

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
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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 Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2018 and 2017, 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%, 100%, and 100%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports 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.

### ***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, 2018 and 2017, 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) Statements No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and No. 81 – Irrevocable Split-Interest Agreements, for the year ended June 30, 2018, which represent changes in accounting principle. As of July 1, 2017, the State System’s net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (1). Our opinion was not modified with respect to this matter.

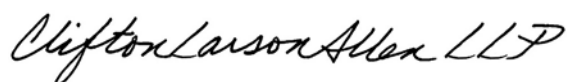
*Component Unit* – As discussed in Note 18 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### **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 requires 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 Required Supplemental Information schedules on pages 64 to 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
October 29, 2018

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION  
JUNE 30, 2018 AND 2017**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	2018	2017
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 78,756,478	\$ 80,678,280
Accounts Receivable:		
Governmental Grants and Contracts	1,387,729	1,246,430
Students, Net of Allowance for Doubtful Accounts of approximately \$1,239,000 in 2018 and \$1,149,000 in 2017	1,887,647	1,905,796
Other	862,663	1,043,707
Interest Income Receivable	246,146	165,460
Inventory	149,200	140,939
Prepaid Expenses and Other Current Assets	1,396,365	1,205,418
Loans Receivable	491,688	502,272
Due from Component Unit	5,235,714	5,647,750
Other Assets - Current	15,500	-
Total Current Assets	90,429,130	92,536,052
<b>NONCURRENT ASSETS</b>		
Beneficial Interests	3,950,652	-
Loans Receivable	2,394,119	2,394,429
Capital Assets, Net	89,088,514	93,772,033
Due from Component Unit	712,650	1,620,479
Other Assets	232,388	139,862
Total Noncurrent Assets	96,378,323	97,926,803
Total Assets	186,807,453	190,462,855
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Change on Refunding	338,780	207,296.00
Deferred Outflows from Pension Activities	10,043,055	16,299,419
Deferred Outflows from OPEB Activities	4,106,353	-
Total Deferred Outflows of Resources	14,488,188	16,506,715
 Total Assets and Deferred Outflows of Resources	 \$ 201,295,641	 \$ 206,969,570

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, 2018 AND 2017**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 11,389,882	\$ 10,114,927
Unearned Revenue	3,066,779	3,391,570
Students' Deposits	754,659	660,906
Other Deposit Liabilities	288,161	411,363
Workers' Compensation	320,885	318,968
Compensated Absences	878,178	628,604
Postretirement Benefits	4,090,466	-
Capital Lease	25,315	-
Bonds Payable	3,415,794	3,239,313
Bond Program (AFRP)	304,390	312,185
Due to Component Unit	562,845	420,295
Other Liabilities	524,327	196,757
Total Current Liabilities	25,621,681	19,694,888
<b>NONCURRENT LIABILITIES</b>		
Unearned Revenue	61,673	71,952
Workers' Compensation	327,083	327,845
Compensated Absences	8,578,610	8,627,446
Postretirement Benefits	153,683,366	77,525,261
Bonds Payable	36,519,431	39,033,380
Net Pension Liability	64,655,052	71,873,768
Capital Lease	83,252	18,200
Due to System, AFRP	690,074	999,424
Other Noncurrent Liabilities	2,379,169	2,717,295
Total Noncurrent Liabilities	266,977,710	201,194,571
Total Liabilities	292,599,391	220,889,459
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Charge on Refunding	53,545	61,218
Deferred Inflows from Pension Activities	4,793,030	3,264,590
Deferred Inflows from OPEB Activities	13,541,708	-
Total Deferred Inflows of Resources	18,388,283	3,325,808
<b>NET POSITION</b>		
Net Investment in Capital Assets	48,422,774	50,310,648
Restricted for:		
Expendable:		
Scholarships and Fellowships	156,092	124,000
Capital Projects	7,323,743	8,311,915
Nonexpendable:		
Student Loans	459,935	452,671
Scholarships and Fellowships	4,213,042	-
Unrestricted	(170,267,619)	(76,444,931)
Total Net Position	(109,692,033)	(17,245,697)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 201,295,641	\$ 206,969,570

See accompanying Notes to Financial Statements.

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –  
PRIMARY INSTITUTION  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 68,261,098	\$ 70,966,129
Less: Scholarship Discounts and Allowances	16,119,692	15,571,672
Net Tuition and Fees	52,141,406	55,394,457
Auxiliary Enterprises	21,706,566	24,841,011
Less: Scholarship Discounts and Allowances	382,584	141,257
Net Auxiliary Enterprises	21,323,982	24,699,754
Governmental Grants and Contracts:		
Federal	3,150,811	2,395,157
State	9,164,075	10,074,690
Local	27,140	21,408
Nongovernmental Grants and Contracts	1,572,259	1,983,542
Sales and Services of Educational Departments	2,343,178	2,079,087
Other Revenues	1,458,823	1,133,125
Total Operating Revenues	91,181,674	97,781,220
<b>OPERATING EXPENSES</b>		
Instruction	47,894,798	51,159,056
Research	781,765	528,923
Public Service	6,658,035	6,516,844
Academic Support	14,669,620	13,726,429
Student Services	14,199,430	13,301,441
Institutional Support	13,309,484	16,243,394
Operations and Maintenance of Plant	10,431,358	9,708,150
Depreciation	8,941,689	9,024,968
Student Aid	3,009,492	3,235,513
Auxiliary Enterprises	18,207,917	19,337,348
Total Operating Expenses	138,103,588	142,782,066
<b>OPERATING LOSS</b>	(46,921,914)	(45,000,846)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	29,918,863	29,662,989
Commonwealth On-Behalf Contributions to PSERS	734,889	680,282
Pell Grants	8,098,132	8,005,201
Investment Income, Net of Related Investment Expenses of \$16,947 in 2018 and \$16,359 in 2017	1,778,980	1,278,156
Unrealized Increase in Fair Value	198,589	-
Gifts for Other than Capital Purposes	272,769	-
Interest Expense	(1,331,042)	(1,674,049)
Gain/(Loss) on Disposal of Capital Assets, Net	(797,950)	7,629
Other Nonoperating Revenue	97,110	114,062
Nonoperating Revenues, Net	38,970,340	38,074,270
<b>LOSS BEFORE OTHER REVENUES</b>	(7,951,574)	(6,926,576)
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,272,036	1,155,564
Capital Gifts and Grants	209,871	1,282,683
Total Other Revenues	1,481,907	2,438,247
<b>CHANGES IN NET POSITION</b>	(6,469,667)	(4,488,329)
Net Position - Beginning of Year	(17,245,697)	(12,757,368)
Restatement for July 1, 2017, OPEB Liabilities and Related Expenses	(89,728,732)	-
Restatement for July 1, 2017, Beneficial Interests	3,752,063	-
Net Position - Beginning of Year, Restated	(103,222,366)	(12,757,368)
<b>NET POSITION - END OF YEAR</b>	\$ (109,692,033)	\$ (17,245,697)

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, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Tuition and Fees	\$ 52,475,669	\$ 53,907,939
Grants and Contracts	13,791,436	13,875,145
Payments to Suppliers for Goods and Services	(30,189,257)	(32,279,103)
Payments to Employees	(94,151,107)	(92,135,380)
Loans Issued to Students	(342,967)	(368,550)
Loans Collected from Students	353,861	298,866
Student Aid	(3,068,095)	(3,243,381)
Auxiliary Enterprise Charges	21,399,520	24,254,281
Sales and Services of Educational Departments	2,343,178	2,402,455
Other Receipts	3,216,945	1,332,001
Net Cash Used by Operating Activities	(34,170,817)	(31,955,727)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations, including Federal ARRA	29,918,863	29,662,989
Gifts and Nonoperating Grants for Other Than Capital Purposes	8,370,901	8,005,201
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	57,527,338	60,695,870
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(57,527,338)	(60,695,870)
Agency Transactions, Net	(123,202)	89,789
Other	97,110	114,062
Net Cash Provided by Noncapital Financing Activities	38,263,672	37,872,041
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Debt	10,437,352	-
Capital Appropriations	1,272,036	1,155,564
Capital Gifts and Grants Received	209,871	830,959
Proceeds from Sale of Capital Assets	12,271	15,749
Purchases of Capital Assets	(4,964,789)	(3,237,596)
Principal Paid on Debt and Leases	(12,623,201)	(2,989,652)
Interest Paid on Debt and Leases	(2,056,491)	(2,062,269)
Net Cash Used by Capital Financing Activities	(7,712,951)	(6,287,245)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	1,698,294	1,234,545
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,921,802)	863,614
Cash and Cash Equivalents - Beginning of Year	80,678,280	79,814,666
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 78,756,478	\$ 80,678,280

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (46,921,914)	\$ (45,000,846)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	8,941,689	9,024,968
Expenses Paid by Commonwealth or Donor	734,889	680,282
Changes in Assets and Liabilities:		
Receivables, Net	(123,150)	(38,022)
Inventories	(8,261)	19,590
Other Assets	1,289,220	(362,955)
Accounts Payable	1,287,006	(514,598)
Unearned Revenue	(335,070)	(1,441,837)
Students' Deposits	93,753	(197,256)
Compensated Absences	200,738	178,226
Loans to Students	10,894	(69,684)
Postretirement Benefits Liability (OPEB)	(9,480,161)	3,077,897
Defined Benefit Pensions	(7,218,716)	4,995,647
Other Liabilities	138,107	(154,169)
Deferred Outflows of Resources Related to Pensions	6,256,364	(3,340,166)
Deferred Outflows of Resources Related to OPEB	(4,106,353)	-
Deferred Inflows of Resources Related to Pensions	1,528,440	1,187,196
Deferred Inflows of Resources Related to OPEB	13,541,708	-
	<u>\$ (34,170,817)</u>	<u>\$ (31,955,727)</u>
 <b>SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL FINANCING ACTIVITIES</b>		
Accounts Payable Incurred for Capital Assets	<u>\$ 1,238,591</u>	<u>\$ 518,072</u>
 Donated Furniture and Equipment	<u>\$ 64,367</u>	<u>\$ 451,724</u>
 Commonwealth on-behalf Contributions to PSERS	<u>\$ 734,889</u>	<u>\$ 680,282</u>
 Capital Assets Acquired by Capital Leases	<u>\$ 103,602</u>	<u>\$ 25,602</u>

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, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,975,214	\$ 3,345,551
Accounts Receivable	319,581	551,788
Pledges Receivable	528,924	1,140,013
Due from University	562,845	420,295
Other Current Assets	7,959,714	7,486,556
Total Current Assets	13,346,278	12,944,203
<b>NONCURRENT ASSETS</b>		
Capital Assets, Net	139,255,892	144,533,772
Investments	73,006,125	71,719,011
Total Noncurrent Assets	212,262,017	216,252,783
Total Assets	\$ 225,608,295	\$ 229,196,986
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 1,940,186	\$ 1,829,619
Deferred Revenue	625,858	2,412,199
Interest Payable	1,811,169	391,131
Other Deposit Liabilities	104,118	98,864
Annuity Liabilities	2,114,960	2,228,911
Due to University	5,948,364	7,268,229
Other Current Liabilities	269,201	269,205
Total Current Liabilities	12,813,856	14,498,158
<b>LONG-TERM DEBT</b>		
Total Liabilities	165,482,881	168,369,680
<b>NET ASSETS</b>		
Unrestricted	(4,408,550)	(3,790,652)
Temporarily Restricted	11,506,341	11,220,875
Permanently Restricted	40,213,767	38,898,925
Total Net Assets	47,311,558	46,329,148
Total Liabilities and Net Assets	\$ 225,608,295	\$ 229,196,986

See accompanying Notes to Financial Statements.

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND OTHER ADDITIONS</b>		
Contributions	\$ 525,621	\$ 270,826
Investment Income	863,824	150,016
Housing Fees	14,640,337	15,490,232
Rental Income	2,843,229	2,894,145
Sales and Services	1,282,936	1,284,543
Student Activity Fees	2,782,552	2,993,453
Hotel Operations	2,631,802	2,323,187
Other Revenues	3,044,654	3,629,557
Net Assets Reclassification	-	404,808
Net Position Released from Restrictions	6,850,886	4,817,052
Total Revenues and Other Additions	35,465,841	34,257,819
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Program Expenses	24,135,811	24,372,223
Supporting Services Expenses	7,251,463	8,143,359
Student Activities	3,956,589	3,875,721
University Store	295,995	279,917
Management and General	545,484	500,332
Total Expenses and Other Deductions	36,185,342	37,171,552
Changes in Unrestricted Net Assets	(719,501)	(2,913,733)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	607,288	1,463,976
Investment Income	2,715,700	2,668,622
Other Additions	1,411,081	1,381,383
Net Assets Reclassification	-	(404,808)
Net Position Released from Restrictions	(6,850,886)	(4,817,052)
Changes in Temporarily Restricted Net Assets	(2,116,817)	292,121
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	2,331,371	1,440,176
Investment Income	1,476,828	2,928,635
Other	10,529	3,651
Changes in Permanently Restricted Net Assets	3,818,728	4,372,462
<b>CHANGES IN NET ASSETS</b>	982,410	1,750,850
Net Assets - Beginning of Year as Originally Stated	46,329,148	44,270,948
Prior Period Adjustment	-	307,350
Net Assets - Beginning of Year as Restated	46,329,148	44,578,298
<b>NET ASSETS - END OF YEAR</b>	\$ 47,311,558	\$ 46,329,148

See accompanying Notes to Financial Statements.

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2018 and 2017.

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, which 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, 2018 and 2017.

**SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Reporting Entity (Continued)**

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

**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 all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Codification Section 958-205, *Presentation of Financial Statements*. 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 – Nonexpendable:* Net position subject to externally imposed conditions requiring that they be maintained by the University in perpetuity.

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

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

**Net Position (Continued)**

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

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

**Cash Equivalents and Investments**

The University considers all demand and time deposits 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.

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

**Capital Assets (Continued)**

The Fashion Archives and Museum at the University maintains a collection of works of art, literary works, historical treasures, and artifacts. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service and are not capitalized; purchases of collection items are recorded as expenses in the University's financial statements in the period in which the items are acquired.

**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, 2018 and 2017 due to impairment.

**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 and other postemployment benefit (OPEB) plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the University's proportion of expenses and liabilities to the pension and OPEB plans as a whole, differences between the University's pension and OPEB contributions and its proportionate share of contributions, and the University's pension and OPEB contributions subsequent to the pension and OPEB plan valuation measurement date.

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

**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.

**Pension Plans and OPEB Plans**

Eligible employees of the University enroll in one of three available pension plans immediately upon employment. The University also offers healthcare and tuition benefits to eligible employees upon employment, which vary depending upon the employee's labor group.

**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. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

**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 in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on the previously reported net position or changes therein.



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

**New Accounting Standards**

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 also has significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the State System administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan.

The July 1, 2017, balances of these other postemployment benefit liabilities (with "other" meaning "other than pensions"), known as OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources, are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2017 Net position—beginning of year*. The plans did not provide sufficient information to restate the June 30, 2017, financial statements.

In addition, the University has implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. Under Statement No. 81, the University is reporting as beneficial interests, along with the associated deferred inflows of resources, the value of irrevocable split-interest agreements held by a third party of which the University is the beneficiary. The University also is reporting as beneficial interests the value of funds held in perpetual trusts by third parties of which the university is the beneficiary. The July 1, 2017, balances of these beneficial interests and related deferred inflows of resources are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2017 Net position—beginning of year.

Net Position - Beginning of Year	\$ (17,245,697)
Restatement for July 1, 2017, GASB 75 OPEB Liabilities and Related Expenses	(89,728,732)
Restatement for July 1, 2017, GASB 81 Beneficial Interests	<u>3,752,063</u>
Net Position - Beginning of Year, Restated	<u>\$ (103,222,366)</u>

GASB has issued several accounting standards that are required to be adopted by the University in future years. The University is evaluating the impact of the adoption of these standards on its financial statements as discussed below.

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The University has determined that, although Statement No. 87 will change the way it accounts for its operating leases, it will have little, if any, effect on its net position or results of operations. The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019.

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

**New Accounting Standards (Continued)**

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 is intended to improve the information that is disclosed in notes to government financial statements related to debt. The University has determined that Statement No. 88 will have no effect on its financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and should no longer be capitalized as part of the cost of an asset. The University has determined that the effect of Statement No. 89 on its financial statements will vary from year to year, depending upon the amount of new debt incurred for capital assets. The provisions of Statement No. 89 are effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. Statement No. 90 is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The University has determined that Statement No. 90 will have no effect on its financial statements.

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

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

	2018		
	Student Services	The Foundation	Total
Due from University	\$ 485,681	\$ 77,164	\$ 562,845
Capital Assets, Net	105,621,349	33,634,543	139,255,892
Investments	25,885,731	47,120,394	73,006,125
Other Assets	4,955,583	7,827,849	12,783,432
<b>Total Assets</b>	<b>\$ 136,948,344</b>	<b>\$ 88,659,950</b>	<b>\$ 225,608,294</b>
Due to University	\$ 4,960,731	\$ 987,633	\$ 5,948,364
Long-Term Debt	134,623,886	30,858,995	165,482,881
Other Liabilities	2,659,340	4,206,151	6,865,491
<b>Total Liabilities</b>	<b>\$ 142,243,957</b>	<b>\$ 36,052,779</b>	<b>\$ 178,296,736</b>
Net Assets (Deficit):			
Unrestricted, Adjusted	\$ (5,295,613)	\$ 887,063	\$ (4,408,550)
Temporarily Restricted	-	11,506,341	11,506,341
Permanently Restricted	-	40,213,767	40,213,767
<b>Total Net Assets (Deficit)</b>	<b>\$ (5,295,613)</b>	<b>\$ 52,607,171</b>	<b>\$ 47,311,558</b>
	2017		
	Student Services	The Foundation	Total
Due from University	\$ 341,369	\$ 78,926	\$ 420,295
Capital Assets, Net	109,059,497	35,474,275	144,533,772
Investments	26,765,519	44,953,492	71,719,011
Other Assets	4,719,714	7,804,194	12,523,908
<b>Total Assets</b>	<b>\$ 140,886,099</b>	<b>\$ 88,310,887</b>	<b>\$ 229,196,986</b>
Due to University	\$ 5,540,929	\$ 1,727,300	\$ 7,268,229
Long-Term Debt	136,436,798	31,932,882	168,369,680
Other Liabilities	2,429,932	4,799,997	7,229,929
<b>Total Liabilities</b>	<b>\$ 144,407,659</b>	<b>\$ 38,460,179</b>	<b>\$ 182,867,838</b>
Net Assets (Deficit):			
Unrestricted	\$ (3,521,560)	\$ (269,092)	\$ (3,790,652)
Temporarily Restricted	-	11,220,875	11,220,875
Permanently Restricted	-	38,898,925	38,898,925
<b>Total Net Assets (Deficit)</b>	<b>\$ (3,521,560)</b>	<b>\$ 49,850,708</b>	<b>\$ 46,329,148</b>

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

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

	2018		
	Student Services	The Foundation	Total
<b>Changes in Unrestricted Net Assets:</b>			
Revenues and Other Additions:			
Contributions	\$ -	\$ 525,621	\$ 525,621
Investment Income	251,278	612,546	863,824
Housing Fees	14,640,337	-	14,640,337
Rental Income	-	2,843,229	2,843,229
Sales and Services	1,282,936	-	1,282,936
Student Activity Fees	2,782,552	-	2,782,552
Hotel Operations	-	2,631,802	2,631,802
Other Revenues	390,379	2,654,275	3,044,654
Net Assets Released from Restrictions	-	6,850,886	6,850,886
Total Revenues and Other Additions	<u>19,347,482</u>	<u>16,118,359</u>	<u>35,465,841</u>
Expenses and Other Deductions:			
Program Expenses	16,323,467	7,812,344	24,135,811
Supporting Services	-	7,251,463	7,251,463
Student Activities	3,956,589	-	3,956,589
University Housing	-	-	-
University Store	295,995	-	295,995
Management and General	545,484	-	545,484
Total Expense and Other Deductions	<u>21,121,535</u>	<u>15,063,807</u>	<u>36,185,342</u>
Increase (Decrease) in Unrestricted Net Assets	(1,774,053)	1,054,552	(719,501)
<b>Changes in Temporarily Restricted Net Assets:</b>			
Contributions	-	607,288	607,288
Investment Income	-	2,715,700	2,715,700
Other Additions	-	1,411,081	1,411,081
Net Assets Released from Restrictions	-	(6,850,886)	(6,850,886)
Decrease in Temporarily Restricted Net Assets	<u>-</u>	<u>(2,116,817)</u>	<u>(2,116,817)</u>
<b>Changes in Permanently Restricted Net Assets:</b>			
Contributions	-	2,331,371	2,331,371
Investment Income	-	1,476,828	1,476,828
Other	-	10,529	10,529
Increase in Permanently Restricted Net Assets	<u>-</u>	<u>3,818,728</u>	<u>3,818,728</u>
<b>CHANGES IN NET ASSETS</b>	(1,774,053)	2,756,463	982,410
Net Assets - Beginning of Year, As Restated	<u>(3,521,560)</u>	<u>49,850,708</u>	<u>46,329,148</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ (5,295,613)</u>	<u>\$ 52,607,171</u>	<u>\$ 47,311,558</u>

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

	2017		
	Student Services	The Foundation	Total
<b>Changes in Unrestricted Net Assets:</b>			
Revenues and Other Additions:			
Contributions	\$ -	\$ 270,826	\$ 270,826
Investment Income	(97,329)	247,345	150,016
Housing Fees	15,490,232	-	15,490,232
Rental Income	-	2,894,145	2,894,145
Sales and Services	1,284,543	-	1,284,543
Student Activity Fees	2,993,453	-	2,993,453
Hotel Operations	-	2,323,187	2,323,187
Other Revenues	549,332	3,080,225	3,629,557
Net Assets Reclassification	-	404,808	404,808
Net Assets Released from Restrictions	-	4,817,052	4,817,052
Total Revenues and Other Additions	<u>20,220,231</u>	<u>14,037,588</u>	<u>34,257,819</u>
Expenses and Other Deductions:			
Program Expenses	-	7,430,125	7,430,125
Supporting Services	-	8,143,359	8,143,359
Student Activities	3,875,721	-	3,875,721
University Housing	16,942,098	-	16,942,098
University Store	279,917	-	279,917
Management and General	500,332	-	500,332
Total Expense and Other Deductions	<u>21,598,068</u>	<u>15,573,484</u>	<u>37,171,552</u>
Decrease in Unrestricted Net Assets	(1,377,837)	(1,535,896)	(2,913,733)
<b>Changes in Temporarily Restricted Net Assets:</b>			
Contributions	-	1,463,976	1,463,976
Net Assets Reclassification	-	(404,808)	(404,808)
Investment Income	-	2,668,622	2,668,622
Other Additions	-	1,381,383	1,381,383
Net Assets Released from Restrictions	-	(4,817,052)	(4,817,052)
Increase in Temporarily Restricted Net Assets	<u>-</u>	<u>292,121</u>	<u>292,121</u>
<b>Changes in Permanently Restricted Net Assets:</b>			
Contributions	-	1,440,176	1,440,176
Investment Income	-	2,928,635	2,928,635
Other	-	3,651	3,651
Increase in Permanently Restricted Net Assets	<u>-</u>	<u>4,372,462</u>	<u>4,372,462</u>
<b>CHANGES IN NET ASSETS</b>	<b>(1,377,837)</b>	<b>3,128,687</b>	<b>1,750,850</b>
Net Assets - Beginning of Year	(2,451,073)	46,722,021	44,270,948
Prior Period Adjustment	307,350	-	307,350
Net Assets - Beginning of Year, Adjusted	<u>(2,143,723)</u>	<u>46,722,021</u>	<u>44,578,298</u>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ (3,521,560)</b>	<b>\$ 49,850,708</b>	<b>\$ 46,329,148</b>

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**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 Universities 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 University's account as interest income. The University's portion of pooled funds totals \$78,088,281 and \$79,857,965 at June 30, 2018 and 2017, 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, the 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.

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**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 five 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.

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**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.

**Fair Value Hierarchy:** GASB Statement No. 72, Fair Value Measurement and Application, requires that assets and liabilities be classified according to a "fair value hierarchy." With respect to Statement No. 72's fair value hierarchy, GASB defines "inputs" as "the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk." Statement No. 72 further categorizes inputs as observable or unobservable: Observable inputs are "inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability"; Unobservable inputs are "inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability."

Statement No. 72's fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three "levels":

*Level 1* Investments whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market, such as stocks listed in the S&P 500 or NASDAQ. If an up-to-date price of the investment can be found on a major exchange, it is a Level 1 investment.

*Level 2* Investments whose values are based on their quoted prices in inactive markets or whose values are based on models, and the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability.



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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

***Fair Value Hierarchy (Continued):***

*Level 3* Investments that trade infrequently, and as a result do not have many reliable market prices. Valuations of Level 3 investments typically are based on management assumptions or expectations. For example, a private equity investment or complex derivative would likely be a Level 3 investment.

In addition, the fair value of certain investments that do not have a readily determinable fair value is classified as NAV, meaning net asset value per share, when the fair value is calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at [www.passhe.edu](http://www.passhe.edu). The University had no local investments recorded at fair value as of June 30, 2018 and 2017.

***University Local Deposits and Investments:*** As of June 30, 2018 and 2017, the carrying amount of the University's demand and time deposits was \$663,647 and \$816,215, respectively, as compared to bank balances of \$478,003 and \$587,861, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2018 and 2017, \$435,614 and 500,000, respectively, 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; \$42,389 and \$87,861, 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, 2018 and 2017, none of the University's demand and time deposits were exposed to foreign currency risk. The University also held \$4,550 and \$4,100 of petty cash as of June 30, 2018 and 2017, respectively.

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**NOTE 4 BENEFICIAL INTERESTS**

At June 30, 2018, the fair value of beneficial interest totaled approximately \$3,950,000, which represents gifts that donors placed in trust in perpetuity with third parties. The University receives a restricted revenue stream in accordance with the donors' wishes.

**NOTE 5 INVESTMENTS – COMPONENT UNITS**

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

	2018	2017
Money Market Funds	\$ 3,568,581	\$ 7,451,965
Mutual Funds	21,762,887	21,527,556
Stocks and Insurance Contracts	21,971,207	19,596,243
Student Loans	857,625	792,429
Bonds	388,303	869,577
Real Estate	354,226	318,561
U.S. Treasury Bonds	-	19,303,442
Certificates of Deposit	1,490,539	1,637,663
Government-Sponsored Entity Bonds	22,612,757	221,575
Total	<u>\$ 73,006,125</u>	<u>\$ 71,719,011</u>

**NOTE 6 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 June 30, 2017	Additions	Retirements	Reclassifications	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated:						
Land		\$ 197,129	\$ -	\$ -	\$ -	\$ 197,129
Construction in Progress		1,318,344	2,050,743	-	(448,790)	2,920,297
Total Capital Assets Not Depreciated		1,515,473	2,050,743	-	(448,790)	3,117,426
Capital Assets Being Depreciated:						
Buildings, Including Improvements	20-40	172,477,196	1,870,269	(13,063,115)	448,790	161,733,140
Furnishings and Equipment, Including Capital Leases	3-10	33,039,841	1,050,692	(739,463)	-	33,351,070
Library Books	10	4,215,470	96,687	(2,981)	-	4,309,176
Total Capital Assets Being Depreciated		209,732,507	3,017,648	(13,805,559)	448,790	199,393,386
Less Accumulated Depreciation:						
Buildings, Including Improvements		(85,581,682)	(7,014,425)	12,252,895	-	(80,343,212)
Furnishings and Equipment, Including Capital Leases		(27,870,182)	(1,877,522)	739,462	-	(29,008,242)
Library Books		(4,024,083)	(49,742)	2,981	-	(4,070,844)
Total Accumulated Depreciation		(117,475,947)	(8,941,689)	12,995,338	-	(113,422,298)
Total Capital Assets Being Depreciated, Net		92,256,560	(5,924,041)	(810,221)	448,790	85,971,088
Capital Assets, Net		<u>\$ 93,772,033</u>	<u>\$ (3,873,298)</u>	<u>\$ (810,221)</u>	<u>\$ -</u>	<u>\$ 89,088,514</u>

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**NOTE 6 CAPITAL ASSETS (CONTINUED)**

	Estimated Lives in Years	Beginning Balance June 30, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Capital Assets Not Being Depreciation:						
Land		\$ 197,129	\$ -	\$ -	\$ -	\$ 197,129
Construction in Progress		2,744,723	836,336	(7,584)	(2,255,131)	1,318,344
Total Capital Assets Not Depreciated		2,941,852	836,336	(7,584)	(2,255,131)	1,515,473
Capital Assets Being Depreciated:						
Buildings, Including Improvements Furnishings and Equipment, Including Capital Leases	20-40	167,939,461	2,282,604	-	2,255,131	172,477,196
Library Books	3-10	32,894,830	1,086,431	(941,420)	-	33,039,841
	10	4,190,378	27,623	(2,531)	-	4,215,470
Total Capital Assets Being Depreciated		205,024,669	3,396,658	(943,951)	2,255,131	209,732,507
Less Accumulated Depreciation:						
Buildings, Including Improvements Furnishings and Equipment, Including Capital Leases		(78,598,793)	(6,982,889)	-	-	(85,581,682)
Library Books		(26,824,004)	(1,987,062)	940,884	-	(27,870,182)
		(3,971,597)	(55,017)	2,531	-	(4,024,083)
Total Accumulated Depreciation		(109,394,394)	(9,024,968)	943,415	-	(117,475,947)
Total Capital Assets Being Depreciated, Net		95,630,275	(5,628,310)	(536)	2,255,131	92,256,560
Capital Assets, Net		\$ 98,572,127	\$ (4,791,974)	\$ (8,120)	\$ -	\$ 93,772,033

**NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	2018	2017
Employees	\$ 8,708,484	\$ 8,152,402
Suppliers and Services	185,232	248,479
Interest	65,152	77,203
Other	2,431,014	1,636,843
Total	\$ 11,389,882	\$ 10,114,927

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**NOTE 8 LEASES**

The University has entered into operating lease agreements for certain office space and equipment. Lease expense was \$1,366,320 for 2018 and \$1,765,345 for 2017. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 802,025
2020	690,312
2021	356,530
2022	367,226
2023	378,243
Thereafter	18,534,899
Total Minimum Lease Payments	<u><u>\$ 21,129,235</u></u>

**NOTE 9 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, 2018 and 2017 were as follows:

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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

	Weighted Average Interest Rate	2018			Balance June 30, 2018
		Balance July 1, 2017	Bonds Issued	Bonds Redeemed	
Series AG Issued in 2007 to Refund Series O and Series Q	4.81%	\$ 179,913	\$ -	\$ 179,913	\$ -
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.66%	10,000,608	-	10,000,608	-
Series AJ Issued in 2009 for Various Capital Projects	4.88%	4,538,613	-	286,511	4,252,102
Series AK Issued in 2009 to Refund Series S	4.00%	135,898	-	43,444	92,454
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	8,377,535	-	560,249	7,817,286
Series AM Issued in 2011 for CUB Student Union	4.64%	8,669,811	-	451,635	8,218,176
Series AP Issued in 2014 to Refund Series Z and Series AA	4.51%	306,051	-	38,961	267,090
Series AQ issued in 2015 to Refund Series AC and AE	4.70%	4,750,553	-	457,042	4,293,511
Series AS issued in 2016 to Refund Series AF	3.72%	2,960,957	-	124,403	2,836,554
AU issued in 2018 to Refund AH Rec Center	3.51%	-	1,616,680	-	1,616,680
AU issued in 2018 to Refund AH Reisner	3.51%	-	8,617,307	145,092	8,472,215
Total Bonds Payable		<u>\$ 39,919,939</u>	<u>\$ 10,233,987</u>	<u>\$ 12,287,858</u>	37,866,068
Plus: Unamortized Bond Premium Costs					<u>2,069,157</u>
Outstanding at End of Year					<u>\$ 39,935,225</u>

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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

	2017				Balance June 30, 2017
	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	
Series AG Issued in 2007 to Refund Series O and Series Q	4.81%	\$ 449,801	\$ -	\$ 269,888	\$ 179,913
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.66%	10,686,656	-	686,048	10,000,608
Series AJ Issued in 2009 for Various Capital Projects	4.88%	4,811,392	-	272,779	4,538,613
Series AK Issued in 2009 to Refund Series S	4.00%	177,824	-	41,926	135,898
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	8,911,653	-	534,118	8,377,535
Series AM Issued in 2011 for CUB Student Union	4.64%	9,099,865	-	430,054	8,669,811
Series AP Issued in 2014 to Refund Series Z and Series AA	4.51%	343,723	-	37,672	306,051
Series AQ issued in 2015 to Refund Series AC and AE	4.70%	5,146,117	-	395,564	4,750,553
Series AS issued in 2016 to Refund Series AF	3.72%	<u>2,960,957</u>	<u>-</u>	<u>-</u>	<u>2,960,957</u>
Total Bonds Payable		<u>\$ 42,587,988</u>	<u>\$ -</u>	<u>\$ 2,668,049</u>	39,919,939
Plus: Unamortized Bond Premium Costs					<u>2,352,754</u>
Outstanding at End of Year					<u>\$ 42,272,693</u>

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**NOTE 9 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:

		2019	2020	2021	2022	2023	2024-2028	2029-2033	Total
Series									
AJ	Principal	\$ 300,868	\$ 315,849	\$ 332,078	\$ 348,308	\$ 365,786	\$ 2,107,949	\$ 481,264	\$ 4,252,102
	Interest	202,853	187,809	172,017	155,413	137,997	411,171	22,860	1,290,120
	Total	503,721	503,658	504,095	503,721	503,783	2,519,120	504,124	5,542,222
AK	Principal	45,396	47,058	-	-	-	-	-	92,454
	Interest	3,698	1,882	-	-	-	-	-	5,580
	Total	49,094	48,940	-	-	-	-	-	98,034
AL	Principal	589,068	617,685	648,653	540,719	567,593	3,293,761	1,559,807	7,817,286
	Interest	390,864	361,411	330,527	298,094	271,058	900,033	117,926	2,669,913
	Total	979,932	979,096	979,180	838,813	838,651	4,193,794	1,677,733	10,487,199
AM	Principal	470,021	493,202	517,982	543,562	570,740	3,286,950	2,335,717	8,218,174
	Interest	383,785	360,284	335,623	309,724	282,546	980,799	225,115	2,877,876
	Total	853,806	853,486	853,605	853,286	853,286	4,267,749	2,560,832	11,096,050
AP	Principal	40,088	41,698	43,308	45,079	47,332	49,586	-	267,091
	Interest	12,104	10,500	8,832	7,100	4,846	2,479	-	45,861
	Total	52,192	52,198	52,140	52,179	52,178	52,065	-	312,952
AQ	Principal	479,839	503,943	529,810	555,648	583,703	1,640,568	-	4,293,511
	Interest	214,676	190,684	165,486	138,996	111,214	152,592	-	973,648
	Total	694,515	694,627	695,296	694,644	694,917	1,793,160	-	5,267,159
AS	Principal	276,072	281,184	286,297	293,113	307,599	1,392,290	-	2,836,555
	Interest	116,521	111,000	105,376	99,650	84,994	178,297	-	695,838
	Total	392,593	392,184	391,673	392,763	392,593	1,570,587	-	3,532,393
AU	Principal	853,017	927,956	949,280	970,605	992,765	5,395,272	-	10,088,895
	Interest	265,214	249,846	231,030	209,640	185,605	504,086	-	1,645,421
	Total	1,118,231	1,177,802	1,180,310	1,180,245	1,178,370	5,899,358	-	11,734,316
Total	Principal	3,054,369	3,228,575	3,307,408	3,297,034	3,435,518	17,166,376	4,376,788	37,866,068
	Interest	1,589,715	1,473,416	1,348,891	1,218,617	1,078,260	3,129,457	365,901	10,204,257
	Total	<u>\$ 4,644,084</u>	<u>\$ 4,701,991</u>	<u>\$ 4,656,299</u>	<u>\$ 4,515,651</u>	<u>\$ 4,513,778</u>	<u>\$ 20,295,833</u>	<u>\$ 4,742,689</u>	<u>\$ 48,070,325</u>

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**NOTE 9 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 (\$13,298,828 and \$17,539,964 was outstanding as of June 30, 2018 and 2017, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	<u>2018</u>	<u>2017</u>
Balance at July 1	\$ 1,311,609	\$ 1,630,773
Repayments	(317,145)	(319,164)
Balance at June 30	<u>\$ 994,464</u>	<u>\$ 1,311,609</u>

**Bonds Payable - Component Unit**

Student Services has constructed privatized student-housing facilities (Facilities) on the campus of Shippensburg University of Pennsylvania. The Facilities have been completed in two phases (Phase 1 and Phase 2). Funding for the Facilities has been provided by the net proceeds of revenue bonds issued by the Pennsylvania Higher Educational Facilities Authority (Authority). The Facilities have been constructed on land leased from the University. Construction of phase one was completed in January 2013 and phase two was completed in August 2014.

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 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 2011 bonds. 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 Student Services pursuant to a Loan Agreement also dated December 1, 2012. Student Services 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.



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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

**Bonds Payable - Component Unit (Continued)**

Under the terms of the Loan Agreement dated July 1, 2011, and First Supplemental 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 1 and October 1). 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 1. However, the Bonds are subject to redemption as set forth in the Trust Indenture. 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 1, 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.

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 25<sup>th</sup> 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, nonrecurring 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 25<sup>th</sup> 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 Student Services' audited financial statements. The Lease Agreement also provides for a one-time, nonrecurring 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, Student Services will also pay to the Lessor a fee of .5% of the actual rental fees collected.

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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

**Bonds Payable - Component Unit (Continued)**

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.

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

	2018	2017
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%	\$ 68,470,000	\$ 68,955,000
Less: Unamortized Discount	(84,837)	(89,752)
Long-Term Debt	68,385,163	68,865,248
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%	62,290,000	63,390,000
Plus: Unamortized Premium	3,948,723	4,181,550
Long-Term Debt, Net of Discount	66,238,723	67,571,550
Total	\$ 134,623,886	\$ 136,436,798

The aggregate future principal payments on long-term debt as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,595,000
2020	2,105,000
2021	2,135,000
2022	2,345,000
2023	2,580,000
Thereafter	120,000,000
Total	\$ 130,760,000

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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

**Notes Payable - Component Unit**

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.

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, 2018 and 2017.

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 for \$11,369,400. Beginning August 1, 2014 and continuing monthly through July 1, 2016, payments of interest only on the unpaid principal balance were due. Beginning August 1, 2016 and continuing monthly through July 1, 2021, payment of outstanding principal and interest are due based on a 25-year amortization schedule. The interest rate will be variable at the one-month LIBOR plus 2.75% through June 30, 2016, after it will be fixed at 4.5% through maturity.

In fiscal year 2016, The Foundation had a \$3,000,000 unsecured revolving line of credit with F&M Trust; to expire December 2018. The line has a variable interest rate of 30-day LIBOR plus 225 basis points with a ceiling of 5.75% and a floor of 4.00%, which was the rate at June 30, 2018 and 2017.

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**NOTE 9 BONDS AND NOTES PAYABLE (CONTINUED)**

**Notes Payable - Component Unit (Continued)**

The Foundation has issued two note payables to Ally Financial, secured by liens on vehicles, that both mature June 2022. The interest rate is fixed at 3.89%.

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

	<u>2018</u>	<u>2017</u>
Cumberland County Industrial Development Authority Revenue Note, Series A of 2013	\$ 16,892,000	\$ 16,892,000
Cumberland County Industrial Development Authority Revenue Note, Series B of 2013	1,773,806	2,672,658
Notes Payable to Orrstown Bank	1,155,973	1,185,138
CNB Bank	10,883,521	11,145,558
F&M Line of Credit	270,000	182,800
Note Payable to Ally Financial	28,323	34,742
Note Payable to Ally Financial	18,868	23,144
Total	<u>31,022,491</u>	<u>32,136,040</u>
Less: Debt Issuance Costs	<u>(163,496)</u>	<u>(203,158)</u>
Total	<u>\$ 30,858,995</u>	<u>\$ 31,932,882</u>

The aggregate future principal payments on long-term debt of the Foundation as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,414,685
2020	1,292,256
2021	11,374,090
2022	1,076,184
2023	1,101,217
Thereafter	14,764,059
Total	<u>\$ 31,022,491</u>

**NOTE 10 UNEARNED REVENUE**

Unearned revenue consisted of the following at June 30:

	<u>2018</u>		<u>2017</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Student Tuition and Fees	\$ 2,002,699	\$ 61,673	\$ 1,694,521	\$ 71,952
Grants	329,249	-	310,799	-
Other	734,831	-	1,386,250	-
Total	<u>\$ 3,066,779</u>	<u>\$ 61,673</u>	<u>\$ 3,391,570</u>	<u>\$ 71,952</u>

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**NOTE 11 COMPENSATED ABSENCES**

Compensated absences consisted of the following at June 30:

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	\$ 878,178	\$ 8,578,610	\$ 628,604	\$ 8,627,446

Changes in compensated absences are as follows:

	2018	2017
Balance at July 1	\$ 9,256,050	\$ 9,077,824
Current Changes in Estimate	1,446,342	1,034,560
Payouts	(1,245,604)	(856,334)
Balance at June 30	\$ 9,456,788	\$ 9,256,050

**NOTE 12 POSTRETIREMENT BENEFIT OBLIGATIONS (OPEB)**

Other postretirement benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave.

University employees who retire after meeting specified service and age requirements are eligible to receive healthcare and tuition benefits in retirement. Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a defined benefit healthcare plan administered by the State System (System Plan). Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is a defined benefit healthcare plan sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). In addition to the above, any employee who participates in the Public School Employees' Retirement System (PSERS) pension plan is eligible to receive benefits from the PSERS Health Insurance Premium Assistance Program (Premium Assistance), a defined benefit plan, and all eligible retirees and their eligible dependents receive tuition waivers at any of the 14 State System universities.

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**NOTE 12 POSTRETIREMENT BENEFIT OBLIGATIONS (OPEB) (CONTINUED)**

The University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense consisted of the following at June 30:

	SSHE Plan		REHP		PSERS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	\$93,599,070	\$77,525,261	\$63,904,982	*	\$269,780	*	\$157,773,832	\$77,525,261
Deferred outflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan investments	-	N/A	-	*	292	*	292	*
Contributions after the measurement date	2,487,904	*	1,602,562	*	15,595	*	4,106,061	*
Total deferred outflows of resources	2,487,904	-	1,602,562	-	15,887	-	4,106,353	77,525,261
Deferred inflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	53,373	*		*	53,373	*
Changes in assumptions	7,650,147	*	5,822,615	*	12,575	*	13,485,337	*
Changes in proportion	N/A	N/A	-	*	2,998	*	2,998	*
Total deferred inflows of resources	7,650,147	-	5,875,988	-	15,573	-	13,541,708	-
OPEB expense	3,763,636	2,465,969	2,966,645	2,366,182	22,210	14,753	6,752,491	4,846,904
Contributions recognized by OPEB plans	2,487,904	N/A	1,602,562	2,366,182	15,595	14,753	4,106,061	2,380,935

\*Information is not reported because GASB 75 actuarial valuations were not performed for prior years and fiscal year 2016/17 was not restated.

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$2,487,904 for the System Plan, \$1,602,562 for the REHP plan, and \$15,595 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended	Amortization		
	SSHE	REHP	PSERS
June 30, 2019	\$1,530,029	\$1,249,697	\$2,705
June 30, 2020	1,530,029	1,249,697	2,486
June 30, 2021	1,530,029	1,249,697	2,486
June 30, 2022	1,530,029	1,249,697	2,486
June 30, 2023	1,530,029	877,720	2,559
Thereafter	-	(520)	2,559

**System Plan**

**Plan Description**

The System Plan is a single-employer defined benefit healthcare plan administered by the Office of the Chancellor. Act 188 empowers the Board to establish and amend benefit provisions and to require the Office of the Chancellor to pay OPEB as the benefits come due. The Office of the Chancellor discretely accounts for and accumulates all employer and employee System Plan contributions that have been collected from the universities, employees, and retirees, but not yet been paid to the provider; however, the System Plan has no assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors.

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**System Plan (Continued)**

Plan Description (Continued)

The System Plan provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the benefits in effect when they retired, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 19 or until age 25 if a certified full-time student. SCUPA, SPFPA, OPEIU, and nonrepresented employees whose retirement date is on or after January 1, 2016, and APSCUF employees whose retirement date is on or after July 1, 2017, receive the same pre-Medicare benefits as active employees, with benefits changing as active employee benefits change. All other retirees continue to receive the same benefits to which they were entitled at retirement.

A total of 12,511 employees are covered by the benefit terms, including 7,762 inactive employees currently receiving benefit payments, 52 inactive employees entitled to but not yet receiving benefits, and 4,697 active employees. Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

Funding Policy:

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 or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018:

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65, pay the same dollar amount they paid as active employees on the day of retirement. When these plan members become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Plan members, with the exception of nonfaculty coaches, who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 2.75% of their final annual gross salary at the time of retirement.

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**System Plan (Continued)**

Actuarial Assumptions and Other Inputs

The actuarial valuation on which the total OPEB liability is based is dated July 1, 2016. Update procedures were used to roll forward the total OPEB liability to the measurement date of July 1, 2017. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Inflation of 2.2%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.5% in 2018 through 2023, with rates gradually decreasing from 5.4% in 2024 to 3.9% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model. The healthcare cost trend rate was updated based on the Society of Actuaries Getzen Model.
- Annual salary increase of 4%, updated from 3%.
- 90% of employees are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2020 is 40% of the projected premiums in excess of the annual limits.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2017 to reflect mortality improvement, updated from Scale MP-2016.
- The discount rate increased from 2.49% to 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index.
- Participant data is based on census information as of July 1, 2016.
- Experience was last reviewed in 2012 for withdrawal and retirement. Experience for election percentages were reviewed in 2017. Neither of these reviews were published in a formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all retirees, regardless of employee bargaining unit when active and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%):



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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**System Plan (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

Sensitivity of the System Plan's Proportionate  
Share of the University's Net OPEB Liability to  
Changes in the Healthcare Cost Trend Rate

	1% Decrease	Current Rate	1% Increase
2018	\$ 77,498,551	\$ 93,599,069	\$ 114,612,975

The following presents the University's net OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%).

Sensitivity of the System Plan's Proportionate  
Share of the University's Net OPEB Liability to  
Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 110,317,333	\$ 93,599,069	\$ 80,401,732

OPEB Liability

The System Plan's total OPEB liability of \$93,599,069 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

**University System Plan OPEB Liability**  
Determined as of the June 30 measurement dates

	Fiscal Year Ending June 30, 2018
<b>Changes in the System Plan Total OPEB Liability</b>	
Total OPEB Liability - At July 1, 2016	\$ 102,964,090
Service Cost	4,596,526
Interest	3,727,460
Changes in Assumptions	(13,533,695)
Benefit Payments	(4,155,311)
Net Changes	(9,365,021)
Total OPEB Liability - July 1, 2017	\$ 93,599,069

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**REHP**

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board. 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, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

The REHP provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the plan they choose, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 26.

Funding Policy:

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018:

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members who retired on or after July 1, 2005, and prior to July 1, 2007, pay 1% of their final annual salary.
- Plan members who retired on or after July 1, 2007, and prior to July 1, 2011, pay 3% of either final gross annual base salary or final average salary, whichever is less. Members eligible for Medicare pay 1.5% of either final gross annual base salary or final average salary, whichever is less.
- Plan members who retire on or after July 1, 2011, pay 3% of final average salary. Members eligible for Medicare pay 1.5% of final gross annual base salary.

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of \$300 for each current REHP eligible active employee during the period July 1, 2017, through January 18, 2018, and \$188 from January 19, 2018, through June 30, 2018. The rate was \$362 per biweekly pay period during the fiscal year ended June 30, 2017.

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.9% in 2018, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2016\_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2016.
- Projected benefits based on estimates of future years of service and projected health benefit costs.

The Commonwealth's State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the SERS Board in March 2016. The approved recommendations from that study were used to determine the assumptions in the REHP valuation, where applicable.

The following assumptions were made with regard to the discount rate:

- Discount rate of 3.58% as of June 30, 2017, and 2.85% as of June 30, 2016.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.
- The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows:

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

<u>Asset Class</u>	2018	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0%	7.5%
International Equity	20.0%	8.5%
Fixed Income	25.0%	3.0%
Real Estate	8.0%	3.0%
Cash	0.0%	1.0%
Total	<u>100.00%</u>	

The actuarial valuation on which the total REHP OPEB liability is based was dated July 1, 2017. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of July 1, 2017.

The following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%):

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease	Current Rate	1% Increase
2018 \$	\$ 55,459,598	\$ 63,904,981	\$ 76,547,446

The following presents the University's share of the REHP net OPEB liability at June 30, 2017, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current healthcare cost trend rates (3.58%):

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate					
		1% Decrease	Current Rate	1% Increase	
		2.58%	3.58%	4.58%	
2018	\$	74,875,888	\$	63,904,981	\$ 56,628,457

Fiduciary Net Position

The REHP is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

The assets of the REHP are managed by the Commonwealth's Treasury in an investment pool. The REHP investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania's amendment to fiscal code 72 P.S. §30.1, the principles of Prudent Investors Standards.

**Premium Assistance**

Plan Description

The Health Insurance Premium Assistance Program (Premium Assistance) is a governmental cost sharing, multiple-employer OPEB plan administered by the administrative staff of PSERS. The members eligible to participate in the program 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 control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (PSERS Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of PSERS by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. Plan members receiving benefits are not required to make contributions.

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

Funding Policy

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2018 and 2017. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 0.415% of covered payroll.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2016, to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year and assume a trend rate of between 5% and 8%.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015, determined the employer contribution rate for fiscal year 2016/17.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set-back 3 for both males and females for healthy annuitants and for dependent beneficiaries, with adjustments made for disabled annuitants.

The following assumptions were made with regard to the discount rate:

- The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017, and 2.71% at June 30, 2016.

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.
- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017:

	2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
Total	100.00%	

The actuarial valuation on which the total Premium Assistance OPEB liability is based was dated June 30, 2016. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.18% for the measurement date of June 30, 2017.

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the current healthcare cost trend rates (between 5% and 8%):

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease <i>(between 4% and 7%)</i>	Current Rate <i>(between 5% and 8%)</i>	1% Increase <i>(between 6% and 9%)</i>
2018	\$ 269,707	\$ 269,780	\$ 269,853

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**NOTE 12 POSTRETIREMENT BENEFITS OBLIGATIONS (OPEB) (CONTINUED)**

**Premium Assistance (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2017, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%):

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate						
		1% Decrease	Current Rate	1% Increase		
		2.13%	3.13%	4.13%		
2018	\$	306,628	\$	269,780	\$	239,147

Fiduciary Net Position

For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS, and additions to and deductions from PSERS' fiduciary net position, have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Additional plan information can be found in the PSERS Comprehensive Annual Financial Report at [www.psers.pa.gov](http://www.psers.pa.gov).

**NOTE 13 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).



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**NOTE 13 PENSION BENEFITS (CONTINUED)**

The University's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures consisted of the following at June 30:

	2018			
	SERS	PSERS	ARP	Total
Net Pension Liabilities	\$ 58,078,207	\$ 6,576,845	N/A	\$ 64,655,052
Deferred Outflows of Resources	8,892,719	1,150,336	N/A	10,043,055
Deferred Inflows of Resources	4,657,952	135,078	N/A	4,793,030
Pension Expense	6,405,355	1,920,717	3,298,929	11,625,001
Contributions Made (pay-as-you-go)	6,440,549	595,586	3,298,929	10,335,064
Contributions Recognized by Pension Plans	6,440,551	595,586	N/A	7,036,137

	2017			
	SERS	PSERS	ARP	Total
Net Pension Liabilities	\$ 65,707,788	\$ 6,165,980	N/A	\$ 71,873,768
Deferred Outflows of Resources	14,997,424	1,301,995	N/A	16,299,419
Deferred Inflows of Resources	3,168,270	96,320	N/A	3,264,590
Pension Expense	8,497,372	1,282,359	3,192,348	12,972,079
Contributions Made (pay-as-you-go)	5,734,144	522,628	3,192,348	9,449,120
Contributions Recognized by Pension Plans	5,734,145	522,627	N/A	6,256,772

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.

**SERS**

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](http://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.

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Benefits Provided (Continued)

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.

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 2015/16 was 4.5% and will no longer apply effective July 1, 2017.

The State System contributed at actuarially determined rates of between 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016 were \$6,440,551, \$5,734,144, and \$4,868,101, respectively, equal to the required contractual contribution.

Contribution rates for most active members are 6.25% of gross salary. The contribution rate for other members range between 5% and 9.3% of salary, depending upon when the member was hired and what class of membership was elected.

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Actuarial Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

- 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 2.60% and 2.75%.
- Investment return of 7.25% and 7.50%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.6%, with a range of 3.70% to 8.90%, including inflation for fiscal year 2016. Salary increases based on an effective average of 5.7%, with a range of 3.85% to 9.05%, including inflation for fiscal year 2015.
- 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 *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. Published in March 2016, it analyzed experience from 2011 through 2015. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

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, 2017 and 2016, are summarized below:

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Actuarial Assumptions (Continued)

December 31, 2017		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.00 %	8.00 %
Global Public Equity	43.00	5.30
Real Assets	12.00	5.44
Multi-Strategy	12.00	5.10
Fixed Income	14.00	1.63
Cash	3.00	(0.25)
	100.00 %	
December 31, 2016		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.00 %	8.00 %
Global Public Equity	43.00	5.30
Real Assets	12.00	5.44
Multi-Strategy	12.00	4.75
Fixed Income	14.00	1.63
Cash	3.00	(0.25)
	100.00 %	

The discount rate used to measure the total SERS pension liability was 7.25% and 7.50%, respectively. 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.

At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add Multi-strategy as a new asset class. Target will be updated to reflect the new assumed investment rate of return and asset classes in the *2018-19 Investment Plan*.

The following presents the University's proportionate share of the SERS net pension liability calculated using the current discount rate 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 or one percentage point higher than the current rate:

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Actuarial Assumptions (Continued)

Sensitivity of the University's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate		
2018		
1% Decrease	Current Rate	1% Increase
6.25%	7.25%	8.25%
\$73,719,357	\$58,078,206	\$44,679,749
2017		
1% Decrease	Current Rate	1% Increase
6.25%	7.25%	8.25%
\$81,316,444	\$65,707,788	\$52,341,223

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](http://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. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. 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.

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

At June 30, 2018 and 2017, the amount recognized as the University's proportionate share of the SERS net pension liability was \$58,078,206 and \$65,707,788, respectively. SERS measured the net pension liability as of December 31, 2017 and 2016.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2017 amounts, this methodology applies the contribution rates for fiscal year 2018/19 from the December 31, 2017 funding valuation to the expected funding payroll. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2017/18 from the December 31, 2016 funding valuation to the expected funding payroll.

At December 31, 2017 and 2016, the State System's proportion was 4.906% and 4.837%, respectively, an increase of 0.069% from its proportion calculates as of the December 31, 2016 measurement date.

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

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

For the years ended June 30, 2018 and 2017, the University recognized SERS pension expense of \$6,405,355 and \$8,497,372, respectively. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the SERS pension were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 981,983	\$ 1,102,763
Net Difference between Projected and Actual		
Investment Earnings	-	2,309,158
Changes of Assumptions	2,907,736	-
Changes in Proportions	1,388,489	910,611
Difference Between Employer Contributions and		
Proportionate Share of Total Contributions	-	335,420
Contributions After the Measurement Date	3,614,511	-
	<u>\$ 8,892,719</u>	<u>\$ 4,657,952</u>

At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the SERS pension were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 948,480	\$ 1,470,142
Net Difference between Projected and Actual		
Investment Earnings	5,522,075	-
Changes of Assumptions	4,013,564	-
Changes in Proportions	1,021,165	1,393,241
Difference Between Employer Contributions and		
Proportionate Share of Total Contributions	-	304,887
Contributions After the Measurement Date	3,492,140	-
	<u>\$ 14,997,424</u>	<u>\$ 3,168,270</u>

The University will recognize the \$3,614,511 and \$3,492,140 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 years ending June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018 will be recognized in SERS pension expense as follows:

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

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

<u>Year Ending June 30,</u>	<u>Amortization</u>
2019	\$ 1,304,384
2020	974,239
2021	(524,808)
2022	(1,174,481)
2023	40,922
Total	<u>\$ 620,256</u>

**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](http://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.

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Benefits Provided (Continued)

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.

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.



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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal years ended June 30, 2018 and 2017 was 31.74% and 29.2% of covered payroll, respectively, 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 15.87% of covered payroll. The University's contribution to PSERS for the years ending June 30, 2018 and 2017 was \$595,586 and \$522,628, respectively.

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2017 was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, 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 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS's experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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, 2017 and 2016:

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Actuarial Assumptions (Continued)

June 30, 2017		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.00 %	5.10 %
Fixed Income	36.00	2.60
Commodities	8.00	3.00
Absolute Return	10.00	3.40
Risk Parity	10.00	3.80
Infrastructure/MLPS	8.00	4.80
Real Estate	10.00	3.60
Alternative Investments	15.00	6.20
Cash	3.00	0.60
Financing (LIBOR)	(20.00)	1.10
	<u>100.00 %</u>	
June 30, 2016		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.50 %	5.00 %
Fixed Income	28.50	6.50
Commodities	8.00	4.70
Absolute Return	10.00	2.00
Risk Parity	10.00	1.40
Infrastructure/MLPS	5.00	1.20
Real Estate	12.00	1.70
Alternative Investments	15.00	0.90
Cash	3.00	4.80
Financing (LIBOR)	(14.00)	1.10
	<u>100.00 %</u>	

The discount rate used to measure the total PSERS pension liability was 7.25% and 7.50%, respectively. 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.

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Actuarial Assumptions (Continued)

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 University's proportionate share of the PSERS net pension liability calculated using the discount rate, 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 or one percentage point higher than the current rate:

Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate		
2018		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$8,095,575	\$6,576,845	\$5,294,669
2017		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
\$7,542,631	\$6,165,980	\$5,009,121

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](http://www.psers.state.pa.us).

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

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

The amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	<u>2018</u>	<u>2017</u>
Total PSERS Net Pension Liability Associated with the University	\$ 13,153,690	\$ 12,331,960
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>6,576,845</u>	<u>6,165,980</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 6,576,845</u>	<u>\$ 6,165,980</u>

PSERS measured the net pension liability as of June 30, 2017. 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, 2016, to June 30, 2017. 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, 2017 and 2016, the State System's proportion was .1811% and .1833%, respectively, a decrease of .0022% from its proportion calculated as of June 30, 2016.

For the years ended June 30, 2018 and 2017, the University recognized PSERS' pension expense of \$1,920,717 and \$1,282,339, respectively. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 68,605	\$ 39,707
Net difference between projected and actual investment earnings	152,432	-
Changes of Assumptions	178,683	-
Changes in Proportions	117,798	95,371
Difference Between Employer Contributions and Proportionate Share of Total Contributions	37,232	-
Contributions After the Measurement Date	<u>595,586</u>	<u>-</u>
	<u>\$ 1,150,336</u>	<u>\$ 135,078</u>

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**NOTE 13 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

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

At June 30, 2016, 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
Difference Between Expected and Actual Experience	\$ 343,671	\$ 51,384
Changes of Assumptions	222,575	-
Changes in Proportions	174,856	44,936
Difference Between Employer Contributions and Proportionate Share of Total Contributions	38,266	-
Contributions After the Measurement Date	522,627	-
	<u>\$ 1,301,995</u>	<u>\$ 96,320</u>

The University will recognize the \$595,586 and \$522,627 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 years ending June 30, 2019 and 2018, respectively. 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:

<u>Year Ending June 30,</u>	<u>Amortization</u>
2019	\$ 145,561
2020	210,251
2021	95,468
2022	(31,608)
Total	<u>\$ 419,672</u>

**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, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017 were approximately \$3,299,000 and \$3,192,000, respectively, from the University and \$1,629,000 and \$1,683,000, respectively, from active members.

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**NOTE 14 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 \$123,611 and \$120,627 to the Reserve Fund during the years ended June 30, 2018 and 2017, respectively.

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

	2018	2017
Balance at July 1	\$ 646,813	\$ 715,514
Current Year Claims and Changes in Estimates	267,384	250,183
Payments	(266,229)	(318,884)
Balance at June 30	<u>\$ 647,968</u>	<u>\$ 646,813</u>

**NOTE 15 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, 2018 and 2017 was \$951,714 and \$1,809,079, respectively. Future minimum payments by year are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 728,629
2020	671,146
2021	356,530
2022	367,256
2022	378,243
Thereafter	18,534,900
Total	<u>\$ 21,036,704</u>

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	765,312
Total	825,312
Present Value of Future Cash Flows	(54,763)
Total	<u>\$ 770,549</u>

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**NOTE 16 COMMITMENTS AND CONTINGENCIES**

Authorized University expenditures for construction projects unexpended as of June 30, 2018 and 2017 were approximately \$4,576,000 and \$4,579,000, 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 14). 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.

**Cheyney University Loan Forgiveness**

On August 22, 2017, the Board of Governors (Board) approved a motion to forgive \$34.4 million in loans made to Cheyney University of Pennsylvania (Cheyney University or Cheyney) from the other 13 State System universities and the Office of the Chancellor, provided that Cheyney meets certain conditions that hold Cheyney accountable for operating within available financial resources. One-third will be forgiven if Cheyney reduces \$7.5 million of annual expenses from its fiscal year 2017/18 current operations and maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2018/19, one-third will be forgiven when Cheyney maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2019/20, and the remaining third will be forgiven when Cheyney maintains a balanced budget of revenues greater than or equal to annual expenses in fiscal year 2020/21. Cheyney has advised the Board that it has successfully met the first criteria of cutting \$7.5 million from its fiscal year 2017/18 budget when the expenditure cuts are viewed on an annualized basis.

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**NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Cheyney University Loan Forgiveness (Continued)**

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013/14. The loans have been shown only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation has been that Cheyney would repay the loans and the individual universities would not be affected. The University will record its share of the expense and reduction of the pooled investments account only as the loan forgiveness conditions are met. An allocation of the loan forgiveness to each of the universities has not been finalized, and The University's share of the liability is unknown.

Information regarding Cheyney's financial condition and other factors that may affect Cheyney's ability to meet the loan forgiveness conditions are described in the State System's consolidated financial statements, which are available at the State System's website, <http://www.passhe.edu/inside/anf/accounting/Pages/Financial-Statements.aspx>, and in Cheyney University's financial statements, which are available by contacting the university at 1837 University Circle, Cheyney, PA, 19319.

**NOTE 17 PRIOR PERIOD ADJUSTMENT – COMPONENT UNIT**

During 2018, Student Services determined that the fair value of assets held by the Trustee under debt agreements was understated in prior years' statements of financial position. The misstatement was the result of using historical cost instead of amortized cost in the calculation of unrealized gain (loss) as of June 30. As a result, net assets as of July 1, 2016, have been restated to reflect the cumulative effect of the adjustment. Accordingly, assets held by the Trustee under debt agreements as of June 30, 2017, increased by \$480,566 and investment income increased by \$173,216 from amounts previously reported in the financial statements as of and for the year ended June 30, 2017.

**NOTE 18 SUBSEQUENT EVENTS**

**Additional Debt Issuance**

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of \$102,345,000 and Series AV-2 taxable revenue bonds in the amount of \$134,600,000. The net proceeds from the Series AV-1 revenue bonds were used to finance a capital project at West Chester University and to current refund Series AG and a significant portion of Series AI revenue bonds. The refunding was performed to reduce debt service by approximately \$2,700,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,400,000. The net proceeds from the Series AV-2 revenue bonds were used to acquire student housing facility at Shippensburg University. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.



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**NOTE 18 SUBSEQUENT EVENTS (CONTINUED)**

**Re-Purchase of Housing**

Subsequent to year end the University bought the privatized housing that was owned by the Shippensburg University Student Services (SUSSI) located on the campus of Shippensburg University. The University has paid off the SUSSI debt that was associated with the housing of \$130,760,000. The University has recorded the fair value of the housing facilities of \$104,984,114 subsequent to year-end.

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Schedule of Proportionate Share of REHP's Net OPEB Liability  
Determined as of REHP's June 30 Measurement Dates  
(in Thousands)

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	Share of Net OPEB Liability as a % of Covered-Employee Payroll	University's Proportionate	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374%	\$ 63,905	\$ 8,712	734%		1.4%

REHP Schedule of Contributions  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 1,603	\$ 1,603	\$ -	\$ 10,185	15.7%

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

Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	Share of Net OPEB Liability as a % of Covered-Employee Payroll	University's Proportionate	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2017/18	0.18110%	\$ 270	\$ 270	\$ 540	\$ 3,522	7.7%		5.7%

PSERS Schedule of Contributions  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 15,594	\$ 15,594	\$ -	\$ 3,839	0.4%

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**University System Plan OPEB Liability**  
Determined as of the June 30 measurement dates

	Fiscal Year Ending June 30, 2018
<b>Changes in the System Plan Total OPEB Liability</b>	
Total OPEB Liability - At July 1, 2016	\$ 102,964,090
Service Cost	4,596,526
Interest	3,727,460
Changes in Assumptions	(13,533,695)
Benefit Payments	(4,155,311)
Net Changes	(9,365,021)
Total OPEB Liability - July 1, 2017	<u>\$ 93,599,069</u>
Covered Employee Payroll	37,967,097
OPEB Liability as a Percent of Covered Payroll	246.53%

**Note to Schedule:** The System plan has no plan assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors

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

Fiscal Year	State System'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	4.90100%	\$ 53,083	\$ 21,651	245%	64.8%
2015/16	4.72080%	\$ 61,338	\$ 21,273	288%	58.9%
2016/17	4.83700%	\$ 65,707	\$ 21,215	310%	57.8%
2017/18	4.90590%	\$ 58,078	\$ 21,161	275%	63.0%

SERS Schedule of Contributions  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 4,058	\$ 4,058	\$ -	\$ 21,651	18.7%
2015/16	\$ 4,868	\$ 4,868	\$ -	\$ 21,273	22.9%
2016/17	\$ 5,734	\$ 5,734	\$ -	\$ 21,215	27.0%
2017/18	\$ 6,441	\$ 6,441	\$ -	\$ 20,111	32.0%

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

Fiscal Year	State System'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	0.1785%	\$ 4,924	\$ 4,924	\$ 9,848	\$ 1,587	310%	57.2%
2015/16	0.1852%	\$ 5,539	\$ 5,539	\$ 11,078	\$ 3,291	200%	54.4%
2016/17	0.1833%	\$ 6,166	\$ 6,166	\$ 12,332	\$ 3,223	191%	50.1%
2017/18	0.1811%	\$ 6,577	\$ 6,577	\$ 13,154	\$ 3,547	200%	51.8%

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PSERS Schedule of Contributions  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 361	\$ 361	\$ -	\$ 1,587	22.7%
2015/16	\$ 408	\$ 408	\$ -	\$ 3,291	12.4%
2016/17	\$ 522	\$ 522	\$ -	\$ 3,223	16.2%
2017/18	\$ 596	\$ 596	\$ -	\$ 3,839	15.5%



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