

Clarion University of PA
Statement of Revenues, Expenses, and Change in Net Position

	-----Year Ended June 30,-----				
	2015	2014	Year over Year		
	Proposed Budget	Audit, DRAFT	Change		
Revenues					
Operating Revenues:					
Tuition and fees (1)	\$ 51,194,172	51,415,727	(221,555)	-0.4%	
less Scholarship discounts and allowances (2)	(10,897,289)	(11,825,307)	928,018	7.8%	
Net tuition and fees	40,296,883	39,590,420	706,463	1.8%	
Governmental grants and contracts:					
Federal (3)	3,608,485	3,834,208	(225,723)	-5.9%	
State (4)	6,196,346	7,573,711	(1,377,365)	-18.2%	
Local	0	2,736	(2,736)	-100.0%	
Nongovernmental grants and contracts (5)	562,525	705,877	(143,352)	-20.3%	
Sales and services (6)	2,013,293	3,673,932	(1,660,639)	-45.2%	
Auxiliary enterprises (7)	13,031,430	12,236,170	795,260	6.5%	
Other revenues (8)	223,500	460,261	(236,761)	-51.4%	
Total Operating Revenues	65,932,462	68,077,315	(2,144,853)	-3.2%	
Expenses					
Operating Expenses:					
Personnel compensation (9)	71,035,369	67,830,182	3,205,187	4.7%	
Provision for compensated absences & postretirement benefits (10)	5,338,180	4,777,783	560,397	11.7%	
Advertising (11)	1,235,971	1,614,049	(378,078)	-23.4%	
Travel & transportation	885,998	853,816	32,182	3.8%	
Computing & data processing	899,562	1,040,847	(141,285)	-13.6%	
Contracted services (12)	7,549,239	7,027,816	521,423	7.4%	
Utilities	2,949,445	2,865,499	83,946	2.9%	
Supplies (13)	3,129,182	4,415,855	(1,286,673)	-29.1%	
Food supplies	3,750,954	3,824,666	(73,712)	-1.9%	
Depreciation	4,700,000	4,705,251	(5,251)	-0.1%	
Student aid (14)	5,110,745	5,710,336	(599,591)	-10.5%	
Bad debt expense	482,573	389,699	92,874	23.8%	
All other expenses	2,541,282	2,624,208	(82,926)	-3.2%	
Total Operating Expenses	109,608,500	107,680,007	1,928,493	1.8%	
Net Operating Revenues (Expenses)	(43,676,038)	(39,602,692)	(4,073,346)	-10.3%	
Nonoperating Revenues (Expenses)					
State appropriations, general and restricted (15)	23,007,209	22,261,739	745,470	3.3%	
Pell grants (16)	8,245,000	8,622,876	(377,876)	-4.4%	
Investment income, net of related investment expense (17)	425,000	475,640	(50,640)	-10.6%	
Unrealized gain (loss) on investments	0	0	0	0.0%	
Gifts for other than capital purposes (18)	892,647	940,630	(47,983)	-5.1%	
Interest expense on capital asset-related debt	(585,445)	(558,322)	(27,123)	4.9%	
Gain (loss) on disposal of assets	0	0	0	0.0%	
Other nonoperating revenue	56,000	53,100	2,900	5.5%	
Net Nonoperating Revenues (Expenses)	32,040,411	31,795,663	244,748	0.8%	
Income (Loss) Before Other Revenues	(11,635,627)	(7,807,029)	(3,828,598)	-49.0%	
State appropriations, capital (19)	774,000	790,163	(16,163)	-2.0%	
Capital gifts and grants (20)	250,000	676,489	(426,489)	-63.0%	
Additions to permanent endowments	0	0	0	0.0%	
Total Other Revenues	1,024,000	1,466,652	(442,652)	-30.2%	
Increase (Decrease) in Net Position	(10,611,627)	(6,340,377)	(4,271,250)	67.4%	
Net Position					
Net position-beginning of year	4,778,049	11,118,426			
Net position-end of year	\$ (5,833,578)	4,778,049			

Adopted by Council of Trustees, September 18, 2014

Notes to Proposed Budget Statement of Revenues, Expenses, and Change in Net Position, Year Ended June 30, 2015

1. *Tuition and fees* fluctuate from year to year as a function of price and enrollment changes. In our proof of tuition and fees, we considered price increases (slightly more than 3%), an FTE enrollment decline of 5.9%, the PA resident/non-resident mix, and the impact of average credits taken by full-time undergraduate students.
2. *Scholarship discounts and allowances* in fiscal 2015 are down from the year before primarily due to reductions in PHEAA grant funding and to a lesser extent lower Pell funding. Both sources are affected by lower enrollments while the PHEAA per-student grant level is down 8% year over year.
3. *Governmental grants and contracts: Federal* will register a decline in fiscal 2015 as a result of the absence of a one-time grant in 2014 for the purchase of an electron microscope.
4. *Governmental grants and contracts: State* will be affected by declines in PHEAA grant funding (\$1 million), Wednet funding (\$150,000), and by the termination of the Northern Tier (Career Pathways) grant (\$200,000), a collaboration with Edinboro University. The PHEAA grant reduction reflects the effects of lower enrollment and a per-student grant funding reduction of 8% from fiscal 2014. Overall, reduced expenses offset the revenue loss.
5. *Nongovernmental grants and contracts* will decline because of the termination of program contracts in the Education school. The contracts were special arrangements to offer courses on a group basis to employer school districts.
6. *Sales and services* will decline because of a Commonwealth policy change which will cause a substantial reduction in the business of the Coordinated Care Network, the contract pharmacy facility of the Northwest Aids Alliance. Reduced expenses offset the revenue loss.
7. *Auxiliary sales* will be up as a result of a housing policy change (sophomores required to live in residence halls), price increases, and strong demand for dining hall meal plans.
8. The decline in *Other revenues* is caused by accounting reclassifications.
9. *Personnel compensation* effects include pay and benefit increases of above 6% for the two largest bargaining units.
10. *Provision for compensated absences & postretirement benefits* is the increase in the unfunded liability. The fiscal 2015 budget amount is an estimate based on a review of recent past experience.
11. Advertising expense includes costs of student recruitment ads and to a much lesser extent the costs of employee recruitment ads. Fiscal 2014 expenses included one-time costs associated with the re-branding initiative undertaken with the help of an outside consultant.
12. *Contracted services* in fiscal 15 budget include \$600,000 in contingency funds subject to reallocation during the year. The major costs at this budget line include PASSHE system contracts and shared services billed to the universities, operating support for the Clarion University Foundation, contracted custodial services, legal expense, contracted maintenance services, and contracted computer support.
13. *Supplies* expense will decline primarily as a result of a budgeted fall-off in Coordinated Care Network purchases of pharmaceuticals.
14. *Student aid* expense is a piece of the overall student financial aid cost, most of which is classified as a contra-revenue. The allocation of student financial aid costs is determined by a convoluted set of calculations that are consistent with guidelines developed by NACUBO (National Association of College & University Business Officers) and which have been blessed by GASB (Governmental Accounting Standards Board).

15. *State appropriations, general and restricted: Base* are up as a result of a spending formula policy change adopted by the Board of Governors that favored Clarion University (among other institutions). The budget line includes \$2 million in estimated performance funding.

16. *Pell grants* are expected to decline as a function of lower undergraduate enrollment.

17. *Investment income, net of related investment expense* will decline as a result of lower cash balances and continued downward pressure on short-term interest rates.

18. *Gifts for other than capital purposes* consist primarily of funds received from the Clarion University Foundation in support of scholarship grants to students.

19. *State appropriations, capital* are the Key 93 allocations that fund projects to address deferred maintenance on the campuses.

20. *Capital gifts and grants* include an annual capital grant from Chartwells in amount of \$250,000. The fiscal 2014 revenue line included a one-time receipt of funding from the Foundation (\$418,864) in connection with the construction and furnishing of the Science & Tech Center.

Clarion University of Pennsylvania – Fiscal 2015 Budget Report

Summary

The proposed budget for the year ending June 30, 2015 is a deficit of \$10,611,627. The larger than anticipated deficit is primarily caused by a shortfall in planned enrollment. The budget we are presenting is a GAAP-based look at revenues and expenses to allow for direct comparison of the University's audited financial results with the budget approved by the Council. This package includes the budget statement with supporting footnotes, an abbreviated cash flow statement, and a modified treatment of the budget to allow for easier access to understanding the basics of the University's finances.

Background

The macro environment continues to be tough for Clarion University and some of the other PASSHE universities, particularly in the western half of the Commonwealth. Declining pools of high school graduates and uncertain support for higher education in the legislature and the state house are causes for concern. Declining enrollments have mirrored the overall drop in population and in the pool of high school graduates in western PA.

Clarion's revenue base is made up of student support, 66%, appropriations from the Commonwealth, 24%, and other sources 10%. While Clarion has seen a boost in its allocations of the state's appropriation to PASSHE, overall, the revenue base is under profound stress. Prospects for re-working this picture will require new ways of thinking about service delivery and development of programmatic initiatives that respond to student demand and can be run on a net revenue positive basis. Fundraising initiatives over time will assume increasing importance as a way to add robustness to the revenue base and the planned capital campaign can be a vehicle to drive up annual giving support. Tuition, instructional support, and tech fee pricing is established by PASSHE; other student fees are set by the University.

Clarion's cost structure is highly inflexible with almost 73% of costs devoted to compensation, most of which is for faculty and staff covered by collective bargaining agreements. Collective bargaining agreements are negotiated by PASSHE for the faculty and most other unions and by the Commonwealth for AFSCME. Near-term cost inflators for APSCUF and AFSCME are in the range of 6 -- 6 1/2% and for the other unions and non represented staff, somewhat less.

Budget Development and Process

In the immediate prior two years, the budgets approved by Council of Trustees have not included all funds. For fiscal 2013, Council approved the unrestricted educational and general funds budget excluding certain 'self-supporting funds', auxiliary funds and restricted funds. For fiscal 2014, Council approved a budget for all unrestricted funds, including both educational and general funds and auxiliary funds (primarily dining and residence halls). In both years, certain balance sheet accruals (non-cash costs) required for conformance to GAAP were omitted.

Beginning with the budget for fiscal 2015 (the year ended June 30, 2015), we are presenting a budget that is based on GAAP accounting so that we will be able to compare budget and actual audited results. The practice of budgeting in a manner consistent with GAAP is a best business practice and is widely followed in the private sector of higher education. The cumbersome nature of GAAP reporting for public colleges and universities along with a tendency to cling to past practices have discouraged the adoption of GAAP budgeting in the public sector.

The key budget drivers are, on the revenue side, enrollment, tuition and fee pricing, and appropriation support from the Commonwealth. Appropriation support to the University is a function of overall support appropriated to PASSHE and, within PASSHE, the University's relative enrollment trends and facilities needs as compared with other PASSHE institutions. Effective for fiscal 2015, the allocation funding formula used by PASSHE has been changed with the result that funding for Clarion University is expected to increase by \$2.4 million overall, with the gain spread evenly over this year and the next two. On the expense side, employment levels and compensation inflators are the main drivers. Inflationary impacts on non compensation expense have not been a significant factor over recent years.

Current Budget Picture – Revenues

The Workforce Plan (October 28, 2013) contemplated enrollment gains that are not fully materializing in the timeline we expected. The work to shore up and improve student recruitment results will be a top priority objective moving forward. Enrollments continue under pressure in the current year with full-time equivalent (FTE) students down an estimated 4.8% year over year and 20.2% over the last five years. The ratio of non-resident students to PA residents has increased somewhat to provide a richer revenue mix.

Appropriations will be up in fiscal 2015 as a result of a refinement in the workings of PASSHE's allocation formula. The total impact on the University of the change in the formula is expected to be \$2.4 million over the next three years if relative enrollments across PASSHE remain stable.

Current Budget Picture – Expenses

Beyond the revenue projections of the Workforce Plan, reductions and reallocations in spending were planned to help bring the operating budget into balance. Reductions in staffing levels are taking place via retirements, resignations, and furloughs over time. In the execution of this part of the Plan, University management has worked to minimize the adverse impact on employees. Thus, certain of the planned steps will be phased in on a timeline that is a year or two later than originally thought and opportunities for reassignment of furloughed employees within the University have been utilized where possible.

The management of the Plan requires a thorough review of how and whether the details are being accomplished. The analysis of Plan vs. actual results is now underway and management will meet to review the results within the next several weeks.

Next Steps

Priorities for management action are addressing the enrollment challenge and managing the Workforce Plan implementation so that cost savings targets are met. Much depends on our ability to boost revenues through enrollment gains. If we lag in this area, cost reduction objectives will need to be re-thought so that a clear path to a balanced budget is in sight.

PF, September 18, 2014

Cash Flow Statement, Abbreviated

	-----Year Ended June 30,-----	
	2015	2014
	<u>Proposed Budget</u>	<u>Audit, DRAFT</u>
Increase (Decrease) in Net Position	\$ (10,611,627)	(6,340,377)
Add back non-cash expenses		
Compensated absences & postretirement	5,338,180	4,777,783
Depreciation	4,700,000	4,705,251
Less capital purchases (1)	(2,056,050)	(3,328,580)
Less payments of debt principal	(1,566,974)	(1,842,978)
All other items	-	(175,875)
Increase (Decrease) in cash	\$ (4,196,471)	(2,204,776)

(1) Expenditures for the rehabilitation of Becht Hall are capitalized on the books of the Commonwealth of Pennsylvania which retains ownership of the building. Thus the financial impact of the project are absent from the University's balance sheet, statement of revenues, expenses and other changes, and the cash flow statement.

Clarion University of PA
Statement of Revenues, Expenses, and Change in Net Position
Modified Version

Modified Version		-----Year Ended June 30,-----			
		2015		2014	
		Proposed Budget		Audit, DRAFT	
REVENUE					
Revenue from students					
Tuition and fees	\$	51,194,172		51,415,727	
less Scholarship discounts and allowances		(2,223,034)		(2,528,827)	
Auxiliary revenues		13,313,606		12,538,747	
less Scholarship discounts and allowances		(282,176)		(302,577)	
Revenue from students, net		62,002,568	65.6%	61,123,070	63.5%
State appropriations -- base, performance funding		23,007,209	24.4%	22,261,739	23.1%
Revenue from other sources					
Operating Grants -- Federal		3,428,485		3,888,763	
Operating Grants -- State		1,196,346		1,524,781	
Operating Grants -- Nongovernmental		202,525		319,048	
Sales and services		2,013,293		3,673,932	
Gift income		892,647		940,630	
Investment income		425,000		475,640	
Other revenues		279,500		513,361	
Capital grants, nongovernmental		250,000		676,489	
Capital appropriations		774,000		790,163	
Revenue from other sources		9,461,796	10.0%	12,802,807	13.3%
TOTAL REVENUE		94,471,573	100.0%	96,187,616	100.0%
EXPENSES					
Personnel compensation, paid currently		71,035,369		67,830,182	
Provision for compensated absences & postretirement benefits		5,338,180		4,777,783	
All compensation		76,373,549	72.7%	72,607,965	70.8%
Advertising		1,235,971	1.2%	1,614,049	1.6%
Travel & transportation		885,998	0.8%	853,816	0.8%
Computing & data processing		899,562	0.9%	1,040,847	1.0%
Professional, custodial, security & other Services		7,549,239	7.2%	7,027,816	6.9%
Utilities		2,949,445	2.8%	2,865,499	2.8%
Supplies		3,129,182	3.0%	4,415,855	4.3%
Food supplies		3,750,954	3.6%	3,824,666	3.7%
Depreciation		4,700,000	4.5%	4,705,251	4.6%
Bad debt expense		482,573	0.5%	389,699	0.4%
Interest expense		585,445	0.6%	558,322	0.5%
All other expenses		2,541,282	2.4%	2,624,208	2.6%
Total Expenses		105,083,200	100.0%	102,527,993	100.0%
Increase (Decrease) in Net Position		(10,611,627)		(6,340,377)	
Net Position					
Net position-beginning of year		4,778,049		11,118,426	
Net position-end of year		\$ (5,833,578)		4,778,049	

1. This Statement of Revenues, Expenses, and Changes in Net Position is wholly consistent with the standard GAAP treatment except for the following changes. (a) Pell, PHEAA, Veterans Administration, and Pittsburgh Promise financial aid funding has been eliminated from the grant revenue lines and from scholarship discounts and allowances because the funding follows the student. The University acts as a conduit for the funds because the student has chosen to study at Clarion University. Because the funds attach to the student, they are not in an economic sense grant income to the University. (b) Student aid expense has been reclassified up to the scholarships discounts and allowances line to make the treatment of financial aid costs consistent within the statement. (c) The distinction between operating and nonoperating revenue and expense classifications has been eliminated to simplify the presentation of the data. The net effect of the changes to the Statement on the Increase (Decrease) in Net Position is -0- for both years.