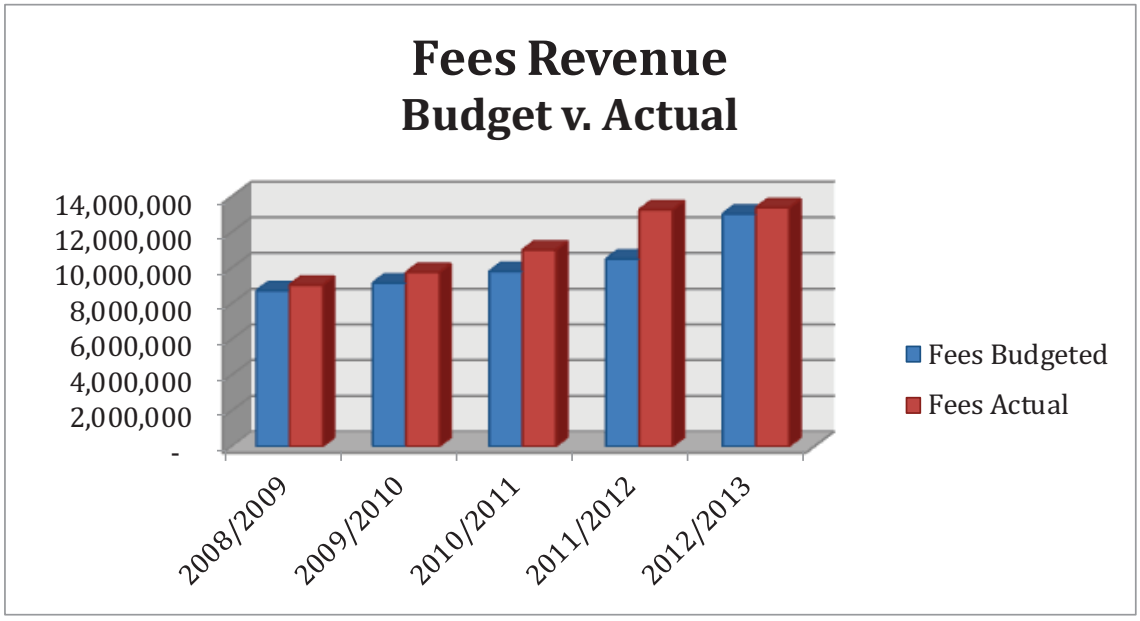
Revenue

Revenue/Sources

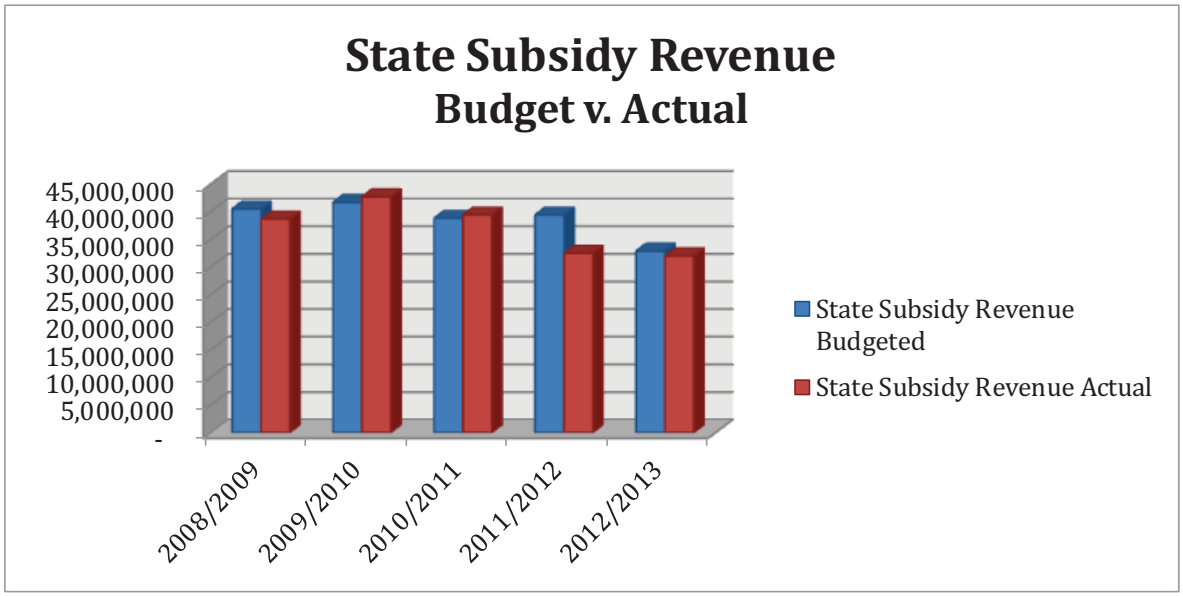
	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Tuition	$ 48,687,450	$ 50,255,019	$ 52,291,972	$ 53,713,800	$ 54,721,571	$ 57,555,522	$ 60,900,456	$ 60,839,351	$ 62,424,727	$ 62,910,361
Fees	8,728,231	9,058,093	9,173,641	9,762,537	9,816,889	11,023,134	10,512,479	13,273,271	13,034,183	13,383,265
State Appropriation	40,503,633	38,672,476	41,683,099	42,721,599	38,819,131	39,412,706	39,412,706	32,494,341	32,876,797	32,012,491
All Other Revenue	5,536,276	5,938,295	6,531,763	5,007,154	8,264,916	4,178,127	5,797,799	3,411,932	4,619,783	2,103,510
Use of Carryforward Fund Balance	-	-	-	-	-	-	-	-	-	-
Total Revenue/Sources	$ 103,455,590	$ 103,923,883	$ 109,680,475	$ 111,205,090	$ 111,622,507	$ 112,169,489	$ 116,623,440	$ 110,018,895	$ 112,955,490	$ 110,409,627



Overall, the University has budgeted tuition revenue relatively on target through 2011/12. Actual tuition revenue has exceeded budgeted tuition revenue, on average, approximately 3% from 2008/09 through 2011/12. During 2012/13, the University budgeted within 0.78% of actual tuition revenues received.



The University has taken a conservative approach budgeting fees revenue. On average, the University has under-budgeted fees revenue by approximately 12% through 2011/12. During 2012/13, it appears the University was budgeting more in line with actual; as actual exceeded budget by 2.7% or $349,000.

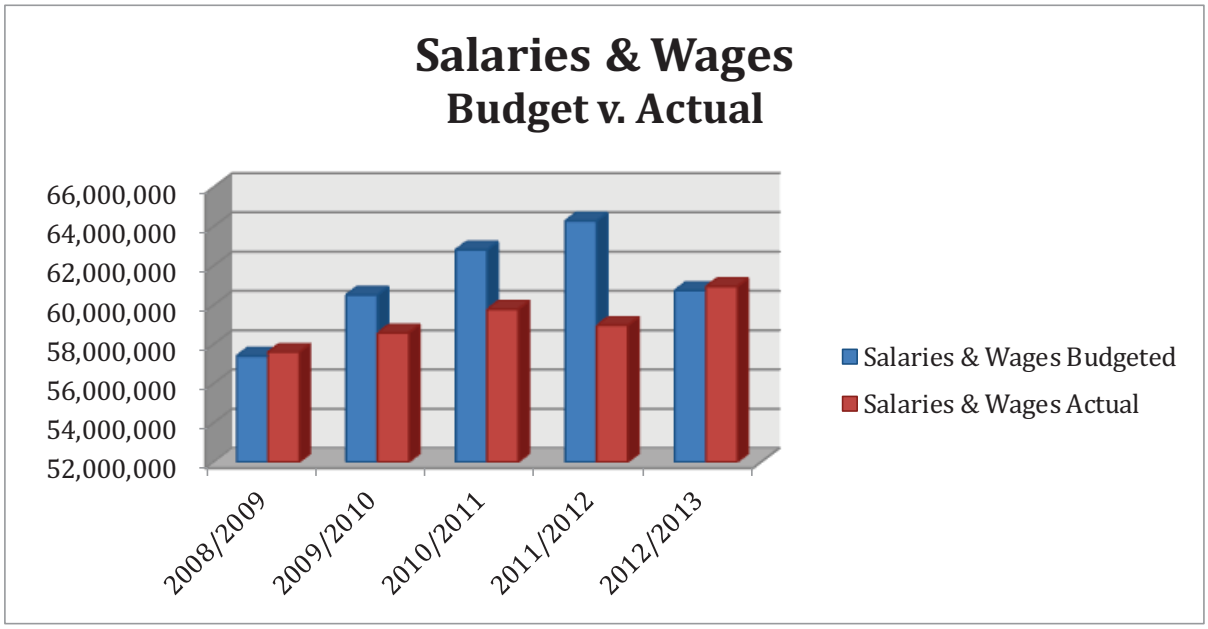


The University forecasted State subsidy relatively on target from 2008/09 through 2010/11 and for 2012/13. During 2011/12, the University over-forecasted State subsidy by approximately 18%.

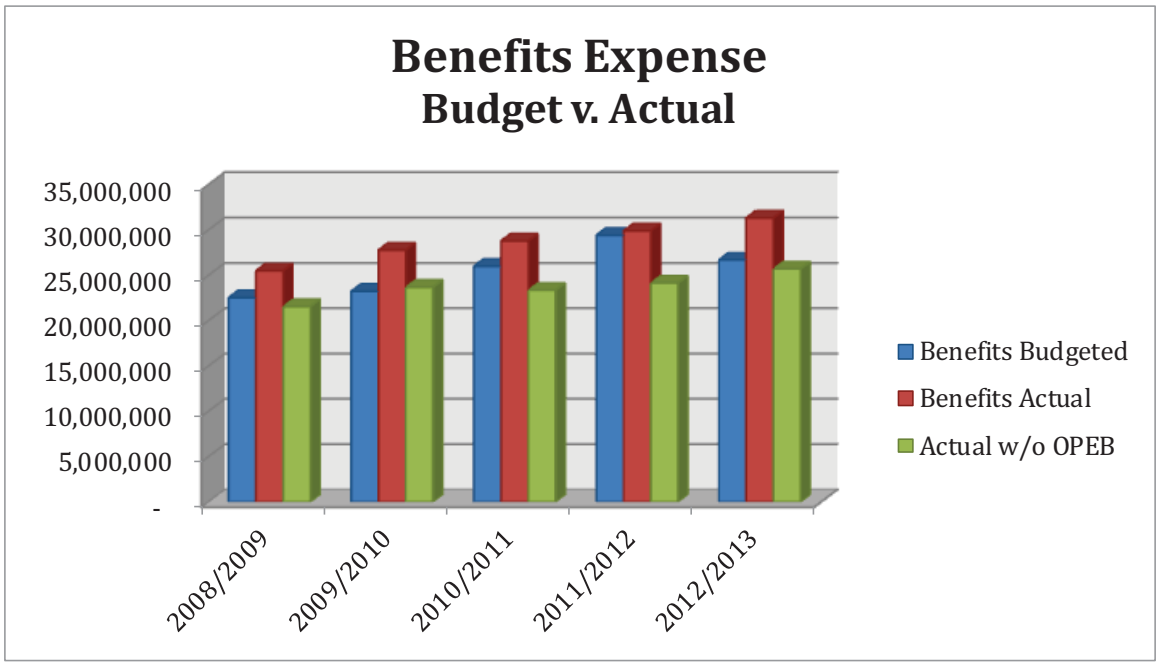
Expenses

Expenses and Transfers

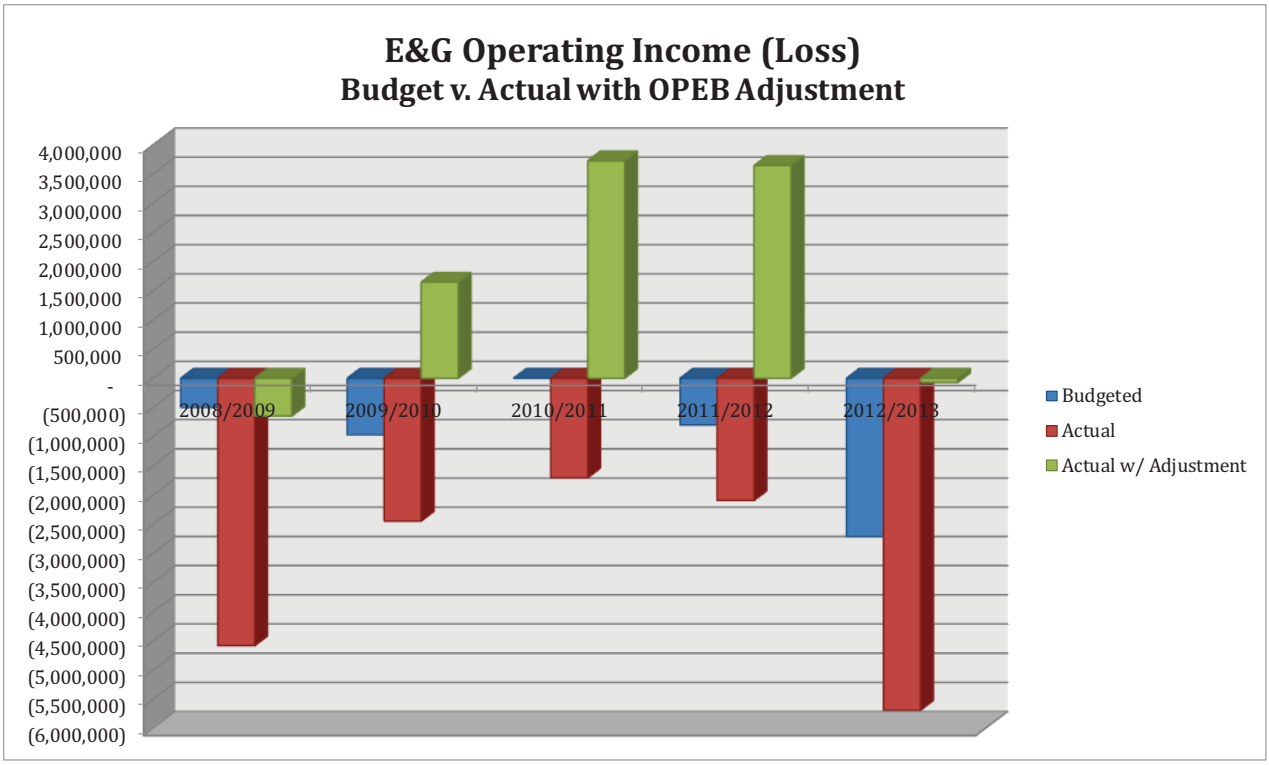
	FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		FY 2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Salaries & Wages	$ 57,415,917	$ 57,607,109	$ 60,524,263	$ 58,601,595	$ 62,817,788	$ 59,801,823	$ 64,291,844	$ 58,976,453	$ 60,748,871	$ 60,954,507
Benefits	22,543,239	25,494,137	23,241,552	27,789,555	25,995,751	28,789,094	29,423,907	29,900,768	26,696,966	31,325,443
Utilities	2,745,405	1,978,836	2,255,841	1,416,982	1,966,296	842,768	2,524,498	2,588,866	2,963,114	2,847,156
Services & Supplies	14,356,263	16,009,125	16,856,396	15,343,499	15,973,381	15,996,744	16,684,390	14,286,816	20,810,316	16,109,373
Capital Expenses and Transfers	6,897,139	7,417,677	7,772,874	10,501,736	4,869,291	8,445,531	4,500,280	6,359,533	4,451,271	4,860,976
Total Expenses and Transfers	$ 103,957,963	$ 108,506,884	$ 110,650,926	$ 113,653,367	$ 111,622,507	$ 113,875,960	$ 117,424,918	$ 112,112,436	$ 115,670,538	$ 116,097,455



The University budgeted for anticipated increases in salaries and wages during 2009/10, 2010/11 and 2011/12. Actual salaries and wages were approximately 4.0% less than anticipated during those years. During 2012/13, the University budgeted within $205,000 or 0.34% of actual salaries and wages.



The University includes OPEB non pay-as-you go amounts in their actual audited financial statements, which is in accordance with GASB No. 45. In current practice, most OPEB plans are budgeted and financed on a pay-as-you go basis. The graph above indicates the University budgets and finances on a pay-as-you go basis, as budgeted benefits are more in line with actual without OPEB.



Budget to actual comparison of the University's net income (loss) are slightly skewd by GASB No. 45 – OPEB. When OPEB is adjusted from the actual figures (per the audited financial statements), it appears the University attempts to budget at a break-even point (revenues equalling expenses) or a small net loss. Based upon the above chart, the University's Education & General revenues have exceeded their expenses, generating net income for the three years of 2009/10 through 2011/12 with OPEB adjustment.

3. Cash Flow & Ratio Analysis (Per Audited Financial Statements)

	08/09	09/10	10/11	11/12
Net Cash Used in Operations	$ (34,298,561)	$ (28,542,923)	$ (20,140,391)	$ (28,189,614)
Other additions to offset operations:				
State Appropriations	39,228,783	43,302,599	39,993,706	32,494,341
Gifts for other than Capital purposes	1,771	1,600	-	-
Cash provided (used) in operations:	4,931,993	14,761,276	19,853,315	4,304,727
Cash Flow from Financing Activities	(7,590,116)	(13,459,603)	(1,137,087)	(11,903,025)
Cash available (used) before investing activities	$ (2,658,123)	$ 1,301,673	$ 18,716,228	$ (7,598,298)

The Cash Flow analysis performed above provides an analysis of cash available from operations. If the University was a stand-alone institute of higher education, the University would have a four year operating loss of approximately $111,000,000. However, the University is part of the Commonwealth's system of higher education and therefore relies on Commonwealth appropriations to satisfy faculty and administrative salaries and other operational costs. In addition, these appropriations maintain lower tuition rates for In-State students. Therefore, Commonwealth appropriations are additions to operations in the above analysis. This is done to provide a "truer picture" of the University's operation.

In 2010/11, the University had a $7 million increase in other operating receipts, which is the change in asset accounts (i.e. collection from a receivable or non-payment on a liability account) as well as other miscellaneous revenue. The University continued to take on more debt and continue construction and maintenance of capital assets over this four year period. In conjunction with this construction the university issued bonds to help subsidize these projects. This is why there are large swings in cash available and used in the above chart. For example, in 2010/11, $19 million in proceeds from debt was received by the university which offset capital expenses in that year, and part of those proceeds could have gone for capital expenses in the next fiscal year. **It is also of note the annual debt service rose approximately 44% since 2008/09.**

Capital Purchases and Principal Payments:

	2009	2010	2011	2012
Slippery Rock				
Purchase of Capital Assets:	$ 20,363,105	$ 17,529,741	$ 18,728,918	$ 21,794,723
Principal / Interest on Debt:	$ 3,982,603	$ 8,808,646	$ 5,090,669	$ 5,746,761

Cash Reserves on Hand:

The analysis below indicates the University has approximately **seven** months of cash and cash equivalents in reserve as of June 30, 2012.

	Slippery Rock
Operating Expense	$ 138,635,385
Subtractions:	
Depreciation	(7,178,136)
OPEB	(5,738,682)
Additions:	
Interest Paid on Debt	2,657,686
Principal paid on debt including AFRP	3,089,075
Total Annual Operating Expense	$ 131,465,328
Operating Expense per month	$ 10,955,444
Cash and cash equivalents	$ 80,129,732
Number of Months Cash on Hand	7.31

Financial Ratio Analysis:

	2012	2011
LIQUIDITY RATIOS:		
Upper current ratio	3.5	3.8
Median current ratio	1.7	1.9
Lower current ratio	1.1	1.2
Slippery Rock current ratio	4.5	4.0

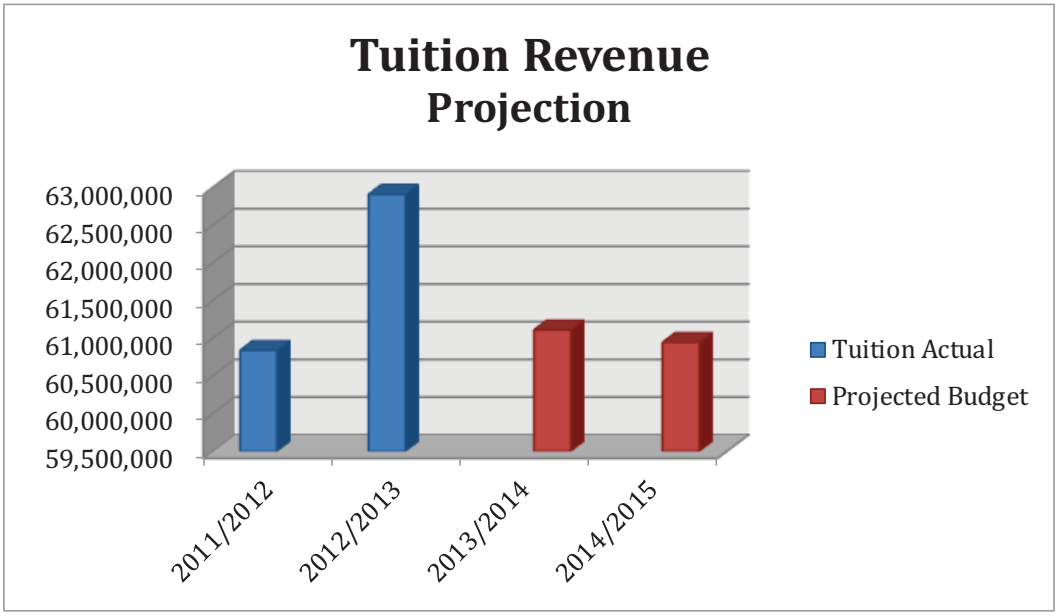
This metric is used to determine an entity's ability to pay off its short-term obligations (current liabilities). Generally, the higher the value of the ratio, the larger the margin of safety the entity possesses to cover its short-term obligations. The University, **without component units**, ranks above the Upper quartile when compared to industry benchmarks. This metric indicates the University will be able to meet its short-term obligations with its short-term assets.

	2012	2011
LEVERAGE RATIOS:		
Upper debt/worth	0.4	0.4
Median debt/worth	0.6	0.6
Lower debt/worth	1.1	1.1
Slippery Rock debt/worth	0.6	0.6

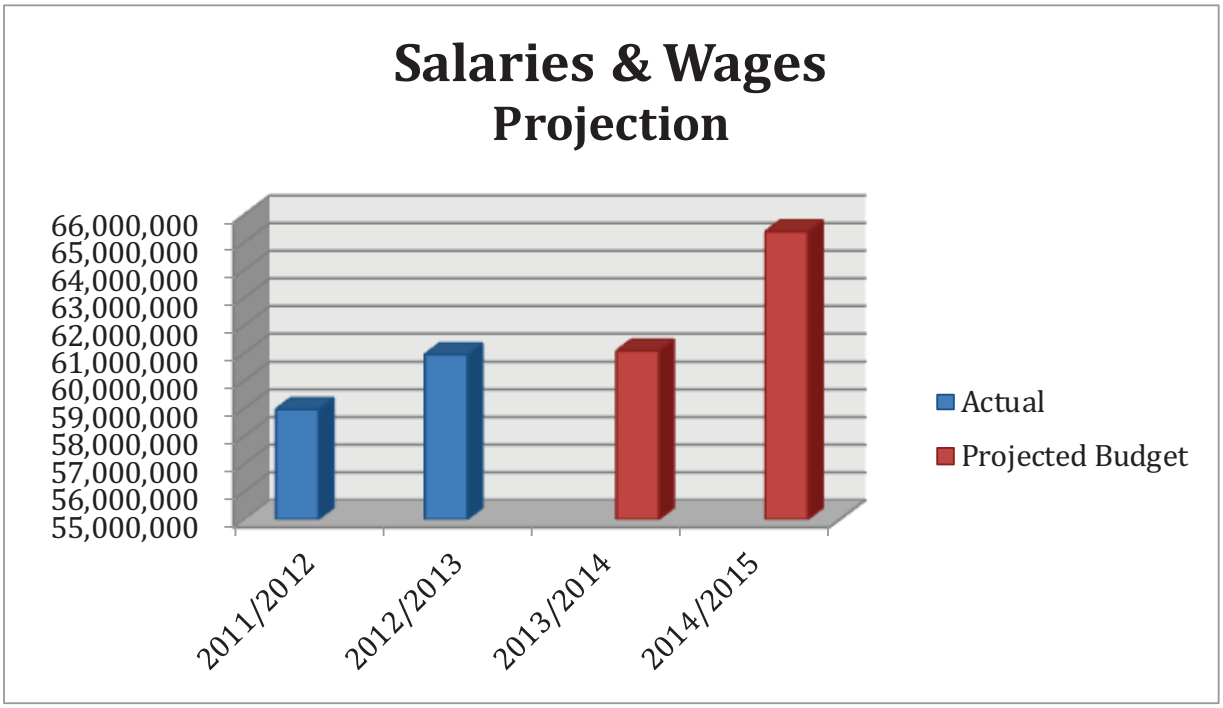
An entity's leverage relates to how much debt it has on its balance sheet; it is a measure of financial health. The debt/equity ratio indicates how much the entity is financed by its debt holders. An entity with a lot of debt will have a very high debt/equity ratio, while one with little debt will have a low debt/equity ratio. Assuming everything else is identical, entities with lower debt/equity ratios are less risky than those with higher such ratios.

The University's debt/worth ratio, **without component units**, indicates it is leveraged with the median of colleges and universities in the study. This indicates the University's credit risk approximates the median of college and universities within this study.

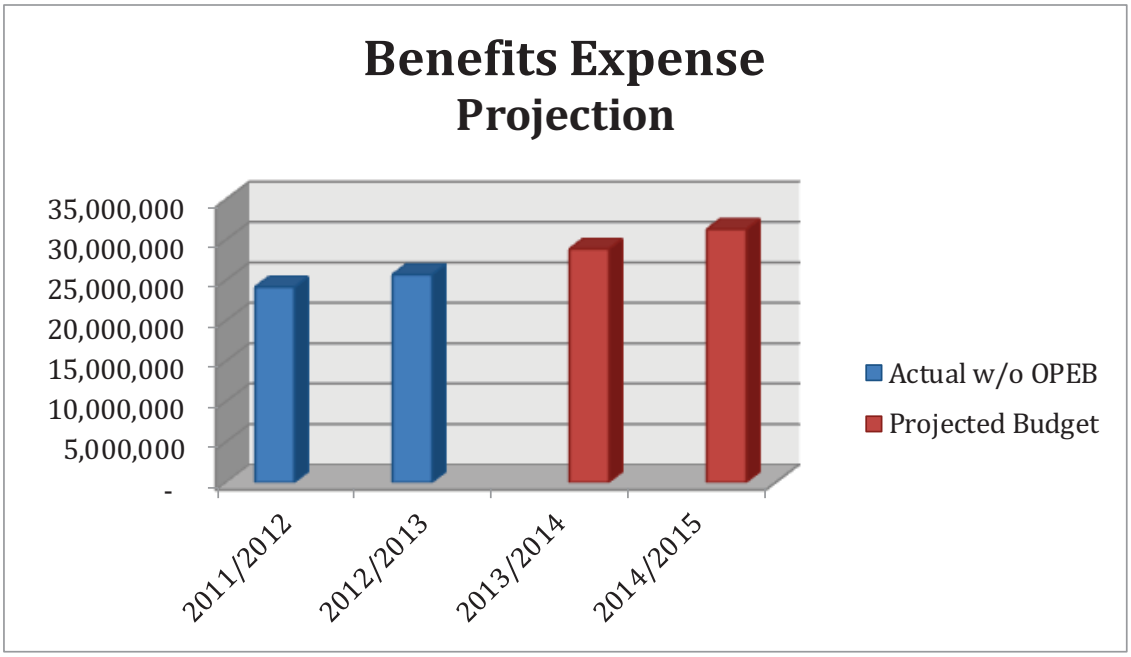
Including the component units liabilities, the University's debt/worth ratio is **1.33** as of 2011/12. This ratio assumes the Component Units will not be solvent and therefore, unable to meet their debt service obligations without the assistance of the University. When including the liabilities of the component units, the University's debt/worth ratio indicates the University's credit risk is highly leveraged.



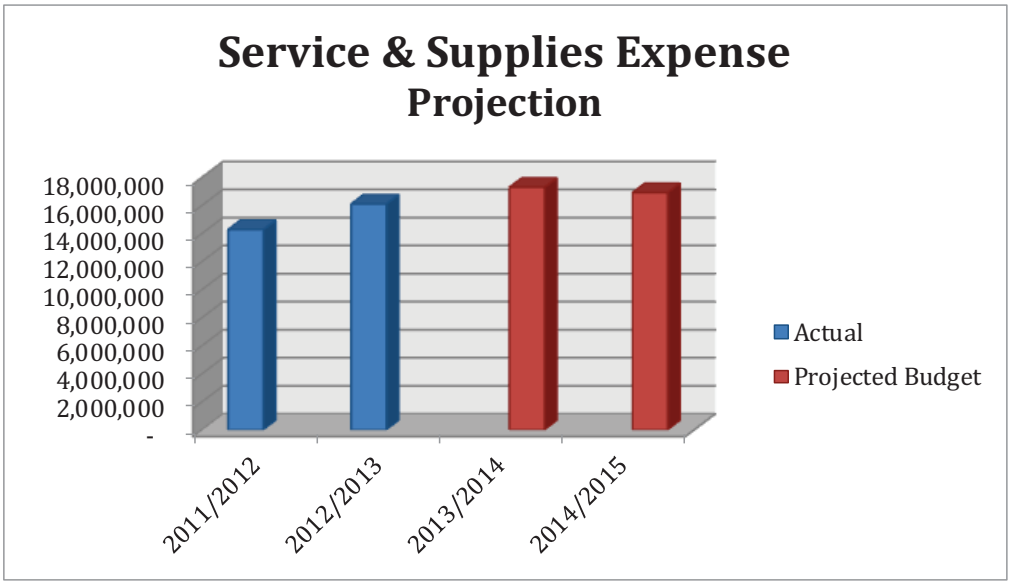
- 2011/12 Tuition Revenue – Actual = $60,839,351
- 2012/13 Tuition Revenue – Actual = $62,910,361
- 2013/14 Tuition Revenue – Projected Budget = $61,110,086
- 2014/15 Tuition Revenue – Projected Budget = $60,944,924



- 2011/2012 – Salaries and Wages – Actual = $58,976,453
- 2012/2013 – Salaries and Wages – Actual = $60,954,507
- 2013/2014 – Salaries and Wages – Projected Budget = $61,081,732
  - Projection appears to be in line with prior year's actual
- 2014/2015 – Salaries and Wages – Projected Budget = $65,387,831
  - Projection assumes a 7.0% increase in salaries and wages



- 2011/2012 – Benefits – Actual = $24,162,086
- 2012/2013 – Benefits – Actual = $25,711,423
- 2013/2014 – Benefits – Projected Budget = $28,868,017
  - Projection anticipates an 12.3% increase from prior year's actual
- 2014/2015 – Benefits – Projected Budget = $31,315,605
  - Projection anticipates a 8.4% increase



- 2011/2012 – Services & Supplies – Actual = $14,286,816
- 2012/2013 – Services & Supplies – Actual = $16,109,373
- 2013/2014 – Services & Supplies – Projected Budget = $17,298,704
  - Projects a 7.4% decrease from 2012/2013
- 2014/2015 – Services & Supplies – Projected Budget = $16,919,050

VI. Data and Other Information Considered

In preparing this report, we reviewed numerous documents including but not limited to the following:

- FINRPTs for fiscal years 2008/2009 through 2012/2013, when available. FINRPTs provided to APSCUF by PASSHE's Office of the Chancellor for years 2008/2009 through 2011/2012. FINRPTs for 2012/2013 were provided to APSCUF by each of the seven Universities' administration.

- BUDRPTs for fiscal years 2008/2009 through 2012/2013. BUDRPTs were provided to APSCUF by PASSHE; they were approved by PASSHE's Board of Governors.

- FTE enrollment figures, annual enrollment by major, and tuition rates, provided to APSCUF by PASSHE.

- University Audited Financial Statements for fiscal years 2008/2009 through 2011/2012.

- Benchmark information was obtained through an industry benchmarking resource. The source of the industry data are financial statements of financial institutions' borrowers and prospects.

VII. Qualifications of the Experts, Publications and Prior Testimony

This report and analysis was prepared by and under the direction of Lisa A. Myers, CPA, CFE, MAFF, FCPA and professional assistance was provided by Kira W. Santanna, CFE, MAFF and Justin K. Schaffer, CPA.

Ms. Myers is a Certified Public Accountant licensed in the Commonwealth of Pennsylvania. Lisa A. Myers Curriculum Vitae's is attached as **APPENDIX H**. The signature attesting to this certification is attached as **APPENDIX I**.

Ms. Myers has written the following publications in the preceding ten years.

- Title of article: "When did you last review your Internal Controls?" Article was co-written and published by the Pennsylvania Independent Automobile Dealers Association (PIADA); PA Dealer News; issued March 2010.
- Title of article: "Commonwealth Tips – Advice from CPAs"
  Article will be published in the PICPA Commonwealth Tips Newsletter; issued April 2012.

Lisa A. Myers, CPA, CFE, MAFF, FCPA testimony as an expert at trial or by deposition within past four years

Case Number	Attorney / Firm	Case	Testimony or Deposition	Date
CI-06-06204	Mr. George C. Warner / Barley Snyder LLC	Pitney Road Partners, LLC t/d/b/a Redcay College Campuses I v. Harrisburg Area Community College	Testimony	Jan 2011
CI-08-08625	Ms. Susan P. Peipher / Blakinger, Byler & Thomas P.C.	KJK Community Management v. Grandview Chase Condominium Association v. Keith J. Kassees	Testimony	Apr 2012

Kira W. Santanna's Curriculum Vitae is attached as **APPENDIX J**.

- Ms. Santanna has not written any publications in the preceding ten years.

Ms. Santanna does not have any testimonies at trial or by deposition within the preceding four years.

Justin K. Schaffer's Curriculum Vitae is attached as **APPENDIX L**.

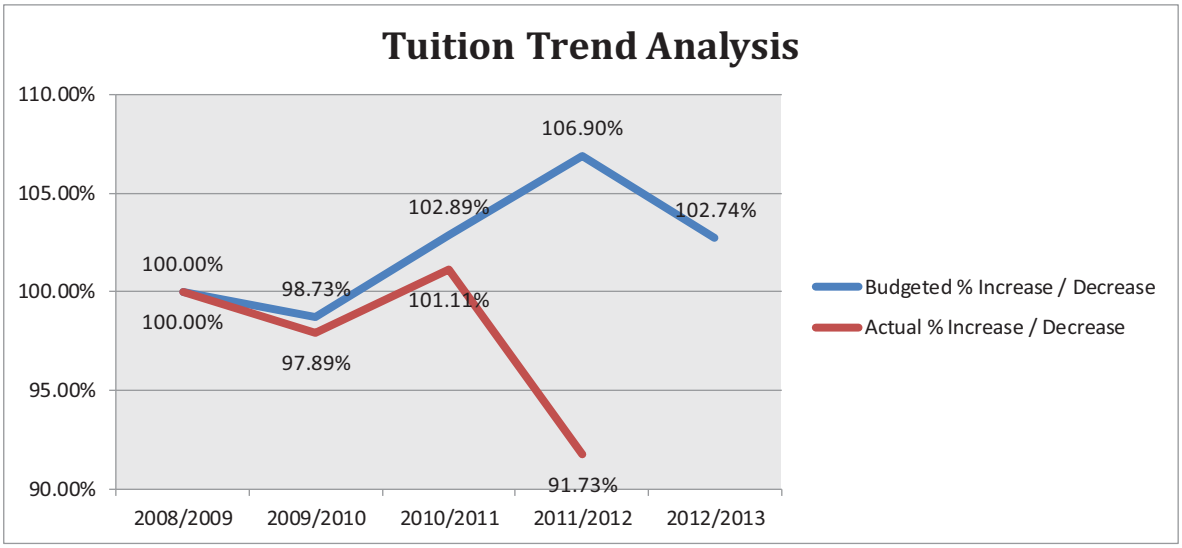
- Mr. Schaffer has not written any publications in the preceding ten years.

Mr. Schaffer does not have any testimonies at trial or by deposition within the preceding four years.

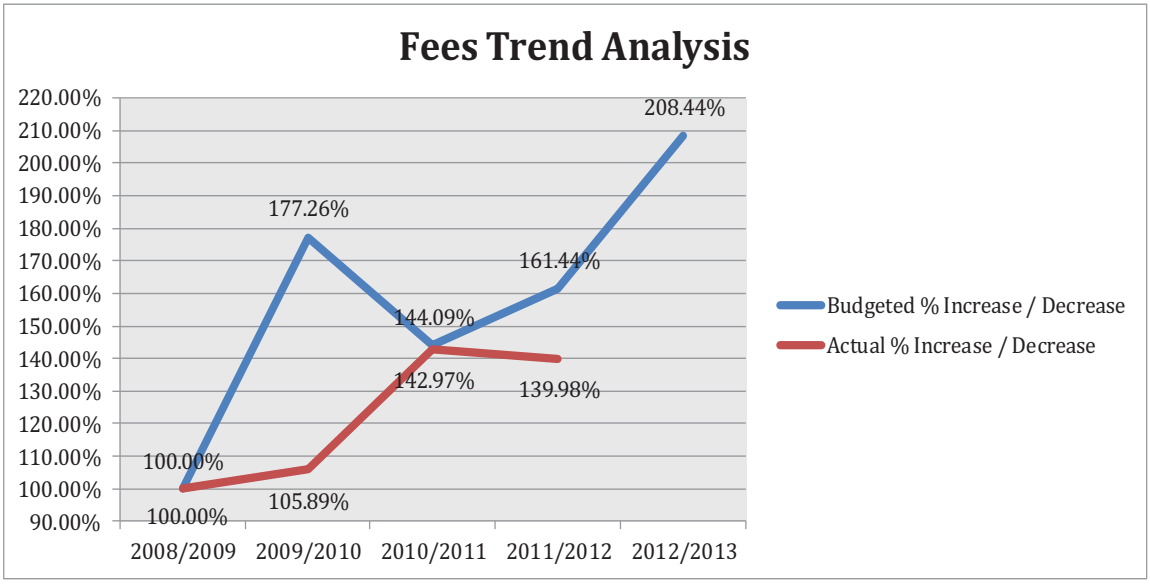
APPENDICES

APPENDICES

Cheyney University – Trend Analyses

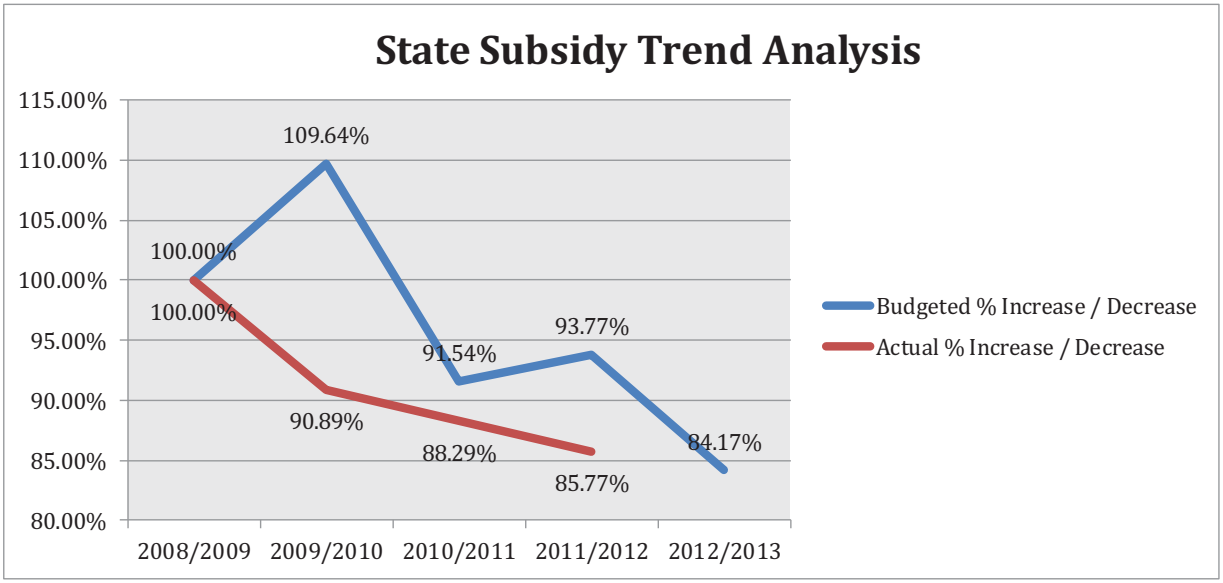


Using 2008/09 as a base year, the above chart affirms the University's budgeted tuition revenue trends positively; however, actual tuition revenues have declined since 2008/09, except for a slight increase in 2010/11. Enrollment has declined 17% since 2008/09; tuition rates have increased 23% since 2008/09.

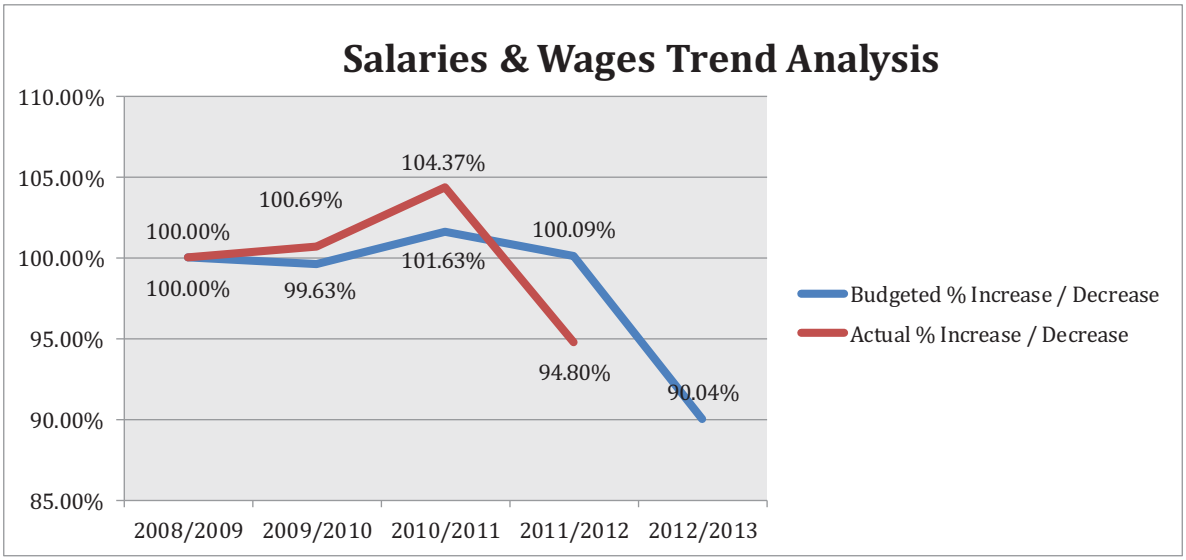


Using 2008/09 as a base year, the above chart indicates the University expected fees

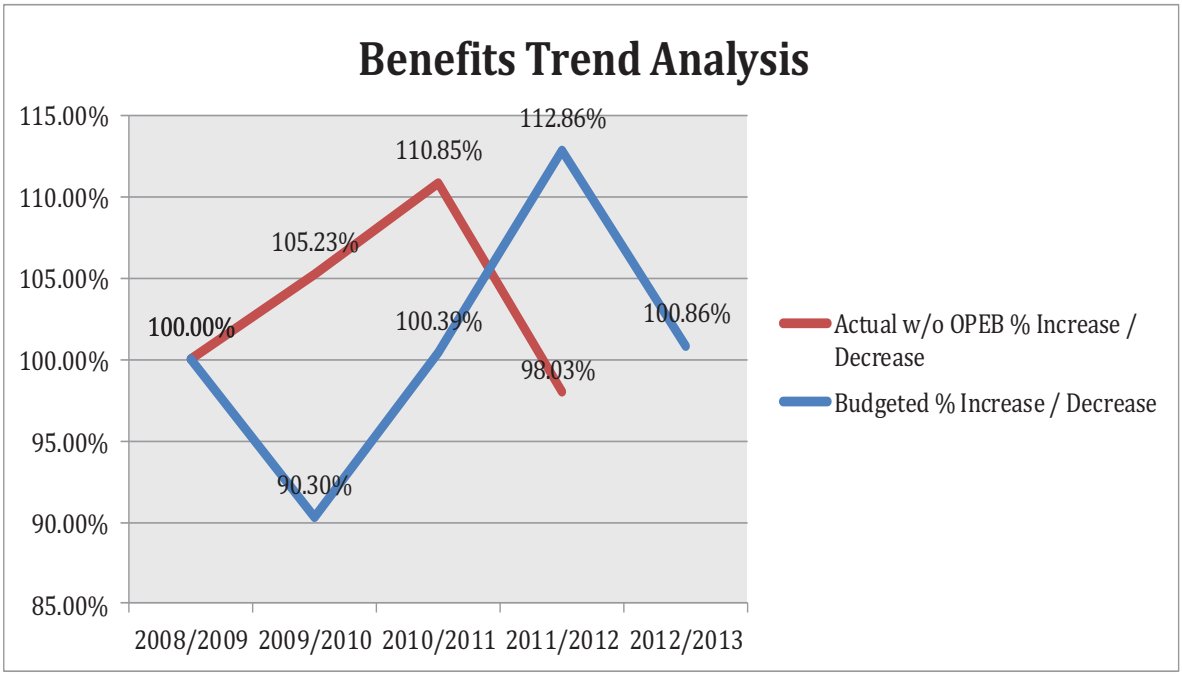
revenue to trend positively. However, actual fees revenue has fallen short of budget until 2011/12. During 2011/12, it appears the University conservatively forecasted this line item; actual exceeds their expectations by approximately $300,000.



Using 2008/09 as a base year, the University budgeted optimistically during years when enrollment was declining. In the past year, it appears they are budgeting more in line with actual state subsidy received.

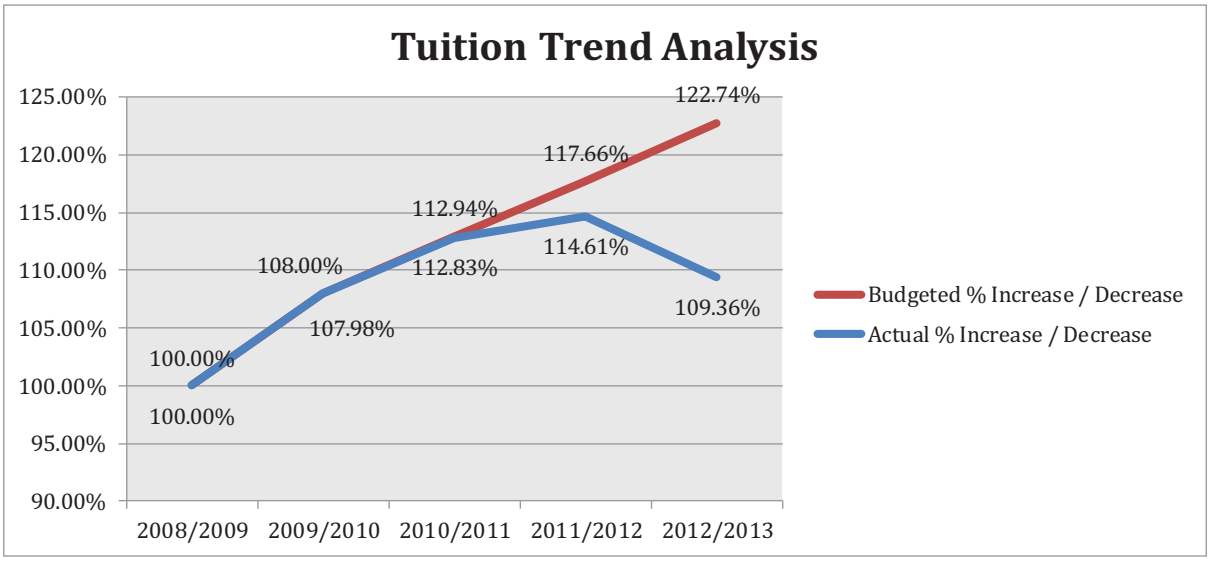


Using 2008/09 as a base year, the University was budgeting for a reduction in salaries and wages. This reduction appears to be necessary as their overall revenues and full-time equivalent enrollment numbers are declining. The University over-budgeted salaries and wages through 2010/11. Beginning 2011/12, it appears they are budgeting more in line with actual expenses.

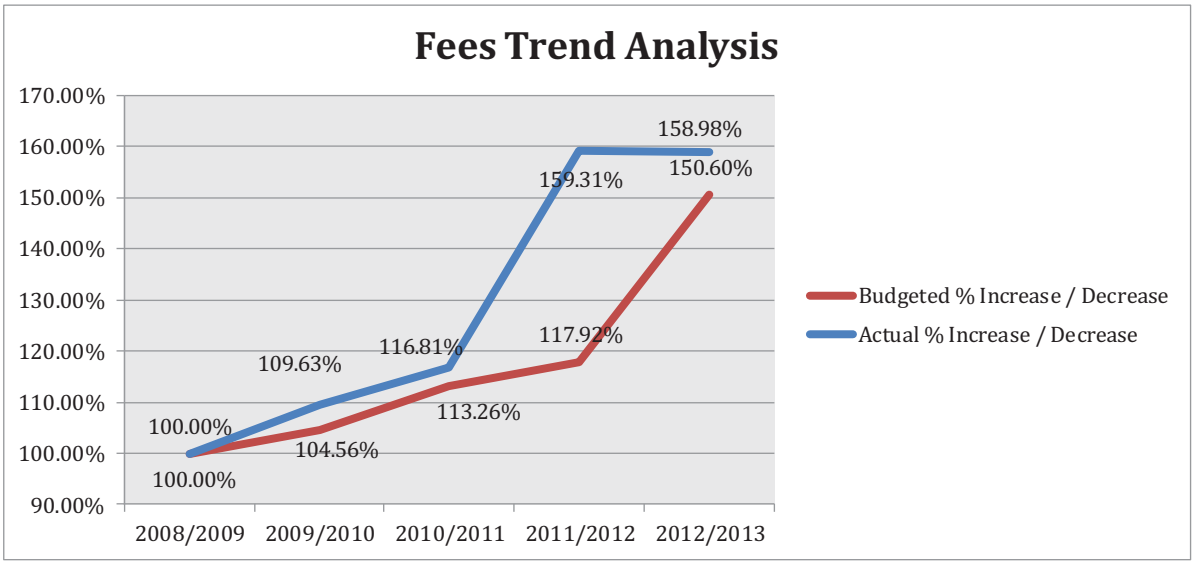


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as, conversely, they have budgeted declines in salaries and wages since 2011/12. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions.

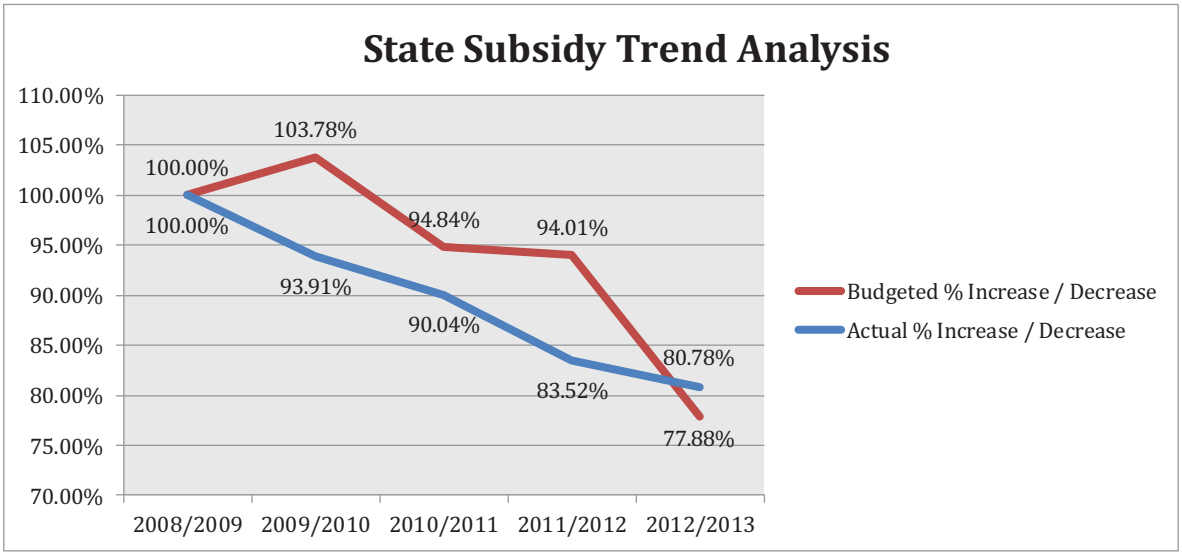
Clarion University – Trend Analyses



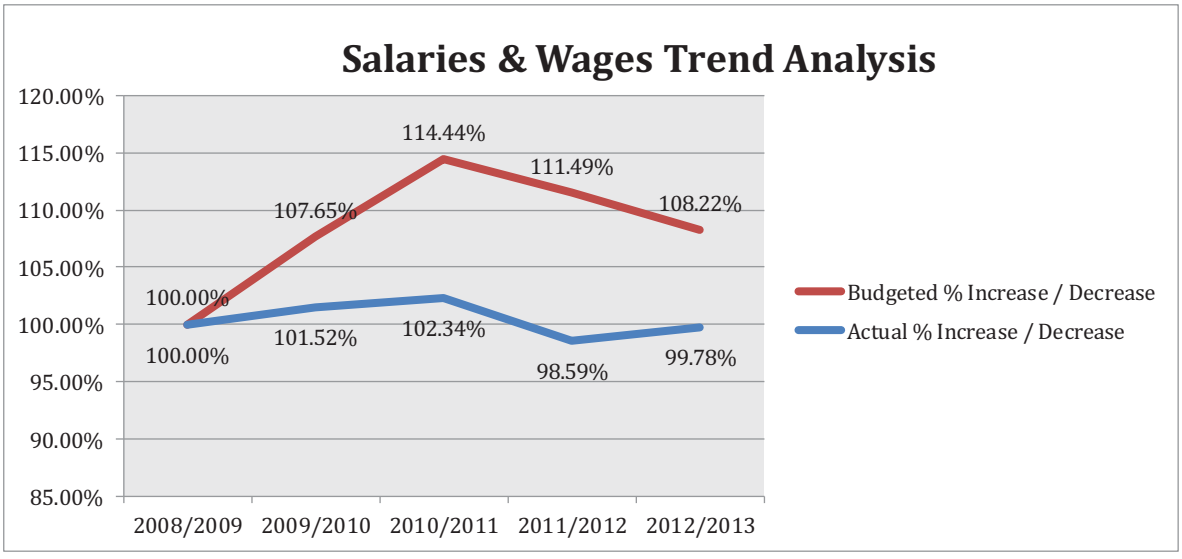
Using 2008/09 as a base year, the above chart affirms the University anticipated tuition revenue to steadily increase. The University's actual tuition revenues did increase until 2012/13 when it declined over 4.5%. Overall, enrollment has declined 7% since 2008/09; tuition rates have increased 23% since 2008/09.



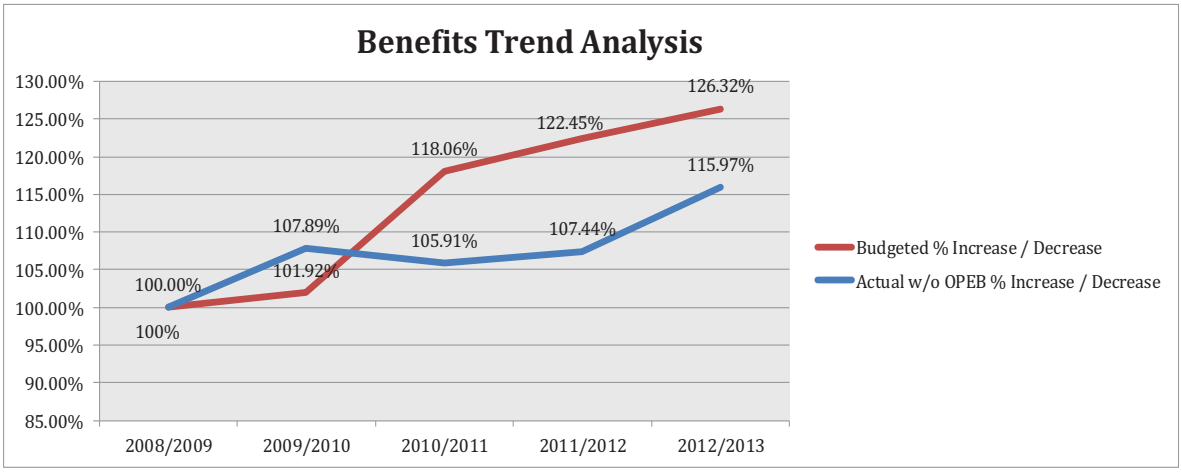
Using 2008/09 as a base year, the above chart indicates the University anticipated fees would continue to increase. The University budgeted conservatively in this line item until 2012/13. During 2012/13, it appears the University attempted to budget closer to actual results.



Using 2008/09 as a base year, the University budgeted optimistically during years when enrollment was increasing. In the past year, it appears they are attempting to budget more in line with actual state subsidy received; budgeting within 0.7% of actual.

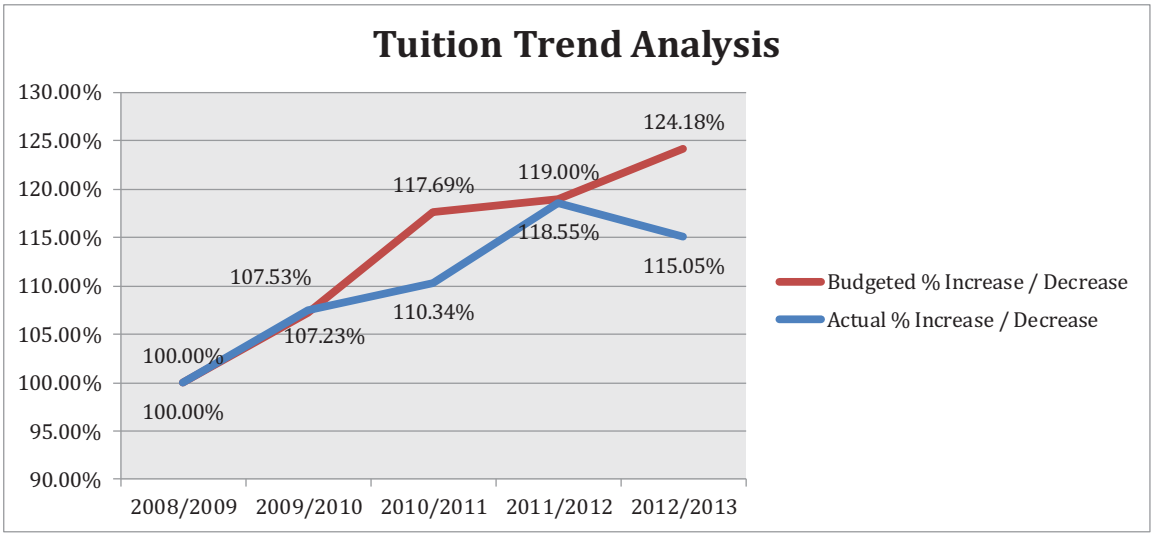


Using 2008/09 as a base year, the University has budgeted for a slight increase in salaries and wages. Starting in 2012/13, it appears the University is anticipating a reduction in salaries and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.

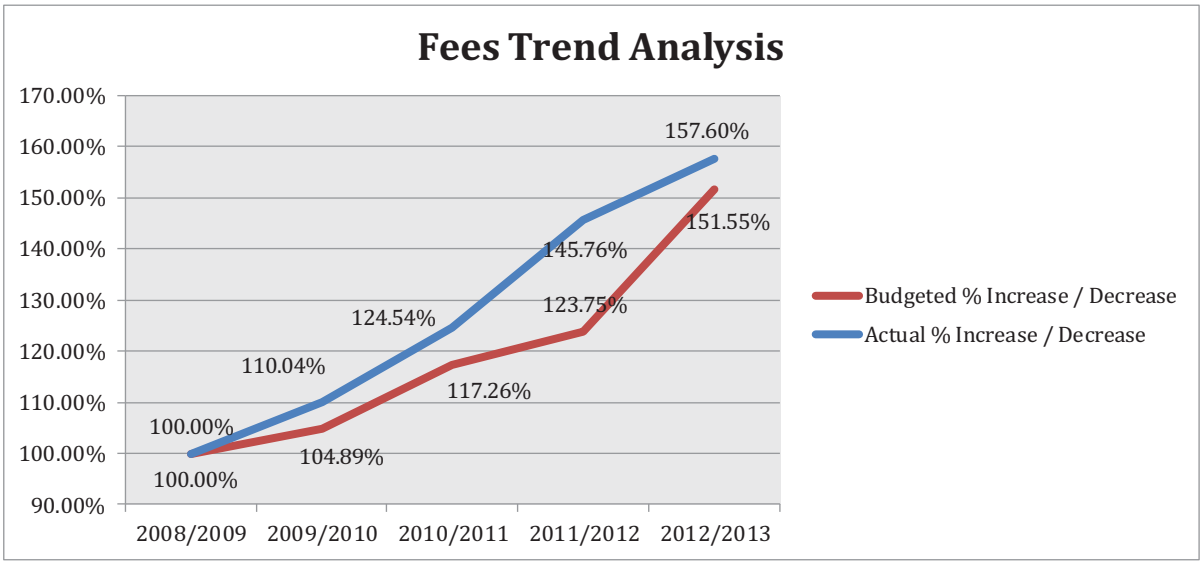


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as, conversely, they have budgeted declines in salaries and wages starting in 2012/13. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions. Overall, benefits are 49% of salaries and wages. Therefore, an individual whose salary is $40,000 would have benefits of $19,600, thus the individual costs the University $59,600 or approximately $60,000.

East Stroudsburg University – Trend Analyses

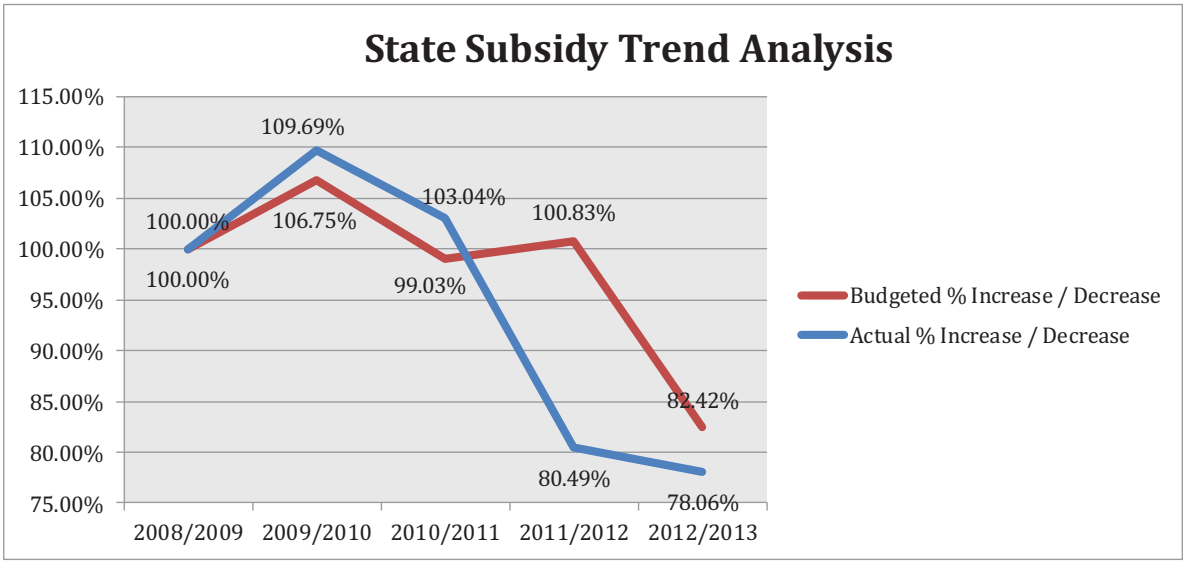


Using 2008/09 as a base year, the above chart affirms the University anticipated tuition revenue to steadily increase. The University's actual tuition revenues did increase until 2012/13 when it declined over 3.5%. Overall, enrollment has decreased 7% since 2008/09; tuition rates have increased 23% since 2008/09.

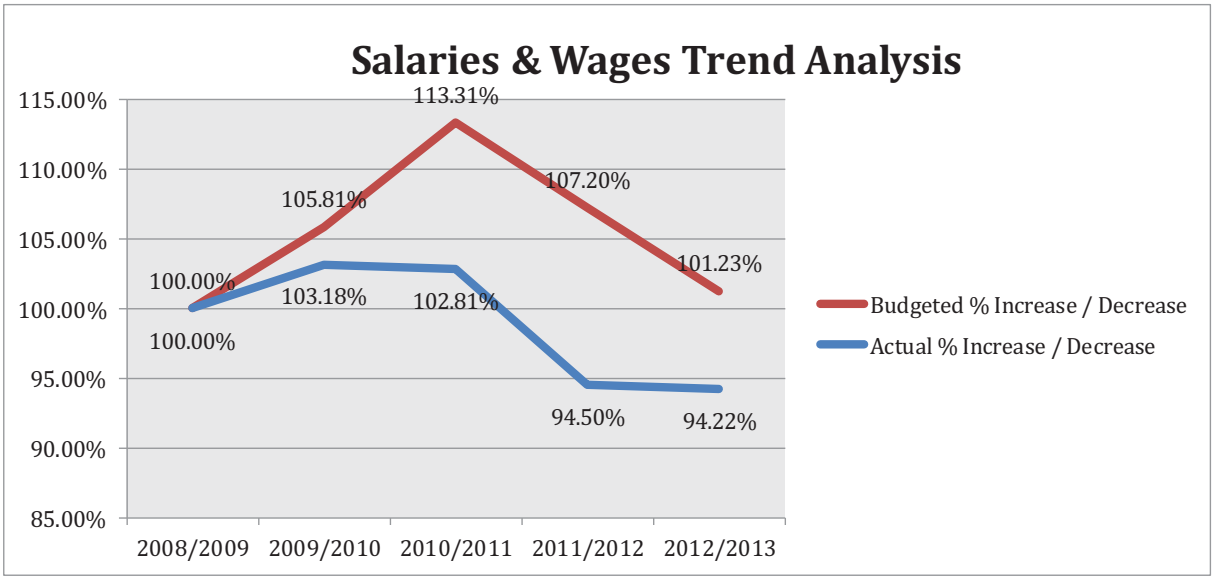


Using 2008/09 as a base year, the above chart indicates the University anticipated fees would continue to increase. The University tends to budget conservatively in this line item. During 2011/12, actual fees revenue exceeded budgeted fees revenue

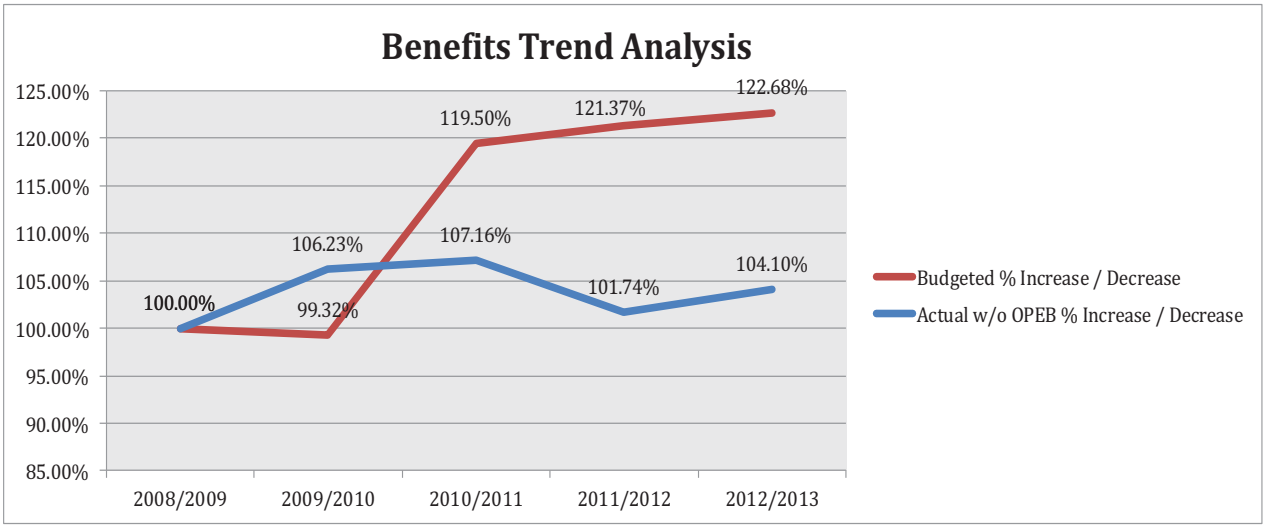
by approximately 19%. During 2012/13, the University anticipated a 28% increase. Actual fees for 2012/13 increased approximately 12% from 2011/12 actual fees.



Using 2008/09 as a base year, the University budgeted within 2% - 3% of actual State subsidy received until 2011/12. During 2011/12, actual State subsidy was approximately 20% less than anticipated. In the past year, it appears they are attempting to budget more in line with actual state subsidy received; budgeting within 5.9% of actual.

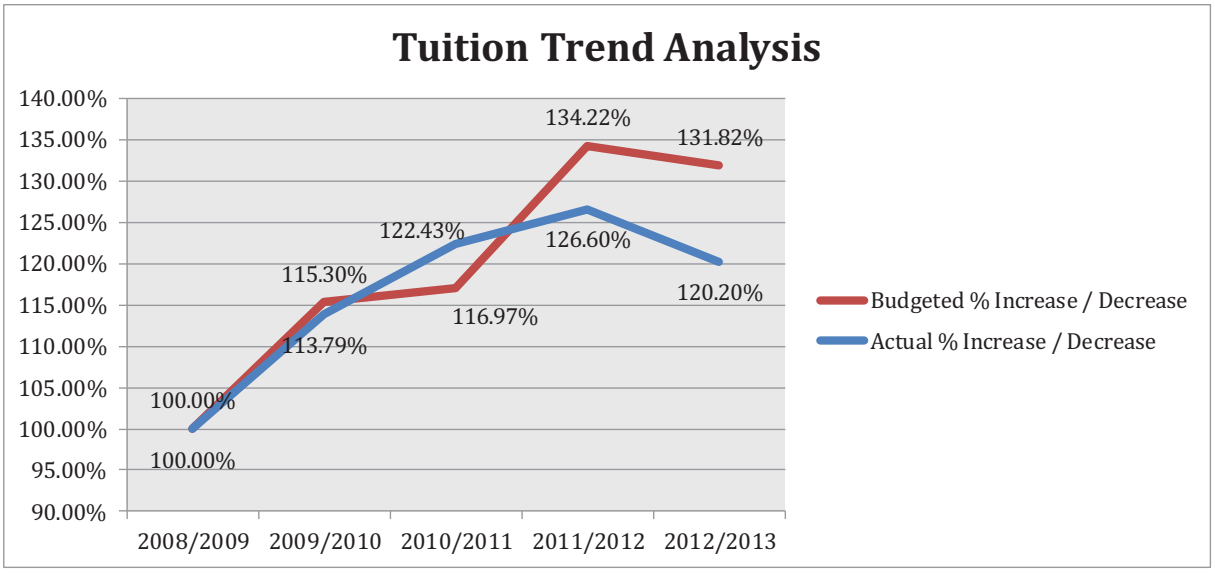


Using 2008/09 as a base year, the University has budgeted for a slight increase in salaries and wages. Starting in 2012/13, it appears the University is anticipating a reduction in salaries and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.

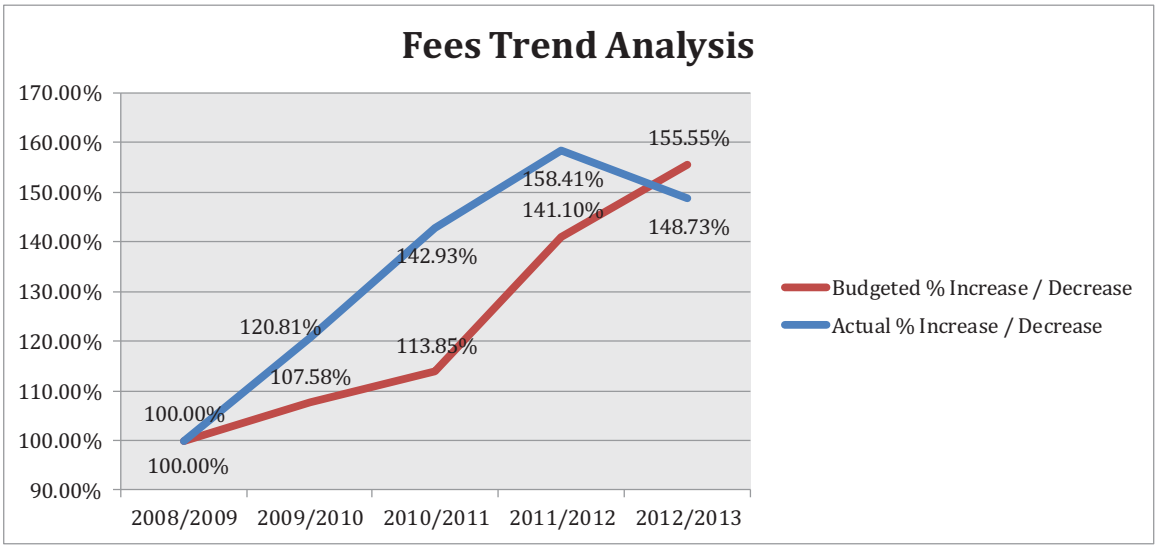


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as conversely, they have budgeted declines in salaries and wages starting in 2012/13. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions. Overall, benefits are 48% of salaries and wages. Therefore, an individual whose salary is $40,000 would have benefits of $19,200; thus the individual costs the University $59,200 or approximately $60,000.

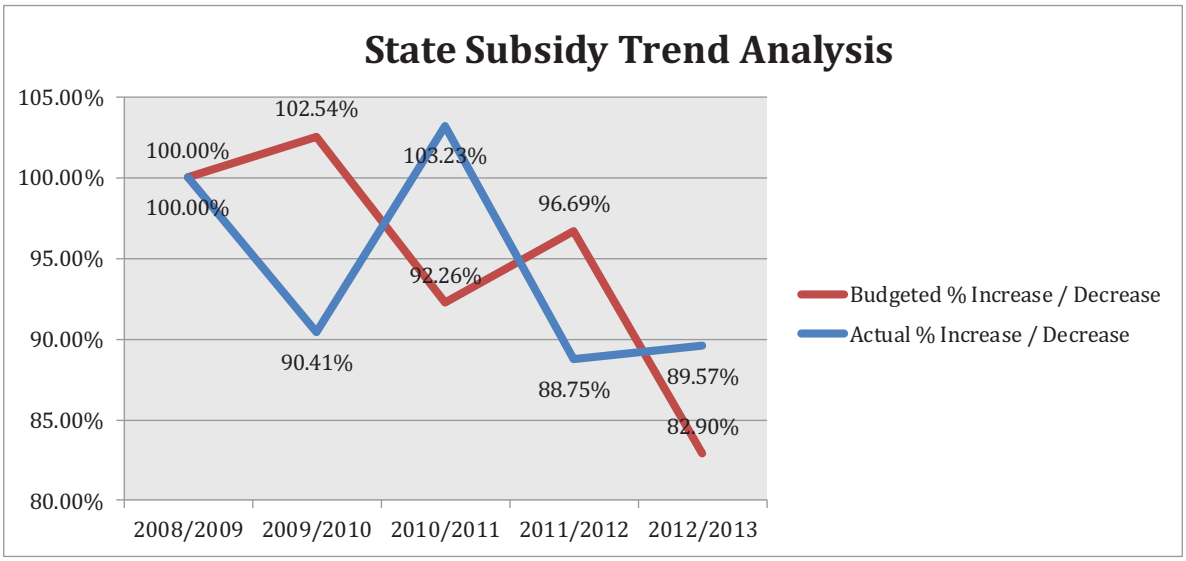
Edinboro University – Trend Analyses



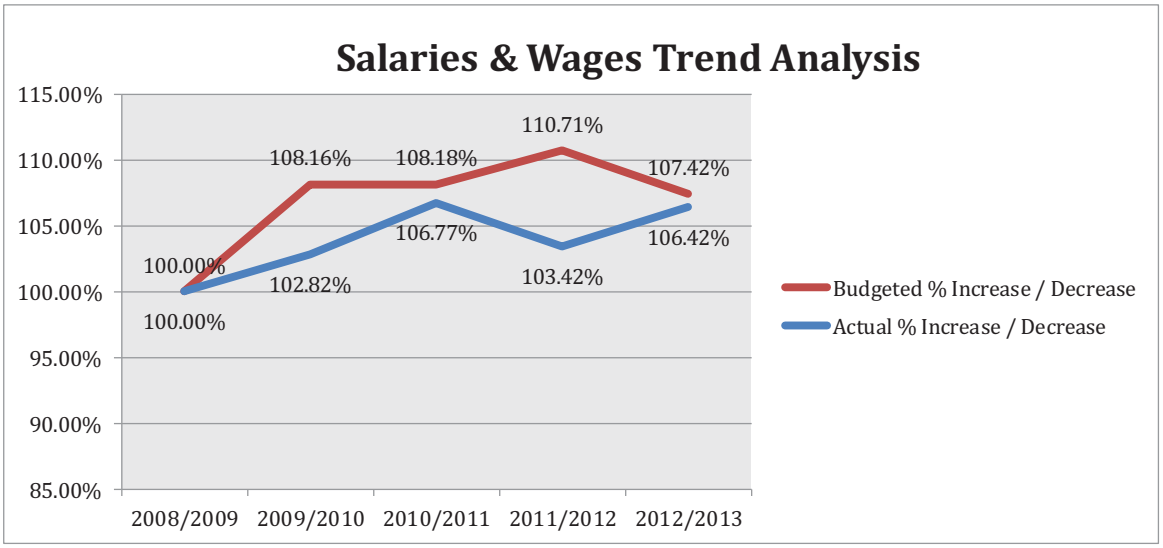
Using 2008/09 as a base year, the above chart affirms the University anticipated tuition revenue to steady increase. The University's actual tuition revenues steadily increased until 2012/13 when it declined over 5%. Overall, enrollment has increased 2% since 2008/09; tuition rates have increased 23% since 2008/09.



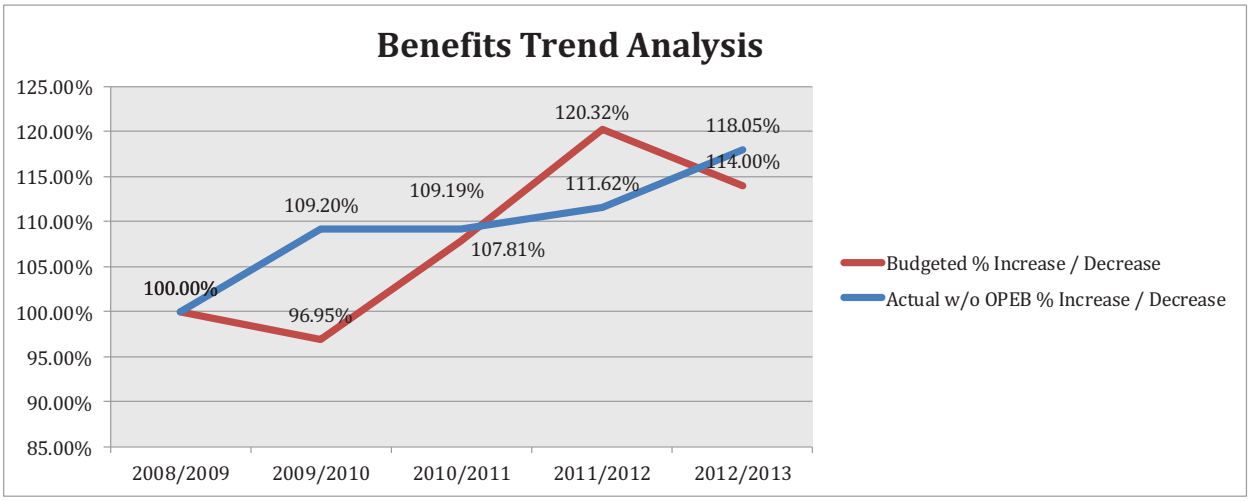
Using 2008/09 as a base year, the above chart indicates the University anticipated fees would continue to increase. The University budgeted conservatively in this line item until 2012/13. During 2012/13, it appears the University attempted to budget closer to actual results. However, 2012/13 actual fees declined over 6% or $708,660 from 2011/12 actual fees.



Using 2008/09 as a base year, the University budgeted optimistically during years when enrollment was increasing. In the past year, it appears they are attempting to budget more in line with actual state subsidy received.

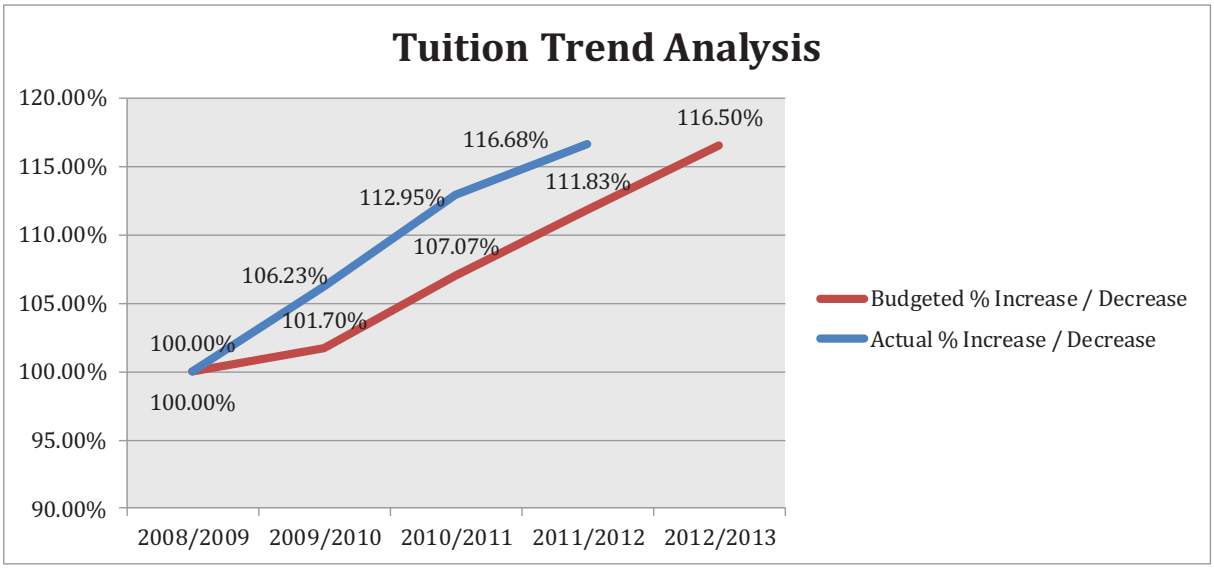


Using 2008/09 as a base year, the University has budgeted for an increase in salaries and wages through 2011/12. Starting in 2012/13, it appears the University is anticipating a reduction in salarlies and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.

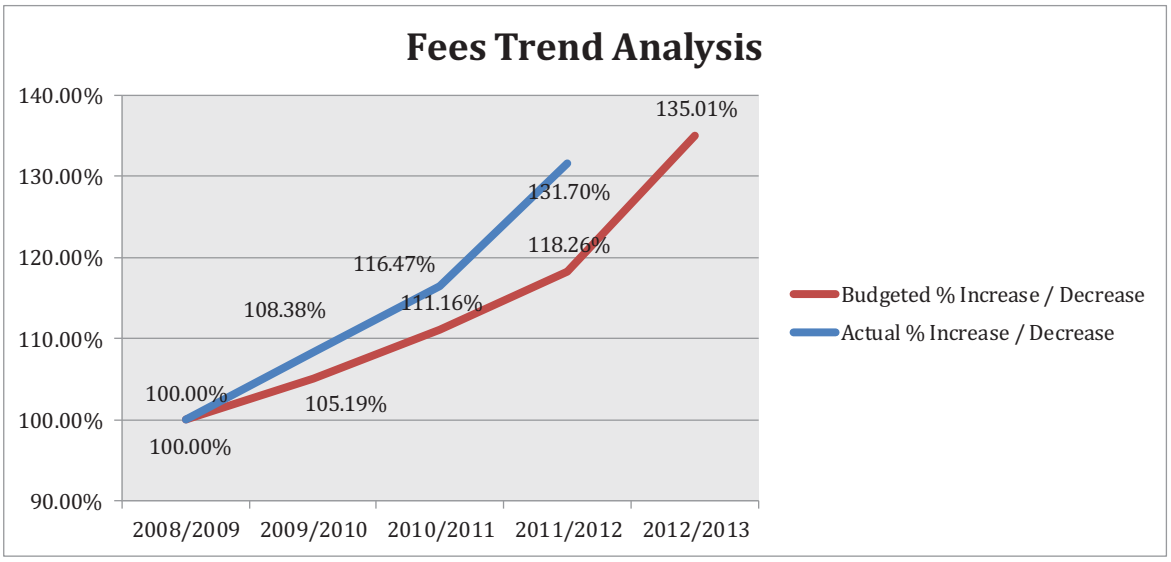


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as, conversely, they have budgeted declines in salaries and wages starting in 2012/13. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions.

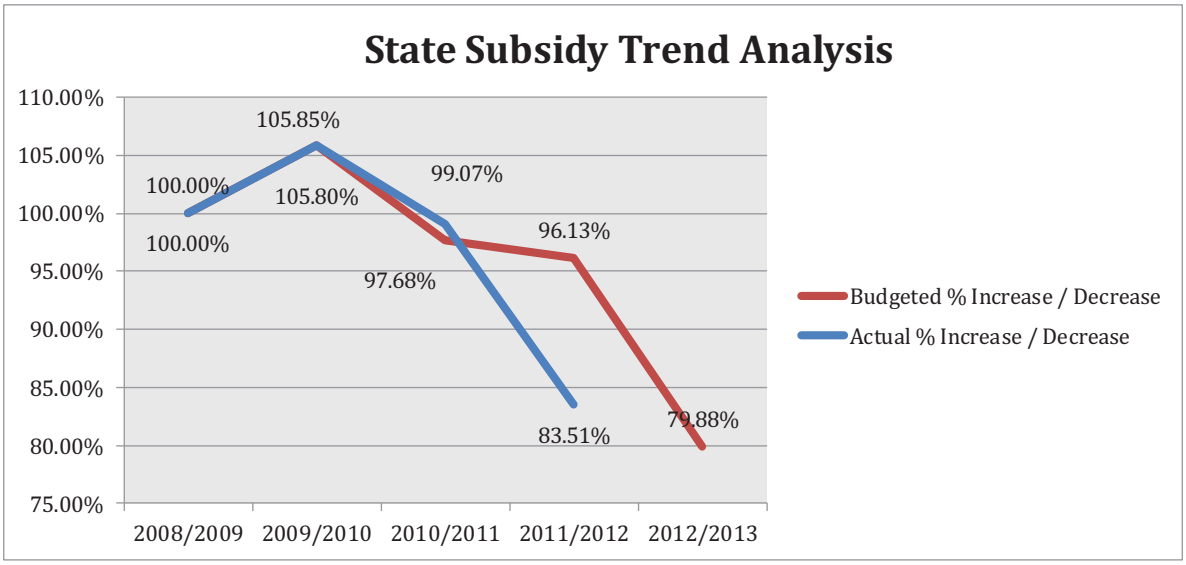
Kutztown University – Trend Analyses



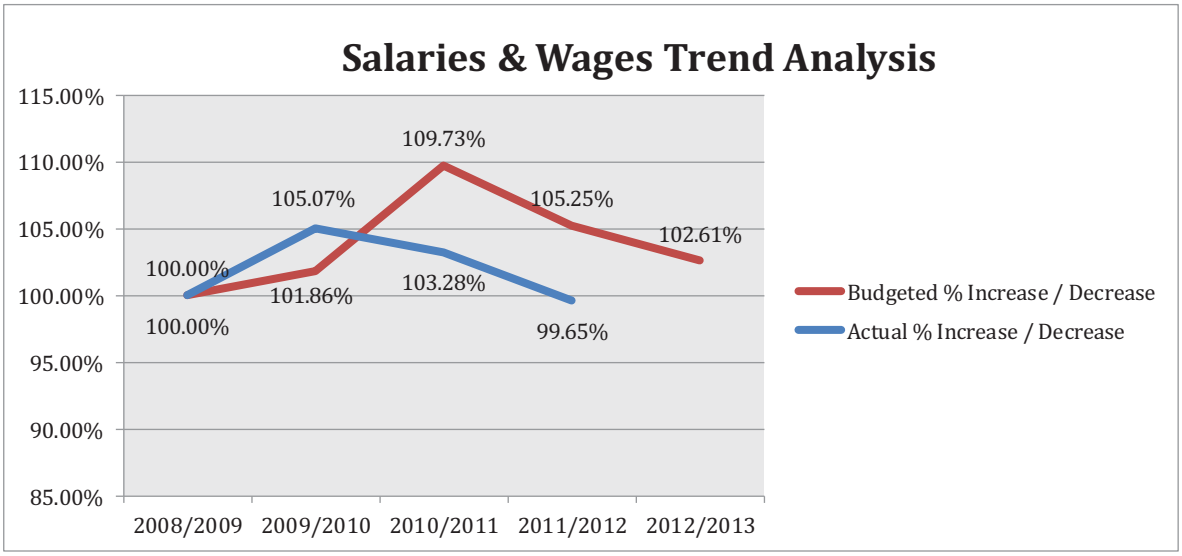
Using 2008/09 as a base year, the above chart affirms the University anticipated tuition revenue to steadily increase. Overall, enrollment has decreased 7% since 2008/09; tuition rates have increased 23% since 2008/09.



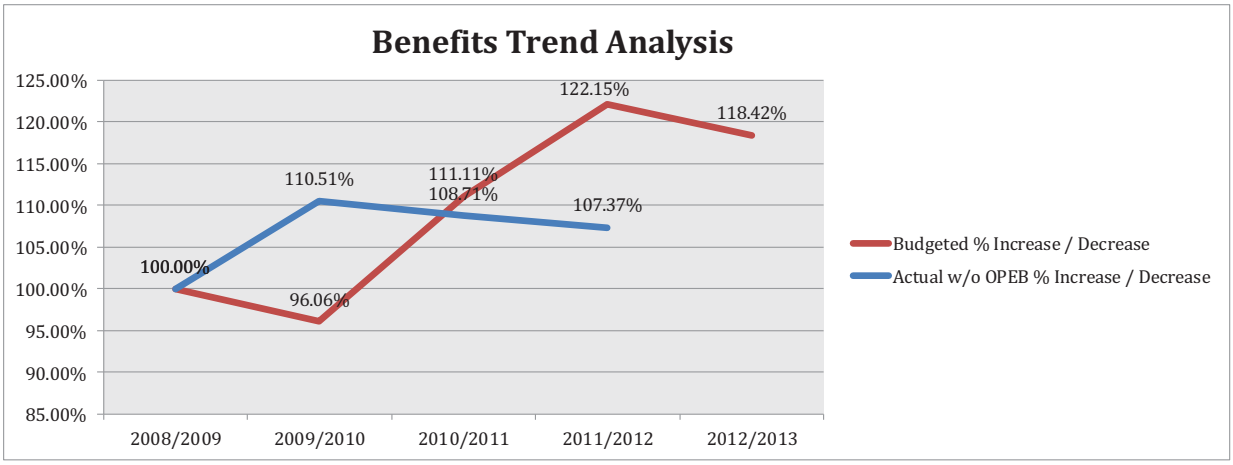
Using 2008/09 as a base year, the above chart indicates the University anticipated fees would continue to increase. The University budgeted conservatively in this line item until 2011/12.



Using 2008/09 as a base year, the University budgeted optimistically during years when enrollment was declining.

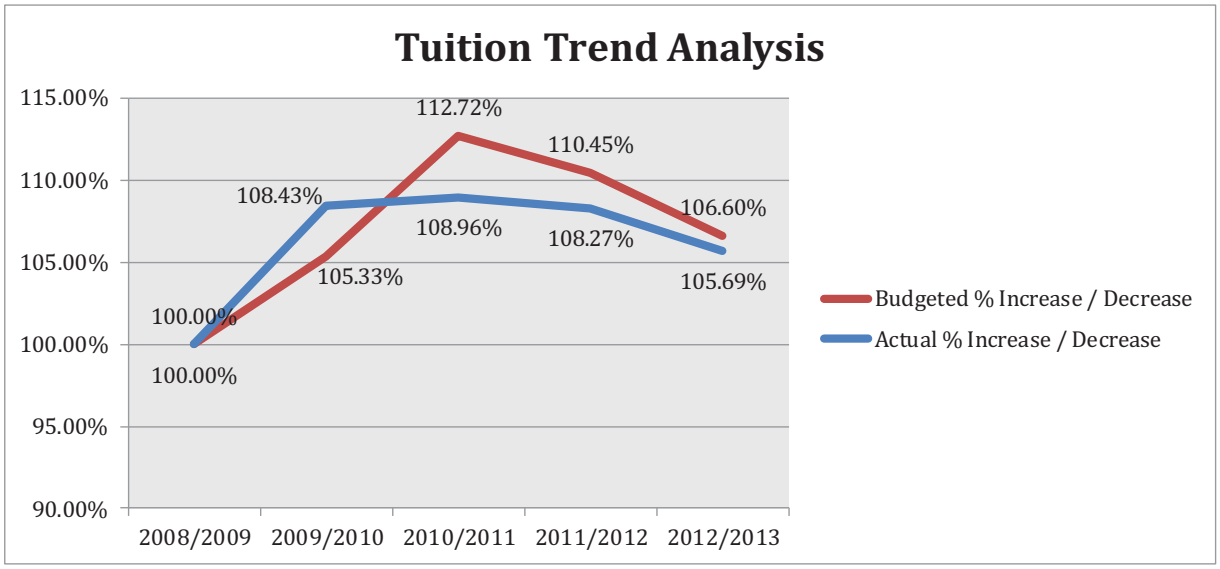


Using 2008/09 as a base year, the University has budgeted increases in salaries and wages through 2010/11. Starting in 2011/12, it appears the University is anticipating a reduction in salaries and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.

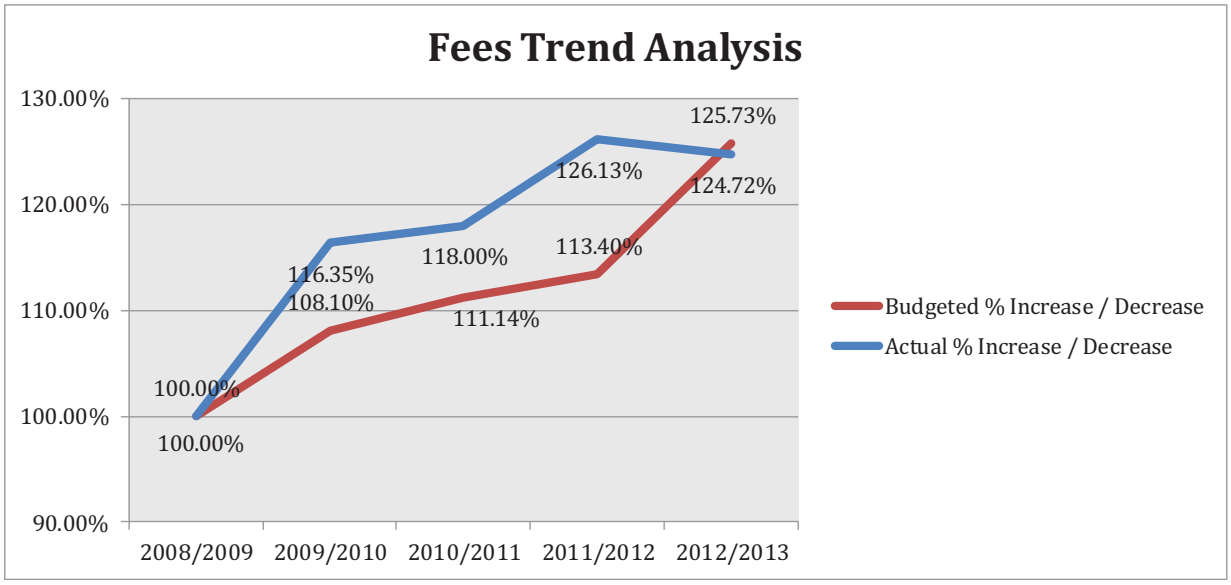


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as conversely, they have budgeted declines in salaries and wages starting in 2011/12. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions.

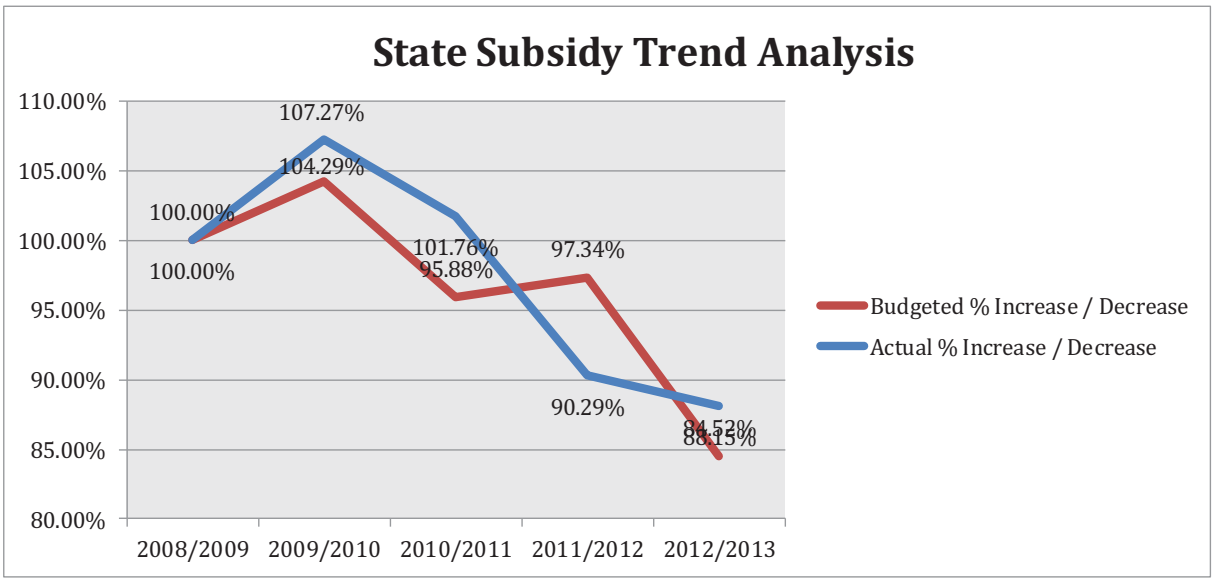
Mansfield University – Trend Analyses



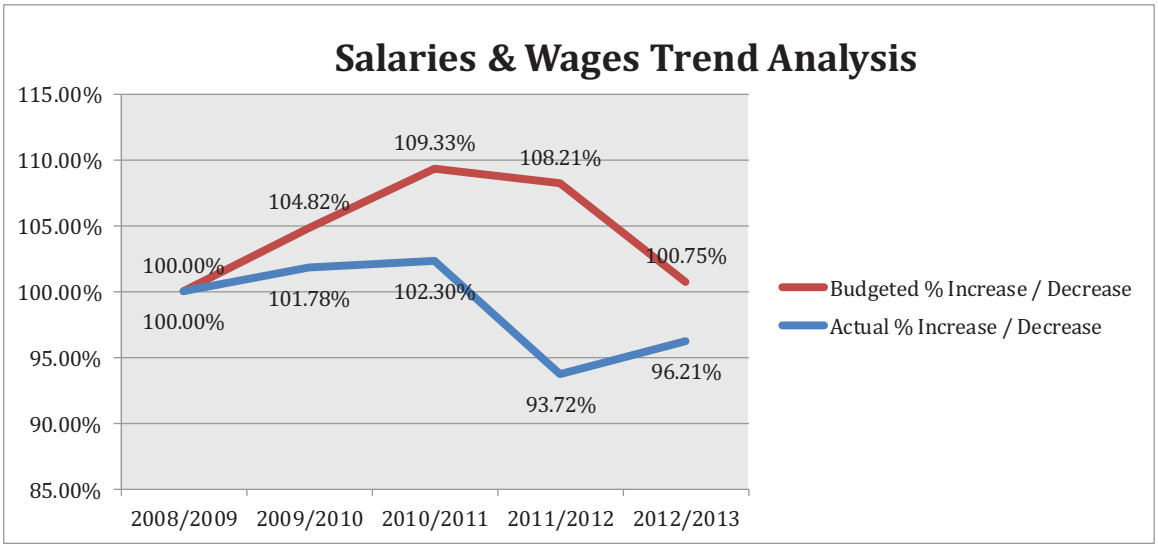
Using 2008/09 as a base year, the above chart affirms the University anticipated tuition revenue to steadily increase. The University's actual tuition revenues did increase until 2011/12 when it declined slightly by 0.63%. Tuition revenue decreased again in 2012/13 by 2.4%. Overall, enrollment has decreased 9% since 2008/09; tuition rates have increased 23% since 2008/09.



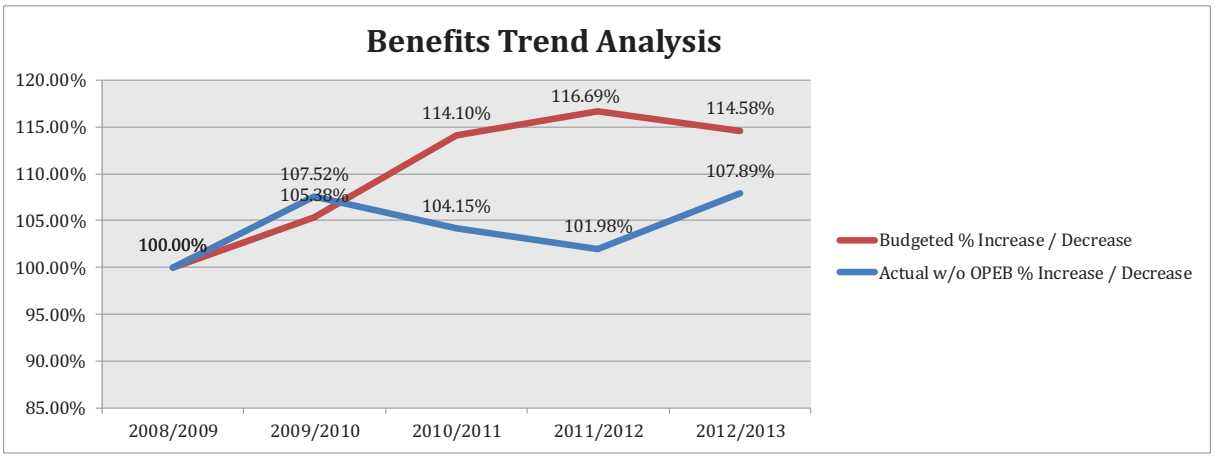
Using 2008/09 as a base year, the above chart indicates the University anticipated fees would continue to increase. This is in line with their budget to actual results.



Using 2008/09 as a base year, the chart indicates the University's budget for State subsidy was on target for 2008/09 through 2010/11. During 2011/12, the University anticipated State subsidy would remain relatively flat; actual State subsidy decreased by 11%. In the past year, it appears they are attempting to budget more in line with actual state subsidy received; budgeting within 0.24% of actual.

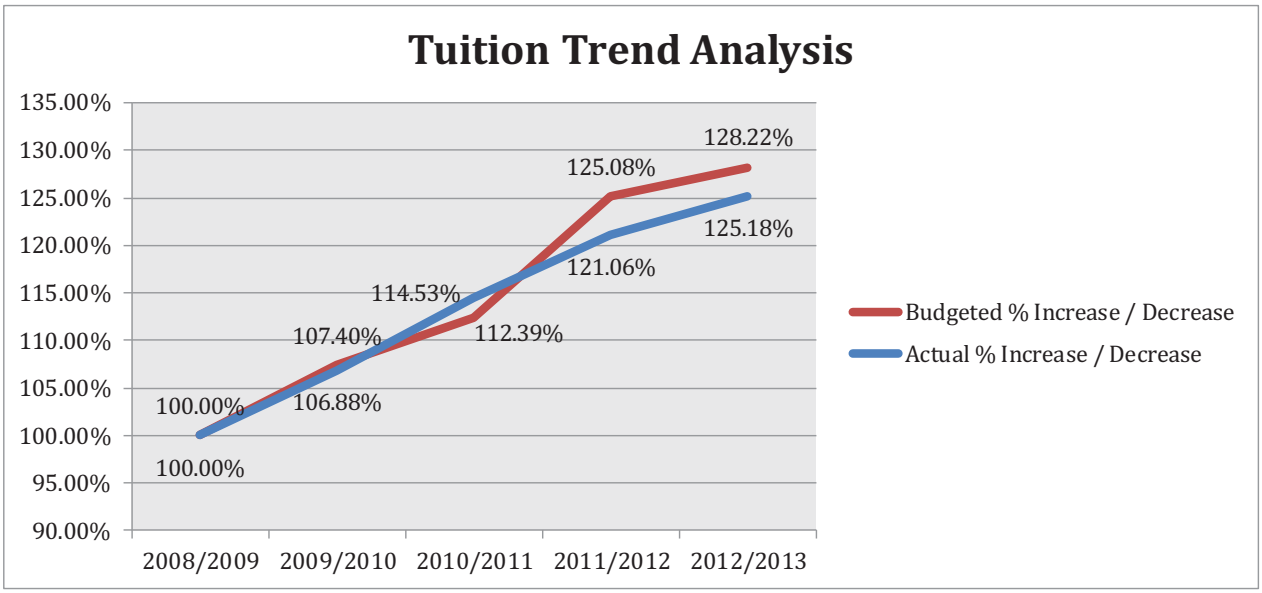


Using 2008/09 as a base year, the University has budgeted increases in salaries and wages through 2010/11. Starting in 2011/12, it appears the University is anticipating a reduction in salaries and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.

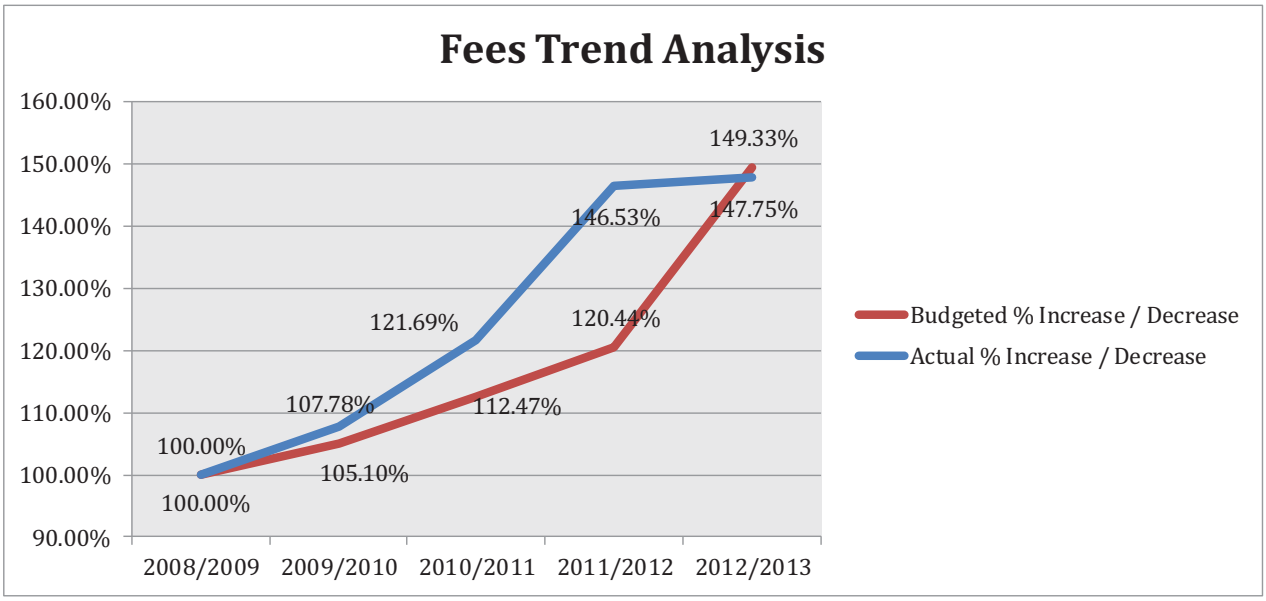


Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as, conversely, they have budgeted declines in salaries and wages starting in 2011/12. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions.

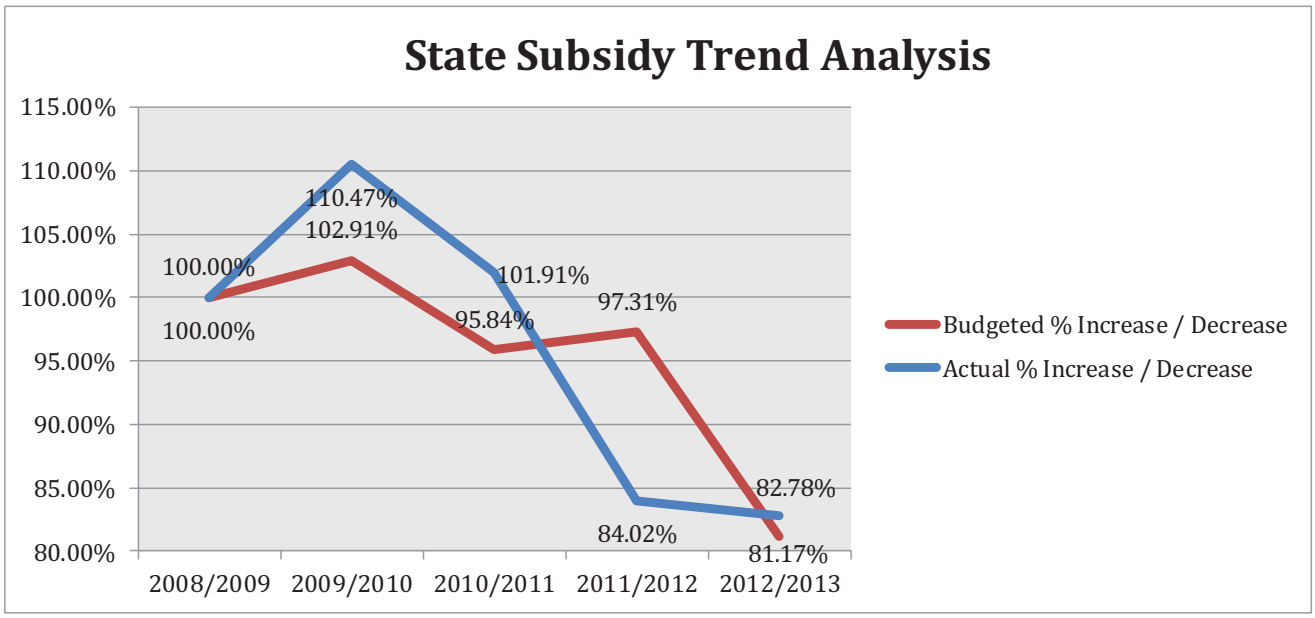
Slippery Rock University – Trend Analyses



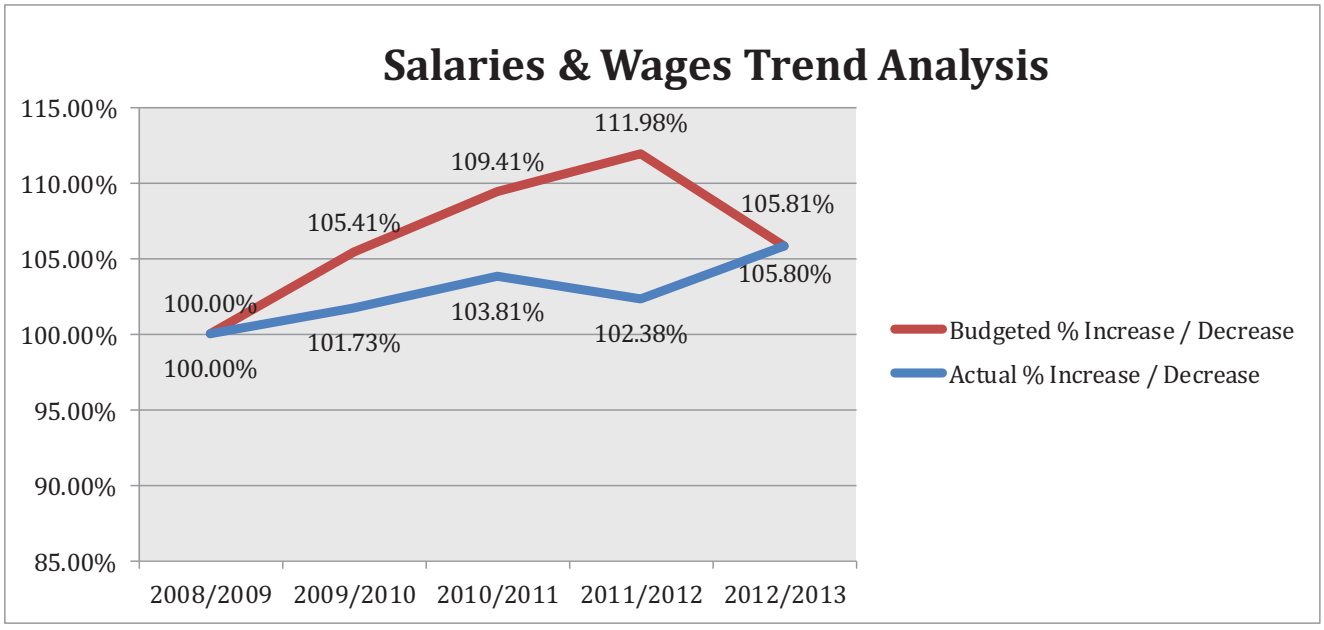
Using 2008/09 as a base year, the above chart affirms the University anticipates tuition revenue to steadily increase. Overall, enrollment has increased 3% since 2008/09; tuition rates have increased 23% since 2008/09.



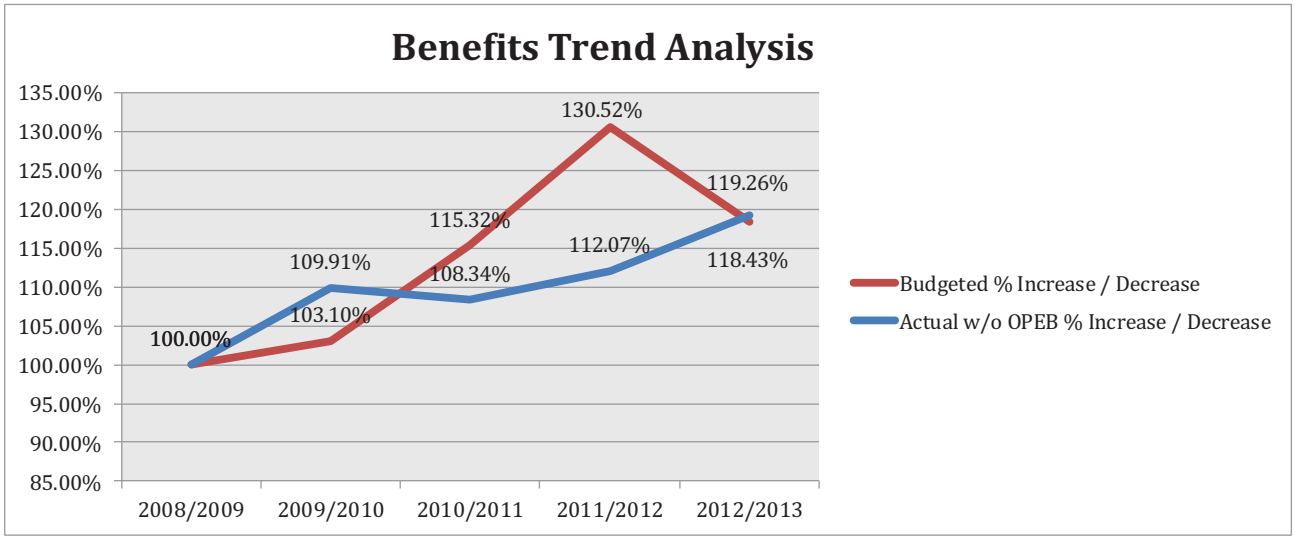
Using 2008/09 as a base year, the above chart indicates the University anticipates fees would continue to increase. The University has under-budgeted fees revenue approximately 10%, on average, since 2008/09.



Using 2008/09 as a base year, the University has anticipated a continual decline in state subsidy, however, they over-budgeted state subsidy for 2009/10, 2010/11, and 2011/12. The University budgeted within 2.6% of actual state subsidy received for 2012/13.



Using 2008/09 as a base year, the University has budgeted increases in salaries and wages through 2011/12. Starting in 2012/13, it appears the University is anticipating a reduction in salaries and wages. Natural attrition in personnel may be a factor. In addition, the University may be anticipating declining enrollment.



Using 2008/09 as a base year, the University is budgeting for an increase in benefits. This increase appears to be based on increased costs of benefits per employee as,

conversely, they have budgeted declines in salaries and wages starting in 2012/13. This is most likely due to increased costs associated with healthcare, OPEB pay-as-you go, and pensions.

B&R Boyer & Ritter LLC
Certified Public Accountants and Consultants

Curriculum Vitae

LISA A. MYERS, CPA, CFE, MAFF, FCPA

EDUCATION:

The Pennsylvania State University
Bachelor of Science; December 1987
Major in Accounting

DESIGNATIONS:

Certified Public Accountant, Commonwealth of Pennsylvania
Certified Fraud Examiner, Designated by the Association of Certified Fraud Examiners, Austin, Texas
Forensic Certified Public Accountant, Designated by the Forensic CPA Society, Spokane, Washington
Master Analyst of Financial Forensics, Designated by the National Association of Certified Valuation Analysts
Forensic Accounting/Investigation methodology, Certificate of Specialized Education Achievement, Sponsored by Consultants' Training Institute, a division of the National Association of Certified Valuation Analysts, Salt Lake City, Utah

PROFESSIONAL ORGANIZATIONS:

Member of American Institute of Certified Public Accountants
Member of Pennsylvania Institute of Certified Public Accountants
Member of Association of Certified Fraud Examiners
Member of National Association of Certified Valuation Analysts
Forensic CPA Society
Member of the Pennsylvania Association of School Business Officials (PASBO)
Member of the Forensics and Litigation Committee of the PICPA

EXPERIENCE:

Boyer & Ritter, LLC, Camp Hill, Pennsylvania
January 1989 to Present

I am a Principal of a regional CPA firm where my practice is segregated between forensic accounting, litigation support, risk assessment and internal audits, and public sector engagements. Risk assessment and internal audits are performed for governmental, not-for-profit, and for-profit industries. The public sector concentrates on governmental and not-for-profit clients.

The forensic accounting practice utilizes the art and science of investigating people and money. To date, I have been lead consultant on white collar crime investigations which have resulted in the discovery of over $5,500,000 of misappropriated assets.

HONORS:

Honored as one of Pennsylvania's Best 50 Women in Business in 2001
Received the Honored Alumni Award from Mount Union High School in 2002
Recognized by the YWCA of Greater Harrisburg as a Women of Excellence in 2009
Designated as one of the region's 25 Women of Influence in 2010

PRESENTATIONS:

Central PA Chapter of Certified Fraud Examiners (PACFE)
Pennsylvania Institute of Certified Public Accountants
Pennsylvania State Association of County Controllers
Pennsylvania Association of Non-Profit Organizations
Pennsylvania Association of School Business Officials
National American Lung Association Conferences
Elected County Auditors Training Conference
Adjunct Professor for Duquesne University/Masters Program for Officers
Governmental Accounting and Auditing Seminars for school districts, governments and municipalities

APPENDIX I

REPRESENTATION/CERTIFICATION

I represent/certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct; and stated to a reasonable degree of professional certainty.

- The reported analyses and summations are my personal, impartial, independent, unbiased, objective professional analyses, and summations.

- I have no present or prospective/contemplated financial or other interest in the business or property that is the subject of this report, and have no personal financial or other interest or bias with respect to the property or the parties involved.

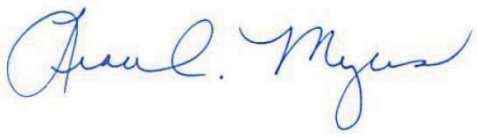
- This engagement was not contingent upon developing or reporting predetermined results.

- Compensation for completing this assignment is fee-based and is not contingent upon the development or reporting of a predetermined summation or direction that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.

- I reserve the right to update this report for information that comes to my attention after the date of this report.

- Both the AICPA and the Association of Certified Fraud Examiners have mandatory recertification program for its Members. I am in compliance with these programs.

Certification Signature



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Lisa A. Myers Date: October 25, 2013

B&R Boyer & Ritter LLC
Certified Public Accountants and Consultants

Curriculum Vitae

KIRA W. SANTANNA, CFE, MAFF

EDUCATION:

The Pennsylvania State University
Bachelor of Science; May 2005
Major in Accounting

DESIGNATIONS:

Certified Fraud Examiner, Designated by the Association of Certified Fraud Examiners, Austin, Texas
Master Analyst of Financial Forensics, Designated by the National Association of Certified Valuation Analysts

PROFESSIONAL ORGANIZATIONS:

Member of Association of Certified Fraud Examiners
Member of Central Pennsylvania Association of Certified Fraud Examiners
Member of National Association of Certified Valuation Analysts

EXPERIENCE:

Schaffner, Knight & Minnaugh Company, P.C.,
Erie, Pennsylvania
September 2005 to July 2006

Boyer & Ritter, LLC, Camp Hill, Pennsylvania
July 2006 to Present

I am a manager with a regional CPA firm where my experience is segregated between risk assessment and internal audits, forensic accounting, and public sector engagements. The public sector concentrates on governmental and not-for-profit clients. The risk assessment and internal audits are performed for a variety of industries, e.g. the governmental, not-for-profit, and for-profit industries. I also have experience with clients subject to Single Audit requirements.

The forensic accounting practice utilizes the art and science of investigating people and money. As a manager in my firms Fraud/Forensic services group, I provide risk management services which involve an integrated approach to help prevent, detect, and investigate fraud.

APPENDIX K

REPRESENTATION/CERTIFICATION

I represent/certify that, to the best of my knowledge and belief:

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- I reserve the right to update this report for information that comes to my attention after the date of this report.

- The Association of Certified Fraud Examiners has a mandatory recertification program for its Members. I am in compliance with this program.

Certification Signature

_____

Kira W. Santanna Date: October 25, 2013

B&R Boyer & Ritter LLC
Certified Public Accountants and Consultants

Curriculum Vitae

JUSTIN K. SCHAFFER, CPA

EDUCATION:

Bloomsburg University
Bachelor of Science; December 2006
Major in Accounting
Concentration in Fraud Examination

DESIGNATIONS:

Certified Public Accountant, Commonwealth of Pennsylvania

PROFESSIONAL ORGANIZATIONS:

Member of American Institute of Certified Public Accountants
Member of Pennsylvania Institute of Certified Public Accountants

EXPERIENCE:

Boyer & Ritter, LLC, Camp Hill, Pennsylvania
January 2007 to Present

I am a manager with a regional CPA firm where my experience is segregated between forensic accounting engagements, for-profit taxation and audit engagements, and public sector engagements. I have significant experience with clients subject to Single Audit requirements and provide risk assessment and internal audit services for clients in a variety of industries. I provide taxation services for one of the firm's largest for-profit entities, including subsidiary, consolidated and numerous individual tax returns.

As a manager in my firms Fraud/Forensic services group, I provide risk management services which involve an integrated approach to help prevent, detect, and investigate fraud.

APPENDIX M

REPRESENTATION/CERTIFICATION

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- I have no present or prospective/contemplated financial or other interest in the business or property that is the subject of this report, and have no personal financial or other interest or bias with respect to the property or the parties involved.

- This engagement was not contingent upon developing or reporting predetermined results.

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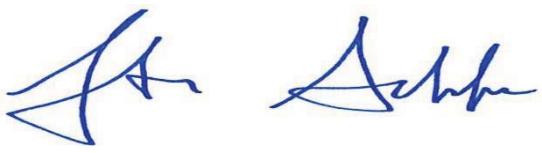
Certification Signature



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Justin K. Schaffer Date: October 25, 2013