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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP

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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
West Chester, Pennsylvania

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of 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, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

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 3-16 and the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 78-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 8, 2018

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, 2018 and 2017. 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, 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, 2018 and 2017.

Financial Highlights

- The total Commonwealth appropriation to the State System for operations in fiscal year 2017-18 was $453.1 million, a 2.0% increase from the $444.2 million appropriated in fiscal year 2016-17.

- The University's share of the base appropriation, through the allocation formula, increased by $2.9 million to $49.8 million. This represents a 6.2% increase from fiscal year 2016-17.

- 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 2017-18, the University received $5.5 million in performance funding; in the prior fiscal year, the University received $6.2 million in performance funding. This represents an 11.3% decrease from fiscal year 2016-17.

- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2017-18 were $55.3 million; in the prior fiscal year, they were $53.0 million. This represents a 4.2% increase from fiscal year 2016-17.

- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, increased by $0.3 million to $2.1 million in fiscal year 2017-18. This represents an increase of 18.2% from fiscal year 2016-17.

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 2017-18; the increase for 2016-17 was 2.5% for both. For graduate students the increase was 3.5% for both in-state and out-of-state students for fiscal year 2017-18. This compares to a 2.8% increase in fiscal year 2016-17. The State System's Board also increased the undergraduate technology tuition fee by 3.5% in fiscal year 2017-18. The technology tuition fee in fiscal year 2016-17 increased 2.7% for both in-state and out-of-state students. For graduate students the technology tuition fee increased by $1.00 per credit for both in-state and out-of-state students in fiscal year 2017-18. This is similar to the increase in fiscal year 2016-17. Universities must use the technology tuition fee to support instructional technology.

- Mandatory fees for all undergraduate students set by the University increased by 5.9% in fiscal year 2017-18 and by 3.5% in fiscal year 2016-17. Mandatory fees for graduate students increased by 28.1% in fiscal year 2017-18 and by 3.7% in fiscal year 2016-17. Room rates (North and South Campus) both increased 2.5%, this is the same percentage increase in fiscal year 2016-17. The food service rates increased 5.3% for both the 12-meal plan and the 14-meal plan in fiscal year 2017-18; this is the same percentage increase for both the 12-meal and 14-meal plan for fiscal year 2016-17.

- Tuition and fee revenue (net of discounts) was $158.5 million for fiscal year 2017-18 and $151.6 million for fiscal year 2016-17. In addition, revenue from auxiliary enterprises (net of discounts) was $40.9 million in fiscal year 2017-18 and $38.9 million in fiscal year 2016-17. Auxiliary enterprise revenues are generated primarily from room and food service charges.

- The University purchased $29.6 million in capital assets in fiscal year 2017-18, as compared to $34.4 million in fiscal year 2016-17. Major projects in progress or completed during the fiscal year included the completion of the Sykes Student Union and Wayne Hall Renovation as well as the start of the Anderson Hall renovations and the start of the boiler plant demolition related to The SECC (The Sciences & Engineering Center and The Commons) project.

- 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. In September 2017, the University participated in the issuance of the PHEFA issued Series AU-1 tax-exempt bonds receiving net proceeds in the amount of $8,655,000 to finance the parking structure that is part of the SECC project. This bond issue represents 75% of the bonds that were approved for the new parking structure.

- 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 $5.0 million and $5.5 million at June 30, 2018 and 2017, respectively.

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 $8.1 million and $8.4 million at June 30, 2018 and 2017, respectively. The University acquired the Sharpless, Matlack and New Street parking structures from the Borough of West Chester in the first quarter of FY2019.

- 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 were issued by USH through the Chester County Industrial Development Authority (CCIDA) in August 2003. These bonds are nonrecourse 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 replaced 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 serves as 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 CCIDA, for the construction of student housing facilities (Commonwealth Hall). As of June 30, 2018 and 2017, the outstanding balance was $27.0 million and $27.6 million, respectively.

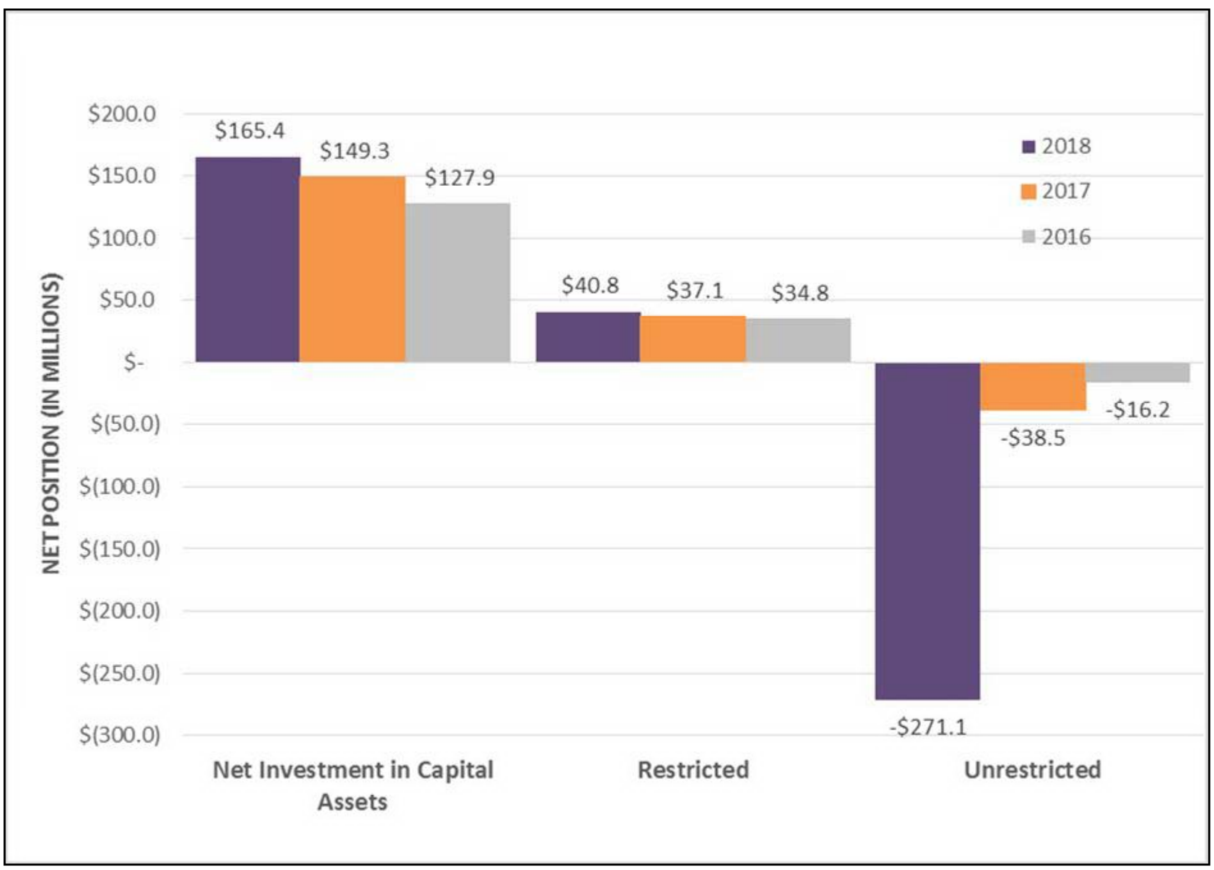
- On July 15, 2016, the University entered into a letter of understanding agreement (LOU) with Cheyney University to provide administrative services at cost in the areas of: financial services, procurement, facilities planning, construction management, facilities operations, and human resources. As of June 30, 2018, Cheyney University owed West Chester University $1.3 million.

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 System 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 decreased by $20.7 million and increased by $1.3 million in fiscal years 2017-18 and 2016-17, respectively. The decrease in fiscal year 2017-18 was due to the implementation of GASB 75, which resulted in the recording of additional Other Post Retirement Benefits (OPEB) as well as restating the prior year's net position.

Net Position (in millions)



The Financial Statements (Continued)

Balance Sheet (Continued)

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

	2018	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Capital Assets, Net	$ 216.6	$ 205.5	$ 188.5
Other Assets and Deferred Outflows of Resources	297.2	288.9	288.0
Total Assets and Deferred Outflows of Resources	$ 513.8	$ 494.4	$ 476.5
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Workers' Compensation, Compensated Absences, and Postretirement Obligations	$ 345.2	$ 144.2	$ 139.8
Net Pension Liability	95.4	98.2	86.9
Bonds Payable	46.6	41.8	46.0
Other Liabilities and Deferred Inflows of Resources	91.5	62.4	57.3
Total Liabilities and Deferred Inflows of Resources	578.7	346.6	330.0
NET POSITION			
Net Investment in Capital Assets	165.4	149.3	127.9
Restricted	40.8	37.0	34.8
Unrestricted	(271.1)	(38.5)	(16.2)
Total Net Position	(64.9)	147.8	146.5
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 513.8	$ 494.4	$ 476.5

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.

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. Due to the implementation of GASB 75, the liability for other postretirement benefits (OPEB) increased by $199.9 million to $327.7 million at June 30, 2018. Like the pension liability, the University funds OPEB liabilities on a "pay-as-you-go" basis.

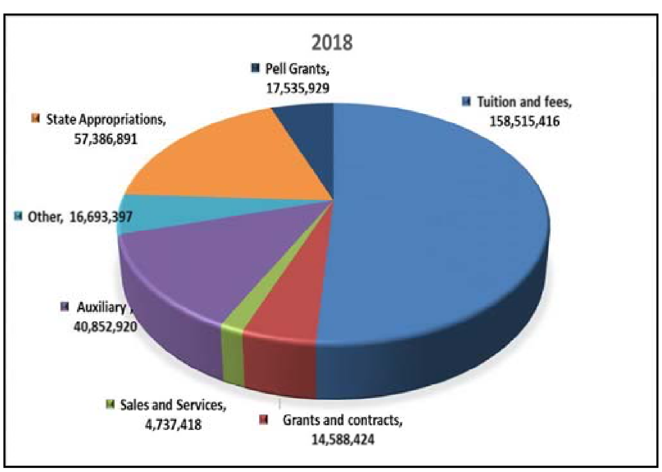
  2. The liability for compensated absences increased by $1.2 million to $16.4 million at June 30, 2018. Cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it becomes due.

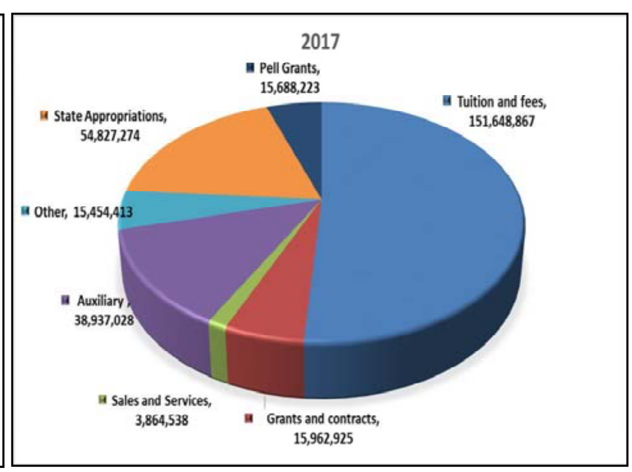
  3. The combined pension liability for fiscal year 2017-18 was $95.4 million comprised of $85.5 million for the State Employee Retirement System (SERS) and $12.9 million for the Public School Employees' Retirement System (PSERS). This is a decrease of $2.8 million from fiscal year 2016-17.

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 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 Nonoperating Revenues

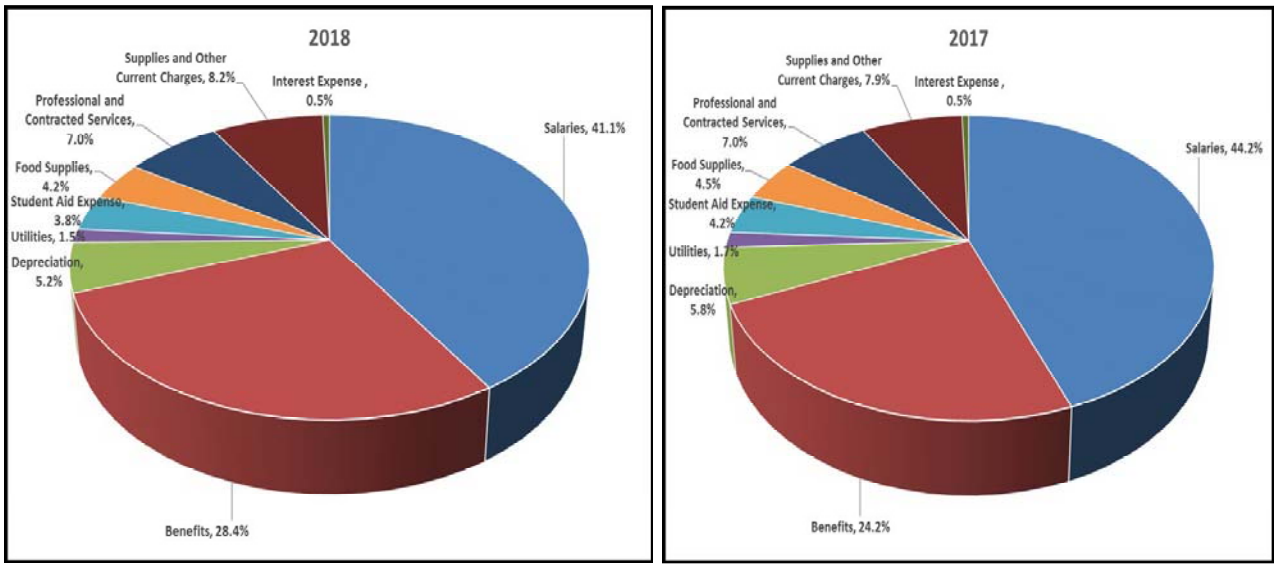




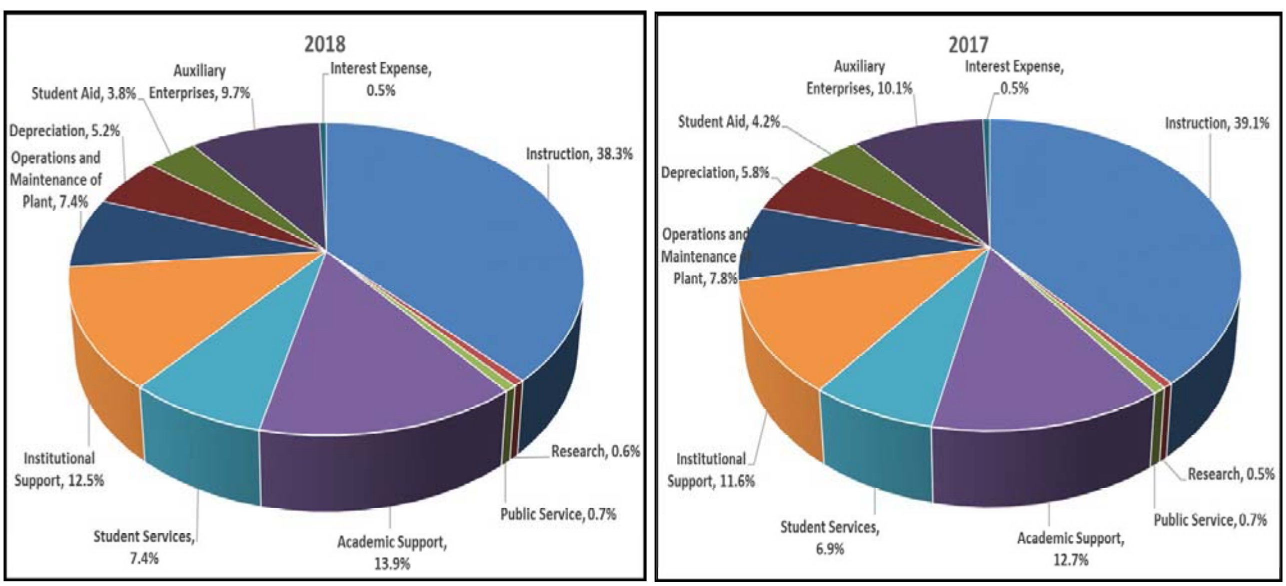
The Financial Statements (Continued)

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

Total Operating Expenditures by Source



Total Operating Expenditures by Function



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):

	2018	2017	2016
Operating Revenues:			
Tuition and Fees, Net	$ 158.5	$ 151.6	$ 147.3
Grants and Contracts	14.2	15.0	14.0
Auxiliary Enterprises, Net	40.8	39.0	37.7
Other	9.5	9.3	5.8
Total Operating Revenues	223.0	214.9	204.8
Other Revenues:			
State Appropriations	57.4	54.8	52.4
Investment Income, Net (Includes Unrealized Gains and Losses)	6.6	6.3	2.7
Gifts, Grants, and Other	23.3	20.4	21.3
Total Other Revenues	87.3	81.5	76.4
Total Revenues	310.3	296.4	281.2
Operating Expenses:			
Personnel Compensation:			
Salaries	131.9	130.5	117.5
Benefits	61.4	53.4	52.3
Post Retirement Expense	32.7	14.3	14.3
Student Wages	4.1	3.8	3.8
Total Personnel Compensation	230.1	202.0	187.9
Telecommunications Charges	0.4	0.4	0.5
Travel and Transportation	2.6	2.5	2.5
Computing and Data Processing	3.9	2.6	2.8
Professional and Contracted Services	10.2	7.9	8.2
Utilities	4.9	4.8	5.3
Food Supplies	14.0	13.3	13.0
Depreciation	17.3	17.2	16.8
Student Aid Expense	12.5	12.3	11.8
Supplies and Other Current Charges	33.5	30.6	26.4
Total Operating Expenses	329.4	293.6	275.2
Other Expenses:			
Interest Expense	1.6	1.5	1.0
Total Expenses	331.0	295.1	276.2
Increase (Decrease) in Net Position	(20.7)	1.3	5.0
Net Position - Beginning of Year	147.8	146.5	141.5
Restatement for July 1, 2017, GASB 75 OPEB Liability	(194.9)	-	-
Restatement for July 1, 2017, GASB 81 Beneficial Interests	2.9	-	-
Net Position - Beginning of Year, as Restated	(44.2)	146.5	141.5
Net Position - End of Year	$ (64.9)	$ 147.8	$ 146.5

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

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 $24.7 million, an increase of $2.6 million or 12.0% from fiscal year 2016-17. 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 2017-18 was $6.6 million, an increase of $0.3 million from the prior year.

- The University spent $131.9 million, or 40.0% of its operating expenses, on salaries in fiscal year 2017-18 as compared to $130.5 million, or 44.2% of its operating expenses, in fiscal year 2016-17. Benefit costs increased in fiscal 2017-18 to $61.4 million from $53.4 million the prior year. Postretirement costs were increased from $18.3 million to $32.7 million as a result of recording additional Other Post Retirement Benefits (OPEB) as a result of GASB 75. In total, the University spent $230.1 million on salaries, postretirement expense, wages, and benefits, or 69.9% of operating expenditures, in fiscal 2017-18, and $202.0 million, or 68.8% of operating expenditures, in fiscal 2016-17.

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 2018-19, the Commonwealth will provide an appropriation for operations of $468.1 million to PASSHE. This is an increase of $15.0 million or 3.3% from last year's allocation to PASSHE of $453.1 million. The University's share of the appropriation remained flat in fiscal year 2018-19 at $49.8 million, an increase of less than $0.1 million or 0.2%. The University's share of performance funding increased for fiscal year 2018-19 to $7.1 million from $5.5 million for fiscal year 2017-18. This represents an increase of 28.5%.

The Financial Statements (Continued)

Future Economic Factors (Continued)

- The State System's Board approved tuition increases of 2.99% for both in-state and out-of-state undergraduate students as well as both in-state and out-of-state graduate students. In addition, the Board increased the technology fee by 3.0% for both in-state and out-of-state undergraduate students. Mandatory student fees set by the University will increase 2.9% for undergraduate students and by 2.6% for graduate students. Room rates (North Campus and South Campus) will increase 2.0%. Food service plans will increase 1.2% for both the 12 and 14-meal plans. Even with the small tuition increase, West Chester University as part of the State System of Universities will remain the lowest cost option among all four-year colleges and universities in the state and less than half the amount charged by most others.

- 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 2018-19 and beyond:

  1. <u>Plans for Necessary Facilities Upgrades</u> – 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 opened in January of 2017; the renovation of Wayne Hall, which was completed in July 2017, from a discontinued residence hall to an academic building; the renovation of Anderson Hall, which is scheduled for completion in January 2019; and the Sciences and Engineering Center and The Commons (SECC), 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. New and re-purposed facilities will also require additional funding for operation and maintenance, which the University has been incorporating into its budgets.

  2. <u>Increased Costs for Salaries and Benefits Mandated by Collective Bargaining Agreements</u> – In January 2018 PASSHE signed a new contract with the faculty union, APSCUF, that runs from July 1, 2018 through June 30, 2019. All collective bargaining agreements will expire on June 30, 2019 except for the agreement with the Security Police and Fire Professionals of America (SPFPA), which expires August 31, 2020. The expected salary increases as a result of negotiations will further constrain the University's financial flexibility.

The Financial Statements (Continued)

Future Economic Factors (Continued)

3. 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 34.63% of employees' eligible salaries in fiscal year 2018-19, and is expected to remain at a similar rate for the near future.

4. Increased Healthcare Costs – As has occurred at the national level, healthcare 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 healthcare. The State System also implemented a Healthcare 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. These cost savings measures are expected to help decrease costs for the 2018-2019 year.

5. 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 upon 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. Energy costs for 2018-2019, as result of contracted energy savings, are expected to decrease.

6. State System Redesign – The State System is undertaking a System redesign, which began last year with a complete review of all universities as well as the Office of the Chancellor. This review established three key priorities:

   1. Ensuring student success;

   2. Leveraging other University strengths;

   3. Transforming the governance/leadership structure.

The Financial Statements (Continued)

Future Economic Factors (Continued)

7. State System Leadership Change – As a result of a national search launched in fall 2017, Daniel Greenstein was selected as the next Chancellor of the State System, effective September 4, 2018. Dr. Greenstein will lead the system redesign effort with a commitment to the mission of providing accessible, affordable, quality higher education to students of all backgrounds while serving the needs of the Commonwealth.

8. Other State System Universities – Several of the State System's universities are already are struggling financially, and some of the factors mentioned above (e.g., increased salaries and pension costs as well as 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, as part of the State System Redesign, 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. Effective January 2017, West Chester University completed its transition of providing administrative services to Cheyney University at cost in the areas of: financial services, procurement, facilities planning, construction management, facilities operations, and human resources.

9. Cheyney University Loan Forgiveness – On August 22, 2017, the PASSHE Board of Governors passed a motion to forgive $34.4 million in loans made to Cheyney University over a four-year period if it demonstrates fiscal stability. As a result of the loan forgiveness, the other 13 universities within the PASSHE system will experience reductions in their state appropriations. One-third will be forgiven when Cheyney cuts $7.5 million from its 2017-2018 budget and maintains a balanced budget for 2018-2019 fiscal year. The remaining two-thirds will be forgiven when Cheyney demonstrates a balanced budget in each of the following two fiscal years. West Chester University's share of the loan amounts to Cheyney University is approximately 12.79% or $3.9 million.

The Financial Statements (Continued)

Future Economic Factors (Continued)

- 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 is currently exploring various options, including changes to its budget models. The University's President's Budget Review Committee was formed in fall 2015 by the President to engage the campus community and to promote transparency in the University budgeting process. The Committee's primary role is to review the University's preliminary annual budget; and if appropriate, recommend changes aligned with and including funding for Strategic Plan initiatives. Changes must be accompanied by a rationale and be within the limits of the estimated revenues for the fiscal year.

- The enrollment demand at the University has remained strong, with about 13,589 freshmen applications for 2,777 openings for the fall of 2018.

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.) Todd E. Murphy
Vice President for Finance & Administration (Interim)
201 Carter Drive, Suite 200
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.) Christopher Mominey
Chief 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.) Jenna Birch
Interim 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, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 162,510,590	$ 211,127,995
Cash Whose Use is Restricted	64,184,902	14,195,422
Accounts Receivable:		
Governmental Grants and Contracts	492,595	692,508
Students, Net	2,137,635	1,563,854
Other	4,160,702	4,751,511
Inventory	135,848	125,449
Prepaid Expenses	1,358,503	1,457,860
Investment Income Receivable	622,299	433,267
Loans Receivable, Net	1,116,352	1,134,021
Total Current Assets	236,719,426	235,481,887
NONCURRENT ASSETS		
Endowment Investments	25,134,255	23,499,287
Beneficial Interests	4,485,634	-
Loans Receivable, Net	6,532,440	6,965,002
Capital Assets, Net	216,577,613	204,992,294
Other Assets	65,404	321,040
Total Noncurrent Assets	252,795,346	235,777,623
Total Assets	489,514,772	471,259,510
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	276,417	352,894
Other Postretirement Benefits Related	8,636,865	-
Pension Related	15,421,762	22,800,460
Total Deferred Outflow of Resources	24,335,044	23,153,354
Total Assets and Deferred Outflows of Resources	$ 513,849,816	$ 494,412,864

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, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2018	2017
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 28,426,002	$ 28,629,637
Unearned Revenue	6,309,370	5,968,619
Students' Deposits	251,472	981,761
Workers' Compensation	597,190	550,529
Compensated Absences	1,164,268	830,080
Bonds Payable, Net	4,449,302	4,198,949
Capital Lease Obligation	891,867	868,977
OPEB Liability	8,605,279	-
Other Current Liabilities	971,464	6,254
Total Current Liabilities	51,666,214	42,034,806
NONCURRENT LIABILITIES		
Workers' Compensation	506,037	612,144
Compensated Absences	15,224,756	14,394,677
Postretirement Benefit Obligations	319,085,563	127,832,630
Bonds Payable, Net	42,128,873	37,641,402
Capital Lease Obligation	12,385,424	13,240,932
Unearned Revenue	161,926	161,926
Net Pension Liability	95,409,123	98,225,465
Other Noncurrent Liabilities	7,373,265	8,000,483
Total Noncurrent Liabilities	492,274,967	300,109,659
Total Liabilities	543,941,181	342,144,465
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	67,542	80,680
Split-Interest Agreement Deferred Inflows	10,300	-
Other Postretirement Benefits Related	27,829,797	-
Pension Related	6,882,564	4,334,490
Total Deferred Inflows of Resources	34,790,203	4,415,170
Total Liabilities and Deferred Inflows of Resources	578,731,384	346,559,635
NET POSITION		
Net Investment in Capital Assets	165,436,022	149,314,248
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	29,650,686	23,494,030
Other	2,057,286	2,057,286
Expendable:		
Scholarships and Fellowships	4,028,334	3,805,794
Capital Projects	2,247,633	4,853,494
Other	2,773,599	2,812,018
Unrestricted	(271,075,128)	(38,483,641)
Total Net Position	(64,881,568)	147,853,229
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 513,849,816	$ 494,412,864

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Tuition and Fees	$ 183,173,356	$ 173,663,481
Less: Scholarship Discounts and Allowances	(24,657,940)	(22,014,614)
Net Tuition and Fees	158,515,416	151,648,867
Governmental Grants and Contracts:		
Federal	1,653,652	1,781,729
State	12,004,831	12,785,423
Local	43,723	4,888
Nongovernmental Grants and Contracts	492,717	413,383
Sales and Services of Educational Departments	4,737,418	3,864,538
Auxiliary Enterprises	40,852,920	38,937,028
Other Revenues	4,693,322	5,444,977
Total Operating Revenues	222,993,999	214,880,833
OPERATING EXPENSES		
Instruction	126,722,959	115,465,947
Research	2,091,315	1,608,398
Public Service	2,219,365	2,118,068
Academic Support	46,087,870	37,548,196
Student Services	24,473,517	20,318,285
Institutional Support	41,321,770	34,118,948
Operations and Maintenance of Plant	24,335,713	22,890,564
Depreciation	17,339,630	17,191,173
Student Aid	12,525,856	12,311,738
Auxiliary Enterprises	32,245,321	29,933,838
Total Operating Expenses	329,363,316	293,505,155
NET OPERATING LOSS	(106,369,317)	(78,624,322)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	55,282,617	53,047,483
Commonwealth On-Behalf Contributions to PSERS	1,441,067	1,359,639
Pell Grants	17,535,929	15,688,223
Investment Income, Net of Investment Expense of $29,032 in 2018 and $27,818 in 2017	4,439,887	3,472,712
Unrealized Gain on Investments	2,209,750	2,860,112
Gifts for Other than Capital Purposes	4,491,278	2,810,132
Interest Expense	(1,649,784)	(1,549,504)
Loss on Disposal of Assets	(706,253)	(748,127)
Other Nonoperating Revenue	124,344	254,970
Nonoperating Revenues, Net	83,168,835	77,195,640
LOSS BEFORE OTHER REVENUES	(23,200,482)	(1,428,682)
OTHER REVENUES		
State Appropriations, Capital	2,104,274	1,779,792
Capital Gifts and Grants	393,501	977,502
Total Other Revenues	2,497,775	2,757,294
INCREASE (DECREASE) IN NET POSITION	(20,702,707)	1,328,612
Net Position - Beginning of Year	147,853,229	146,524,617
Restatement for July 1, 2017, GASB 75	(194,974,499)	-
Restatement for GASB 81 Beneficial Interests	2,942,409	-
Net Position - Beginning of Year, restated	(44,178,861)	146,524,617
NET POSITION - END OF YEAR	$ (64,881,568)	$ 147,853,229

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 158,251,736	$ 151,074,536
Grants and Contracts	14,381,194	16,166,822
Payments to Suppliers for Goods and Services	(71,702,710)	(64,333,031)
Payments to Employees	(195,742,902)	(187,705,985)
Loans Issued to Students	(1,075,574)	(914,195)
Loans Collected from Students	1,525,805	1,320,540
Student Aid	(12,526,830)	(12,311,738)
Auxiliary Enterprise Charges	40,810,409	38,070,127
Sales and Services of Educational Departments	4,659,493	3,902,726
Other Operating Receipts	4,798,570	8,617,982
Net Cash Used by Operating Activities	(56,620,809)	(46,112,216)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	55,282,617	53,047,483
Gifts and Nonoperating Grants for Other than Capital Purposes	22,027,207	18,498,355
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	133,387,059	129,289,164
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(133,387,059)	(129,289,164)
Agency Transactions, Net	(664,128)	(338,870)
Other	124,345	254,970
Net Cash Provided by Noncapital Financing Activities	76,770,041	71,461,938
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Appropriations	2,104,274	1,779,792
Capital Grants and Gifts Received	263,464	734,396
Proceeds from Capital Debt and Leases	9,111,261	-
Proceeds from Sales of Capital Assets	13,757	-
Purchases of Capital Assets	(26,723,572)	(31,306,827)
Principal Paid on Debt	(4,817,300)	(4,609,214)
Interest Paid on Debt	(2,021,752)	(1,984,392)
Net Cash Used by Capital Financing Activities	(22,069,868)	(35,386,245)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	707,724	683,370
Interest on Investments	4,250,855	3,369,515
Purchases of Investments	(1,665,868)	(334,783)
Net Cash Provided by Investing Activities	3,292,711	3,718,102
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,372,075	(6,318,421)
Cash and Cash Equivalents - Beginning of Year	225,323,417	231,641,838
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 226,695,492	$ 225,323,417

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, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (106,369,317)	$ (78,624,322)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	17,339,630	17,191,173
Expenses Paid by Commonwealth or Donor	(1,302,728)	(1,377,178)
Changes in Assets and Liabilities:		
Receivables, Net	(476,586)	916,019
Inventories	(10,399)	(17,345)
Other Assets	1,048,520	(696,923)
Accounts Payable	(402,473)	4,593,799
Unearned Revenue	340,751	(206,131)
Students' Deposits	(66,161)	35,622
Compensated Absences	1,164,267	830,080
Loans to Students, Net	450,231	406,345
Postretirement Benefits Liability (OPEB)	4,883,712	3,478,260
Defined Benefit Pensions	(2,816,342)	11,282,300
Other Liabilities	476,382	202,673
Deferred Outflows of Resources Related to Pensions	7,378,698	(5,841,469)
Deferred Outflows of Resources Related to OPEB	(8,636,865)	-
Deferred Inflows of Resources Related to Pensions	2,548,074	1,714,881
Deferred Inflows of Resources Related to OPEB	27,829,797	-
Net Cash Used by Operating Activities	$ (56,620,809)	$ (46,112,216)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Capital Assets Received Via Gift	$ 130,037	$ 243,106
Equipment Acquired Via Capital Lease	$ 47,555	$ 129,860
Capital Assets Included in Payables	$ 2,743,795	$ 2,736,817
Commonwealth On-Behalf Contributions to PSERS	$ 1,441,067	$ 1,359,639

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
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 10,810,640	$ 13,954,390
Accounts Receivable	15,097,694	1,631,910
Pledges Receivable, Net	3,023,298	2,620,561
Inventory	1,018,000	803,010
Due from the University	565,858	368,023
Prepaid Expenses	173,989	125,169
Total Current Assets	30,689,479	19,503,063
NONCURRENT ASSETS		
Restricted Cash	35,103,914	28,212,157
Capital Assets, Net	153,434,836	158,225,700
Investments	25,813,972	25,308,263
Other Assets	2,498,814	1,268,059
Total Noncurrent Assets	216,851,536	213,014,179
Total Assets	$ 247,541,015	$ 232,517,242
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 5,110,556	$ 5,084,032
Current Portion of Bonds Payable	4,822,648	4,500,293
Other Deposit Liabilities	235,464	220,075
Due to the University	1,497,647	1,706,283
Total Current Liabilities	11,666,315	11,510,683
BONDS PAYABLE	195,703,033	200,514,023
OTHER LIABILITIES	36,734,097	29,789,489
Total Liabilities	244,103,445	241,814,195
NET ASSETS (DEFICIT)		
Unrestricted	(22,765,705)	(31,593,152)
Temporarily Restricted	13,225,445	9,920,946
Permanently Restricted	12,977,830	12,375,253
Total Net Assets (Deficit)	3,437,570	(9,296,953)
Total Liabilities and Net Assets (Deficit)	$ 247,541,015	$ 232,517,242

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, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS, REVENUES AND OTHER ADDITIONS		
Contributions	$ 811,425	$ 770,142
Investment Income	626,877	541,173
University Store	1,887,027	1,862,618
Student Activity Fees	4,555,792	4,275,920
Rental Income	29,384,016	29,591,430
Other Revenues	5,289,521	4,365,478
Change in Interest Rate Swap Agreement	6,047,758	10,410,851
Net Assets Released from Restriction	3,054,016	3,212,020
Total Revenues and Other Additions	51,656,432	55,029,632
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	35,548,487	37,048,394
University Store	1,195,052	1,373,134
Management and General	3,764,826	3,377,081
Distributions to the University	2,320,620	2,732,274
Total Expenses and Other Deductions	42,828,985	44,530,883
Increase in Unrestricted Net Assets	8,827,447	10,498,749
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	5,171,661	3,668,858
Investment Gains	1,033,332	1,771,406
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(3,054,016)	(3,212,020)
Other Revenues	123,923	11,226
Change in Split-Interest Agreements	29,599	31,769
Increase in Temporarily Restricted Net Assets	3,304,499	2,271,239
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,032,231	1,034,880
Distributions and Expenses	(1,429,654)	-
Increase in Permanently Restricted Net Assets	602,577	1,034,880
CHANGE IN NET ASSETS (DEFICIT)	12,734,523	13,804,868
Net Assets (Deficit) - Beginning of Year	(9,296,953)	(23,101,821)
NET ASSETS (DEFICIT) - END OF YEAR	$ 3,437,570	$ (9,296,953)

See accompanying Notes to Financial Statements.

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 Governmental 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 University functions as a business-type activity, as defined by GASB.

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.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

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.

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.

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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).

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

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.

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 $870,000 in 2018 and $689,000 in 2017. Loans receivable are reported net of an allowance for doubtful accounts of approximately $13,000 in both 2018 and 2017.

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.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2018 or 2017.

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.

Compensated Absences

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

Pension Plans and OPEB Plans

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. The University also offers healthcare and tuition benefits to eligible employees upon employment, which vary depending upon the employee's labor group.

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of 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.

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

New Accounting Standards

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 has also significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the State System administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan. The July 1, 2017 balances of these other postemployment benefit liabilities (with "other" meaning "other than pensions"), known as OPEB liabilities, and related deferred outflows of resources, are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2017 Net Position—beginning of year*. The plans did not provide sufficient information to restate the June 30, 2017, financial statements.

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

	2018 (in thousands)
Net Position - Beginning of Year, as Previously Stated	$ 147,853
Restatement for July 1, 2017, OPEB Liabilities and Related Expenses	(194,974)
Restatement for July 1, 2017, Beneficial Interests	2,942
Net Position - Beginning of Year, as Restated	$ (44,179)

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

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

New Accounting Standards (Continued)

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combined condensed statement of financial position information for the discretely presented component units as of June 30, 2018:

	2018			
	SSI	The Foundation	The Association	Total
Due from University	$ 219,892	$ 345,966	$ -	$ 565,858
Capital Assets, Net	351,334	152,616,807	466,695	153,434,836
Other Assets	11,112,979	80,522,087	1,905,255	93,540,321
Total Assets	$ 11,684,205	$ 233,484,860	$ 2,371,950	$ 247,541,015
Due to University	$ -	$ 1,497,647	$ -	$ 1,497,647
Long-Term Debt	-	200,525,681	-	200,525,681
Other Liabilities	1,604,903	40,340,214	135,000	42,080,117
Total Liabilities	1,604,903	242,363,542	135,000	244,103,445
Net Assets (Deficit):				
Unrestricted	10,079,302	(35,060,661)	2,215,654	(22,765,705)
Temporarily Restricted	-	13,204,149	21,296	13,225,445
Permanently Restricted	-	12,977,830	-	12,977,830
Total Net Assets (Deficit)	10,079,302	(8,878,682)	2,236,950	3,437,570
Total Liabilities and Net Assets (Deficit)	$ 11,684,205	$ 233,484,860	$ 2,371,950	$ 247,541,015

The following represents combined condensed statement of financial position information for the discretely presented component units as of June 30, 2017:

	2017			
	SSI	The Foundation	The Association	Total
Due from University	$ 191,952	$ 176,071	$ -	$ 368,023
Capital Assets, Net	394,418	157,353,679	477,603	158,225,700
Other Assets	10,241,327	61,926,139	1,756,053	73,923,519
Total Assets	$ 10,827,697	$ 219,455,889	$ 2,233,656	$ 232,517,242
Due to University	$ 80,000	$ 1,626,283	$ -	$ 1,706,283
Long-Term Debt	-	205,014,316	-	205,014,316
Other Liabilities	1,482,944	33,589,341	21,311	35,093,596
Total Liabilities	1,562,944	240,229,940	21,311	241,814,195
Net Assets (Deficit):				
Unrestricted	9,264,753	(43,022,695)	2,164,790	(31,593,152)
Temporarily Restricted	-	9,873,391	47,555	9,920,946
Permanently Restricted	-	12,375,253	-	12,375,253
Total Net Assets (Deficit)	9,264,753	(20,774,051)	2,212,345	(9,296,953)
Total Liabilities and Net Assets (Deficit)	$ 10,827,697	$ 219,455,889	$ 2,233,656	$ 232,517,242

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, 2018:

	2018			
	SSI	The Foundation	The Association	Total
Changes in Unrestricted Net Assets:				
Revenues and Other Additions:				
Contributions	$ -	$ 327,962	$ 483,463	$ 811,425
Investment Income	102,739	400,646	123,492	626,877
University Store	1,887,027	-	-	1,887,027
Student Activity Fees	4,555,792	-	-	4,555,792
Rental Income	-	29,384,016	-	29,384,016
Other Revenues	1,659,010	3,417,196	213,315	5,289,521
Change in Interest Rate Swap Agreement	-	6,047,758	-	6,047,758
Net Assets Released from Restrictions	-	3,027,391	26,625	3,054,016
Total Revenues and Other Additions	8,204,568	42,604,969	846,895	51,656,432
Expenses and Other Deductions:				
Program Expenses	4,725,012	30,251,175	572,300	35,548,487
University Store	1,195,052	-	-	1,195,052
Management and General	1,174,955	2,366,140	223,731	3,764,826
Distributions to University	295,000	2,025,620	-	2,320,620
Total Expenses and Other Deductions	7,390,019	34,642,935	796,031	42,828,985
Increase in Unrestricted Net Assets	814,549	7,962,034	50,864	8,827,447
Changes in Temporarily Restricted Net Assets:				
Contributions	-	5,171,295	366	5,171,661
Investment Gains	-	1,033,332	-	1,033,332
Other Revenue	-	123,923	-	123,923
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(3,027,391)	(26,625)	(3,054,016)
Change in Split-Interest Agreements	-	29,599	-	29,599
Increase (Decrease) in Temporarily Restricted Net Assets	-	3,330,758	(26,259)	3,304,499
Changes in Permanently Restricted Net Assets:				
Contributions	-	2,032,231	-	2,032,231
Distributions and Expenses	-	(1,429,654)	-	(1,429,654)
Increase in Permanently Restricted Net Assets	-	602,577	-	602,577
CHANGE IN NET ASSETS (DEFICIT)	814,549	11,895,369	24,605	12,734,523
Net Assets (Deficit) - Beginning of Year	9,264,753	(20,774,051)	2,212,345	(9,296,953)
NET ASSETS (DEFICIT) - END OF YEAR	$ 10,079,302	$ (8,878,682)	$ 2,236,950	$ 3,437,570

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, 2017:

	2017			
	SSI	The Foundation	The Association	Total
Changes in Unrestricted Net Assets:				
Revenues and Other Additions:				
Contributions	$ -	$ 375,328	$ 394,814	$ 770,142
Investment Income	57,059	319,961	164,153	541,173
University Store	1,862,618	-	-	1,862,618
Student Activity Fees	4,275,920	-	-	4,275,920
Rental Income	-	29,591,430	-	29,591,430
Other Revenues	1,670,522	2,536,963	157,993	4,365,478
Change in Interest Rate Swap Agreement	-	10,410,851	-	10,410,851
Net Assets Released from Restrictions	-	3,205,520	6,500	3,212,020
Total Revenues and Other Additions	7,866,119	46,440,053	723,460	55,029,632
Expenses and Other Deductions:				
Program Expenses	4,889,451	31,829,139	329,804	37,048,394
University Store	1,373,134	-	-	1,373,134
Management and General	1,174,955	2,202,126	-	3,377,081
Distributions to University	300,000	2,245,429	186,845	2,732,274
Total Expenses and Other Deductions	7,737,540	36,276,694	516,649	44,530,883
Increase in Unrestricted Net Assets	128,579	10,163,359	206,811	10,498,749
Changes in Temporarily Restricted Net Assets:				
Contributions	-	3,668,858	-	3,668,858
Investment Gains	-	1,771,406	-	1,771,406
Other Revenue	-	11,226	-	11,226
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(3,205,520)	(6,500)	(3,212,020)
Change in Split-Interest Agreements	-	31,769	-	31,769
Increase (Decrease) in Temporarily Restricted Net Assets	-	2,277,739	(6,500)	2,271,239
Changes in Permanently Restricted Net Assets:				
Contributions	-	1,034,880	-	1,034,880
CHANGE IN NET ASSETS (DEFICIT)	128,579	13,475,978	200,311	13,804,868
Net Assets (Deficit) - Beginning of Year	9,136,174	(34,250,029)	2,012,034	(23,101,821)
NET ASSETS (DEFICIT) - END OF YEAR	$ 9,264,753	$ (20,774,051)	$ 2,212,345	$ (9,296,953)

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 $224,386,269 at June 30, 2018 and $224,547,371 at June 30, 2017.

Board Policy 1986-02-A, Investment, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the board or University trustees may be invested in the investments described above, as well as 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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.

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 only on a weekly basis or the last business day of the month. All withdrawals require five days' notice.

At June 30, 2018 and 2017, the carrying amount of the University's demand and time deposits was $2,309,223 and $776,046, respectively, as compared to bank balances of $2,306,223 and $773,311, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2018 and 2017, $311,197 and $313,206, 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2018 is presented below:

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (Range) (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits				$ 226,695,492
Investments:				
U.S. Government and Agency Obligations	2		0.51	77,885
Bond Mutual Funds	NAV			6,666,220
Debt Securities	2	Aaa	0.90	99,127
	2	Aaa	2.44	175,954
	2	Aaa	10.09	66,683
	2	Aaa	1.90	32,677
	2	Aa1	7.70	19,151
Equity/Balanced Mutual Funds	NAV			16,383,643
	2			313,379
Common Stock	1			1,299,536
Total Investments				25,134,255
Total Deposits and Investments				$ 251,829,747

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying value (fair value) of investments for the University's investments including split interest agreements at June 30, 2017 is presented below:

	Fair Value Hierarchy Level	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
Deposits:				
Demand and Time Deposits				$ 225,323,417
Investments:				
U.S. Government and Agency Obligations	2		0.51	100,200
Bond Mutual Funds	NAV			5,960,713
	2		0.51	8,644
Debt Securities	2	Aa2	1.70	29,812
	2	Aa1	4.20	25,320
	2	AA	0.15	25,001
Equity/Balanced Mutual Funds	NAV			15,599,328
	2			563,982
Common Stock	1			1,186,287
Total Investments				23,499,287
Total Deposits and Investments				$ 248,822,704

The University has no exposure to foreign currency risk.

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.

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Bond Fund [1]	$ 6,666,220	$ -	Monthly	5 days
Commonfund Multi-Strategy Equity Fund [2]	16,383,643	-	Monthly	5 days
	$ 23,049,863	$ -		

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Bond Fund [1]	$ 5,960,713	$ -	Monthly	5 days
Commonfund Multi-Strategy Equity Fund [2]	15,599,328	-	Monthly	5 days
	$ 21,560,041	$ -		

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 BENEFICIAL INTERESTS

At June 30, 2018, the fair value of beneficial interest totaled $4,485,634. Of this amount, $4,478,716 represents gifts that donors placed in trust in perpetuity with third parties, with the University receiving a restricted revenue stream in accordance with the donors' wishes, and $6,918 represents a split-interest agreement that a donor placed in trust with a third party, and to which the University will take title upon the death of the donor.

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, 2017	Additions	Retirements	Reclassifications	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated:						
Construction in Progress		$ 27,508,675	$ 26,887,145	$ (678,068)	$ (34,042,707)	$ 19,675,045
Land		6,145,178	-	-	-	6,145,178
Total Capital Assets Not Depreciated		33,653,853	26,887,145	(678,068)	(34,042,707)	25,820,223
Capital Assets Being Depreciated, Cost:						
Buildings and Improvements	10-40	269,385,112	11,400	-	33,181,921	302,578,433
Furnishings and Equipment	3-40	101,858,152	2,651,898	(1,169,225)	860,786	104,201,611
Library Books	10	7,801,343	94,516	(68,430)	-	7,827,429
Total Capital Assets Being Depreciated		379,044,607	2,757,814	(1,237,655)	34,042,707	414,607,473
Less: Accumulated Depreciation:						
Buildings and Improvements		(122,367,813)	(11,136,237)	-	-	(133,504,050)
Furnishings and Equipment		(78,620,564)	(5,969,837)	1,127,283	-	(83,463,118)
Library Books		(6,717,789)	(233,556)	68,430	-	(6,882,915)
Total Accumulated Depreciation		(207,706,166)	(17,339,630)	1,195,713	-	(223,850,083)
Total Capital Assets Being Depreciated, Net		171,338,441	(14,581,816)	(41,942)	34,042,707	190,757,390
Capital Assets, Net		$ 204,992,294	$ 12,305,329	$ (720,010)	$ -	$ 216,577,613

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Estimated Lives in Years	Beginning Balance July 1, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Capital Assets Not Being Depreciated:						
Construction in Progress		$ 11,620,293	$ 28,489,237	$ (706,755)	$ (11,894,100)	$ 27,508,675
Land		6,145,178	-	-	-	6,145,178
Total Capital Assets Not Depreciated		17,765,471	28,489,237	(706,755)	(11,894,100)	33,653,853
Capital Assets Being Depreciated, Cost:						
Buildings and Improvements	10-40	259,844,599	39,236	-	9,501,277	269,385,112
Furnishings and Equipment	3-40	94,647,151	5,816,553	(998,375)	2,392,823	101,858,152
Library Books	10	7,893,819	71,584	(164,060)	-	7,801,343
Total Capital Assets Being Depreciated		362,385,569	5,927,373	(1,162,435)	11,894,100	379,044,607
Less: Accumulated Depreciation:						
Buildings and Improvements		(112,754,271)	(9,613,542)	-	-	(122,367,813)
Furnishings and Equipment		(72,255,533)	(7,322,034)	957,003	-	(78,620,564)
Library Books		(6,626,252)	(255,597)	164,060	-	(6,717,789)
Total Accumulated Depreciation		(191,636,056)	(17,191,173)	1,121,063	-	(207,706,166)
Total Capital Assets Being Depreciated, Net		170,749,513	(11,263,800)	(41,372)	11,894,100	171,338,441
Capital Assets, Net		$ 188,514,984	$ 17,225,437	$ (748,127)	$ -	$ 204,992,294

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2018	2017
Employees	$ 16,517,384	$ 15,880,902
Suppliers and Services	5,813,008	5,479,231
Other	5,924,377	7,099,274
Interest	171,233	170,230
Total	$ 28,426,002	$ 28,629,637

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 for the year ended June 30, 2018 are as follows:

	2018				
	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AI used to Current Refund Series V, Y, AB, and AD (Sprinklers)	4.27%	$ 3,766,045	$ -	$ (506,135)	$ 3,259,910
Series AJ used to Build a Recreation Center	4.86%	3,155,000	-	(200,000)	2,955,000
Series AK used to Current Refund Series S (Harvey Green and Philips)	4.00%	467,004	-	(149,292)	317,712
Series AL used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	7,610,756	-	(406,685)	7,204,071
Series AM used to Build a Recreation Center	4.66%	13,869,518	-	(469,277)	13,400,241
Series AN used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls, and Sykes Union)	5.00%	2,655,051	-	(521,067)	2,133,984
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)	4.65%	3,996,213	-	(899,298)	3,096,915
Series AS used to current refund Series AF (ESCO, Rec Center)	3.83%	4,319,123	-	(635,373)	3,683,750
Series AU used to build a parking structure on North Campus Drive (Commons Parking Garage)	3.51%	-	8,655,000	(150,000)	8,505,000
Total Bonds Payable		$ 39,838,710	$ 8,655,000	$ (3,937,127)	44,556,583
Plus Unamortized Bond Premium Costs, Net					2,021,592
Outstanding - End of Year					$ 46,578,175

NOTE 7 BONDS PAYABLE (CONTINUED)

The various bond series allocated to the University for the year ended June 30, 2017 are as follows:

	2017				
	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG used to Current Refund Series O and P (201 Carter Drive and Sykes Union)	4.75%	$ 306,089	$ -	$ (306,089)	$ -
Series AI used to Current Refund Series V, Y, AB, and AD (Sprinklers)	4.24%	4,252,391	-	(486,346)	3,766,045
Series AJ used to Build a Recreation Center	4.87%	3,345,000	-	(190,000)	3,155,000
Series AK used to Current Refund Series S (Harvey Green and Philips)	4.00%	611,079	-	(144,075)	467,004
Series AL used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	7,995,898	-	(385,142)	7,610,756
Series AM used to Build a Recreation Center	4.62%	14,315,134	-	(445,616)	13,869,518
Series AN used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls, and Sykes Union)	5.00%	3,153,484	-	(498,433)	2,655,051
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)	4.68%	4,847,592	-	(851,379)	3,996,213
Series AS used to current refund Series AF (ESCO, Rec Center)	3.83%	4,670,818	-	(351,695)	4,319,123
Total Bonds Payable		$ 43,497,485	$ -	$ (3,658,775)	39,838,710
Plus Unamortized Bond Premium Costs, Net					2,001,641
Outstanding - End of Year					$ 41,840,351

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		2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	Total
AI	Principal	$ 525,925	$ 546,551	$ 569,352	$ 592,279	$ 462,422	$ 563,381	$ -	$ -	$ -	$ 3,259,910
	Interest	139,275	118,238	95,693	71,495	45,583	35,397	-	-	-	505,681
	Total	665,200	664,789	665,045	663,774	508,005	598,778	-	-	-	3,765,591
AJ	Principal	210,000	220,000	230,000	240,000	255,000	1,465,000	335,000	-	-	2,955,000
	Interest	140,963	130,463	119,463	107,963	95,963	286,038	15,913	-	-	896,766
	Total	350,963	350,463	349,463	347,963	350,963	1,751,038	350,913	-	-	3,851,766
AK	Principal	156,000	161,712	-	-	-	-	-	-	-	317,712
	Interest	12,709	6,469	-	-	-	-	-	-	-	19,178
	Total	168,709	168,181	-	-	-	-	-	-	-	336,890
AL	Principal	429,001	446,252	469,073	446,951	468,261	2,728,318	1,816,215	400,000	-	7,204,071
	Interest	360,204	338,754	316,441	292,987	270,640	976,562	303,687	30,250	-	2,889,525
	Total	789,205	785,006	785,514	739,938	738,901	3,704,880	2,119,902	430,250	-	10,093,596
AM	Principal	488,994	512,655	540,259	563,920	595,468	3,426,901	4,239,263	3,032,781	-	13,400,241
	Interest	615,245	590,795	565,163	538,150	509,954	2,099,312	1,274,071	277,011	-	6,469,701
	Total	1,104,239	1,103,450	1,105,422	1,102,070	1,105,422	5,526,213	5,513,334	3,309,792	-	19,869,942
AN	Principal	393,411	409,350	425,706	443,741	461,776	-	-	-	-	2,133,984
	Interest	74,086	54,963	35,038	13,641	2,443	-	-	-	-	180,171
	Total	467,497	464,313	460,744	457,382	464,219	-	-	-	-	2,314,155
AQ	Principal	945,470	991,693	1,043,320	26,987	28,367	61,078	-	-	-	3,096,915
	Interest	154,846	107,573	57,988	5,822	4,472	4,618	-	-	-	335,319
	Total	1,100,316	1,099,266	1,101,308	32,809	32,839	65,696	-	-	-	3,432,234
AS	Principal	715,741	728,306	742,940	758,313	133,624	604,826	-	-	-	3,683,750
	Interest	118,578	104,263	89,697	74,838	36,922	77,454	-	-	-	501,752
	Total	834,319	832,569	832,637	833,151	170,546	682,280	-	-	-	4,185,502
AU	Principal	210,000	220,000	230,000	240,000	255,000	1,475,000	1,810,000	2,120,000	1,945,000	8,505,000
	Interest	315,525	305,025	294,025	282,525	270,525	1,148,875	807,625	506,631	156,769	4,087,525
	Total	525,525	525,025	524,025	522,525	525,525	2,623,875	2,617,625	2,626,631	2,101,769	12,592,525
Total	Principal	4,074,542	4,236,519	4,250,650	3,312,191	2,659,918	10,324,504	8,200,478	5,552,781	1,945,000	44,556,583
	Interest	1,931,431	1,756,543	1,573,508	1,387,421	1,236,502	4,628,256	2,401,296	813,892	156,769	15,885,618
	Total	$ 6,005,973	$ 5,993,062	$ 5,824,158	$ 4,699,612	$ 3,896,420	$ 14,952,760	$ 10,601,774	$ 6,366,673	$ 2,101,769	$ 60,442,201

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 ($13,298,828 and $17,539,964 was outstanding as of June 30, 2018 and 2017, 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. The University had no AFRP liability for the year ended June 30, 2018. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	2018	2017
Balance - July 1	$ -	$ 110,404
Repayments	-	(110,404)
Balance - June 30	$ -	$ -

NOTE 8 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:

	2018	2017
Balance - July 1	$ 14,109,909	$ 14,820,084
Increases	47,555	129,860
Repayments	(880,173)	(840,035)
Balance - June 30	$ 13,277,291	$ 14,109,909

NOTE 8 CAPITAL LEASE OBLIGATION (CONTINUED)

Capital assets include three parking structures under capital leases of $20,747,108 and $20,621,458 at June 30, 2018 and 2017, respectively, which is reported net of accumulated depreciation of $7,122,461 in 2018 and $6,430,342 in 2017. In addition, capital assets includes equipment under capital lease of $306,019 at June 30, 2018 and $273,586 at June 30, 2017 which are reported net of accumulated depreciation of $131,743 at June 30, 2018 and $88,839 at June 30, 2017.

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, 2018:

Year Ending June 30,	Amount
2019	$ 1,212,499
2020	1,191,329
2021	1,178,144
2022	1,152,746
2022	1,138,078
Thereafter	10,317,481
Total Minimum Lease Payments	16,190,277
Less: Amount Representing Interest	(2,912,986)
Net Present Value of Minimum Lease Payments	13,277,291
Less: Current Portion	891,867
Long-Term Capital Lease Obligations	$ 12,385,424

NOTE 9 UNEARNED REVENUE

Unearned revenue consists of the following components at June 30:

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 4,847,441	$ -	$ 4,513,690	$ -
Grants	413,348	-	426,990	-
Sales and Services	247,503	-	222,710	-
Other	801,078	161,926	805,229	161,926
Total	$ 6,309,370	$ 161,926	$ 5,968,619	$ 161,926

NOTE 10 COMPENSATED ABSENCES

Compensated absences are absences, such as vacation and sick leave, for which employees will be paid in cash at termination or retirement. Compensated absences consist of the following components at June 30:

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 1,164,268	$ 15,224,756	$ 830,080	$ 14,394,677

The changes in compensated absences are as follows:

	2018	2017
Balance - July 1	$ 15,224,757	$ 14,394,677
Current Changes in Estimate	2,664,184	2,049,690
Payouts	(1,499,917)	(1,219,610)
Balance - June 30	$ 16,389,024	$ 15,224,757

NOTE 11 OTHER POSTRETIREMENT BENEFITS (OPEB)

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

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

Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2018, and 2017.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

	System Plan		REHP		Premium Assistance		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	$223,456,885	$127,832,630	$103,701,327	*	$ 532,630	*	$327,690,842	$127,832,630
Deferred outflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	-	*	575	*	575	*
Contributions after the measurement date	5,931,814	624,196	2,673,466	*	31,010	*	8,636,290	*
Total deferred outflows of resources	5,931,814	624,196	2,673,466	-	31,585	-	8,636,865	-
Deferred inflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	86,611	*	-	*	86,611	*
Changes in assumptions	18,263,836	*	9,448,605	*	24,827	*	27,737,268	*
Changes in proportion	N/A	N/A	-	*	5,918	*	5,918	*
Total deferred inflows of resources	18,263,836	-	9,535,216	-	30,745	-	27,829,797	-
OPEB expense	8,985,242	9,365,474	4,814,101	3,839,704	43,850	29,127	13,843,193	13,234,305
Contributions recognized by OPEB plans	N/A	N/A	2,673,466	3,839,704	31,010	29,127	2,704,476	3,868,831

**Information is not reported because GASB 75 actuarial valuations were not performed for prior years and fiscal year 2016/2017 was not restated*

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $5,931,814 for the System Plan, $2,673,466 for the REHP plan, and $31,010 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Fiscal Year Ended	System Plan	REHP	Premium Assistance
June 30, 2019	$ 3,652,767	$ 2,027,936	$ 5,341
June 30, 2020	3,652,767	2,027,936	4,908
June 30, 2021	3,652,767	2,027,936	4,908
June 30, 2022	3,652,767	2,027,936	4,908
June 30, 2023	3,652,768	1,424,314	5,052
Thereafter	-	(842)	5,053
	$ 18,263,836	$ 9,535,216	$ 30,170

System Plan

Plan Description

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

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

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 185,018,771	$ 223,456,885	$ 273,625,139

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

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

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	$ 263,369,793	$ 223,456,885	$ 191,949,778

OPEB Liability

The University's share of the System Plan's total OPEB liability of $223,456,886 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

Changes in the System Plan Total OPEB Liability

	Fiscal Year Ending June 30, 2018
Balance at July 1, 2016	$ 228,535,418
Service Cost	2,492,638
Interest	2,021,354
Changes in Assumptions	(7,339,152)
Benefit Payments	(2,253,373)
Net Changes	(5,078,533)
Balance at July 1, 2017	$ 223,456,885

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

REHP

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at www.budget.pa.us.

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

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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

Actuarial Assumptions and Other Inputs

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

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 89,996,645	$ 103,701,327	$ 124,216,791

The following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current healthcare cost trend rates (3.58%).

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	$ 121,504,283	$ 103,701,327	$ 91,893,401

Fiduciary Net Position

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Premium Assistance

Plan Description

The Health Insurance Premium Assistance Program (Premium Assistance) is a governmental cost sharing, multiple-employer OPEB plan administered by the administrative staff of PSERS. The members eligible to participate in the program include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (PSERS Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of PSERS by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

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

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

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

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

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

The following assumptions were used to determine the contribution rate:

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

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

- The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017, and 2.71% at June 30, 2016.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

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

	Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	Healthcare Cost Trend Rates Between 4% and 7%	Healthcare Cost Trend Rates Between 5% and 8%	Healthcare Cost Trend Rates Between 6% and 9%
2018	$ 532,486	$ 532,630	$ 532,774

NOTE 11 OTHER POSTRETIREMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the Premium Assistance Net OPEB
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2017	$ 605,379	$ 532,630	$ 472,150

Fiduciary Net Position

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

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, deferred outflows and inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2018 and 2017.

	SERS		PSERS		ARP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Pension Liabilities	$ 82,513,710	$ 85,901,891	$ 12,895,413	$ 12,323,574	$ -	$ -	$ 95,409,123	$ 98,225,465
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,395,137	$ 1,239,977	$ 134,516	$ -	$ -	$ -	$ 1,529,653	$ 1,239,977
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	7,219,184	298,877	686,874	-	-	298,877	7,906,058
Changes in Assumptions	4,131,121	5,247,061	350,348	444,847	-	-	4,481,469	5,691,908
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	73,004	71,570	-	-	73,004	71,570
Changes in Proportion	1,972,674	1,335,003	230,970	349,474	-	-	2,203,644	1,684,477
Contributions After the Measurement Date	5,649,380	5,181,740	1,185,735	1,024,730	-	-	6,835,115	6,206,470
Total Deferred Outflows of Resources	$ 13,148,312	$ 20,222,965	$ 2,273,450	$ 2,577,495	$ -	$ -	$ 15,421,762	$ 22,800,460
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,566,734	$ 1,921,965	$ 77,855	$ 102,699	$ -	$ -	$ 1,644,589	$ 2,024,664
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	3,280,701	-	-	-	-	-	3,280,701	-
Difference Between Employer Contributions and Proportionate Share of Contributions	476,542	398,588	-	-	-	-	476,542	398,588
Changes in Proportion	1,293,736	1,821,428	186,996	89,810	-	-	1,480,732	1,911,238
Total Deferred Inflows of Resources	$ 6,617,713	$ 4,141,981	$ 264,851	$ 192,509	$ -	$ -	$ 6,882,564	$ 4,334,490
Pension Expense	$ 15,813,123	$ 14,273,086	$ 3,553,232	$ 3,413,691	$ 7,964,838	$ 7,806,701	$ 27,331,193	$ 25,493,478
Contributions Recognized by Pension Plans	$ 9,650,919	$ 8,146,696	$ 1,185,735	$ 1,024,730	N/A	N/A	$ 10,836,654	$ 9,171,426

NOTE 12 PENSION BENEFITS (CONTINUED)

The University will recognize the $5,649,380 reported as 2018 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $1,185,735 reported as 2018 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

	Amortization	
Fiscal Year Ending June 30,	SERS	PSERS
2019	$ 1,853,183	$ 287,097
2020	1,384,135	413,480
2021	(745,613)	187,584
2022	(1,668,625)	(65,297)
2023	58,139	-
Total	$ 881,219	$ 822,864

SERS

Plan Description

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

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.

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.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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

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

Contributions

The contribution rate for both active members and the 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.

The University contributed at actuarially determined rates of between 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016, were approximately $9,651,000, $8,147,000, and $6,364,000, 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.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The 18th Investigation of Actuarial Experience study for the period 2011–2015 was released in March 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 assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the 18th Investigation of Actuarial Experience at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2017, measurement date.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.60%, with a range of 3.70% to 8.90%, 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).

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, 2017 and 2016, are summarized below:

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	16.00 %	8.0 %
Global Public Equity	43.00	5.3
Real Assets	12.00	5.4
Diversifying Assets	12.00	5.1
Fixed Income	14.00	1.6
Liquidity Reserve	3.00	(0.25)
Total	100.00 %	

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

The discount rate used to measure the total SERS pension liability was 7.25%. 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 7.25% as of December 31, 2017 and 2016, 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 (6.25% as of December 31, 2017 and 2016) or one percentage point higher (8.25% as of December 31, 2017 and 2016) 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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	$ 104,735,631	$ 82,513,710	$ 63,478,060

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2016	$ 106,307,585	$ 85,901,891	$ 68,427,354

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. The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

Proportionate Share

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability was approximately $82,514,000. SERS measured the net pension liability as of December 31, 2017. At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016, was $85,902,000.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2017 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2017-18 from the December 31, 2017, funding valuation to the expected funding payroll. For the allocation of the 2016 amounts, this methodology applies the contribution rates for fiscal year 2017-17 from the December 31, 2016, funding valuation to the expected funding payroll. At the December 31, 2017 measurement date, the University's proportion was 4.9059%, an increase of .0689% from its proportion calculated as of the December 31, 2016 measurement date.

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.

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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

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

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

Member Contributions

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2018, was 31.74% 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 15.87% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2018, was approximately $1,186,000. The University's contributions to PSERS for the years ended June 30, 2017 and 2016 were approximately $1,025,000 and $816,000, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit and seniority increases.
- 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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS board of trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Following is the PSERS board of trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017 and 2016:

	2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.00 %	5.1 %
Fixed Income	36.00	2.6
Commodities	8.00	3.0
Absolute Return	10.00	3.4
Risk Parity	10.00	3.8
Infrastructure/MLPs	8.00	4.8
Real Estate	10.00	3.6
Alternative Investments	15.00	6.2
Cash	3.00	0.6
Financing (LIBOR)	(20.00)	1.1
Total	100.00 %	

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

Asset Class	2016 Target Allocation	2016 Long-Term Expected Real Rate of Return
Global Public Equity	22.50 %	5.3 %
Fixed Income	28.50	2.1
Commodities	8.00	2.5
Absolute Return	10.00	3.3
Risk Parity	10.00	3.9
Infrastructure/MLPs	5.00	4.8
Real Estate	12.00	4.0
Alternative Investments	15.00	6.6
Cash	3.00	0.2
Financing (LIBOR)	(14.00)	0.5
Total	100.00 %	

The discount rate used to measure the total PSERS pension liability was 7.25%. 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 7.25% as of June 30, 2018 and 2017, 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 (6.25% as of June 30, 2018 and 2017) or one percentage point higher (8.25% as of June 30, 2018 and 2017) 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 6.25%	Current Rate 7.25%	1% Increase 8.25%
2018	$ 15,873,229	$ 12,895,413	$ 10,381,411

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	$ 15,075,004	$ 12,323,574	$ 10,011,429

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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.

Proportionate Share

At June 30, 2018, 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.

	2018	2017
Total PSERS Net Pension Liability Associated with the University	$ 25,790,826	$ 24,647,148
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	12,895,413	12,323,574
University's Proportionate Share of the PSERS Net Pension Liability	$ 12,895,413	$ 12,323,574

PSERS measured the net pension liability as of June 30, 2017. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2016, to June 30, 2017. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2017, the University's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2016.

ARP

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, 2018 and 2017 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017 were approximately $7,964,838 and $7,806,701, respectively, from the University and $4,286,676 and $4,201,566, respectively, from active members. No liability is recognized for the ARP.

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 $54,007 and $169,079 to the Reserve Fund in 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017, the aggregate liability for claims under the self-insurance limit was $1,103,227 and $1,162,673, respectively. Changes in the workers' compensation claims liability amount in fiscal years 2018 and 2017 follow:

	2018	2017
Balance - July 1	$ 1,162,673	$ 1,075,845
Current Year Claims and Changes in Estimates	(5,439)	255,907
Payments	(54,007)	(169,079)
Balance - June 30	$ 1,103,227	$ 1,162,673

NOTE 14 COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

Authorized expenditures for ongoing construction projects at June 30, 2018 and 2017 were approximately $7,490,000 and $7,758,000, 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.

NOTE 14 COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS (CONTINUED)

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

Cheyney University Loan Forgiveness

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

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

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

NOTE 15 RATINGS ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In August 2018, Moody's revised the outlook for the rating from *negative* to *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.

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.

NOTE 16 GROUND LEASE (CONTINUED)

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.

At June 30, 2018, future minimum lease payments due under the ground leases are as follows:

Year Ending June 30,	2003 Lease	2008 Lease	2013 Lease	2014 Lease
2019	$ 75,639	$ 9,209	$ 32,213	$ 10,406
2020	77,898	9,485	32,858	10,510
2021	80,235	9,770	33,515	10,720
2022	82,642	10,063	34,185	10,935
2023	85,122	10,365	34,869	11,153
Thereafter	1,254,708	286,864	1,236,425	849,583

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 $1,254,942 and $1,227,172 for the years ended June 30, 2018 and 2017, respectively. The University is responsible for leasehold improvements. The lease term is 29.5 years.

NOTE 17 SUBSEQUENT EVENTS

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of $102,345,000 and Series AV-2 taxable revenue bonds in the amount of $134,600,000. The University participated in the issuance of the AV-1 revenue bonds receiving net proceeds to finance The Sciences & Engineering Center and The Commons (SECC) project and refinance a significant portion of the Series AI bonds. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

NOTE 17 SUBSEQUENT EVENTS (CONTINUED)

On September 21, 2018, the University purchased three parking structures from the Borough of West Chester for $12,894,276. These parking structures had previously been recorded by the University as capital leases with the Borough. The capital leases were terminated and title of the parking structures and associated land were passed to the University as a result of the purchase. The difference between the purchase price and the carrying amount of the lease obligation will be recognized as an adjustment to the carrying amount of the asset by the University.

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State System Plan OPEB Liability
Determined as of June 30 measurement dates

		Fiscal Year Ending June 30, 2018
Changes in the System Plan Total OPEB		
Total OPEB Liability-Beginning Balance	$	228,535,418
Service Cost		2,492,638
Interest		2,021,354
Changes of		(7,339,152)
Benefit Payments		(2,253,373)
Net Changes		(5,078,533)
Total OPEB Liability-Ending Balance	$	223,456,885
Covered Employee Payroll	$	90,642,026
OPEB Liability as a Percent of Covered Payroll		246.53%

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

Schedule of Proportionate Share of REHP Net OPEB Liability
Determined as of June 30 REHP measurement dates

Fiscal Year	University's Proportion	University's Proportionate Share	University's Covered-employee payroll	University's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	REHP's Fiduciary Net Position as a Percentage of Total OPEB Liability
2017/18	4.374%	$103,701,326	$14,137,854	733.5%	1.4%

REHP Schedule of Contributions
Determined as of June 30 fiscal year end dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$2,673,466	$2,673,466	$0	$17,661,800	15.14%

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Schedule of Proportionate Share of PSERS Net OPEB Liability
Determined as of June 30 PSERS Measurement Date

Fiscal Year	University's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-employee payroll	University's Proportionate Share of Net OPEB Liability as a Percentage of Covered-Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
2017/18	0.1811%	$532,630	$532,630	$1,065,260	$6,962,607	7.65%	5.73%

PSERS OPEB Schedule of Contributions
Determined as of June 30 fiscal year end dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$31,010	$31,010	$0	$7,523,157	0.41%

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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
2016/17	4.837	85,901,891	27,736,138	310	57.8
2017/18	4.906	82,513,710	30,063,932	275	63.0

SERS Schedule of Contributions
Determined as of the University's June 30 fiscal year end dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 5,065,638	$ 5,065,638	$ -	$ 25,724,299	19.7 %
2015/16	6,364,224	6,364,224	-	28,129,203	22.6
2016/17	8,146,695	8,146,695	-	31,108,146	26.2
2017/18	9,650,919	9,650,919	-	33,320,941	29.0

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Schedule of Proportionate Share of PSERS Net Pension Liability
Determined as of June 30 PSERS Measurement Date

Fiscal Year	University's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.17850 %	$ 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
2016/17	0.18330	12,323,574	12,323,574	24,647,148	6,442,137	200	50.1
2017/18	0.18110	12,895,413	12,895,413	25,790,826	6,954,508	200	51.8

PSERS Schedule of Contributions
Determined as of the University's June 30 fiscal year end dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 664,810	$ 664,810	$ -	$ 2,866,773	23.0 %
2015/16	815,609	815,609	-	6,511,084	12.5
2016/17	1,024,730	1,024,730	-	7,069,915	14.5
2017/18	1,185,735	1,185,735	-	7,523,157	15.8

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