

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2016 AND 2015**

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of West Chester University of Pennsylvania of the State System of Higher Education (the University) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these basic financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, West Chester University Student Services, Inc. (Student Services), West Chester University Foundation and Subsidiary (the Foundation) and West Chester University Alumni Association (the Association), which represent 100%, 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 have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of other auditors. We conducted our audits 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2016 and 2015, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-15, the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 66 and the Schedules of Proportionate Share of Net Pension Liability and Contributions (SERS and PSERS) on page 67 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  
November 8, 2016

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015  
(UNAUDITED)**

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of West Chester University of Pennsylvania of the State System of Higher Education (the University) for the years ended June 30, 2016 and 2015. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

West Chester University is a public university of the Commonwealth of Pennsylvania (Commonwealth) and a member of the Pennsylvania State System of Higher Education (State System). As such, the University is charged with providing high-quality education at the lowest possible cost to its students. With over 17,000 students enrolled for fall 2016, the University is the largest of the State System universities.

The University functions independently, but being part of the State System enables the University to share resources and benefit from economies of scale. Following is an overview of the University's financial activities for the years ended June 30, 2016 and 2015.

**Financial Highlights**

- The total Commonwealth appropriation to the State System for operations in fiscal year 2015-16 was \$433.4 million, a 5% increase from the \$412.8 million appropriated in fiscal year 2014-15.
- The University's share of the base appropriation, through the allocation formula, increased by \$2.4 million to \$45.2 million. This represents a 5.6% increase from fiscal year 2014-15.
- The University also received an allocation of Commonwealth funding that the State System set aside for performance. The performance funding plan is part of the State System's continuing commitment to ensure the high quality of university programs. It rewards universities for success on measures such as productivity, diversity, and student advancement. In fiscal year 2015-16, the University received \$5.5 million in performance funding; in the prior fiscal year, the University received \$5.1 million in performance funding. This represents a 7.3% increase from fiscal year 2014-15.
- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2015-16 were \$50.7 million; in the prior fiscal year, they were \$48.0 million. This represents a 5.8% increase from fiscal year 2014-15.
- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, increased by \$0.2 million to \$1.7 million in fiscal year 2015-16. This represents an increase of 12.4% from fiscal year 2014-15.

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**Financial Highlights (Continued)**

- The State System's Board approved a tuition increase of 3.5% for both in-state and out-of-state students at the undergraduate level for fiscal year 2015-16; the increase for 2014-15 was 3.0% for both. For graduate students the increase was 3.5% for in-state students and out-of-state students for fiscal year 2015-16. This compares to a 2.7% increase in fiscal year 2014-15. The State System's Board also increased the undergraduate technology tuition fee by 3.3% for in-state students and by 3.4% for out-of-state students in fiscal year 2015-16. The technology tuition fee in fiscal year 2014-15 increased 14.7% for in-state students and 15.1% for out-of-state students. For graduate students the technology tuition fee increased by 4.2% for in-state students and 2.8% for out-of-state students in fiscal year 2015-16. The graduate technology tuition fee in fiscal year 2014-15 increased 14.7% for in-state students and 15.1% for out-of-state students. Universities must use the technology tuition fee to support instructional technology.
- Mandatory fees for all undergraduate students set by the University increased by 3.3% in fiscal year 2015-16 and by 2.3% in fiscal year 2014-15. Mandatory fees for graduate students increased by 3.5% in fiscal year 2015-16 and by 2.5% in fiscal year 2014-15. Room rates (North and South Campus) remained the same in fiscal year 2015-16 and have not increased since fiscal year 2011-12. The food service rates increased 2.5% for the 12-meal plan and 2.6% for the 14-meal plan in fiscal year 2015-16, compared to 1.7% for both the 12-meal and 14-meal plan for fiscal year 2014-15.
- Tuition and fee revenue (net of discounts) was \$147.3 million for fiscal year 2015-16 and \$139.8 million for fiscal year 2014-15. In addition, revenue from auxiliary enterprises (net of discounts) was \$37.7 million in fiscal year 2015-16 and \$36.4 million in fiscal year 2014-15. Auxiliary enterprise revenues are generated primarily from room and food service charges.
- The University purchased \$11.2 million in capital assets in fiscal year 2015-16, as compared to \$13.4 million in fiscal year 2014-15. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, renovation of Sykes Student Union, the Vonnie Gros field reconstruction and the Schmidt Hall renovations.
- The University generally utilizes the State System to facilitate the issuance of bonds to raise capital for major projects. Given the efficiencies of the State System acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. The University did not obtain any additional bond funding for projects in fiscal years 2015-16 and 2014-15.
- During fiscal year 2002-03, the University entered into an agreement with the Borough of West Chester to construct and operate the Sharpless and Matlack parking structures. The University has recorded this agreement as a capital lease obligation. One parking structure was completed in the fall of 2003, while the other was completed in the fall of 2004. The projects were financed through a general revenue bond issuance of \$9.6 million, issued by the Borough of West Chester. The net amount outstanding on this debt was \$5.8 million and \$6.2 million at June 30, 2016 and 2015, respectively.

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**Financial Highlights (Continued)**

- During fiscal year 2012-13, the University entered into an agreement with the Borough of West Chester to construct and operate the New Street parking structure. The University has recorded this agreement as a capital lease obligation. The project was financed through a general revenue bond issuance of \$9.82 million, issued by the Borough of West Chester. The net amount outstanding on this debt was \$8.8 million and \$9.1 million at June 30, 2016 and 2015, respectively.
- The West Chester University Foundation (the Foundation), previously known as the Fund for West Chester University, was established in 2001 with the specific purpose of performing fundraising for the educational, charitable and scientific interests of the University. The Foundation, a component unit of the University that is reflected in the audited financial statements, includes a wholly-owned subsidiary, University Student Housing, LLC (USH).
- The purpose of USH is to develop, design, finance, construct and operate new housing for the students of the University. USH and the University entered into a ground lease by which USH agreed to construct apartment-style housing (The Village) on South Campus and suite-style housing (University Hall) on North Campus; in total, the housing accommodates approximately 800 students. Revenue bonds of \$42.3 million dollars were issued by USH through the Chester County Industrial Development Authority in August 2003. These bonds are non-recourse to the University. Construction began shortly thereafter and was completed in the first half of fiscal year 2004-05.
- In March of 2008, USH issued \$100.3 million in revenue bonds through the Chester County Industrial Development Authority for the first phase of a proposed three-phase Housing Renewal Initiative. This initiative is intended to replace most of the University's existing housing. The first phase, comprised of two buildings (Allegheny and Brandywine), was completed and occupied at the start of the 2009 Fall semester.
- On June 22, 2012, the Foundation entered into a loan agreement with DNB First, NA in the amount of \$2.4 million for the purchase of real estate located at 202 Carter Drive, West Chester, PA. The property is the administrative offices of the Foundation and the Alumni Association, Inc.
- On August 28, 2012, USH obtained a commitment to borrow up to \$22.0 million as a loan payable to a bank. The proceeds from the loan were used solely to finance the construction of a new apartment style student housing building (East Village Housing).
- On February 1, 2013, USH entered into a loan agreement of \$57.5 million with Chester County Industrial Development Authority ("CCIDA"), for the construction of student housing facilities (Commonwealth Hall). As of June 30, 2016 and 2015, the outstanding balance was \$28.0 million and \$29.5 respectively.

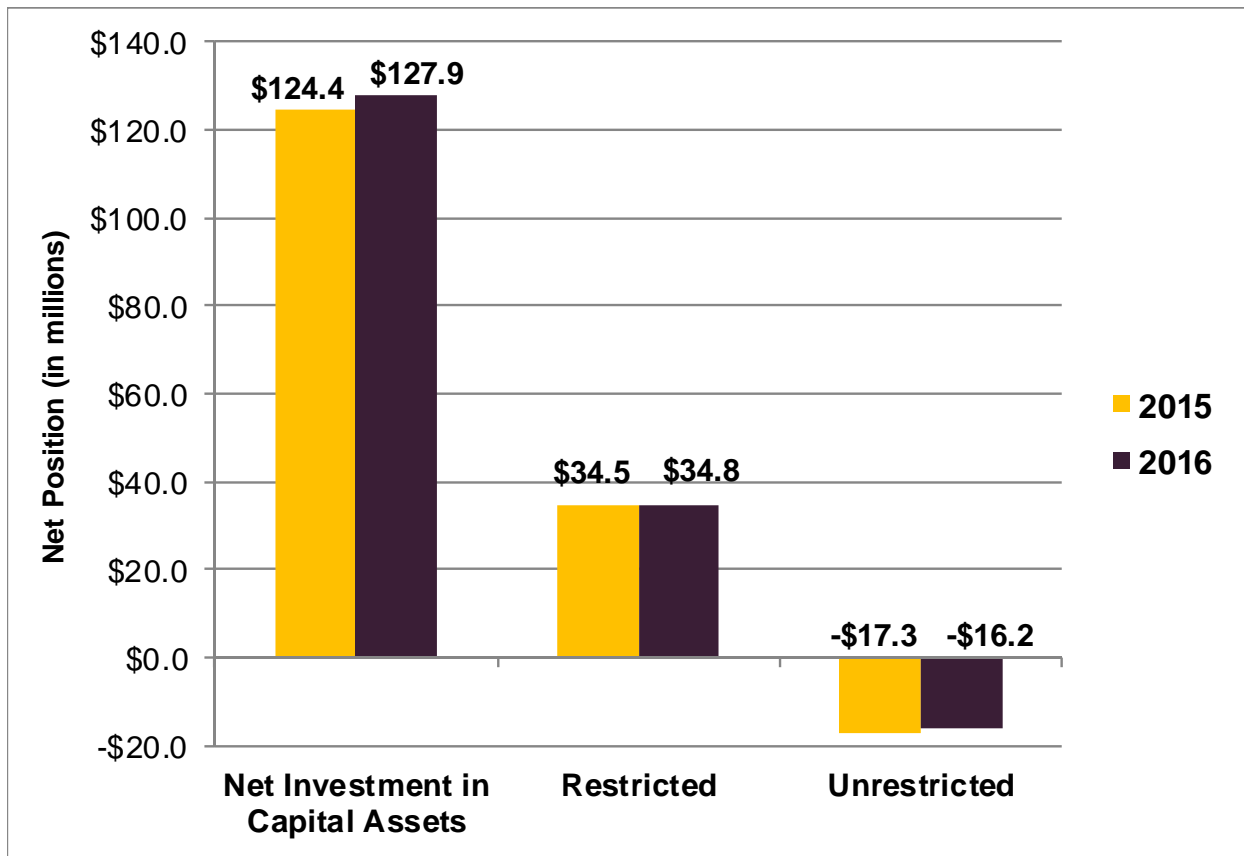
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**The Financial Statements**

**Balance Sheet**

This statement reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University as of the end of the fiscal year. Assets include cash; investments reported at fair value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets, deferred outflows of resources and liabilities, deferred inflows of resources is reported as net position. Net position increased by \$5.0 million and \$9.0 in fiscal years 2015-16 and 2014-15, respectively.

**Net Position (in millions)**





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

**Balance Sheet (Continued)**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Capital Assets, Net	\$ 188.5	\$ 190.9	\$ 193.8
Other Assets and Deferred Outflows of Resources	<u>288.0</u>	<u>263.4</u>	<u>241.6</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 476.5</u>	<u>\$ 454.3</u>	<u>\$ 435.4</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
Workers' Compensation, Compensated Absences, and Postretirement Obligations	\$ 139.8	\$ 135.2	\$ 130.0
Bonds Payable	46.0	49.8	53.4
Other Liabilities and Deferred Inflows of Resources	<u>144.2</u>	<u>127.8</u>	<u>54.4</u>
Total Liabilities and Deferred Inflows of Resources	330.0	312.8	237.8
<b>NET POSITION</b>			
Net Investment in Capital Assets	127.9	124.4	122.3
Restricted	34.8	34.4	33.8
Unrestricted	<u>(16.2)</u>	<u>(17.3)</u>	<u>41.5</u>
Total Net Position	<u>146.5</u>	<u>141.5</u>	<u>197.6</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 476.5</u>	<u>\$ 454.3</u>	<u>\$ 435.4</u>

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

- Net investment in capital assets is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation and less any associated debt such as bonds payable. This balance is not available for the University's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.
- Restricted net position represents the balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. Nonexpendable restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is available for expenditure as long as any external purpose and time restrictions are met.

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**The Financial Statements (Continued)**

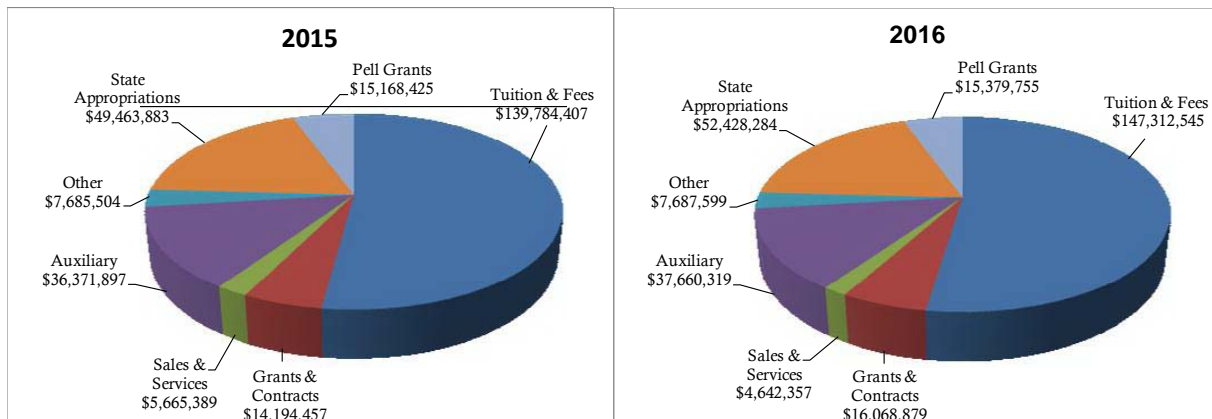
**Balance Sheet (Continued)**

- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced by three unfunded liabilities:
  1. The liability for postretirement benefits increased by \$4.4 million to \$124.4 million at June 30, 2016. Because this liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.
  2. The liability for compensated absences increased by \$0.3 million to \$14.4 million at June 30, 2016. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it becomes due.
  3. This year was the second year of recording a liability for pension obligations due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68. The combined pension liability for fiscal year 2015-16 was \$86.9 million comprised of \$76.7 million for the State Employee Retirement System (SERS) and \$10.2 million for the Public School Employees' Retirement System (PSERS). This is an increase of \$14.9 million from fiscal year 2014-15.

**Statement of Revenues, Expenses, and Changes in Net Position**

This statement reports the revenues earned and the expenses incurred in the fiscal year. The result is reported as an increase or decrease in net position. In accordance with Governmental Accounting Standards Board (GASB) requirements, the University has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' state appropriations are nonoperating revenues. In addition, GASB requires classification of Pell grants, gifts, investment income and expenses, and losses on disposals of assets as nonoperating; the University classifies all of its remaining activities as operating.

**Operating and Non-Operating Revenues**

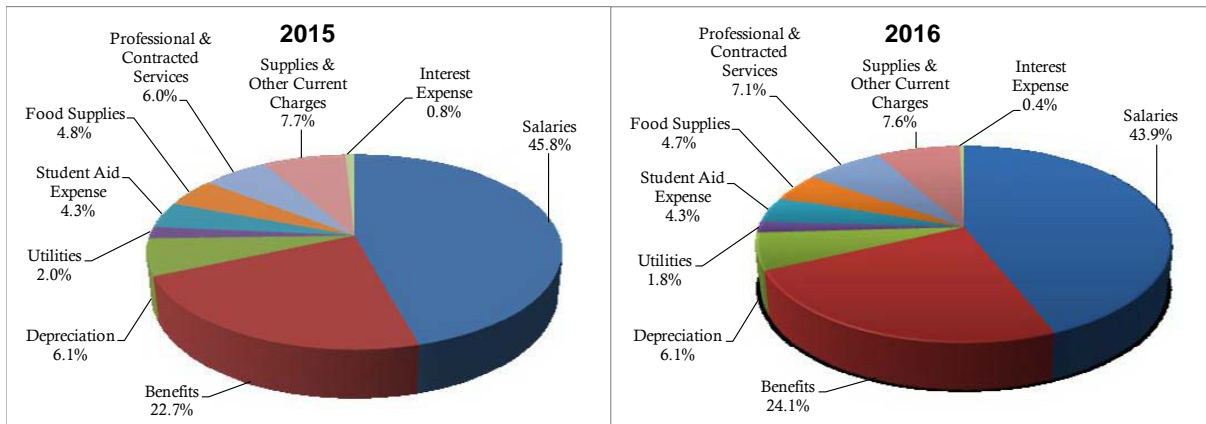


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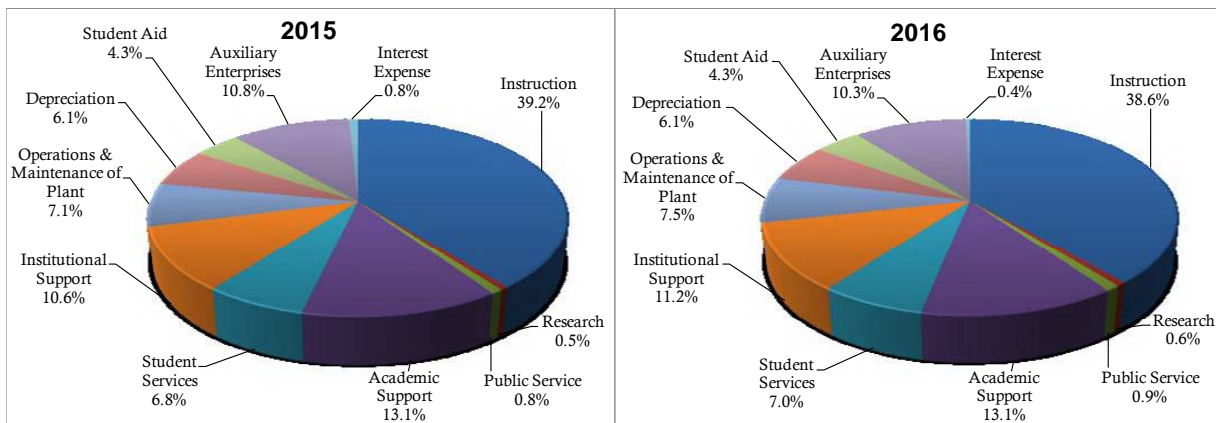
**The Financial Statements (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

**Total Operating Expenditures by Source**



**Total Operating Expenditures by Function**



**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**The Financial Statements (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

Following is a summary of revenues, expenses, and changes in net position for the years ended June 30 (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating Revenues:</b>			
Tuition and Fees, Net	\$ 147.3	\$ 139.8	\$ 132.6
Grants and Contracts	14.0	13.4	12.7
Auxiliary Enterprises, Net	37.7	36.4	38.7
Other	5.8	7.4	9.0
Total Operating Revenues	<u>204.8</u>	<u>197.0</u>	<u>193.0</u>
<b>Other Revenues:</b>			
State Appropriations	52.4	49.5	51.4
Investment Income, Net (includes Unrealized Gains and Losses)	2.7	3.1	5.4
Gifts, Grants, and Other	21.3	17.9	17.0
Total Other Revenues	<u>76.4</u>	<u>70.5</u>	<u>73.8</u>
Total Revenues	281.2	267.5	266.8
<b>Operating Expenses:</b>			
Personnel Compensation:			
Salaries	117.5	115.5	108.7
Benefits	52.3	45.2	39.2
Post Retirement Expense	14.3	13.6	18.2
Student Wages	3.8	3.2	3.5
Total Personnel Compensation	<u>187.9</u>	<u>177.5</u>	<u>169.6</u>
Telecommunications Charges	0.5	0.5	0.5
Travel and Transportation	2.5	2.1	1.5
Computing and Data Processing	2.8	2.5	2.8
Professional and Contracted Services	8.2	6.8	5.6
Utilities	5.3	5.1	5.9
Food Supplies	13.0	12.3	12.1
Depreciation	16.8	15.8	14.7
Student Aid Expense	11.8	11.1	10.3
Supplies and Other Current Charges	26.4	22.7	24.2
Total Operating Expenses	<u>275.2</u>	<u>256.4</u>	<u>247.2</u>
<b>Other Expenses:</b>			
Interest Expense	1.0	2.1	2.4
Total Expenses	<u>276.2</u>	<u>258.5</u>	<u>249.6</u>
Increase in Net Position	5.0	9.0	17.2
Net Position - Beginning of Year	141.5	197.5	180.3
Restatement for July 1, 2014, Pension Liability and Related Expense	-	(65.0)	-
Net Position - Beginning of Year, as Restated	<u>141.5</u>	<u>132.5</u>	<u>180.3</u>
Net Position - End of Year	<u>\$ 146.5</u>	<u>\$ 141.5</u>	<u>\$ 197.5</u>

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

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(UNAUDITED)**

**The Financial Statements (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

In addition to the changes to the appropriation and tuition revenue discussed in the Financial Highlights section of this analysis, following are the more significant revenue and expense items:

- Financial aid to students in the form of waivers and scholarships was \$21.0 million, an increase of \$1.2 million or 6.3% from fiscal year 2014-15. Waivers of tuition and fees are shown as a reduction of student tuition and fee revenues.
- Net investment income (including unrealized gains) for fiscal year 2015-16 was \$2.7 million, a decrease of \$0.4 million from the prior year.
- The University spent \$117.5 million, or 42.7% of its operating expenses, on salaries in fiscal year 2015-16 as compared to \$115.5 million, or 45.0% of its operating expenses, in fiscal year 2014-15. Benefit costs increased in fiscal 2015-16 to \$52.3 million from \$45.2 million the prior year. Postretirement costs were \$14.3 million and \$13.6 million in fiscal years 2015-16 and 2014-15, respectively. In total, the University spent \$187.9 million on salaries, postretirement expense, wages, and benefits, or 68.3% of operating expenditures, in fiscal 2015-16, and \$177.5 million, or 69.2% of operating expenditures, in fiscal 2014-15.

**Statement of Cash Flows**

This statement's primary purpose is to provide relevant information about the cash receipts and cash payments of the University. It may be used to determine the University's ability to generate future net cash flows and meet its obligations as they come due, as well as its possible need for external financing.

**Future Economic Factors**

- For fiscal year 2016-17, the Commonwealth will provide an appropriation for operations of \$444.2 million to PASSHE. This is an increase of \$10.8 million or 2.5% from last year's appropriation to PASSHE of \$433.4 million.
- The University's share of the appropriation increased to \$46.8 million in fiscal year 2016-17. This compares to \$45.2 million in fiscal year 2015-16 and represents a 3.6% increase. The University's share of performance funding is unknown at this time. The total amount of performance funding allocated by PASSHE in fiscal year 2016-17 increased to \$39.0 million dollars. This is an increase of \$.06 million or 1.5% compared to fiscal year 2015-16.

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**The Financial Statements (Continued)**

**Future Economic Factors (Continued)**

- The State System's Board approved tuition increases of 2.5% for both in-state and out-of-state undergraduate students and a 2.8% increase for both in-state and out-of-state graduate students. In addition, the Board increased the technology fee by 2.7% for both in-state and out-of-state undergraduate students. The technology fee increased by 4.0% for in-state graduate students and 2.7% for out-of-state graduate students. Mandatory student fees set by the University will increase 3.7% for undergraduate students and by 3.9% for graduate students. Room rates (North Campus and South Campus) will remain the same. Food service plans will increase 5.3% for both the 12 and 14-meal plans.
- West Chester University has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. However, several conditions could limit the University's financial flexibility in fiscal year 2016-17 and beyond:

1. State Appropriations - Given the economic conditions of the Commonwealth, it is likely that Commonwealth appropriations to the State System will show little increase beyond the level projected for 2016-17.
2. Plans for necessary facilities upgrades - These requirements could commit a significant portion of the University's available fund balance. However, fees to support investments in facilities and sustainable energy, which were implemented beginning in fiscal year 2009-10, generate over \$3.0 million per year. Additionally, the University has been building reserves to help fund its major projects, including the Business and Public Management Center, which will open in January of 2017; the renovation of Wayne Hall from a discontinued residence hall to an academic building; the renovation of Anderson Hall; and The Commons, which will be a combined academic building and dining facility. By building reserves for these and other projects, the University will rely less on debt financing and fee increases than otherwise would be required. The University has intentionally taken this approach to help ensure financial flexibility and to stay competitive in its pricing to students.

New and re-purposed facilities also will require additional funding for operation and maintenance, which the University has been incorporating into its budgets.

3. Increased costs for salaries and benefits mandated by collective bargaining agreements - Fiscal year 2014-15 represented the final year of contracts with most bargaining units. Although some contracts have been settled, the contract with the union representing the faculty is only at the stage of a tentative agreement. This tentative agreement was reached on October 21, 2016, after a three-day strike by the faculty union. Both the settled contracts and the tentative agreement with the faculty union have significant cost increases that will further constrain the University's financial flexibility.

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JUNE 30, 2016 AND 2015  
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**The Financial Statements (Continued)**

**Future Economic Factors (Continued)**

4. Increases in employer retirement contributions - While employer retirement contribution rates had held fairly steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System (SERS) ended starting in fiscal year 2010-11. SERS is the most common defined benefit plan offered by the University. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, decisions by the SERS Board to defer funding obligations, and previous investment losses, the rate for the most common SERS plan is expected to increase 20.47% to 29.95% of salary in 2016-17.
5. Increased health care costs - As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, employees of the University (and the State System as a whole) started to share in the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. Beginning January 1, 2016, the State System implemented higher levels of employee cost-sharing for certain categories of employees.
6. Volatility in energy costs - To help offset the volatility in energy costs, the University contracted with an energy savings company to recommend and implement facilities improvements to help reduce the University's annual utility expense. Based on the recommended improvements, the University conservatively estimates almost \$8 million in net savings/cost avoidance over a 15-year period. Those estimated savings will be used to fund necessary deferred maintenance projects that will be accomplished at the same time as the energy-savings improvements. In addition, the University has embarked on a program to convert heating and cooling for most of its buildings to a geothermal system, which should provide significant long-term savings, as well as dramatically reduce particulates discharged into the atmosphere from the current coal-fired boilers. The geothermal project is being funded with federal and Commonwealth grants, direct appropriations from the Commonwealth, and funds from the University and USH.
7. Tuition - Legislation in the Pennsylvania General Assembly seeks to freeze tuition at current rates. If this or similar legislation passes, the flexibility of the University will be eroded further. Additionally, the Board of Governors for the State System has been reluctant in recent years to increase tuition more than modest amounts, and it seems unlikely that the Board's position will change.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015  
(UNAUDITED)**

**The Financial Statements (Continued)**

**Future Economic Factors (Continued)**

8. Other State System universities - Several of the State System's universities already are struggling financially, and some of the factors mentioned above (e.g., increased salaries and pension costs and possible tuition freezes or limited tuition increases) could make these universities no longer financially viable. One possible solution, although it might be a short-term expedient, would be for the State System to modify the formula for allocating the appropriation from the Commonwealth to the universities. This formula was last modified in the summer of 2014, and when it was fully phased in, West Chester University's funding allocation was reduced by approximately \$3.5 million per year. Any further adjustment to the allocation formula undoubtedly would result in reduced funding to West Chester University.

Another possible solution that the State System might employ is consolidating certain services among two or more universities to achieve economies of scale. The State System already adopted this approach on a limited basis by requesting that West Chester University provide certain administrative and finance services—on a reimbursement basis—to Cheyney University. West Chester University began providing the first phase of services to Cheyney University in the summer of 2016.

- The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University currently is exploring various options, including changes to its budget models. Additionally, the University President last year formed a Budget Review Committee to help develop budget recommendations and to communicate budget information to and from constituent groups on campus.
- The enrollment demand at the University has remained strong, with about 14,288 freshmen applications for 2,454 openings for the fall of 2016.



**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015  
(UNAUDITED)**

**The Financial Statements (Continued)**

**Requests for Information**

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

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

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

**The West Chester University Foundation**

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

**Student Services, Inc.**

(Ms.) Donna Snyder  
Executive Director  
Student Services, Inc.  
Sykes Student Union, Room 259  
West Chester University  
West Chester, PA 19383

**The West Chester University Alumni Association**

(Ms.) Deborah C. Naughton  
Director of Alumni Relations  
West Chester University Alumni Association  
West Chester University  
West Chester, PA 19383

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION  
JUNE 30, 2016 AND 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 217,624,152	\$ 203,683,322
Cash Whose Use Is Restricted	14,017,686	13,863,674
Accounts Receivable:		
Governmental Grants and Contracts	1,845,025	2,279,107
Students, Net	1,309,344	1,285,038
Other	3,824,465	3,914,318
Inventory	108,104	126,357
Prepaid Expenses	1,444,642	728,765
Investment Income Receivable	330,070	257,079
Loans Receivable, Net	<u>1,158,308</u>	<u>1,194,807</u>
Total Current Assets	<u>241,661,796</u>	<u>227,332,467</u>
<b>NONCURRENT ASSETS</b>		
Endowment Investments	20,987,762	21,573,362
Loans Receivable, Net	7,347,060	7,959,273
Capital Assets, Net	188,514,984	190,908,162
Other Assets	<u>582,393</u>	<u>163,834</u>
Total Noncurrent Assets	<u>217,432,199</u>	<u>220,604,631</u>
 Total Assets	 459,093,995	 447,937,098
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Refunding of Debt	430,425	371,996
SERS Deferred Outflows	15,620,739	5,094,657
PSERS Deferred Outflows	<u>1,338,252</u>	<u>910,655</u>
Total Deferred Outflow of Resources	<u>17,389,416</u>	<u>6,377,308</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 476,483,411</u>	 <u>\$ 454,314,406</u>

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)  
JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 24,175,375	\$ 21,856,568
Unearned Revenue	6,174,750	6,277,114
Students' Deposits	1,285,009	1,667,948
Workers' Compensation	541,947	556,543
Compensated Absences	302,127	288,774
Bonds Payable, Net	4,133,882	4,005,777
Capital Lease Obligation	809,769	766,579
Due to State System, Academic Facilities		
Renovation Bond Program	110,404	440,343
Other Current Liabilities	6,685	7,744
Total Current Liabilities	37,539,948	35,867,390
<b>NONCURRENT LIABILITIES</b>		
Workers' Compensation	533,898	547,706
Compensated Absences	14,092,550	13,803,775
Postretirement Benefit Obligations	124,354,370	119,961,870
Bonds Payable, Net	41,840,351	45,772,199
Capital Lease Obligation	14,010,315	14,641,079
Due to State System, Academic Facilities		
Renovation Bond Program	-	1,157,815
Unearned Revenue	161,926	1,830
Net Pension Liability	86,943,165	71,962,582
Other Noncurrent Liabilities	7,768,844	7,558,606
Total Noncurrent Liabilities	289,705,419	275,407,462
Total Liabilities	327,245,367	311,274,852
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized Gain on Refunding of Debt	93,818	106,956
SERS Deferred Inflows	2,557,016	783,834
PSERS Other Deferred Inflows	62,593	635,760
Total Deferred Inflows of Resources	2,713,427	1,526,550
<b>NET POSITION</b>		
Net Investment in Capital Assets	127,946,870	124,389,410
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	21,000,448	21,602,794
Other	2,057,286	2,057,286
Expendable:		
Scholarships and Fellowships	3,669,004	3,773,367
Capital Projects	5,356,216	4,093,450
Other	2,672,550	2,946,122
Unrestricted	(16,177,757)	(17,349,425)
Total Net Position	146,524,617	141,513,004
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 476,483,411	\$ 454,314,406

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION – PRIMARY INSTITUTION  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 168,319,429	\$ 159,548,929
Less: Scholarship Discounts and Allowances	(21,006,884)	(19,764,522)
Net Tuition and Fees	<u>147,312,545</u>	<u>139,784,407</u>
Governmental Grants and Contracts:		
Federal	1,402,787	1,153,897
State	12,219,921	12,101,676
Local	55	2,500
Nongovernmental Grants and Contracts	399,245	183,752
Sales and Services of Educational Departments	4,642,357	5,665,389
Auxiliary Enterprises	37,660,319	36,371,897
Other Revenues	<u>1,113,591</u>	<u>1,729,932</u>
Total Operating Revenues	<u>204,750,820</u>	<u>196,993,450</u>
<b>OPERATING EXPENSES</b>		
Instruction	106,538,756	101,774,129
Research	1,706,100	1,384,632
Public Service	2,607,724	1,969,964
Academic Support	36,074,916	34,057,314
Student Services	19,436,900	17,546,967
Institutional Support	31,028,158	27,376,671
Operations and Maintenance of Plant	20,686,141	18,330,941
Depreciation	16,790,189	15,817,300
Student Aid	11,794,775	11,098,773
Auxiliary Enterprises	<u>28,463,038</u>	<u>27,885,171</u>
Total Operating Expenses	<u>275,126,697</u>	<u>257,241,862</u>
<b>NET OPERATING LOSS</b>	(70,375,877)	(60,248,412)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	50,734,800	47,957,345
Commonwealth On-Behalf Contributions to PSERS	1,009,605	829,723
Pell Grants	15,379,755	15,168,425
Investment Income, Net of Investment Expense of \$26,808 in 2016 and \$27,311 in 2015	2,805,956	2,341,376
Unrealized Gain (Loss) on Investments	(113,875)	805,805
Gifts for Other than Capital Purposes	2,803,797	2,328,845
Interest Expense	(1,041,428)	(2,128,940)
Loss on Disposal of Assets	(64,094)	(463,334)
Other Nonoperating Revenue	<u>132,619</u>	<u>113,157</u>
Nonoperating Revenues, Net	<u>71,647,135</u>	<u>66,952,402</u>
<b>INCOME BEFORE OTHER REVENUES</b>	1,271,258	6,703,990
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,693,484	1,506,538
Capital Gifts and Grants	<u>2,046,871</u>	<u>752,632</u>
Total Other Revenues	<u>3,740,355</u>	<u>2,259,170</u>
<b>INCREASE IN NET POSITION</b>	5,011,613	8,963,160
Net Position - Beginning of Year	141,513,004	197,553,651
Restatement for GASB 68 Pension Liability	-	(65,003,807)
Net Position - Beginning of Year, as Restated	<u>141,513,004</u>	<u>132,549,844</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 146,524,617</u>	<u>\$ 141,513,004</u>

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Tuition and Fees	\$ 147,043,969	\$ 139,840,097
Grants and Contracts	14,499,989	13,822,851
Payments to Suppliers for Goods and Services	(60,574,732)	(52,299,995)
Payments to Employees	(176,253,337)	(168,684,084)
Loans Issued to Students	(702,430)	(1,717,483)
Loans Collected from Students	1,351,142	1,341,808
Student Aid	(11,794,775)	(11,098,773)
Auxiliary Enterprise Charges	38,399,529	36,381,756
Sales and Services of Educational Departments	4,601,470	5,709,326
Other Operating Receipts	1,234,247	696,967
Net Cash Used in Operating Activities	(42,194,928)	(36,007,530)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	50,734,800	47,957,345
Gifts and Nonoperating Grants for Other than Capital Purposes	18,183,552	17,497,270
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	123,587,179	118,883,167
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(123,587,179)	(118,883,167)
Agency Transactions, Net	(95,468)	(140,088)
Other	132,619	113,157
Net Cash Provided by Noncapital Financing Activities	68,955,503	65,427,684
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital Appropriations	1,693,484	1,506,538
Capital Grants and Gifts Received	878,540	736,293
Proceeds from Capital Debt and Leases	5,074,920	6,158,062
Proceeds from Sales of Capital Assets	1,075	11,425
Purchases of Capital Assets	(11,235,885)	(13,371,672)
Principal Paid on Debt	(10,595,686)	(10,423,202)
Interest Paid on Debt	(1,686,871)	(2,892,987)
Net Cash Used in Capital Financing Activities	(15,870,423)	(18,275,543)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	654,070	598,889
Interest on Investments	2,732,965	2,309,542
Purchases of Investments	(182,345)	(166,387)
Net Cash Provided by Investing Activities	3,204,690	2,742,044
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	14,094,842	13,886,655
Cash and Cash Equivalents - Beginning of Year	217,546,996	203,660,341
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 231,641,838	\$ 217,546,996

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (70,375,877)	\$ (60,248,412)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	16,790,189	15,817,300
Expenses paid by Commonwealth or Donor	1,009,605	829,723
Changes in Assets and Liabilities:		
Receivables, Net	350,571	512,416
Inventories	18,253	(31,414)
Other Assets	(985,378)	(1,300,123)
Accounts Payable	125,616	1,645,431
Unearned Revenue	57,732	94,931
Students' Deposits	(287,471)	10,867
Compensated Absences	302,128	288,774
Loans to Students, Net	648,712	(375,675)
Other Liabilities	10,150,992	6,748,652
Net Cash Used in Operating activities	<u>\$ (42,194,928)</u>	<u>\$ (36,007,530)</u>
 <b>SUPPLEMENTARY DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES</b>		
Capital Assets Received Via Gift	\$ 1,168,331	\$ -
Equipment Acquired Via Capital Lease	\$ 197,980	\$ 30,624
Capital Assets Included in Payables	\$ 1,859,984	\$ 16,339
Commonwealth On-Behalf Contributions to PSERS	\$ 1,009,605	\$ 829,723

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS  
JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 11,742,417	\$ 10,165,262
Accounts Receivable	971,835	1,141,220
Pledges Receivable, Net	2,578,737	2,028,552
Inventory	1,092,138	1,344,115
Due from the University	483,386	132,588
Prepaid Expenses	203,232	130,258
Total Current Assets	17,071,745	14,941,995
<b>NONCURRENT ASSETS</b>		
Restricted Cash	28,439,082	27,739,717
Capital Assets, Net	163,208,593	171,053,022
Investments	22,041,789	22,795,021
Other Assets	1,161,420	1,159,016
Total Noncurrent Assets	214,850,884	222,746,776
 Total Assets	 \$ 231,922,629	 \$ 237,688,771
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 4,992,517	\$ 5,193,565
Current Portion of Bonds Payable	31,756,638	3,454,823
Other Deposit Liabilities	199,391	148,561
Due to the University	2,084,078	2,953,075
Total Current Liabilities	39,032,624	11,750,024
<b>BONDS PAYABLE</b>	177,227,495	209,115,175
<b>OTHER LIABILITIES</b>	38,764,331	29,964,424
Total Liabilities	255,024,450	250,829,623
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(42,091,901)	(30,130,815)
Temporarily Restricted	7,649,707	6,785,641
Permanently Restricted	11,340,373	10,204,322
Total Net Assets (Deficit)	(23,101,821)	(13,140,852)
 Total Liabilities and Net Assets (Deficit)	 \$ 231,922,629	 \$ 237,688,771

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS  
YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND OTHER ADDITIONS</b>		
Contributions	\$ 884,494	\$ 827,101
Investment Income	430,306	409,409
University Store	1,730,387	1,599,461
Student Activity Fees	4,344,995	4,241,774
Rental Income	28,723,853	28,379,572
Other Revenues	4,115,980	3,740,701
Change in Interest Rate Swap Agreement	(9,379,264)	(4,560,313)
Net Assets Released from Restriction	3,877,665	2,587,712
Total Revenues and Other Additions	34,728,416	37,225,417
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Program Expenses	37,490,063	35,971,525
University Store	1,345,180	1,260,256
Management and General	3,209,226	3,266,214
Distributions to the University	4,645,033	3,744,778
Total Expenses and Other Deductions	46,689,502	44,242,773
Decrease in Unrestricted Net Assets	(11,961,086)	(7,017,356)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	4,595,864	2,850,460
Investment Gains	146,141	297,045
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(3,877,665)	(2,587,712)
Other Revenues	-	26,930
Change in Split-Interest Agreements	(274)	(5,737)
Increase in Temporarily Restricted Net Assets	864,066	580,986
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	1,136,051	1,215,609
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	(9,960,969)	(5,220,761)
Net Assets (Deficit) - Beginning of Year	(13,140,852)	(7,920,091)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	\$ (23,101,821)	\$ (13,140,852)

See accompanying Notes to Financial Statements.



**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

West Chester University of Pennsylvania of the State System of Higher Education (the University), a public four-year institution located in West Chester, Pennsylvania, was founded in 1871. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (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).

**Reporting Entity**

The University functions as a business-type activity, as defined by Government Accounting Standards Board (GASB).

The University has determined that Student Services, Inc. (SSI), the West Chester University Foundation and Subsidiary (the Foundation), and West Chester University Alumni Association (the Association) are separate legal entities for which the University has oversight responsibility and should be included in the University's financial statements as aggregate, discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

SSI operates the campus bookstore and manages various student activities. The Foundation promotes the charitable, scientific and educational interests of the University by soliciting funds and other property. The Foundation also includes the operations of University Student Housing, LLC, which was formed to construct, operate and manage student housing facilities for the benefit of the University. The Association was formed to promote the interests of the University in all areas of academic, cultural and social needs and to increase alumni awareness of the University's needs.

Complete financial statements for SSI, the Foundation, and the Association may be obtained at the University's administrative office.

**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 have been made to the component units' financial information presented herein.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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

**Operating Revenues and Expenses**

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, student financial aid, grants and contracts, sales and services of educational activities, and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All other revenues are reported as nonoperating revenues. Expenses, with the exception of interest expense and loss on disposal of assets, are recorded as operating expenses. Appropriations, Pell grants, 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.

**Deferred Outflows and Deferred Inflows of Resources**

In addition to assets and liabilities, the balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

**Net Position**

Net position is the residual of Assets, plus Deferred Outflows of Resources, less Liabilities, less Deferred Inflows of Resources. The University maintains the following classifications of net position.

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

**Net Position (Continued)**

*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 the University maintain them 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.

*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, money market funds, and overnight repurchase agreements to be cash equivalents. Restricted amounts are held for use on specific bond projects. Equity securities with readily determinable fair values and debt securities are valued at fair value based on quoted market prices. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held. Commonfund investments are carried at fair value using the net asset value as a practical expedient. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices or other readily determinable market values for the underlying investments. Because Commonfund investments are not readily marketable and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed. Adjustments to reflect increases or decreases in market value, referred to as unrealized gains and losses, are reported in the statement of revenues, expenses, and changes in net position (University)/Combined Statement of Activities (Component Units).

**Accounts and Loans Receivable**

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

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

**Accounts and Loans Receivable (Continued)**

Accounts and loans receivable are reported at net realizable value. Accounts and loans are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Allowances for doubtful accounts are estimated based upon the University's historical losses and periodic review of individual accounts and loans. Accounts receivable are reported net of an allowance for doubtful accounts of approximately \$477,000 in 2016 and \$674,000 in 2015. Loans receivable are reported net of an allowance for doubtful accounts of approximately \$13,000 in 2016 and \$13,000 in 2015.

**Inventory**

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

**Capital Assets**

Land and buildings 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 after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. All capital assets, except land and construction in progress, are depreciated. Land is never depreciated. Construction in progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

**Impairment of Capital Assets**

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2016 or 2015.

**Unearned Revenue**

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

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

**Compensated Absences**

The estimated cost of future payouts of annual leave and sick leave that employees have earned for services rendered, and which the employees may be entitled to receive upon termination or retirement, is recorded as a liability.

**Pension Plans**

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

**Scholarships and Waivers**

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

**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 reclassifications were made to the 2016 financial statements to conform to the 2015 presentation.

**New Accounting Standards**

The University has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. In accordance with Statement No. 72, the University has classified its investments as *Level 1*, *Level 2*, or *Level 3*, to indicate the degree of certainty around the assets' underlying values (Note 3).

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

**New Accounting Standards (Continued)**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety: in its most recent actuarial valuation dated July 1, 2014, the University's accrued postretirement health care liability, as calculated by the actuaries, was \$126,574,305, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2016, was \$124,354,370. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards.

Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the amount is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement No. 78 excludes certain pensions from the provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The University has determined that Statement No. 78 does not apply to its pension plans and has no effect on its financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79 applies to arrangements that commingle the moneys of more than one legally separate entity and invest on the participants' behalf in an investment portfolio. The University has determined that Statement No. 79 does not apply to its investments and has no effect on its financial statements.

In June 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. Statement No. 80 requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government (university) is the sole corporate member. The University has determined that Statement No. 80 does not apply to its component units and has no effect on its financial statements.

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

**New Accounting Standards (Continued)**

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Statement No. 81 provides recognition and measurement guidance for gifts received from donors who have transferred the gifts to an intermediary to hold and administer for the government (university) and at least one other beneficiary. An example of a split-interest agreement is a charitable remainder trust. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016. The University has determined that Statement No. 81 will have an immaterial effect on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses technical issues related to previous GASB guidance on pensions. The University has determined that Statement No. 82 will have no effect on its financial statements.

**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

The following represents combining condensed statement of financial position information for the discretely presented component units as of June 30, 2016:

	<b>2016</b>			
	SSI	The Foundation	The Association	Total
Due from University	\$ 160,541	\$ 322,845	\$ -	\$ 483,386
Capital Assets, Net	320,274	162,397,332	490,987	163,208,593
Other Assets	9,995,449	56,698,974	1,536,227	68,230,650
<b>Total Assets</b>	<b>\$ 10,476,264</b>	<b>\$ 219,419,151</b>	<b>\$ 2,027,214</b>	<b>\$ 231,922,629</b>
Due to University	\$ 80,000	\$ 2,004,078	\$ -	\$ 2,084,078
Long-Term Debt	-	208,984,133	-	208,984,133
Other Liabilities	1,260,090	42,680,969	15,180	43,956,239
<b>Total Liabilities</b>	<b>1,340,090</b>	<b>253,669,180</b>	<b>15,180</b>	<b>255,024,450</b>
<b>Net Assets (Deficit):</b>				
Unrestricted	9,136,174	(53,186,054)	1,957,979	(42,091,901)
Temporarily Restricted	-	7,595,652	54,055	7,649,707
Permanently Restricted	-	11,340,373	-	11,340,373
<b>Total Net Assets (Deficit)</b>	<b>9,136,174</b>	<b>(34,250,029)</b>	<b>2,012,034</b>	<b>(23,101,821)</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 10,476,264</b>	<b>\$ 219,419,151</b>	<b>\$ 2,027,214</b>	<b>\$ 231,922,629</b>

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

The following represents combining condensed statement of financial position information for the discretely presented component units as of June 30, 2015:

	<b>2015</b>			
	SSI	The Foundation	The Association	Total
Due from University	\$ 30,985	\$ 101,603	\$ -	\$ 132,588
Capital Assets, Net	345,088	170,203,564	504,370	171,053,022
Other Assets	10,470,173	54,458,449	1,574,539	66,503,161
<b>Total Assets</b>	<b>\$ 10,846,246</b>	<b>\$ 224,763,616</b>	<b>\$ 2,078,909</b>	<b>\$ 237,688,771</b>
Due to University	\$ 4,941	\$ 2,948,134	\$ -	\$ 2,953,075
Long-Term Debt	-	212,569,998	-	212,569,998
Other Liabilities	1,186,064	34,074,750	45,736	35,306,550
<b>Total Liabilities</b>	<b>1,191,005</b>	<b>249,592,882</b>	<b>45,736</b>	<b>250,829,623</b>
Net Assets (Deficit):				
Unrestricted	9,655,241	(41,759,674)	1,973,618	(30,130,815)
Temporarily Restricted	-	6,726,086	59,555	6,785,641
Permanently Restricted	-	10,204,322	-	10,204,322
<b>Total Net Assets (Deficit)</b>	<b>9,655,241</b>	<b>(24,829,266)</b>	<b>2,033,173</b>	<b>(13,140,852)</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 10,846,246</b>	<b>\$ 224,763,616</b>	<b>\$ 2,078,909</b>	<b>\$ 237,688,771</b>



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

The following represents combining statement of activities for the discretely presented component units for the year ended June 30, 2016:

	2016			Total
	SSI	The Foundation	The Association	
<b>Changes in Unrestricted Net Assets:</b>				
Revenues and Other Additions:				
Contributions	\$ -	\$ 526,400	\$ 358,094	\$ 884,494
Investment Income	52,209	374,525	3,572	430,306
University Store	1,730,387	-	-	1,730,387
Student Activity Fees	4,344,995	-	-	4,344,995
Rental Income	-	28,723,853	-	28,723,853
Other Revenues	1,015,279	3,006,253	94,448	4,115,980
Change in Interest Rate Swap Agreement	-	(9,379,264)	-	(9,379,264)
Net Assets Released from Restrictions	-	3,872,165	5,500	3,877,665
Total Revenues and Other Additions	<u>7,142,870</u>	<u>27,123,932</u>	<u>461,614</u>	<u>34,728,416</u>
Expenses and Other Deductions:				
Program Expenses	4,644,954	32,530,668	314,441	37,490,063
University Store	1,345,180	-	-	1,345,180
Management and General	1,121,803	2,087,423	-	3,209,226
Distributions to University	550,000	3,932,221	162,812	4,645,033
Total Expense and Other Deductions	<u>7,661,937</u>	<u>38,550,312</u>	<u>477,253</u>	<u>46,689,502</u>
Decrease in Unrestricted Net Assets	(519,067)	(11,426,380)	(15,639)	(11,961,086)
<b>Changes in Temporarily Restricted Net Assets:</b>				
Contributions	-	4,595,864	-	4,595,864
Investment Gains	-	146,141	-	146,141
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(3,872,165)	(5,500)	(3,877,665)
Change in Split-Interest Agreements	-	(274)	-	(274)
Increase in Temporarily Restricted Net Assets	-	869,566	(5,500)	864,066
<b>Changes in Permanently Restricted Net Assets:</b>				
Contributions	-	1,136,051	-	1,136,051
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	(519,067)	(9,420,763)	(21,139)	(9,960,969)
Net Assets (Deficit) - Beginning of Year	<u>9,655,241</u>	<u>(24,829,266)</u>	<u>2,033,173</u>	<u>(13,140,852)</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ 9,136,174</u>	<u>\$ (34,250,029)</u>	<u>\$ 2,012,034</u>	<u>\$ (23,101,821)</u>

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

The following represents combining statement of activities for the discretely presented component units for the year ended June 30, 2015:

	<b>2015</b>			<b>Total</b>
	<b>SSI</b>	<b>The Foundation</b>	<b>The Association</b>	
<b>Changes in Unrestricted Net Assets:</b>				
Revenues and Other Additions:				
Contributions	\$ -	\$ 444,516	\$ 382,585	\$ 827,101
Investment Income	15,207	349,318	44,884	409,409
University Store	1,599,461	-	-	1,599,461
Student Activity Fees	4,241,774	-	-	4,241,774
Rental Income	-	28,379,572	-	28,379,572
Other Revenues	1,039,091	2,570,446	131,164	3,740,701
Change in Interest Rate Swap Agreement	-	(4,560,313)	-	(4,560,313)
Net Assets Released from Restrictions	-	2,587,712	-	2,587,712
<b>Total Revenues and Other Additions</b>	<b>6,895,533</b>	<b>29,771,251</b>	<b>558,633</b>	<b>37,225,417</b>
Expenses and Other Deductions:				
Program Expenses	4,507,335	31,151,425	312,765	35,971,525
University Store	1,260,256	-	-	1,260,256
Management and General	1,154,955	1,907,116	204,143	3,266,214
Distributions to University	50,000	3,694,778	-	3,744,778
<b>Total Expense and Other Deductions</b>	<b>6,972,546</b>	<b>36,753,319</b>	<b>516,908</b>	<b>44,242,773</b>
 Increase (Decrease) in Unrestricted Net Assets	 (77,013)	 (6,982,068)	 41,725	 (7,017,356)
<b>Changes in Temporarily Restricted Net Assets:</b>				
Contributions	-	2,850,460	-	2,850,460
Investment Gain	-	297,045	-	297,045
Other revenues	-	-	26,930	26,930
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(2,587,712)	-	(2,587,712)
Change in Split-Interest Agreements	-	(5,737)	-	(5,737)
<b>Increase in Temporarily Restricted Net Assets</b>	<b>-</b>	<b>554,056</b>	<b>26,930</b>	<b>580,986</b>
<b>Changes in Permanently Restricted Net Assets:</b>				
Contributions	-	1,215,609	-	1,215,609
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>(77,013)</b>	<b>(5,212,403)</b>	<b>68,655</b>	<b>(5,220,761)</b>
Net Assets (Deficit) - Beginning of Year	9,732,254	(19,616,863)	1,964,518	(7,920,091)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<b>\$ 9,655,241</b>	<b>\$ (24,829,266)</b>	<b>\$ 2,033,173</b>	<b>\$ (13,140,852)</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 entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses of the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds was \$231,458,745 at June 30, 2016 and \$217,274,354 at June 30, 2015.

Board of Governors' 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 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 of Governors' *Policy 1986-02-A, Investment*, for a complete list of and more details on permissible investments and associated qualifications.)

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

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

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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 investments 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)**

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.

Commonfund investments are valued based upon the unit values (NAV) of the funds held by the University at year end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the University has invested, and are restricted to withdrawals.

At June 30, 2016 and 2015, the carrying amount of the University's demand and time deposits was \$183,093 and \$272,642, respectively, as compared to bank balances of \$180,299 and \$267,888, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2016 and 2015, \$180,299 and \$267,888, respectively, were covered by federal government depository insurance. All bank balances were covered by federal depository insurance or were collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve Banks in the name of the banking institutions, or uninsured but covered under the collateralization provisions of the Commonwealth's Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2016 is presented below:

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

	Fair Value Hierarchy Level	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
<b>Deposits</b>				
Demand and time deposits				\$ 231,641,838
<b>Investments</b>				
U.S. government and agency obligations	2	Aaa	0.51	\$ 163,856
Bond mutual funds	NAV		4.6	5,747,058
	2		0.51	430
Debt Securities	2	Aa2	2.76	30,640
	2	Aa1	5.25	26,365
	2	AA	1.10	25,249
Equity/balanced mutual funds	NAV			13,494,833
	2			458,870
Common Stock	1			1,040,461
<b>Total Investments</b>				<b>20,987,762</b>
<b>Total deposits and investments</b>				<b>\$ 252,629,600</b>

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2015 is presented below:

	Fair Value Hierarchy Level	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
<b>Deposits</b>				
Demand and time deposits				\$ 217,546,996
<b>Investments</b>				
U.S. government and agency obligations	2	Aaa	0.55	\$ 72,206
Bond mutual funds	NAV			5,439,683
	2		0.51	385
Debt Securities	2	Aa2	3.7	30,000
	2	Aa1	6.80	25,369
	2	AA	2.10	25,282
Equity/balanced mutual funds	NAV			14,420,472
	2			558,405
Common Stock	1			1,001,560
<b>Total Investments</b>				<b>21,573,362</b>
<b>Total deposits and investments</b>				<b>\$ 239,120,358</b>

The University has no exposure to foreign currency risk.

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

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Bond Fund <sup>1</sup>	\$ 5,747,058	\$ -	Monthly	5 days
Commonfund Multi-Strategy Equity Fund <sup>2</sup>	<u>13,494,834</u>	<u>-</u>	Monthly	5 days
	<u>\$ 19,241,892</u>	<u>\$ -</u>		
	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Bond Fund <sup>1</sup>	\$ 5,439,683	\$ -	Monthly	5 days
Commonfund Multi-Strategy Equity Fund <sup>2</sup>	<u>14,420,472</u>	<u>-</u>	Monthly	5 days
	<u>\$ 19,860,155</u>	<u>\$ -</u>		

1. *Multi-strategy bond fund.* The investment objective of the fund is to offer an actively managed, multi-manager investment program that will provide, in a single fund, broad exposure to global debt markets. The fund seeks to add value above the return of the broad U.S. bond market over a full market cycle, as measured by the Barclays Capital U.S. Aggregate Bond Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.

2. *Multi-strategy equity fund.* The investment objective of the fund is to offer an investment program that will provide, in a single fund, all of the strategy and manager diversification that an endowment would normally require for its equity allocation. The fund seeks to add value over long periods of time, above the return of the U.S. equity market as measured by the S&P 500 index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.

**NOTE 4 SPLIT-INTEREST AGREEMENTS**

The University is a party to various charitable gift annuity contracts in which the University receives assets from the donor and agrees to pay the donors an annuity over the life of the donor. Assets received are carried at fair value and were \$430 in 2016 and \$385 in 2015. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was \$37,469 in 2016 and \$39,393 in 2015.



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**NOTE 5 CAPITAL ASSETS**

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following:

	Estimated Lives in Years	Beginning Balance July 1, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
<b>Capital Assets Not Being Depreciated:</b>						
Construction in Progress		\$ 7,199,602	\$ 10,665,591	\$ (40,300)	\$ (6,204,600)	\$ 11,620,293
Land		6,145,178	-	-	-	6,145,178
Total Capital Assets Not Depreciated		13,344,780	10,665,591	(40,300)	(6,204,600)	17,765,471
<b>Capital Assets Being Depreciated, Cost:</b>						
Buildings and Improvements	10-40	255,306,545	6,200	-	4,531,854	259,844,599
Furnishings and Equipment	3-40	90,048,492	3,641,835	(715,922)	1,672,746	94,647,151
Library Books	10	7,983,265	148,554	(238,000)	-	7,893,819
Total Capital Assets Being Depreciated		353,338,302	3,796,589	(953,922)	6,204,600	362,385,569
<b>Less Accumulated Depreciation:</b>						
Buildings and Improvements		(103,203,010)	(9,551,261)	-	-	(112,754,271)
Furnishings and Equipment		(65,963,977)	(6,982,609)	691,053	-	(72,255,533)
Library Books		(6,607,933)	(256,319)	238,000	-	(6,626,252)
Total Accumulated Depreciation		(175,774,920)	(16,790,189)	929,053	-	(191,636,056)
Total Capital Assets Being Depreciated, Net		177,563,382	(12,993,600)	(24,869)	6,204,600	170,749,513
Capital Assets, Net		\$ 190,908,162	\$ (2,328,009)	\$ (65,169)	\$ -	\$ 188,514,984

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**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	Estimated Lives in Years	Beginning Balance July 1, 2014	Additions	Retirements	Reclassifications	Ending Balance June 30, 2015
<b>Capital Assets Not Being Depreciated:</b>						
Construction in Progress		\$ 12,445,062	\$ 9,944,579	\$ (1,566)	\$ (15,188,473)	\$ 7,199,602
Land		6,145,178	-	-	-	6,145,178
Total Capital Assets Not Depreciated		18,590,240	9,944,579	(1,566)	(15,188,473)	13,344,780
<b>Capital Assets Being Depreciated, Cost:</b>						
Buildings and Improvements	10-40	246,346,850	78,501	(603,144)	9,484,338	255,306,545
Furnishings and Equipment	3-40	82,760,602	3,194,104	(1,610,349)	5,704,135	90,048,492
Library Books	10	8,047,514	201,451	(265,700)	-	7,983,265
Total Capital Assets Being Depreciated		337,154,966	3,474,056	(2,479,193)	15,188,473	353,338,302
<b>Less Accumulated Depreciation:</b>						
Buildings and Improvements		(94,217,238)	(9,302,872)	317,100	-	(103,203,010)
Furnishings and Equipment		(61,132,601)	(6,254,576)	1,423,200	-	(65,963,977)
Library Books		(6,613,781)	(259,852)	265,700	-	(6,607,933)
Total Accumulated Depreciation		(161,963,620)	(15,817,300)	2,006,000	-	(175,774,920)
Total Capital Assets Being Depreciated, Net		175,191,346	(12,343,244)	(473,193)	15,188,473	177,563,382
Capital Assets, Net		\$ 193,781,586	\$ (2,398,665)	\$ (474,759)	\$ -	\$ 190,908,162

**NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	<b>2016</b>	<b>2015</b>
Employees	\$ 14,537,593	\$ 13,791,937
Suppliers and Services	5,005,137	4,383,888
Other	4,438,241	3,468,748
Interest	194,404	211,995
Total	<u>\$ 24,175,375</u>	<u>\$ 21,856,568</u>

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**NOTE 7 BONDS 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 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 are as follows:

	<b>2016</b>				
	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF Used for ESCO Project and to Build a Recreation Center		\$ 5,348,944	-	(5,348,944)	-
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall		597,026	-	(290,937)	306,089
Series AI Used for Sprinklers, Refunded V, Y, AB and AD		4,718,948	-	(466,557)	4,252,391
Series AJ Used to Build a Recreation Center		3,525,000	-	(180,000)	3,345,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)		749,440	-	(138,361)	611,079
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center		8,364,488	-	(368,590)	7,995,898
Series AM Used to Build a Recreation Center		14,741,032	-	(425,898)	14,315,134
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)		3,633,850	-	(480,366)	3,153,484
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)		5,470,317	-	(622,725)	4,847,592
Series AS used to current refund Series AF (ESCO, Rec Center)		-	4,670,818	-	4,670,818
		<u>\$ 47,149,045</u>	<u>\$ 4,670,818</u>	<u>\$ (8,322,378)</u>	43,497,485
Total Bonds Payable					2,476,748
Plus Unamortized Bond Premium Costs, Net Outstanding at End of Year					<u>\$ 45,974,233</u>

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**NOTE 7 BONDS PAYABLE (CONTINUED)**

	<b>2015</b>				
	Weighted Average Interest Rate	Balance July 1, 2014	Bonds Issued	Bonds Redeemed	Balance June 30, 2015
Series AC Used for Dining Hall Project	4.87%	\$ 276,016	\$ -	\$ (276,016)	\$ -
Series AE used for ESCO Project	4.95%	6,163,657	-	(6,163,657)	-
Series AF Used for ESCO Project and to Build a Recreation Center	5.00%	5,888,195	-	(539,251)	5,348,944
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.85%	872,809	-	(275,783)	597,026
Series AI Used for Sprinklers, Refunded V, Y, AB and AD	4.19%	5,169,839	-	(450,891)	4,718,948
Series AJ Used to Build a Recreation Center	4.88%	3,695,000	-	(170,000)	3,525,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)	4.00%	883,828	-	(134,388)	749,440
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	8,711,910	-	(347,422)	8,364,488
Series AM Used to Build a Recreation Center	4.65%	15,147,213	-	(406,181)	14,741,032
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)	5.00%	4,095,729	-	(461,879)	3,633,850
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)	4.71%	-	5,470,317	-	5,470,317
Total Bonds Payable		<u>\$ 50,904,196</u>	<u>\$ 5,470,317</u>	<u>\$ (9,225,468)</u>	<u>47,149,045</u>
Plus Unamortized Bond Premium Costs, Net Outstanding at End of Year					<u>2,628,931</u>
					<u>\$ 49,777,976</u>

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**NOTE 7 BONDS PAYABLE (CONTINUED)**

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

Series	2017	2018	2019	2020	2021	2022-2026	2027-2031	2032-2036	Total
AG Principal	\$ 306,089	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 306,089
AG Interest	15,304	-	-	-	-	-	-	-	15,304
Total	321,393	-	-	-	-	-	-	-	321,393
AI Principal	486,346	506,135	525,925	546,551	569,352	1,618,082	-	-	4,252,391
AI Interest	178,974	159,520	139,275	118,238	95,693	152,475	-	-	844,175
Total	665,320	665,655	665,200	664,789	665,045	1,770,557	-	-	5,096,566
AJ Principal	190,000	200,000	210,000	220,000	230,000	1,335,000	960,000	-	3,345,000
AJ Interest	160,463	150,963	140,963	130,463	119,463	414,813	91,063	-	1,208,191
Total	350,463	350,963	350,963	350,463	349,463	1,749,813	1,051,063	-	4,553,191
AK Principal	144,075	149,292	155,999	161,713	-	-	-	-	611,079
AK Interest	24,443	18,680	12,708	6,469	-	-	-	-	62,300
Total	168,518	167,972	168,707	168,182	-	-	-	-	673,379
AL Principal	385,142	406,685	429,001	446,251	469,073	2,471,387	2,628,359	760,000	7,995,898
AL Interest	399,795	380,538	360,204	338,754	316,441	1,229,955	546,671	97,500	3,669,858
Total	784,937	787,223	789,205	785,005	785,514	3,701,342	3,175,030	857,500	11,665,756
AM Principal	445,616	469,277	488,994	512,655	540,260	3,131,139	3,880,404	4,846,789	14,315,134
AM Interest	832,125	803,875	780,075	749,075	716,575	3,032,838	2,075,125	849,306	9,838,994
Total	1,277,741	1,273,152	1,269,069	1,261,730	1,256,835	6,163,977	5,955,529	5,696,095	24,154,128
AN Principal	498,433	521,067	393,411	409,350	425,706	905,517	-	-	3,153,484
AN Interest	129,808	105,907	74,086	54,963	35,038	16,084	-	-	415,886
Total	628,241	626,974	467,497	464,313	460,744	921,601	-	-	3,569,370
AQ Principal	851,379	899,298	945,470	991,694	1,043,320	116,431	-	-	4,847,592
AQ Interest	242,380	199,811	154,846	107,572	57,988	14,912	-	-	777,509
Total	1,093,759	1,099,109	1,100,316	1,099,266	1,101,308	131,343	-	-	5,625,101
AS Principal	351,695	635,373	715,741	728,306	742,940	1,334,267	162,496	-	4,670,818
AS Interest	141,393	131,285	118,578	104,263	89,697	181,090	8,125	-	774,431
Total	493,088	766,658	834,319	832,569	832,637	1,515,357	170,621	-	5,445,249
Total Principal	3,658,775	3,787,127	3,864,541	4,016,520	4,020,651	10,911,823	7,631,259	5,606,789	43,497,485
Total Interest	2,124,685	1,950,579	1,780,735	1,609,797	1,430,895	5,042,167	2,720,984	946,806	17,606,648
Total	\$ 5,783,460	\$ 5,737,706	\$ 5,645,276	\$ 5,626,317	\$ 5,451,546	\$ 15,953,990	\$ 10,352,243	\$ 6,553,595	\$ 61,104,133

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**NOTE 7 BONDS PAYABLE (CONTINUED)**

The University participated 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 provided \$100,000,000 in funding over several years. The State System issued bonds to provide a pool for AFRP funding (\$21,918,513 and \$29,552,778 was outstanding as of June 30, 2016 and 2015, respectively). Universities requested 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 owed by the University to the AFRP pool of funding were as follows:

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 1,598,158	\$ 2,024,511
Repayments	(1,487,754)	(426,353)
Balance at June 30	<u>\$ 110,404</u>	<u>\$ 1,598,158</u>

**NOTE 8 DEBT REFUNDING**

In June 2016, the net proceeds from the Series AS revenue bonds were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to advance refund the Series AF revenue bonds. Although it resulted in an accounting loss of \$119,924, the refunding was performed to reduce debt service by approximately \$409,638 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$399,656. The accounting loss, or deferred loss on refunding, is reported as a deferred outflow of resources. As of June 30, 2016, \$4,782,491 of Series AF revenue bonds remained outstanding, and the fair market of the escrow account was \$4,987,413. The funds in escrow will be used to pay the December 15, 2016, interest payment and the June 15, 2017, principal and interest payment of Series AF. Neither the funds in escrow nor the outstanding balance of Series AF is reflected on the balance sheet.

**NOTE 9 CAPITAL LEASE OBLIGATION**

The University and the Borough of West Chester entered into capital lease obligations relating to three parking structures. The University also has various equipment under capital leases consisting primarily of copier machines. Changes in capital lease obligations are as follows:

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 15,407,658	\$ 16,148,415
Increases	197,980	30,624
Repayments	(785,554)	(771,381)
Balance at June 30	<u>\$ 14,820,084</u>	<u>\$ 15,407,658</u>

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**NOTE 9 CAPITAL LEASE OBLIGATION (CONTINUED)**

Capital assets include three parking structures under capital leases of \$20,747,108 and \$20,732,062 at June 30, 2016 and 2015, respectively, which is reported net of accumulated depreciation of \$5,744,506 in 2016 and \$5,055,529 in 2015. In addition, capital assets includes equipment under capital lease of \$271,408 at June 30, 2016 and \$147,210 at June 30, 2015 which are reported net of accumulated depreciation of \$56,992 at June 30, 2016 and \$91,039 at June 30, 2015.

The following is a summary of future minimum lease payments along with the present value of the net minimum lease payments as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,250,812
2018	1,244,486
2019	1,242,538
2020	1,223,114
2021	1,216,141
Thereafter	<u>12,977,347</u>
Total Minimum Lease Payments	19,154,438
Less: Amount Representing Interest	<u>(4,334,354)</u>
Net Present Value of Minimum Lease Payments	14,820,084
Less: Current Portion	<u>809,769</u>
Long-Term Capital Lease Obligations	<u><u>\$ 14,010,315</u></u>

**NOTE 10 UNEARNED REVENUE**

Unearned revenue consists of the following components at June 30:

	<u>2016</u>		<u>2015</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Student Tuition and Fees	\$ 4,838,964	\$ 161,926	\$ 4,951,793	\$ 1,830
Grants	398,108	-	354,209	-
Sales and Services	202,534	-	184,216	-
Other	735,144	-	786,896	-
Total	<u>\$ 6,174,750</u>	<u>\$ 161,926</u>	<u>\$ 6,277,114</u>	<u>\$ 1,830</u>

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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS**

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

	<b>2016</b>		<b>2015</b>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 302,127	\$ 14,092,550	\$ 288,774	\$ 13,803,775
Postretirement Benefit Obligations	-	124,354,370	-	119,961,870
Total	<u>\$ 302,127</u>	<u>\$ 138,446,920</u>	<u>\$ 288,774</u>	<u>\$ 133,765,645</u>

**Compensated Absences**

The changes in compensated absences are as follows:

	<b>2016</b>	<b>2015</b>
Balance at July 1	\$ 14,092,549	\$ 13,803,775
Current Changes in Estimate	1,574,364	1,650,653
Payouts	<u>(1,272,236)</u>	<u>(1,361,879)</u>
Balance at June 30	<u>\$ 14,394,677</u>	<u>\$ 14,092,549</u>

**Postretirement Benefits**

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

**System Plan**

**Plan Description**

Employee members of the Association of Pennsylvania State College and University Faculties, (APSCUF), the State College and University Professional Association, (SCUPA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and non-represented employees participate in a single-employer defined benefits healthcare plan administered by the State System (the System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefit provisions. The System Plan is unfunded, and no financial report is prepared.



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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

**Funding Policy**

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of \$40,060,000 and \$36,869,000 for the fiscal years ended June 30, 2016 and 2015, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2016:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- Eligible annuitants 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 annuitants 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.
- Other eligible annuitants who retire after July 1, 2008, pay 18% of the plan premium in effect when they retired. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA, OPEIU, and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

Total contributions made by plan members were \$4,866,000 and \$4,272,000, or approximately 10.8% and 10.4% of the total premiums, for fiscal years ended June 30, 2016 and 2015, respectively.

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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over 30 years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 11,693,785	\$ 11,693,785
Interest on Net OPEB Obligation	4,775,743	4,517,794
Adjustment to Annual Required Contribution	<u>(6,276,836)</u>	<u>(5,937,807)</u>
Annual OPEB Cost	10,192,692	10,273,772
Contributions Made	<u>(5,800,192)</u>	<u>(5,479,431)</u>
Increase in Net OPEB Obligation	4,392,500	4,794,341
Net OPEB Obligation, Beginning of Year	<u>119,961,870</u>	<u>115,167,529</u>
Net OPEB Obligation, End of Year	<u>\$ 124,354,370</u>	<u>\$ 119,961,870</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2016 and the two preceding years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 10,192,692	56.9 %	\$ 124,354,370
2015	10,273,772	53.3 %	119,961,870
2014	15,560,000	33.9 %	115,167,529

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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

**Funded Status and Funding Progress**

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

Actuarial Accrued Liability (AAL)	\$ 126,754,305
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 126,574,305</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>0%</u>
Covered Payroll	<u>\$ 79,542,181</u>
UAAL as a Percentage of Covered Payroll	<u>159.1%</u>

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

**Actuarial Methods and Assumptions**

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

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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

**Actuarial Methods and Assumptions (Continued)**

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

**Retired Employees Health Program**

**Plan Description**

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

**Funding Policy**

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of non-represented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005 are not required to make contributions. Plan members who enrolled after July 1, 2005 contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2015-16, the State System contributed \$418 for each current active employee per biweekly pay period. The State System made contributions of \$37,026,000, \$30,765,000, and \$28,584,000, for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**NOTE 12 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).

Following is the total of 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 for the fiscal years ended June 30, 2016 and 2015.

	SERS		PSERS		ARP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Net Pension Liabilities</b>	\$ 76,758,240	\$ 63,069,996	\$ 10,184,925	\$ 8,892,586	\$ -	\$ -	\$ 86,943,165	\$ 71,962,582
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	\$ 1,554,207	\$ 342,388	\$ -	\$ -	\$ -	\$ -	\$ 1,554,207	\$ 342,388
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	7,815,419	1,822,297	-	-	-	-	7,815,419	1,822,297
Changes in Assumptions	2,280,464	-	-	-	-	-	2,280,464	-
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	71,928	37,127	-	-	71,928	37,127
Changes in Proportion	-	-	450,717	211,710	-	-	-	-
Contributions after the measurement date	3,970,649	2,929,972	815,607	661,818	-	-	4,786,256	3,591,790
<b>Total Deferred Outflows of Resources</b>	\$ 15,620,739	\$ 5,094,657	\$ 1,338,252	\$ 910,655	\$ -	\$ -	\$ 16,508,274	\$ 5,793,602
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	\$ -	\$ -	\$ 42,025	\$ -	\$ -	\$ -	\$ 42,025	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	20,568	635,760	-	-	20,568	635,760
Difference Between Employer Contributions and Proportionate Share of Contributions	213,665	189,021	-	-	-	-	213,665	189,021
Changes in Proportion	2,343,351	594,813	-	-	-	-	2,343,351	594,813
<b>Total Deferred Inflows of Resources</b>	\$ 2,557,016	\$ 783,834	\$ 62,593	\$ 635,760	\$ -	\$ -	\$ 2,619,609	\$ 1,419,594
<b>Pension Expense</b>	\$ 11,299,568	\$ 7,313,940	\$ 2,116,789	\$ 838,670	\$ 7,244,405	\$ 7,159,390	\$ 20,660,762	\$ 15,312,000
<b>Contributions Recognized by Pension Plans</b>	\$ 6,364,224	\$ 5,065,638	\$ 815,610	\$ 664,810	N/A	N/A	\$ 7,179,834	\$ 5,730,448

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

The University will recognize the \$3,970,649 reported as 2016 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$815,607 reported as 2016 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

Fiscal Year Ended	Amortization	
	SERS	PSERS
June 30, 2017	\$2,356,759	\$86,284
June 30, 2018	2,356,759	86,284
June 30, 2019	2,356,759	86,284
June 30, 2020	1,944,491	201,202
June 30, 2021	78,306	-
	<u>\$ 9,093,074</u>	<u>\$ 460,054</u>

**SERS**

*Plan Description*

SERS is the administrator of a cost-sharing multiple-employer defined benefit plan established by the Commonwealth to provide pension benefits for employees of 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 12 PENSION BENEFITS (CONTINUED)**

**SERS (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.

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

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

*Contributions*

The contribution rate for both active members and the University 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 2014-15 was 4.5% and will remain at that rate until no longer needed.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

*Contributions (Continued)*

The University contributed at actuarially determined rates of between 17.18% and 24.86% of active members' annual covered payroll at June 30, 2016. The University's contributions to SERS for the years ended June 30, 2016, 2015, and 2014, were approximately \$6,364,000, \$5,118,000, and \$3,772,000, respectively, equal to the required contractual contribution.

Contribution rates for most active members is 6.25% of gross salary. The contribution rate for other members ranges between 5.0% and 9.3% of salary, depending upon when the member was hired and what class of membership was elected.

*Assumptions*

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2015 and 2014, 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 2.75%.
- Investment return of 7.5%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.7%, with a range of 3.85% to 9.05%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

Some of the methods and assumptions mentioned above are based on the *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 outlook. Published in March 2016, it analyzed experience from 2011 through 2016. 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 assumptions adjustments increase projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.



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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

*Assumptions (Continued)*

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. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2015, are summarized below.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Alternative investments	15.00%	8.50%
Global public equity	40.00%	5.40%
Real assets	17.00%	4.95%
Diversifying assets	10.00%	5.00%
Fixed income	15.00%	1.50%
Liquidity reserve	3.00%	0.00%
	100.00%	

The discount rate used to measure the total SERS pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**Sensitivity of the West Chester University's Proportionate Share of  
the SERS Net Pension Liability to Change in the Discount Rate**

	<b>1% Decrease 6.50%</b>	<b>Current Rate 7.50%</b>	<b>1% Increase 8.50%</b>
2015	\$95,348,203	\$76,758,240	\$60,818,381
2014	\$80,728,077	\$63,069,996	\$47,886,906

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

*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, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability was approximately \$76,758,000. SERS measured the net pension liability as of December 31, 2015. At June 30, 2015, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2014, was \$63,070,000.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2016-17 from the December 31, 2015, funding valuation to the expected funding payroll. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2015-16 from the December 31, 2014, funding valuation to the expected funding payroll. At the December 31, 2015 measurement date, the University's proportion was 4.721%, a decrease of .018% from its proportion calculated as of the December 31, 2014 measurement date.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS**

*Plan Description*

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (University), 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.

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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

*Benefits Provided (Continued)*

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.

*Employer Contributions*

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2016, was 25.0% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 12.5% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2016, was approximately \$816,000. The University's contributions to PSERS for the years ended June 30, 2015 and 2014, were approximately \$665,000 and \$496,000, respectively, equal to the required contractual contribution.

*Actuarial Assumptions*

The total PSERS pension liability as of June 30, 2015, was determined by rolling forward PSERS' total pension liability as of the June 30, 2014, actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 3%.
- Investment return of 7.50%, including inflation.

Salary increases based on an effective average of 5.5%, which reflects an allowance for inflation, real wage growth of 1.0%, and merit or seniority increases of 1.50%.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

*Actuarial Assumptions (Continued)*

- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its March 11, 2011, meeting and were effective beginning with the June 30, 2011, actuarial valuation.

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, 2015.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Public markets global equity	22.50%	4.80%
Private markets (equity)	15.00%	6.60%
Private real estate	12.00%	4.50%
Global fixed income	7.50%	2.40%
U.S. long treasuries	3.00%	1.40%
TIPS	12.00%	1.10%
High-yield bonds	6.00%	3.30%
Cash	3.00%	70.00%
Absolute return	10.00%	4.90%
Risk parity	10.00%	3.70%
MLPs/Infrastructure	5.00%	5.20%
Commodities	8.00%	3.10%
Financing (LIBOR)	-14.00%	1.10%
	100.00%	

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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JUNE 30, 2016 AND 2015**

**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

*Actuarial Assumptions (Continued)*

The discount rate used to measure the total PSERS pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.5%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate.

**Sensitivity of the West Chester University's Proportionate Share of  
the PSERS Net Pension Liability to Change in the Discount Rate**

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	\$12,553,917	\$10,184,925	\$8,193,773
2014	\$11,092,510	\$8,892,586	\$7,014,759

*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).

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

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

At June 30, 2016, 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>2016</u>		<u>2015</u>
Total PSERS net pension liability associated with the University	\$ 20,369,850	\$	17,785,172
Commonwealth's proportionate share of the PSERS net pension liability associated with the University	10,184,925		8,892,586
University's proportionate share of the PSERS net pension liability	\$ 10,184,925	\$	8,892,586

PSERS measured the net pension liability as of June 30, 2015. 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, 2014, to June 30, 2015. 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, 2015, the University's proportion was .1852%, an increase of .0067% from its proportion calculated as of June 30, 2014.

**ARP**

Because the ARP is a defined contribution plan, benefits depend upon amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University contribution rate on June 30, 2016 and 2015 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2016 and 2015 were approximately \$7,244,000 and \$7,159,000, respectively, from the University and \$3,898,939 and \$3,866,071, respectively, from active members. No liability is recognized for the ARP.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 13 WORKERS' COMPENSATION**

The University participates in the State System's self-insured workers' compensation plan. For claims occurring on or after July 1, 1995, the University must pay up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all universities of the State System contribute amounts as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$44,483 and \$33,407 to the Reserve Fund in 2016 and 2015, respectively.

For the years ended June 30, 2016 and 2015, the aggregate liability for claims under the self-insurance limit was \$1,075,845 and \$1,104,249, respectively. Changes in the workers' compensation claims liability amount in fiscal years 2016 and 2015 follow:

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 1,104,249	\$ 1,070,842
Current Year Claims and Changes in Estimates	16,079	73,372
Payments	(44,483)	(39,965)
Balance at June 30	<u>\$ 1,075,845</u>	<u>\$ 1,104,249</u>

**NOTE 14 COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS**

Authorized expenditures for ongoing construction projects at June 30, 2016 and 2015 were approximately \$8,289,000 and \$9,933,000, respectively.

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

The University is self-insured for workers' compensation up to stated limits (Note 13). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its risk management program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The University has not reduced significantly any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the University's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.



**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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JUNE 30, 2016 AND 2015**

**NOTE 14 COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (CONTINUED)**

The University receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2016, the University estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

**NOTE 15 RATINGS ACTIONS**

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In October 2016, Moody's revised the outlook for the rating to *negative* from *stable*. Fitch Ratings reaffirmed the State System's rating of AA- with an outlook of *stable*.

**NOTE 16 GROUND LEASE**

University Student Housing, LLC ("USH"), a subsidiary of the Foundation, constructed, through tax exempt bond financing, two student housing facilities on the University's North and South campuses on land owned by the Commonwealth under the custody and control of the University. In August 2003, the University entered into a ground lease agreement with USH to lease the land on which the housing facilities were to be constructed. The lease agreement expires in August 2045 or 2035 if the related bond financings are satisfied by USH. Ownership to the facilities constructed on the land transfers to the University at the end of the lease term.

The agreement calls for an annual base rent of \$50,000, commencing August 2004, with annual increases of 3%, and a system fee payment based upon revenues of the facility as defined in the agreement. The University has subordinated its rights to base and percentage rent payments to any payments due by USH on their related bond financing. Any unpaid amounts accrue interest at prevailing prime rates.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 16 GROUND LEASE (CONTINUED)**

USH constructed, through tax exempt bond financing, two student housing buildings, Allegheny and Brandywine, to replace the University's dormitory-style student housing on land owned by the Commonwealth under the custody and control of the University. In March 2008, the University entered into a second ground lease agreement with USH to lease the land on which the buildings were to be constructed. The lease agreement commenced on July 1, 2009 and expires on July 1, 2053 or 2043 if the related bond financings are satisfied by USH. Ownership to the facilities constructed on the land transfers to the University at the end of the lease term. The agreement calls for annual base rent of \$7,058, with annual increases of 3%, and a system fee payment based upon revenues of the facility as defined in the agreement.

USH constructed, through tax exempt bond financing, new student housing buildings, East Village Expansion, on land owned by the Commonwealth under the custody and control of the University. In July 2012, the University entered into a third ground lease agreement with USH to lease the land on which the buildings were to be constructed. The lease agreement commenced on July 1, 2012 and expires on June 30, 2047. Ownership to the facility constructed on the land transfers to the University at the end of the lease term. The agreement calls for annual base rent of \$30,650, with annual increases of 1% with the lease year beginning on July 1, 2014 and ending with the lease year that begins on July 1, 2018. Thereafter, base rent shall increase by 2% each lease year beginning on July 1, 2019 through the lease year ending on June 30, 2023, and shall increase by 3% for each subsequent lease year for the duration of the term. The agreement also calls for a system fee payment based upon revenues of the facility as defined in the agreement.

USH constructed, through tax exempt bond financing, a new student housing building, Commonwealth Hall, to replace the University's dormitory-style student housing on land owned by the Commonwealth under the custody and control of the University. In February 2013, the University entered into a fourth ground lease agreement with USH to lease the land on which the building was to be constructed. The lease agreement commenced on July 1, 2014 and expires on June 30, 2063. Ownership to the facility constructed on the land transfers to the University at the end of the lease term. The agreement calls for annual base rent of \$10,000, with annual increases of 1% with the lease year beginning on July 1, 2015 and ending with the lease year that begins on July 1, 2019. Thereafter, base rent shall increase by 2% each lease year beginning on July 1, 2020 through the lease year ending on June 30, 2025, and shall increase by 3% for each subsequent lease year for the duration of the term. The agreement also calls for a system fee payment based upon revenues of the facility as defined in the agreement.

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 16 GROUND LEASE (CONTINUED)**

At June 30, 2016, future minimum lease payments due under the ground leases are as follows:

<u>Year Ending June 30,</u>	<u>2003 Lease</u>	<u>2008 Lease</u>	<u>2013 Lease</u>	<u>2014 Lease</u>
2017	\$ 71,288	\$ 8,680	\$ 31,579	\$ 10,201
2018	73,427	8,941	31,895	10,303
2019	75,639	9,209	32,213	10,406
2020	77,898	9,485	32,858	10,510
2021	80,235	9,760	33,515	10,720
Thereafter	1,422,472	307,292	1,305,479	871,671

USH subleases 27,740 square feet of ground floor space in Allegheny and Brandywine to the University for \$20 per year. The University reports fair value rent expense of \$1,210,585 and \$1,192,554 for the years ended June 30, 2016 and 2015, respectively. The University is responsible for leasehold improvements. The lease term is 29.5 years.

**NOTE 17 SUBSEQUENT EVENTS**

On October 21, 2016, after more than a year of contract negotiations, the State System and the Association of Pennsylvania State College and University Faculties (APSCUF) reached a tentative agreement on a new contract, ending a three day strike by faculty. Up until the strike date, APSCUF had been working under the terms of a contract that expired June 30, 2015. As of the date of these financial statements, the contract between the State System and APSCUF, which would run through June 30, 2018, had not yet been ratified by APSCUF nor approved by the State System Board of Governors. The short or long-term impact of the tentative contract terms on the University's financial statements has not yet been determined.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
SUPPLEMENTARY SCHEDULES OF FUNDING PROGRESS  
FOR THE SYSTEM PLAN AND REHP (OPEB)  
YEARS ENDED JUNE 30, 2016 AND 2015  
(UNAUDITED)**

**Schedule of Funding Progress for the System Plan (OPEB)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	\$ -	\$ 184,981,000	\$ 184,981,000	0%	\$ 70,729,000	261.5%
July 1, 2013	\$ -	\$ 191,900,000	\$ 191,900,000	0%	\$ 72,850,870	263.4%
July 1, 2014	\$ -	\$ 126,574,305	\$ 126,574,305	0%	\$ 79,542,181	159.1%

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

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

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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SUPPLEMENTARY SCHEDULES OF PROPORTIONATE SHARE OF  
NET PENSION LIABILITY AND CONTRIBUTIONS (SERS AND PSERS)  
YEARS ENDED JUNE 30, 2016 AND 2015  
(UNAUDITED)**

**Schedule of Proportionate Share of SERS Net Pension Liability (NPL)**

*Determined as of December 31 SERS Measurement Date*

Fiscal Year	University's Proportion	University's Proportionate 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	4.901%	\$63,069,996	\$25,724,299	245%	64.8%
2015/16	4.721%	\$76,758,240	\$26,621,048	288%	58.9%

**SERS Schedule of Contributions**

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$5,065,638	\$5,065,638	\$0	\$25,724,299	19.7%
2015/16	\$6,364,224	\$6,364,224	\$0	\$28,129,203	22.6%

**Schedule of Proportionate Share of PSERS Net Pension Liability**

*Determined as of June 30 PSERS Measurement Date*

Fiscal Year	PSERS Net Pension Liability			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	
	University's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share				Total
2014/15	0.17850%	\$8,892,586	\$8,892,586	\$17,785,172	\$5,733,546	310%	57.2%
2015/16	0.18520%	\$10,184,925	\$10,184,925	\$20,369,850	\$6,052,296	200%	54.4%

**PSERS Schedule of Contributions**

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$664,810	\$664,810	\$0	\$2,866,773	23.0%
2015/16	\$815,609	\$815,609	\$0	\$6,511,084	12.5%