SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2015 AND 2014

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Shippensburg University of Pennsylvania
of the State System of Higher Education

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and the aggregate discretely presented component units of Shippensburg University of the Pennsylvania of the State System of Higher Education ("the University"), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively, comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Shippensburg University Student Services, Inc. (Student Services) and Shippensburg University Foundation (the Foundation), the discretely presented component units of the University, which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Council of Trustees
Shippensburg University of Pennsylvania
of the State System of Higher Education

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component units of the University as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* and related GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* for the year ended June 30, 2015. As a result of the implementation of GASB Statements No. 68 and 71, the University reported a restatement for the change in accounting principle and a summary of the restatement is presented in Note 1. Our auditors' opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 51 and the Schedules of Proportionate Share of SERS/PSERS Net Pension Liability and SERS/PSERS Schedules of Contributions on page 53 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 22, 2015

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 83,612,360	$ 84,868,546
Accounts Receivable:		
Governmental Grants and Contracts	1,053,889	1,230,775
Students, Net of Allowance for Doubtful Accounts of approximately $755,000, in 2015 and $645,000, in 2014	1,599,080	1,576,263
Other	573,611	835,778
Interest Income Receivable	104,693	96,117
Inventory	141,158	162,694
Prepaid Expenses and Other Current Assets	1,164,465	1,306,476
Loans Receivable	489,770	493,960
Due from Component Unit	5,288,767	2,687,202
Total Current Assets	94,027,793	93,257,811
NONCURRENT ASSETS		
Loans Receivable	2,174,380	2,154,781
Capital Assets, Net	103,085,763	109,508,062
Due from Component Unit	1,617,954	1,688,218
Other Assets	707,562	783,667
Total Noncurrent Assets	107,585,659	114,134,728
Total Assets	201,613,452	207,392,539
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	185,335	48,799
Deferred Outflows from Pension Activities	4,607,914	-
Total Deferred Outflows of Resources	4,793,249	48,799
Total Assets and Deferred Outflows of Resources	$ 206,406,701	$ 207,441,338

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2015 AND 2014

	2015	2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 11,449,424	$ 9,579,099
Unearned Revenue	3,367,272	2,822,475
Students' Deposits	788,255	813,979
Other Deposit Liabilities	304,446	279,905
Workers' Compensation	359,288	384,626
Compensated Absences	481,849	4,541,903
Bonds Payable	2,753,800	3,963,691
Due to System, Academic Facilities Renovation Bond Program (AFRP)	281,595	270,498
Due to Component Unit	562,662	439,585
Other Liabilities	355,149	357,691
Total Current Liabilities	20,703,740	23,453,452
NONCURRENT LIABILITIES		
Unearned Revenue	1,837,971	2,507,024
Workers' Compensation	507,614	421,667
Compensated Absences and Postretirement Benefit Obligations	79,293,100	71,468,808
Bonds Payable	45,222,596	47,784,645
Net Pension Liability	58,008,142	-
Due to System, AFRP	1,808,914	2,092,660
Other Noncurrent Liabilities	3,373,539	3,664,132
Total Noncurrent Liabilities	190,051,876	127,938,936
Total Liabilities	210,755,616	151,392,388
DEFERRED INFLOWS OF RESOURCES		
Deferred Charge on Refunding	76,563	1,630
Deferred Inflows from Pension Activities	1,011,779	-
Total Deferred Inflows	1,088,342	1,630
NET POSITION		
Net Investment in Capital Assets	53,127,630	55,443,737
Restricted for:		
Expendable:		
Scholarships and Fellowships	191,995	135,149
Capital Projects	6,977,045	8,717,070
Nonexpendable:		
Student Loans	440,343	437,255
Unrestricted	(66,174,270)	(8,685,891)
Total Net Position	(5,437,257)	56,047,320
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 206,406,701	$ 207,441,338

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Tuition and Fees	$ 65,359,517	$ 64,680,367
Less: Scholarship Discounts and Allowances	14,761,342	14,535,718
Net Tuition and Fees	50,598,175	50,144,649
Auxiliary Enterprises	26,632,247	28,127,102
Less: Scholarship Discounts and Allowances	87,390	97,192
Net Auxiliary Enterprises	26,544,857	28,029,910
Governmental Grants and Contracts:		
Federal	2,653,277	2,931,724
State	9,379,401	9,034,808
Nongovernmental Grants and Contracts	1,187,198	1,018,693
Sales and Services of Educational Departments	2,263,438	2,092,268
Other Revenues	942,840	970,583
Total Operating Revenues	93,569,186	94,222,635
OPERATING EXPENSES		
Instruction	50,857,321	51,271,215
Research	732,534	810,219
Public Service	4,988,418	4,639,923
Academic Support	13,833,516	13,674,407
Student Services	12,535,346	12,752,112
Institutional Support	15,008,290	14,201,718
Operations and Maintenance of Plant	9,360,083	9,323,969
Depreciation	9,312,800	9,498,473
Student Aid	3,110,309	3,379,885
Auxiliary Enterprises	22,287,182	20,644,485
Total Operating Expenses	142,025,799	140,196,406
OPERATING LOSS	(48,456,613)	(45,973,771)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	28,354,334	28,164,791
Pell Grants	8,266,230	8,279,870
Investment Income, Net of Related Investment Expenses of $18,379 in 2015 and $18,408 in 2014	1,009,909	1,146,248
Interest Expense	(2,074,578)	(2,357,448)
Loss on Disposal of Capital Assets, Net	(934,023)	(220,400)
Other Nonoperating Revenue	3,114,835	105,800
Nonoperating Revenues, Net	37,736,707	35,118,861
LOSS BEFORE OTHER REVENUES	(10,719,906)	(10,854,910)
OTHER REVENUES		
State Appropriations, Capital	995,026	999,202
Capital Gifts and Grants	563,904	652,888
Total Other Revenues	1,558,930	1,652,090
CHANGES IN NET POSITION	(9,160,976)	(9,202,820)
Net Position - Beginning of Year	56,047,320	65,250,140
Restatement for July 1, 2014, Pension Liability and Related Expense	(52,323,601)	-
Net Position - Beginning of Year, as restated	3,723,719	-
NET POSITION - END OF YEAR	$ (5,437,257)	$ 56,047,320

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 51,941,156	$ 50,209,737
Grants and Contracts	14,014,957	12,595,539
Payments to Suppliers for Goods and Services	(33,266,119)	(32,841,045)
Payments to Employees	(90,982,854)	(89,083,464)
Loans Issued to Students	(466,578)	(475,082)
Loans Collected from Students	451,169	397,657
Student Aid	(3,110,309)	(3,379,885)
Auxiliary Enterprise Charges	25,246,749	30,662,307
Sales and Services of Educational Departments	2,230,328	2,092,268
Other Payments	(1,304,840)	2,733,265
Net Cash Used by Operating Activities	(35,246,341)	(27,088,703)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, including Federal ARRA	28,354,334	28,164,791
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	8,266,230	45,096,850
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	58,042,906	(45,096,850)
Pell Grant	(58,042,906)	8,279,870
Agency Transactions, Net	31,120	5,159
Other	3,115,835	105,800
Net Cash Provided by Noncapital Financing Activities	39,767,519	36,555,620
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Debt	6,001,035	467,503
Capital Appropriations	995,026	999,202
Capital Gifts and Grants Received	322,104	290,404
Proceeds from Sale of Capital Assets	6,969	18,357
Purchases of Capital Assets	(1,916,146)	(3,065,040)
Principal Paid on Debt and Leases	(9,563,213)	(4,880,068)
Interest Paid on Debt and Leases	(2,624,472)	(2,690,265)
Net Cash Used by Capital Financing Activities	(6,778,697)	(8,859,907)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,001,333	1,140,463
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,256,186)	1,747,473
Cash and Cash Equivalents - Beginning of Year	84,868,546	83,121,073
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 83,612,360	$ 84,868,546

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (48,456,613)	$ (45,973,771)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	9,312,800	9,498,473
Changes in Assets and Liabilities:		
Receivables, Net	737,156	(890,419)
Inventories	21,536	191,961
Other Assets	(2,635,105)	501,321
Accounts Payable	202,658	(945,441)
Unearned Revenue	(124,256)	3,236,855
Students' Deposits	(25,724)	(79,149)
Compensated Absences	159,931	640,000
Loans to Students	(15,409)	(77,425)
Other Liabilities	5,576,685	6,808,892
Net Cash Used by Operating Activities	$ (35,246,341)	$ (27,088,703)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Accounts Payable Incurred for Capital Assets	$ 1,673,547	$ 489,032
Donated Furniture and Equipment	$ 241,800	$ 362,484

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION - COMPONENT UNITS
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,958,080	$ 3,283,582
Accounts Receivable	224,863	121,290
Pledges Receivable	1,398,273	1,398,110
Due from University	562,664	439,585
Other Current Assets	6,956,585	7,137,674
Total Current Assets	11,100,465	12,380,241
NONCURRENT ASSETS		
Capital Assets, Net	149,714,723	136,497,241
Investments	69,375,643	74,290,206
Total Noncurrent Assets	219,090,366	210,787,447
Total Assets	$ 230,190,831	$ 223,167,688
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 930,000	$ 1,408,223
Accounts Payable and Accrued Expenses	4,784,185	5,020,346
Other Deposit Liabilities	89,268	77,420
Annuity Liabilities	2,600,596	2,654,869
Due to University	6,906,720	4,375,420
Other Current Liabilities	412,943	283,244
Total Current Liabilities	15,723,712	13,819,522
LONG-TERM DEBT	165,965,164	162,182,254
Total Liabilities	181,688,876	176,001,776
NET ASSETS		
Unrestricted	1,901,383	1,876,869
Temporarily Restricted	9,942,447	8,829,920
Permanently Restricted	36,658,125	36,459,123
Total Net Assets	48,501,955	47,165,912
Total Liabilities and Net Assets	$ 230,190,831	$ 223,167,688

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENT OF ACTIVITIES - COMPONENT UNITS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 2,616,585	$ 3,259,937
Investment Income (loss)	146,734	(201,101)
Housing Fees	14,211,046	7,512,073
Rental Income	3,177,040	3,182,930
University Store	1,320,644	1,314,977
Student Activity Fees	3,127,340	3,153,645
Other Revenues	3,194,553	3,167,982
Net Assets Transfer	-	168,766
Net Position Released from Restrictions	4,930,464	7,423,449
Total Revenues and Other Additions	32,724,406	28,982,658
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	22,049,757	15,278,793
Supporting Services Expenses	5,748,086	5,566,430
Student Activities	3,735,527	3,747,197
University Store	279,486	279,961
Management and General	887,036	873,901
Total Expenses and Other Deductions	32,699,892	25,746,282
Change in Unrestricted Net Assets	24,514	3,236,376
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,735,186	1,976,962
Investment Income	2,793,948	3,034,432
Other Additions	1,513,857	1,621,769
Net Assets Transfer	-	(168,766)
Net Position Released from Restrictions	(4,930,464)	(7,423,449)
Change in Temporarily Restricted Net Assets	1,112,527	(959,052)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,453,995	2,549,852
Investment Income	(1,256,471)	2,859,331
Other	1,478	18,482
Change in Permanently Restricted Net Assets	199,002	5,427,665
CHANGE IN NET ASSETS	1,336,043	7,704,989
Net Assets - Beginning of Year	47,165,912	39,460,923
NET ASSETS - END OF YEAR	$ 48,501,955	$ 47,165,912

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Commonwealth determines the State appropriation allocated to the State System. The State System determines the allocation to each University from the state appropriated amount. Tuition rates are set by the Board of Governors of the State System, for all fourteen member universities. Labor agreements are negotiated at either the State System level or Commonwealth level.

Reporting Entity

The University functions as a Business-Type Activity, as defined by the Governmental Accounting Standards Board (GASB).

The University has determined that Shippensburg University Student Services, Inc. (Student Services) and the Shippensburg University Foundation (the Foundation) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

Student Services is an independent, legally separate, tax-exempt entity organized under Section 501(c)(3) of the Internal Revenue Code, and is primarily responsible for the operations of student government and the University Store. Although the University does not control the resources of Student Services, the activities of Student Services are solely for the benefit of the University and its students. Because these resources are held by Student Services and can only be used to benefit the University and its students, Student Services is considered a component unit of the University and is discretely presented in the University’s financial statements. The financial activity of Student Services is presented as of June 30, 2015 and 2014.

The Foundation is an independent, legally separate, tax-exempt entity organized under Section 501(c)(3) of the Internal Revenue Code, and acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the resources that the Foundation holds and invests are restricted to activities of the University by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements. The financial activity of the Foundation is presented as of June 30, 2015 and 2014.

Complete financial statements for Student Services and the Foundation may be obtained at the administrative office of each entity.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the disposal of capital assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income, capital grants, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as nonoperating revenue.

Net Position

The University maintains the following net position classifications:

Net Investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

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

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

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

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

Cash Equivalents and Investments

The University considers all demand and time deposits and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift. The University classifies investments as short-term when they are readily marketable and intended to be converted to cash within one year.

Accounts and Loans Receivable

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

Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the University's historical losses and periodic review of individual accounts.

Inventory

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

Capital Assets

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

Buildings, equipment and furnishings acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All assets with a purchase cost, or fair value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2015 and 2014 due to impairment however; removals of costs for demolished buildings were recorded.

Deferred Outflows of Resources And Deferred Inflows of Resources

The Statement of Net Position reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

Deferred Outflows of Resources, reported after *Total Assets,* is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). *Deferred Inflows of Resources,* reported after *Total Liabilities,* is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s).

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

The University is required to report the following as Deferred Outflows of Resources or Deferred Inflows of Resources.

- Deferred gain or loss on bond defeasance, which results when the carrying value of a defeased bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the State System’s proportion of expenses and liabilities to the pension as a whole, differences between the University’s pension contributions and its proportionate share of contributions, and the University’s pension contributions subsequent to the pension valuation measurement date.

Unearned Revenue

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

Compensated Absences

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

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

Pension Plans

Employees of the State System enroll in one of three available retirement plans immediately upon employment. The Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by the State System.

Scholarships and Waivers

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

Income Taxes

The University, as a member of the State System, is tax exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

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

Reclassifications

Certain amounts presented in the 2014 financial statements have been reclassified in order to be consistent with current year presentation.

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

New Accounting Standards

The University has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the University to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS). The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2015 Net position—beginning of year*. SERS and PSERS were not able to provide sufficient information to restate the June 30, 2014, financial statements.

Net Position, Beginning of Year, as Previously Reported	$ 56,047,320
July 1, 2014, Balance of the Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(52,323,601)
Net Position, Beginning of Year, as Restated	$ 3,723,719

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application ("GASB 72"). The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and for enhancing disclosures around fair value measurements. The provisions of this Statement are effective financial statements in periods beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement establishes requirements for defined contribution pensions and defined benefit pensions that are not within the scope of Statement No. 68 and amends certain provisions of Statements No. 67 and 68. Statement No. 73 is effective for fiscal years beginning after June 15, 2016. The University has determined that Statement No. 73 will have no effect on its financial statements.

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

New Accounting Standards (Continued)

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety: at June 30, 2015, the University's accrued postretirement health care liability, as calculated by the actuaries, was $82,419,733, but under current GASB requirements, the amount recorded on the balance sheet as a liability was $70,842,606. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the Commonwealth has advised the State System that its share of the liability at June 30, 2015, is approximately $73,032,000, which is expected to be allocated to the universities within the system. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Statement No. 76 modifies the GAAP hierarchy, which are the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP. The provisions in Statement No. 76 are effective for reporting periods beginning after June 15, 2015. The University has determined that Statement No. 76 will have no effect on its financial statements.

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for reporting periods beginning after December 15, 2015. The University has determined that Statement No. 77 will have no effect on its financial statements.

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed statements of financial position information for the component units as of June 30:

	2015		
	Student Services	The Foundation	Total
Due from University	$ 231,595	$ 331,069	$ 562,664
Capital Assets, Net	115,537,445	34,177,278	149,714,723
Investments	26,338,739	43,036,904	69,375,643
Other Assets	3,758,358	6,779,443	10,537,801
Total Assets	$ 145,866,137	$ 84,324,694	$ 230,190,831
Due to University	$ 5,162,480	$ 1,744,240	$ 6,906,720
Long-Term Debt	139,141,664	27,753,500	166,895,164
Other Liabilities	2,612,338	5,274,654	7,886,992
Total Liabilities	$ 146,916,482	$ 34,772,394	$ 181,688,876
Net Assets (Deficit):			
Unrestricted	$ (1,050,345)	$ 2,951,728	$ 1,901,383
Temporarily Restricted	-	9,942,447	9,942,447
Permanently Restricted	-	36,658,125	36,658,125
Total Net Assets (Deficit)	$ (1,050,345)	$ 49,552,300	$ 48,501,955

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	2014		
	Student Services	The Foundation	Total
Due from University	$ 128,195	$ 311,390	$ 439,585
Capital Assets, Net	110,339,743	26,157,498	136,497,241
Investments	32,308,221	41,981,985	74,290,206
Other Assets	4,842,628	7,098,028	11,940,656
Total Assets	$ 147,618,787	$ 75,548,901	$ 223,167,688
Due to University	$ 2,557,084	$ 1,818,336	$ 4,375,420
Long-Term Debt	139,655,733	23,934,744	163,590,477
Other Liabilities	4,710,370	3,325,509	8,035,879
Total Liabilities	$ 146,923,187	$ 29,078,589	$ 176,001,776
Net Assets :			
Unrestricted	$ 695,600	$ 1,181,269	$ 1,876,869
Temporarily Restricted	-	8,829,920	8,829,920
Permanently Restricted	-	36,459,123	36,459,123
Total Net Assets	$ 695,600	$ 46,470,312	$ 47,165,912

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NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statements of activities for the component units for the years ended June 30:

	2015		
	Student Services	The Foundation	Total
Changes in Unrestricted Net Assets:			
Revenues and Other Additions:			
Contributions	$ -	$ 2,616,585	$ 2,616,585
Investment Income/ (loss)	(22,490)	169,224	146,734
Housing Fees	14,211,046	-	14,211,046
Rental Income	-	3,177,040	3,177,040
University Store	1,320,644	-	1,320,644
Student Activity Fees	3,127,340	-	3,127,340
Other Revenues	410,263	2,784,290	3,194,553
Net Assets Released from Restrictions	-	4,930,464	4,930,464
Total Revenues and Other Additions	19,046,803	13,677,603	32,724,406
Expenses and Other Deductions:			
Program Expenses	-	6,159,058	6,159,058
Supporting Services	-	5,748,086	5,748,086
Student Activities	3,735,527	-	3,735,527
University Housing	15,890,699	-	15,890,699
University Store	279,486	-	279,486
Management and General	887,036	-	887,036
Total Expense and Other Deductions	20,792,748	11,907,144	32,699,892
(Decrease) Increase in Unrestricted Net Assets	(1,745,945)	1,770,459	24,514
Changes in Temporarily Restricted Net Assets:			
Contributions	-	1,735,186	1,735,186
Investment Income	-	2,793,948	2,793,948
Other Additions	-	1,513,857	1,513,857
Net Assets Released from Restrictions	-	(4,930,464)	(4,930,464)
Increase in Temporarily Restricted Net Assets	-	1,112,527	1,112,527
Changes in Permanently Restricted Net Assets:			
Contributions	-	1,453,995	1,453,995
Investment Income	-	(1,256,471)	(1,256,471)
Other	-	1,478	1,478
Increase in Permanently Restricted Net Assets	-	199,002	199,002
CHANGE IN NET ASSETS	(1,745,945)	3,081,988	1,336,043
Net Assets - Beginning of Year	695,600	46,470,312	47,165,912
NET ASSETS - END OF YEAR	$ (1,050,345)	$ 49,552,300	$ 48,501,955

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NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	2014		
	Student Services	The Foundation	Total
Changes in Unrestricted Net Assets:			
Revenues and Other Additions:			
Contributions	$ -	$ 3,259,937	$ 3,259,937
Investment Income/ (loss)	57,687	(258,788)	(201,101)
Housing Fees	7,512,073	-	7,512,073
Rental Income	-	3,182,930	3,182,930
University Store	1,314,977	-	1,314,977
Student Activity Fees	3,153,645	-	3,153,645
Other Revenues	421,404	2,746,578	3,167,982
Net Assets Transfer	-	168,766	168,766
Net Assets Released from Restrictions	-	7,423,449	7,423,449
Total Revenues and Other Additions	12,459,786	16,522,872	28,982,658
Expenses and Other Deductions:			
Program Expenses	-	6,413,983	6,413,983
Supporting Services	-	5,566,430	5,566,430
Student Activities	3,747,197	-	3,747,197
University Housing	8,864,810	-	8,864,810
University Store	279,961	-	279,961
Management and General	873,901	-	873,901
Total Expense and Other Deductions	13,765,869	11,980,413	25,746,282
(Decrease) Increase in Unrestricted Net Assets	(1,306,083)	4,542,459	3,236,376
Changes in Temporarily Restricted Net Assets:			
Contributions	-	1,976,962	1,976,962
Investment Income	-	3,034,432	3,034,432
Other Additions	-	1,621,769	1,621,769
Net Assets Transfer	-	(168,766)	(168,766)
Net Assets Released from Restrictions	-	(7,423,449)	(7,423,449)
Decrease in Temporarily Restricted Net Assets	-	(959,052)	(959,052)
Changes in Permanently Restricted Net Assets:			
Contributions	-	2,549,852	2,549,852
Investment Income	-	2,859,331	2,859,331
Other	-	18,482	18,482
Increase in Permanently Restricted Net Assets	-	5,427,665	5,427,665
CHANGE IN NET ASSETS	(1,306,083)	9,011,072	7,704,989
Net Assets - Beginning of Year	2,001,683	37,459,240	39,460,923
NET ASSETS - END OF YEAR	$ 695,600	$ 46,470,312	$ 47,165,912

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $82,800,028 and $84,091,407 at June 30, 2015 and 2014, respectively.

Board *Policy 1986-02-A, Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board or university trustees may be invested in the investments described above as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, University uses local financial institutions for activities such as deposits of cash. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

On June 30, 2015 and 2014, the carrying amount of the University's demand and time deposits were \$812,332 and \$777,177, respectively, as compared to bank balances of \$730,397 and \$822,947, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2015 and 2014, \$500,000, was covered by federal government depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; \$230,397 and \$322,900, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2015 and 2014, none of the University's demand and time deposits were exposed to foreign currency risk.

NOTE 4 INVESTMENTS - COMPONENT UNITS

The fair value of investments at June 30 was as follows:

	2015	2014
Money Market Funds	$ 16,191,414	$ 14,177,049
Mutual Funds	23,478,117	21,618,573
Stocks and insurance contracts	16,305,439	15,288,123
Student Loans	725,932	706,084
Bonds	483,962	1,061,997
Real Estate	693,561	1,041,329
U.S. Treasury Bonds	9,595,119	19,546,748
Certificates of Deposit	1,809,922	749,796
Government-Sponsored Entity Bonds	92,177	100,507
Total	$ 69,375,643	$ 74,290,206

NOTE 5 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditure of University funds or the incurrence of debt consisted of the following:

	Estimated Lives in Years	Beginning Balance July 1, 2014	Additions	Retirements	Reclassifications	Ending Balance June 30, 2015
Capital Assets Not Being Depreciation:						
Land		$ 197,129	$ -	$ -	$ -	$ 197,129
Construction in Progress		1,525,253	2,359,219	(23,452)	(264,343)	3,596,677
Total Capital Assets Not Depreciated		1,722,382	2,359,219	(23,452)	(264,343)	3,793,806
Capital Assets Being Depreciated:						
Buildings, Including Improvements	20-40	166,323,929	296,756	(2,535,662)	264,343	164,349,366
Furnishings and Equipment, Including Capital Leases	3-10	31,865,064	1,150,145	(1,140,768)	-	31,874,441
Library Books	10	4,168,887	25,373	(34,112)	-	4,160,148
Total Capital Assets Being Depreciated		202,357,880	1,472,274	(3,710,542)	264,343	200,383,955
Less Accumulated Depreciation:						
Buildings, Including Improvements		(66,469,376)	(6,932,968)	1,636,181	-	(71,766,163)
Furnishings and Equipment, Including Capital Leases		(24,236,381)	(2,302,367)	1,122,709	-	(25,416,039)
Library Books		(3,866,443)	(77,465)	34,112	-	(3,909,796)
Total Accumulated Depreciation		(94,572,200)	(9,312,800)	2,793,002	-	(101,091,998)
Total Capital Assets Being Depreciated, Net		107,785,680	(7,840,526)	(917,540)	264,343	99,291,957
Capital Assets, Net		$ 109,508,062	$ (5,481,307)	$ (940,992)	$ -	$ 103,085,763

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Estimated Lives in Years	Beginning Balance July 1, 2013	Additions	Retirements	Reclassifications	Ending Balance June 30, 2014
Capital Assets Not Being Depreciation:						
Land		$ 197,129	$ -	$ -	$ -	$ 197,129
Construction in Progress		1,472,562	720,869	-	(668,178)	1,525,253
Total Capital Assets Not Depreciated		1,669,691	720,869	-	(668,178)	1,722,382
Capital Assets Being Depreciated:						
Buildings, Including Improvements	20-40	164,983,481	1,247,536	(575,266)	668,178	166,323,929
Furnishings and Equipment, Including Capital Leases	3-10	29,990,120	1,903,831	(28,887)	-	31,865,064
Library Books	10	4,244,407	44,320	(119,840)	-	4,168,887
Total Capital Assets Being Depreciated		199,218,008	3,195,687	(723,993)	668,178	202,357,880
Less Accumulated Depreciation:						
Buildings, Including Improvements		(59,737,344)	(7,068,541)	336,509	-	(66,469,376)
Furnishings and Equipment, Including Capital Leases		(21,921,824)	(2,343,444)	28,887	-	(24,236,381)
Library Books		(3,899,795)	(86,488)	119,840	-	(3,866,443)
Total Accumulated Depreciation		(85,558,963)	(9,498,473)	485,236	-	(94,572,200)
Total Capital Assets Being Depreciated, Net		113,659,045	(6,302,786)	(238,757)	668,178	107,785,680
Capital Assets, Net		$ 115,328,736	$ (5,581,917)	$ (238,757)	$ -	$ 109,508,062

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2015	2014
Employees	$ 7,972,032	$ 7,472,915
Suppliers and Services	1,832,114	1,369,485
Interest	91,854	97,734
Other	1,553,424	638,965
Total	$ 11,449,424	$ 9,579,099

NOTE 7 LEASES

The University has entered into operating lease agreements for certain office space and equipment. Lease expense was $2,192,946 for 2015 and $2,090,751 for 2014. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more were as follows:

Year Ending June 30,	Amount
2016	$ 1,663,068
2017	1,568,009
2018	437,521
2019	368,564
2020	346,146
Thereafter	19,636,898
Total Minimum Lease Payments	$ 24,020,206

NOTE 8 BONDS AND NOTES PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on behalf of the University under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2015 and 2014 were as follows:

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NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

	2015				
	Weighted Average Interest Rate	Balance July 1, 2014	Bonds Issued	Bonds Redeemed	Balance June 30, 2015
Series AC Issued in 2005 for the Recreation Building and the Luhrs Performing Arts Center	4.87%	$ 2,969,723	$ -	$ 2,969,723	$ -
Series AE Issued in 2006 for the Recreation Building	4.95%	3,566,897	-	3,566,897	-
Series AF Issued in 2007 for the Recreation Building and Reisner Dining Hall	5.00%	3,686,924	-	207,906	3,479,018
Series AG Issued in 2007 to refund Series O and Series Q	4.85%	950,124	-	244,122	706,002
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.67%	11,961,135	-	621,429	11,339,706
Series AJ Issued in 2009 for Various Capital Projects	4.88%	5,319,498	-	247,811	5,071,687
Series AK Issued in 2009 to Refund Series S	4.00%	257,194	-	39,107	218,087
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	10,388,778	-	968,870	9,419,908
Series AM Issued in 2011 for CUB Student Union	4.65%	9,899,221	-	390,086	9,509,135
Series AP Issued in 2014 to Refund Series Z and Series AA	4.34%	415,366	-	34,614	380,752
Series AQ issued in 2015 to refund Series AC and AE	4.71%	-	5,158,057	-	5,158,057
Total Bonds Payable		$ 49,414,860	$ 5,158,057	$ 9,290,565	45,282,352
Plus: Unamortized Bond Premium Costs					2,694,044
Outstanding at End of Year					$ 47,976,396

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

	2014				
	Weighted Average Interest Rate	Balance July 1, 2013	Bonds Issued	Bonds Redeemed	Balance June 30, 2014
Series AA Issued in 2005 for the Recreation Building and Energy Saving Renovations	4.65%	$ 1,147,009	$ -	$ 1,147,009	$ -
Series AC Issued in 2005 for the Recreation Building and the Luhrs Performing Arts Center	4.88%	3,629,342	-	659,619	2,969,723
Series AE Issued in 2006 for the Recreation Building	4.97%	3,778,395	-	211,498	3,566,897
Series AF Issued in 2007 for the Recreation Building and Reisner Dining Hall	5.00%	3,885,457	-	198,533	3,686,924
Series AG Issued in 2007 to refund Series O and Series Q	4.87%	1,186,515	-	236,391	950,124
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.69%	12,553,692	-	592,557	11,961,135
Series AJ Issued in 2009 for Various Capital Projects	4.89%	5,555,448	-	235,950	5,319,498
Series AK Issued in 2009 to Refund Series S	3.88%	295,289	-	38,095	257,194
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	11,315,412	-	926,634	10,388,778
Series AM Issued in 2011 for CUB Student Union	4.67%	10,270,921	-	371,700	9,899,221
Series AP Issued in 2014 to Refund Series Z and Series AA	4.20%	-	415,366	-	415,366
Total Bonds Payable		$ 53,617,480	$ 415,366	$ 4,617,986	49,414,860
Plus: Unamortized Bond Premium Costs					2,333,476
Outstanding at End of Year					$ 51,748,336

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

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

Series		2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	Total
AF	Principal	$ 218,131	$ 229,208	$ 241,137	$ 253,066	$ 265,847	$ 1,541,402	$ 730,227	$ -	$ 3,479,018
	Interest	173,951	163,044	151,584	139,527	126,874	421,308	55,214	-	1,231,502
	Total	392,082	392,252	392,721	392,593	392,721	1,962,710	785,441	-	4,710,520
AG	Principal	256,202	269,888	179,912	-	-	-	-	-	706,002
	Interest	35,750	22,940	9,445	-	-	-	-	-	68,135
	Total	291,952	292,828	189,357	-	-	-	-	-	774,137
AH	Principal	653,050	686,047	720,419	756,164	793,284	4,494,362	3,236,380	-	11,339,706
	Interest	528,093	495,440	461,138	425,117	387,309	1,413,354	307,647	-	4,018,098
	Total	1,181,143	1,181,487	1,181,557	1,181,281	1,180,593	5,907,716	3,544,027	-	15,357,804
AJ	Principal	260,295	272,779	286,511	300,868	315,849	1,833,298	1,802,087	-	5,071,687
	Interest	243,832	230,817	217,178	202,853	187,809	685,649	213,809	-	1,981,947
	Total	504,127	503,596	503,689	503,721	503,658	2,518,947	2,015,896	-	7,053,634
AK	Principal	40,263	41,926	43,444	45,396	47,058	-	-	-	218,087
	Interest	8,724	7,113	5,436	3,698	1,882	-	-	-	26,853
	Total	48,987	49,039	48,880	49,094	48,940	-	-	-	244,940
AL	Principal	508,255	534,117	560,250	589,068	617,685	2,979,226	3,631,307	-	9,419,908
	Interest	470,995	445,583	418,877	390,864	361,411	1,355,205	562,433	-	4,005,368
	Total	979,250	979,700	979,127	979,932	979,096	4,334,431	4,193,740	-	13,425,276
AM	Principal	409,270	430,053	451,636	470,021	493,202	2,865,690	3,572,320	816,943	9,509,135
	Interest	443,816	423,353	401,850	383,785	360,284	1,401,500	695,549	36,762	4,146,899
	Total	853,086	853,406	853,486	853,806	853,486	4,267,190	4,267,869	853,705	13,656,034
AP	Principal	37,029	37,673	38,961	40,088	41,698	185,303	-	-	380,752
	Interest	15,143	14,403	13,272	12,104	10,500	23,257	-	-	88,679
	Total	52,172	52,076	52,233	52,192	52,198	208,560	-	-	469,431
AQ	Principal	11,939	395,564	457,042	479,839	503,943	2,925,963	383,767		5,158,057
	Interest	289,424	257,306	237,528	214,676	190,684	549,100	19,188		1,757,906
	Total	301,363	652,870	694,570	694,515	694,627	3,475,063	402,955	-	6,915,963
Total	Principal	2,394,434	2,897,255	2,979,312	2,934,510	3,078,566	16,825,244	13,356,088	816,943	45,282,352
	Interest	2,209,728	2,059,999	1,916,308	1,772,624	1,626,753	5,849,373	1,853,840	36,762	17,325,387
	Total	$ 4,604,162	$ 4,957,254	$ 4,895,620	$ 4,707,134	$ 4,705,319	$ 22,674,617	$ 15,209,928	$ 853,705	$ 62,607,739

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program will provide $100,000,000 in funding over the next several years. The State System will issue bonds to provide a pool for funding for AFRP ($29,552,798 and $33,625,385 was outstanding as of June 30, 2015 and 2014). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	2015	2014
Balance at July 1	$ 2,363,158	$ 2,625,238
Repayments	(272,649)	(262,080)
Balance at June 30	$ 2,090,509	$ 2,363,158

Refunding

In May 2015, the net proceeds from the Series AQ revenue bonds, together with funds provided by the State System, were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to current refund Series AC and advance refund Series AE revenue bonds. This refunding was performed to reduce debt service by approximately $576,992 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $562,181. The economic gain is reported as a deferred outflow of resources.

As of June 30, 2015, $0 of Series AC and $71,565,000 of Series AE Revenue Bonds remained outstanding, and the fair market value of the escrow account was $74,877,000. The funds in escrow will be used to pay the December 15, 2015, interest payment and the June 30, 2016, principal and interest payment of Series AE. Neither the funds in escrow nor the outstanding balance of Series AE is reflected in the balance sheet.

Bonds Payable - Component Unit

Student Services has undertaken a multi-phase project to construct student housing complexes on campus land that it has leased from the University. Funding for the project is being provided by the net proceeds of revenue bonds issued by the Pennsylvania Higher Educational Facilities Authority (Authority). The facilities are managed by the University. Construction of phase one was completed in January 2013 and phase two was completed in August 2014.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable - Component Unit (Continued)

The Authority has issued its Series 2011 Bonds in the amount of $69,760,000 pursuant to a Trust Indenture dated July 1, 2011 between the Authority and Manufacturers and Traders Trust Company (Trustee) to provide funding for the initial phase of the project. The Authority has loaned the proceeds of the Series 2011 Bonds to Student Services pursuant to a Loan Agreement also dated July 1, 2011. Student Services is required to make semi-annual payments, of principal and accrued interest, to the Trustee. The sum of those annual payments will equal 100% of the principal and accrued interest that is due on the next principal redemption date. The obligations under the Loan Agreement are collateralized by Student Services granting to the Trustee a first-priority mortgage lien on the project facilities, a first-priority security interest in the revenues and personal property and an assignment of contract documents.

The Authority has issued its Series 2012, Bonds in the amount of $65,025,000 pursuant to a Trust Indenture dated December 1, 2012, between the Authority and Manufacturers and Traders Trust Company (Trustee) to provide funding for the second phase of the project (Phase II Property). The Authority has loaned the proceeds of the Series 2012 Bonds to the Corporation pursuant to a Loan Agreement also dated December 1, 2012. The Corporation is obligated under the terms of the Loan Agreement to make payments in an amount that will be sufficient to fund the repayment of principal and interest on the Series 2012 Bonds. The obligations under the Loan Agreement are collateralized by the first-priority mortgage lien on the project facilities, a first-priority security interest in the revenues and personal property and an assignment of contract documents dated as of July 1 2011, as amended by a first amendment to mortgage and security dates as of December 1, 2012.

Under the terms of the Loan Agreement, interest payments are due on each March 25 and September 25 equivalent to the amount of interest due on the Bonds on the succeeding interest payment dates (April 1st and October 1st). Principal payments are due on September 25 each year, commencing on September 25, 2014, in an amount equal to the principal amount of the Bonds maturing on the next October 1st. While the Bonds remain outstanding, Student Services will pay the reasonable compensation and expenses of the Trustee. Student Services has also paid a closing fee of $5,000 to the Authority with respect to the Bonds on the date of issue and will pay an annual fee of $5,000 commencing on October 1, 2012 and on each October 1st, thereafter, to and including October 1, 2044 (the date that all of the 2012 Bonds shall have become due and payable) or until the Bonds are no longer outstanding. The Loan Agreement requires Student Services to maintain a debt-service-coverage ratio of at least 1.20.

Under the terms of the Ground Lease Agreement (Lease Agreement), Student Services has leased the premises on which the student-housing project has been constructed. The term of the lease commenced on July 1, 2011 and will expire on June 30, 2053, such date being at least ten (10) years beyond the final maturity date of the Bonds or on such date on which all leasehold mortgages are satisfied. The lease is a net lease and requires Student Services to pay all costs required to be paid in connection with the ownership, occupancy, use or leasing of the premises.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable - Component Unit (Continued)

Rent payments provided for in the Lease Agreement include a base rent of $15,000 per year commencing with the lease year beginning on July 1, 2012, and payable on June 25th of each lease year. For the lease year commencing on July 1, 2013, and on every July 1 thereafter, the base rent will increase by 3% of the base rent in effect for the immediately –preceding lease year. In addition to the base rent, commencing on July 1, 2012, a percentage rent equal to 25% of the net available cash flow, as defined in the Lease Agreement, is payable on or before 15 days following the delivery of Student Services' audited financial statements. The Lease Agreement also provides for a one-time, non-recurring initial rental payment of $86,320 to reimburse the University for various costs incurred in connection with the lease. Beginning with the lease-year commencing on July 1, 2012, Student Services will also pay to the University a fee of .5% of the actual rental fees collected.

Rent payments for the Phase II Property provided for in the Lease Agreement include a base rent of $18,500 per year commencing with the lease year beginning on July 1, 2014, and payable on June 25th of each lease year. For the lease year commencing on July 1, 2015, and on every July 1 thereafter, the base rent will increase by 3.00% of the base rent in effect for the immediately-preceding lease year. In addition to the base rent, commencing on July 1, 2014, a percentage rent equal to 25% of the net available cash flow, as defined in the Lease Agreement, is payable on or before 15 days following the delivery of the Corporation's audited financial statements. The Lease Agreement also provides for a onetime, non-recurring initial rental payment of $38,500 to reimburse the University for various costs incurred in connection with the lease. Beginning with the lease year commencing on July 1, 2014, the Corporation will also pay to the Lessor a fee of .5% of the actual rental fees collected.

Under the terms of a Facility Management Agreement (Management Agreement), the University (Manager) will provide management services for the project. Duties of the Manager include the daily management and operation of the project including, but not limited to, collecting of rents, maintenance, marketing, and security services. The Management Agreement commences on January 1, 2013, and continues through June 30, 2018, subject to automatic renewals for not more than seven (7) successive five-year periods. Under the terms of the Management Agreement, Student Services will pay to the Manager all direct operating expenses of the project, and allocable portion of the Manager's indirect expenses for the performance of the duties there under, and any vendor-service contracts.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable - Component Unit (Continued)

Long-term debt of Student Services consisted of the following at June 30,:

	2015	2014
Authority Revenue Bonds, Series of 2011, maturing annually to 2043, in annual principal payments ranging from $100,000 to $47,950,000, with fixed interest rates ranging from 2.88% to 6.25%	$ 69,560,000	$ 69,700,000
Less: Current Portion	(790,000)	(140,000)
Less: Unamortized Discount	(99,640)	(104,599)
Long-Term Debt	68,670,360	69,455,401
Authority Revenue Bonds, Series of 2012, maturing annually to 2044, in annual principal payments ranging from $1,090,000 to $32,655,000, with fixed interest rates ranging from 4.0% to 5.0%	65,025,000	65,025,000
Plus: Unamortized Premium	4,656,304	4,895,332
Long-Term Debt, Net of Discount	69,681,304	69,920,332
Total	$ 138,351,664	$ 139,375,733

The aggregate future principal payments on long-term debt as of June 30, 2015 are as follows:

Year Ending June 30,	Amount
2016	$ 790,000
2017	1,450,000
2018	1,585,000
2019	1,595,000
2020	2,105,000
2021	127,060,000
Total	$ 134,585,000

The Foundation has issued a $16,900,000 tax exempt financing through Cumberland County Industrial Development Authority Revenue Note, Series A of 2013. This note is secured by mortgages on various properties owned by the Foundation. Beginning January 30, 2014 and continuing monthly through, May 30 2020, interest-only payments are due on the unpaid principal. Beginning June 30, 2020, payments of principal and accrued interest will be due monthly through the maturity date due December 30, 2033. The interest rate through December 20, 2013 will be a fixed rate per annum of 3.37%, after which a fluctuating interest rate per annum equal to 65% of the sum of LIBOR rate plus 190 basis points or a fixed rate of interest per annum as quoted by the Bank will be paid.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Notes Payable - Component Unit

The Foundation has issued a $5,600,000 tax exempt financing through Cumberland County Industrial Development Authority Revenue Note, Series B of 2013. This note is secured by mortgages on various properties owned by the Foundation. Beginning January 30, 2014 and continuing monthly through the maturity date of June 30, 2020, payments of principal plus accrued interest at a fixed rate of 3.37% per annum will be due.

The Foundation has issued a $1,360,000 note payable to Orrstown Bank, secured by first mortgage on 480 Baltimore Road; to mature January 2040 with a variable interest rate of Wall Street Prime with a floor of 5.00%, which was the rate at June 30, 2015 and 2014.

The Foundation has issued a $490,000 unsecured note payable to the McClelland's, Myers's and McHugh's, due upon the use or sale of the Baltimore Road property with a variable interest rate of 80% Wall Street Prime with a floor of 3.00% and ceiling of 6.00%. The variable interest rate at June 30, 2015 and 2014 was 3.25%.

In fiscal year 2015, the Foundation entered into a note payable with CNB Bank to finance construction of a 110 room Courtyard by Marriott hotel, parking lot, and other related improvements. The interest rate is based on the One Month LIBOR+ 2.75% through June 30, 2016, after which it will be fixed at 4.5%.

The Foundation has issued a note payable to GMAC, secured by a lien on a vehicle, to mature December 2015. Monthly payments are $722 and interest rate is fixed at 0%.

Long-term debt of the Foundation consisted of the following at June 30:

	2015	2014
Cumberland County Industrial Development Authority Revenue Note, Series A of 2013	$ 16,894,000	$ 16,900,000
Cumberland County Industrial Development Authority Revenue Note, Series B of 2013	4,447,815	5,268,337
Notes payable to Orrstown Bank	1,239,068	1,264,137
Note Payable to McClelland's	490,000	490,000
CNB Bank	4,679,008	-
Note payable to GMAC	3,609	12,270
Total	$ 27,753,500	$ 23,934,744

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Notes Payable - Component Unit (Continued)

The aggregate future principal payments on long-term debt of the Foundation's as of June 30, 2015 are as follows:

Year Ending June 30,	Amount
2016	$ 1,345,305
2017	1,016,081
2018	1,063,910
2019	1,100,153
2020	1,213,474
Thereafter	22,014,577
Total	$ 27,753,500

NOTE 9 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2015		2014	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 1,794,977	$ -	$ 1,621,953	$ -
Grants	754,690	-	237,606	-
Other	817,605	1,837,971	962,916	2,507,024
Total	$ 3,367,272	$ 1,837,971	$ 2,822,475	$ 2,507,024

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFIT OBLIGATIONS

Compensated absences and postretirement benefit obligations consisted of the following at June 30:

	2015		2014	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 481,849	$ 8,450,494	$ 402,903	$ 8,356,639
Postretirement Benefit Obligations	-	70,842,606	4,139,000	63,112,169
Total	$ 481,849	$ 79,293,100	$ 4,541,903	$ 71,468,808

Changes in compensated absences are as follows:

	2015	2014
Balance at July 1	$ 8,759,542	$ 8,119,542
Current Changes in Estimate	792,688	891,112
Payouts	(619,887)	(251,112)
Balance at June 30	$ 8,932,343	$ 8,759,542

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Postretirement Benefits

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

System Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of $36,869,000 and $44,201,000 in fiscal years ended June 30, 2015 and 2014, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2015:

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

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

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

Total contributions made by plan members were $4,272,000 and $3,969,000, or approximately 10.4% and 8.2%, of the total premiums for the fiscal years ended June 30, 2015 and 2014, respectively.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the University's annual OPEB cost for the year and the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

	2015	2014
Annual Required Contribution	$ 7,089,961	$ 8,925,000
Interest on Net OPEB Obligation	2,639,633	2,454,000
Adjustment to Annual Required Contribution	(3,469,311)	(3,097,000)
Annual OPEB Cost (Expense)	6,260,283	8,282,000
Contributions Made	(2,668,846)	(2,738,217)
Increase in Net OPEB Obligation	3,591,437	5,543,783
Net OPEB Obligation, Beginning of Year	67,251,169	61,707,386
Net OPEB Obligation, End of Year	$ 70,842,606	$ 67,251,169

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2015, and the two preceding years were as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 6,260,283	42.6%	$ 70,842,606
June 30, 2014	8,282,000	33.1%	67,251,169
June 30, 2013	7,912,000	33.8%	61,707,386

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2014, most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 82,419,733
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 82,419,733
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$ 42,556,529
UAAL as a Percentage of Covered Payroll	193.7%

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

Actuarial Methods and Assumptions

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

In the July 1, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio. The health care cost trend rate used was 6.5% in 2014, 6.0% in 2015, and 5.5% in 2016 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2014, was 21 years.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of non-represented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2014/15, the State System contributed $334 for each current active employee per biweekly pay period. The State System made contributions of $30,765,000, $28,584,000 and $25,638,000 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

Employees of the University enroll in one of three available retirement plans immediately upon employment: the Commonwealth of Pennsylvania State Employees' Retirement System (SERS), the Public School Employees' Retirement System (PSERS), or the Alternative Retirement Plan (ARP).

NOTE 11 PENSION BENEFITS

Following is the total of the State System's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal year ended June 30, 2015.

	SERS	PSERS	ARP	Total
Net Pension Liabilities	$ 53,083,858	$ 4,924,353	N/A	$ 58,008,211
Deferred Outflows of Resources	4,110,167	497,747	N/A	4,607,914
Deferred Inflows of Resources	659,726	352,053	N/A	1,011,779
Pension Expense	6,073,605	464,414	3,178,758	9,716,777
Contributions Made (pay-as-you-go)	4,089,660	361,580	3,178,758	7,629,998
Contributions Recognized by Pension Plans	4,058,963	361,580	N/A	4,420,543

Contributions are due to and recognized by SERS based on the pay date. Contributions are due to and recognized by PSERS on the accrual basis; i.e., when the benefit is earned by the employee.

Plan Description

SERS is a governmental cost-sharing multiple-employer defined benefit plan that provides retirement, death, and disability benefits to employees of Pennsylvania state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

Benefits Provided

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The new vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

NOTE 11 PENSION BENEFITS (CONTINUED)

Benefits Provided (Continued)

Each class of benefits is based on a multiple of the base accrual rate of 2%, which is called the multiplier. Most members of SERS, and all state employees hired after June 30, 2001, and prior to January 1, 2011 (except state police officers and certain members of the judiciary and legislators), are Class AA members. The multiplier for Class AA is 1.25, which translates into an annual benefit of 2.5% of the member's highest three-year average salary multiplied by years of service. The general annual benefit for Class A members is 2% of the member's highest three-year average salary multiplied by years of service. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2% of the member's highest three-year average salary multiplied by years of service, while the Class A-4 benefit accrual rate is 2.5%. State police, judges, Magisterial District Judges, and legislators are in separate classes with varying benefits.

According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for fiscal year 2013/14 was 4.5% and will remain at that rate until no longer needed.

The State System contributed at actuarially determined rates of between 13.77% and 19.92% of active members' annual covered payroll at June 30, 2015. The State System's contributions to SERS for the years ended June 30, 2015, 2014, and 2013, were $4,089,660, $3,175,031, and $2,219,183, respectively, equal to the required contractual contribution.

Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate.

Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2014 and 2013, using the following actuarial assumptions, applied to all periods included in the measurement.

NOTE 11 PENSION BENEFITS (CONTINUED)

Assumptions (Continued)

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.75%.
- Investment return of 7.50%, net of expenses and including inflation.
- Salary increases based on an effective average of 6.1%, with a range of 4.30% to 11.05%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

Some of the methods and assumptions mentioned above are based on the *17th Investigation of Actuarial Experience*, which was published in January 2011 and analyzed experience from 2006 through 2010. The actuary made recommendations with respect to the actuarial assumptions and methods based on their analysis. The next experience study will cover the years 2011 through 2015 and is expected to be released in early 2016.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2014, are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	15.00%	8.50%
Global Public Equity	40.00%	5.40%
Real Assets	17.00%	4.95%
Diversifying Assets	10.00%	5.00%
Fixed Income	15.00%	1.50%
Liquidity Reserve	3.00%	0.00%
	100.00%	

NOTE 11 PENSION BENEFITS (CONTINUED)

Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability calculated using the discount rate of 7.50%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to

Changes in the Discount Rate			
	1% Decrease 6.50%	**Current Rate 7.50%**	**1% Increase 8.50%**
2014	$67,946,060	$53,803,858	$40,304,770
2013	$64,152,420	$49,427,215	$36,769,406

Fiduciary Net Position

The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at www.sers.state.pa.us.The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

NOTE 11 PENSION BENEFITS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the amount recognized as the University's proportionate share of the SERS net pension liability was $53,083,858. SERS measured the net pension liability as of December 31, 2014.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2015/16 from the December 31, 2014, funding valuation to the expected funding payroll. For the allocation of the 2013 amounts, this methodology applies the contribution rates for fiscal year 2014/15 from the December 31, 2013, funding valuation to the expected funding payroll. At December 31, 2014, the State System's proportion was 4.901%, a decrease of .061% from its proportion calculated as of December 31, 2013.

For the year ended June 30, 2015, the University recognized SERS pension expense of $6,073,605. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the SERS pension are as follows.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 288,176	$ -
Net Difference between Projected and Actual Investment Earnings	1,533,765	-
Changes in Proportions	-	500,634
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	159,092
Contributions After the Measurement Date	2,288,226	-
	$ 4,110,167	$ 659,726

The University will recognize the $2,288,226 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the SERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in SERS pension expense as follows.

Year Ending June 30,	Amortization
2016	$ 302,670
2017	302,670
2018	302,670
2019	302,670
2020	(48,463)
Total	$ 1,162,217

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (State System), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the PSERS website at www.psers.state.pa.us.

Benefits Provided

Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

Depending upon membership class, benefits are generally 2% or 2.5% of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. Members who joined prior to July 1, 2011, vest after completion of five years of service and may elect early retirement benefits. Class T-E and Class T-F members vest after completion of 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

NOTE 11 PENSION BENEFITS (CONTINUED)

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Class T-C members) or at 6.50% (Class T-D members) of the member's qualifying compensation. Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Class T-C) or at 7.5% (Class T-D) of the member's qualifying compensation. Members who joined PSERS after June 30, 2001, and before July 1, 2011, contribute at 7.5% (Class T-D). For these hires and for members who elected Class T-D, the 7.5% contribution rate began with service rendered on or after January 1, 2002. Members who joined PSERS after June 30, 2011, contribute at the rate of 7.5% (Class T-E) or 10.3% (Class T-F) of their qualifying compensation. Class T-E and Class T-F members are subject to a "shared risk" provision in Act 120 that could cause the rate in future years to fluctuate between 7.5% and 9.5% for Class T-E and 10.3% and 12.3% for Class T-F.

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2015, was 20.5% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 10.25% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2015, was $361,580.The University's contributions to PSERS for the years ended June 30, 2014 and 2013, were $274,642 and $189,024, respectively, equal to the required contractual contribution.

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2014, was determined by rolling forward PSERS' total pension liability as of the June 30, 2013, actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 3%.
- Investment return of 7.50%, including inflation.
- Salary increases based on an effective average of 5.5%, which reflects an allowance for inflation, real wage growth of 1.0%, and merit or seniority increases of 1.05%.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its March 11, 2011, meeting and were effective beginning with the June 30, 2011, actuarial valuation.

NOTE 11 PENSION BENEFITS (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	19.00%	5.00%
Private Markets (Equity)	21.00%	6.50%
Private Real Estate	13.00%	4.70%
Global Fixed Income	8.00%	2.00%
U.S. Long Treasuries	3.00%	1.40%
TIPS	12.00%	1.20%
High-yield Bonds	6.00%	1.70%
Cash	3.00%	0.90%
Absolute Return	10.00%	4.80%
Risk Parity	5.00%	3.90%
MLPs/Infrastructure	3.00%	5.30%
Commodities	6.00%	3.30%
Financing (LIBOR)	-9.00%	1.10%
	100.00%	

The discount rate used to measure the total PSERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.50%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

NOTE 11 PENSION BENEFITS (CONTINUED)

Actuarial Assumptions (Continued)

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to

	Changes in the Discount Rate		
	1% Decrease 6.50%	**Current Rate 7.50%**	**1% Increase 8.50%**
2014	$6,142,495	$4,924,284	$3,884,434

Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, the fiduciary net position of PSERS and additions to or deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported in the PSERS's financial statements. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found at www.psers.state.pa.us.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the amount recognized as the State System's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows.

PSERS measured the net pension liability as of June 30, 2014. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2013, to June 30, 2014. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2014, the State System's proportion was .1785%, an increase of .0051% from its proportion calculated as of June 30, 2013.

Total PSERS Net Pension Liability associated with the University	$	9,848,706
Commonwealth's Proportionate Share of the PSERS Net Pension Liability associated with the University		4,924,353
University's Proportionate Share of the PSERS Net Pension Liability	$	4,924,353

NOTE 11 PENSION BENEFITS (CONTINUED)

For the year ended June 30, 2015, the University recognized PSERS' pension expense of $464,414. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Investment Earnings	$ -	$ 352,053
Changes in Proportions	117,235	-
Difference Between Employer Contributions and Proportionate Share of Total Contributions	20,559	-
Contributions After the Measurement Date	359,953	-
	$ 497,747	$ 352,053

The University will recognize the $359,953 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PSERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as PSERS pension expense as follows:

Year Ending June 30,	Amortization
2016	$ (54,810)
2017	(54,810)
2018	(54,810)
2019	(54,810)
2020	4,981
Total	$ (214,259)

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2015 and 2014, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2015 and 2014 were approximately $3,178,000 and $3,120,000, respectively, from the University and $1,465,000 and $1,665,000, respectively, from active members.

NOTE 12 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to $100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund) to which all universities of the State System contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $145,107 and $150,954 to the Reserve Fund during the years ended June 30, 2015 and 2014, respectively.

Changes in the University's claims liability were as follows:

	2015	2014
Balance at July 1	$ 806,293	$ 866,943
Current Year Claims and Changes in Estimates	252,868	243,690
Payments	(192,259)	(304,340)
Balance at June 30	$ 866,902	$ 806,293

NOTE 13 RELATED PARTY TRANSACTIONS

The University has operating lease agreements with the Foundation and Student Services for space related to University operations. Rent expense for the years ended June 30, 2015 and 2014 were and $2,192,946 and $2,012,918, respectively. Future minimum payments by year are as follows:

Year Ending June 30,	Amount
2016	$ 1,663,068
2017	1,568,009
2018	437,521
2019	368,564
2020	346,146
Thereafter	19,636,898
Total	$ 24,020,206

In July 2004, the University entered into a Cooperation and Commitment Agreement with the Foundation whereby the Foundation committed to provide matching funds to be used by the University in the construction of the Luhrs Performing Arts Center. The total amount committed, which includes principal and interest on funds borrowed by the University for the project was $10,850,106, the balance of which is to be paid as follows:

Less than One Year	$ 60,000
In One to Five Years	1,919,287
Total	1,979,287
Present Value of Future Cash Flows	(304,235)
Total	$ 1,675,052

NOTE 14 COMMITMENTS AND CONTINGENCIES

Authorized University expenditures for construction projects unexpended as of June 30, 2015 and 2014 were approximately $4,756,000 and $3,582,000, respectively.

The nature of the education industry is such that, from time to time, the universities of the State System are exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

The University is self-insured for workers' compensation up to stated limits (see Note 12). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant.

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

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

The University follows GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which requires recognition of liabilities, recoveries, and related disclosures. In 2015, the University committed $974,799 to demolish a residence hall, as a result of the completion of Phase II of the privatized housing project. Included in that cost are pollution remediation obligations of approximately $680,000 for the removal of hazardous components. Accordingly, the University has included the liability for the removal of the hazardous components in accrued expenses. The amount of the estimated liability is $414,360. This estimate was calculated based on the dollar amount of contracts for remediation and testing that were open at June 30, 2015. The liability is subject to change due to possible change orders to those contracts.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
YEARS ENDED JUNE 30, 2015 AND 2014

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$ -	$ 99,156	$ 99,156	0%	$ 42,557	233.0%
July 1, 2013	$ -	$ 102,864	$ 102,864	0%	$ 40,775	252.3%
July 1, 2014	$ -	$ 82,419	$ 82,419	0%	$ 42,556	193.7%

Schedule of Funding Progress for the REHP (OPEB)
(in Thousands)

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$ 71,630	$ 12,843,700	$ 12,772,070	0.56%	$ 4,130,000	309%
July 1, 2013	$ 82,060	$ 13,234,040	$ 13,151,980	0.62%	$ 4,264,000	308%
January 1, 2015	$ 144,744	$ 16,134,419	$ 15,989,675	0.90%	$ 4,289,000	373%

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

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
YEARS ENDED JUNE 30, 2015 AND 2014

Schedule of Proportionate Share of SERS Net Pension Liability (NPL)
Determined as of December 31, 2014, SERS Measurement Date
(in Thousands)

Fiscal Year	University's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.35729%	$ 53,083	$ 21,651	245%	64.8%

SERS Schedule of Contributions
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 4,058	$ 4,058	$ -	$ 21,651	18.7%

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)
Determined as of June 30, 2014, PSERS Measurement Date
(in Thousands)

	PSERS Net Pension Liability						
Fiscal Year	University's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.01244%	$ 4,924	$ 4,924	$ 9,848	$ 1,587	310%	57.2%

PSERS Schedule of Contributions
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 361	$ 361	$ -	$ 1,587	22.7%