

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2015 AND 2014**

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

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

### Report on the Financial Statements

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

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

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

### *Auditors' Responsibility*

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

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

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

***Opinions***

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

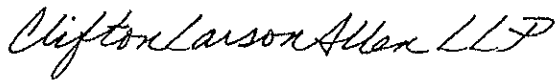
***Emphasis of Matter***

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

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-12, the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 61 and the Schedules of Proportionate Share of Net Pension Liability and Contributions (SERS and PSERS) on page 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 6, 2015

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014  
(UNAUDITED)**

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of West Chester University of Pennsylvania of the State System of Higher Education (the University) for the years ended June 30, 2015 and 2014. 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 16,600 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, 2015 and 2014.

**Financial Highlights**

- The total Commonwealth appropriation to the State System for operations in fiscal year 2014-15 was \$412.8 million, the same amount as received in fiscal year 2013-14, 2012-13 and 2011-12. This is 11.3% less than the General Fund appropriations received in fiscal year 2010-11 and the same level of funding the State System received in fiscal year 1997-98 – seventeen years ago.
- The University's share of the base appropriation, through the allocation formula, decreased by \$1.2 million to \$42.3 million. This represents a 2.7% decrease from FY 2013-14.
- The University also received an allocation of Commonwealth funding that the State System set aside for performance. The performance funding plan is part of 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 2014-15, the University received \$5.1 million in performance funding; in the prior fiscal year, the University received \$5.9 million in performance funding. This represents a 13.6% decrease from FY 2013-14.
- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2014-15 were \$47.9 million; in the prior fiscal year, they were \$49.9 million.
- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, totaled \$1.5 million in both fiscal year 2014-15 and fiscal year 2013-14.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Financial Highlights (Continued)**

- The State System's Board approved a tuition increase of 3.0% for resident and out-of-state students at the undergraduate level for fiscal year 2014-15; the increase for 2013-14 was 3.0% for both. For graduate students the increase was 2.7% for in-state students and out-of-state students for fiscal year 2014-15. The State System's Board also increased the undergraduate technology tuition fee by 14.7% for in-state students and by 15.1% for out-of-state students in fiscal year 2014-15. The technology tuition fee in fiscal year 2013-14 increased 2.8% for in-state students and 3.0% for out-of-state students. For graduate students the technology tuition fee increased by 14.3% for in-state students and 16.1% for out-of-state students. In fiscal year 2013-14 there were no increases in this fee for graduate students. Universities must use the technology tuition fee to support instructional technology.
- Mandatory fees for all undergraduate students set by the University increased by 2.3% in fiscal year 2014-15 and by 1.6% in fiscal year 2013-14. Mandatory fees for graduate students increased by 2.5% in fiscal year 2014-15 and by 1.7% in fiscal year 2013-14. Room rates (North and South Campus) remained the same in fiscal year 2014-15. The food service rates increased 1.7% for the 14-meal plans in fiscal year 2014-15, compared to 2.0% for the 14-meal plan for fiscal year 2013-14.
- Tuition and fee revenue (net of discounts) was \$139.8 million for fiscal year 2014-15 and \$132.6 million for fiscal year 2013-14. In addition, revenue from auxiliary enterprises (net of discounts) was \$36.4 million in fiscal year 2014-15 and \$38.7 million in fiscal year 2013-14. Auxiliary enterprise revenues are generated primarily from room and food service charges. The decrease in fiscal year 2014-15 was due to university rooms being reduced and replaced by USH beds (privatized housing) in the new Commonwealth Hall.
- The University purchased \$13.4 million in capital assets in fiscal year 2014-15, as compared to \$19.3 million in fiscal year 2013-14. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, renovation of Hollinger Fieldhouse and the Mitchell Hall renovations.
- The University generally utilizes the State System to facilitate the issuance of bonds to raise capital for major projects. Given the efficiencies of the State System acting on behalf of fourteen universities, the University achieves low interest rates and administrative cost savings. The University did not obtain any additional bond funding for projects in fiscal years 2014-15 and 2013-14.
- 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 garage 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 \$6.2 million and \$6.6 million at June 30, 2015 and 2014, respectively.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**Financial Highlights (Continued)**

- During fiscal year 2012-13, the University entered into an agreement with the Borough of West Chester to construct and operate the New Street parking garage. 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 \$9.1 million and \$9.5 million at June 30, 2015 and 2014, respectively.
- The West Chester University Foundation (the Foundation), previously known as the Fund for West Chester University, was established in 2001 with the specific purpose of performing fundraising for the educational, charitable and scientific interests of the University. The Foundation, a component unit of the University that is reflected in the audited financial statements, includes a wholly-owned subsidiary, University Student Housing, LLC (USH).
- The purpose of USH is to develop, design, finance, construct and operate new housing for the students of the University. USH and the University entered into a ground lease by which USH agreed to construct apartment-style housing (The Village) on South Campus and suite-style housing (University Hall) on North Campus; in total, the housing accommodates approximately 800 students. Revenue bonds of \$42.3 million dollars were issued by USH through the Chester County Industrial Development Authority in August 2003. These bonds are non-recourse to the University. Construction began shortly thereafter and was completed in the first half of fiscal year 2004-05.
- In March of 2008, USH issued \$100.3 million in revenue bonds through the Chester County Industrial Development Authority for the first phase of a proposed three-phase Housing Renewal Initiative. This initiative is intended to replace most of the University's existing housing. The first phase, comprised of two buildings (Allegheny and Brandywine), was completed and occupied at the start of the 2009 Fall semester.
- On June 22, 2012, the Foundation entered into a loan agreement with DNB First, NA in the amount of \$2.4 million for the purchase of real estate located at 202 Carter Drive, West Chester, PA. The property is the administrative offices of the Foundation and the Alumni Association, Inc.
- On August 28, 2012, USH obtained a commitment to borrow up to \$22.0 million as a loan payable to a bank. The proceeds from the loan were used solely to finance the construction of a new apartment style student housing building (East Village Housing).
- On February 1, 2013, USH entered into a loan agreement of \$57.5 million with Chester County Industrial Development Authority ("CCIDA"), for the construction of student housing facilities (Commonwealth Hall).
- In the fall of 2014, USH opened their newest residence hall, Commonwealth Hall. Situated on North Campus, Commonwealth Hall offers 649 beds. Commonwealth Hall also houses Student Health Services, including the Wellness Center, the Counseling Center, the Office for Alcohol, Tobacco and Other Drug Programs, and Nutrition Services.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(UNAUDITED)**

**The Financial Statements**

**Balance Sheet**

This statement reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University as of the end of the fiscal year. Assets include cash; investments reported at fair value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets and liabilities is reported as net position. Net position decreased by \$56.1 million in fiscal year 2014-15 due to the recording of the pension liability as required by GASB 68. Net position increased by \$17.2 million in fiscal year 2013-14.

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

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

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



**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**The Financial Statements (Continued)**

**Balance Sheet (Continued)**

- 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.
- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced by three unfunded liabilities:
  1. The liability for postretirement benefits increased by \$4.8 million to \$120 million at June 30, 2015. Because this liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.
  2. The liability for compensated absences increased by \$0.3 million to \$14.1 million at June 30, 2015. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it becomes due.
  3. Due to the implementation of GASB 68, the liability for pension obligations was recorded on the balance sheet for the first time as of June 30, 2015. The combined pension liability was \$72.0 million comprised of \$63.1 million for the State Employee Retirement System (SERS) and \$8.9 million for the Public School Employees' Retirement System (PSERS). No restatement for June 30, 2014 was required.

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

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

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**The Financial Statements (Continued)**

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

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

	2015	2014
<b>Operating Revenues:</b>		
Tuition and Fees, Net	\$ 139.8	\$ 132.6
Grants and Contracts	13.4	12.7
Auxiliary Enterprises, Net	36.4	38.7
Other	7.4	9.0
Total Operating Revenues	197.0	193.0
<b>Other Revenues:</b>		
State Appropriations	49.5	51.4
Investment Income, Net (includes Unrealized Gains and Losses)	3.1	5.4
Gifts, Grants, and Other	17.9	17.0
Total Other Revenues	70.5	73.8
Total Revenues	267.5	266.8
<b>Operating Expenses:</b>		
Personnel Compensation:		
Salaries	115.5	108.7
Benefits	45.2	39.2
Post Retirement Expense	13.6	18.2
Student Wages	3.2	3.5
Total Personnel Compensation	177.5	169.6
Telecommunications Charges	0.5	0.5
Travel and Transportation	2.1	1.5
Computing and Data Processing	2.5	2.8
Professional and Contracted Services	6.8	5.6
Utilities	5.1	5.9
Food Supplies	12.3	12.1
Depreciation	15.8	14.7
Student Aid Expense	11.1	10.3
Supplies and Other Current Charges	22.7	24.2
Total Operating Expenses	256.4	247.2
<b>Other Expenses:</b>		
Interest Expense	2.1	2.4
Total Expenses	258.5	249.6
Increase in Net Position	9.0	17.2
Net Position - Beginning of Year	197.5	180.3
Restatement for July 1, 2014, pension liability and related expense	(65.0)	-
Net Position - Beginning of Year, as restated	132.5	180.3
Net Position - End of Year	\$ 141.5	\$ 197.5

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015 AND 2014  
(UNAUDITED)**

**The Financial Statements (Continued)**

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

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

- Financial aid to students in the form of waivers and scholarships was \$19.8 million, an increase of \$1.2 million or 6.5% from fiscal year 2013-14. 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 2014-15 was \$3.1 million, a decrease of \$2.2 million from the prior year. This decrease was due to a decrease in unrealized gains of \$2.5 million on investments.
- The University spent \$115.5 million, or 45.0% of its operating expenses, on salaries in fiscal year 2014-15 as compared to \$108.7 million, or 44.0% of its operating expenses, in fiscal year 2013-14. Benefit costs increased in fiscal 2014-15 to \$45.2 million from \$39.2 million the prior year. Postretirement costs were \$13.6 million and \$18.2 million in fiscal years 2014-15 and 2013-14, respectively. In total, the University spent \$177.5 million on salaries, postretirement expense, wages, and benefits, or 69.2% of operating expenditures, in fiscal 2014-15, and \$169.6 million, or 68.6% of operating expenditures, in fiscal 2013-14.

**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 2015-16, the Commonwealth appropriation for operations to the State System is uncertain. Although the Commonwealth's budget was supposed to be finalized by July 1, 2015, the Governor vetoed the budget that the legislature presented to him. No resolution to this budget impasse has been reached.
- Based on assumptions provided by the System Office, it is likely that the Commonwealth appropriation to the State System will represent a 3% increase over the level provided in 2014-15. The System Office estimated that West Chester University will receive approximately \$44.1 million through the allocation formula and another \$5.3 million from performance funding, which represent approximately a 3% increase from the level provided in 2014-15.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**The Financial Statements (Continued)**

**Future Economic Factors (Continued)**

- The State System's Board approved tuition increases of 3.5% for both undergraduate and graduate students. In addition, the Board increased the technology fee by 3.3% for resident undergraduate students; and 3.4% for non-resident undergraduate students. The technology fee increased by 4.2% for resident graduate students and 2.8% for non-resident graduate students. Mandatory student fees set by the University will increase 3.3% for undergraduate students and by 3.5% for graduate students. Room rates (North Campus and South Campus) will remain the same. Food service plans will increase 2.5% for both the 12 and 14-meal plans.
- West Chester University has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. However, several conditions could limit the University's financial flexibility in fiscal year 2015-16 and beyond:
  1. State Appropriations - Given the economic conditions of the Commonwealth, it is likely that Commonwealth appropriations to the State System will show little increase beyond the level projected for 2015-16.
  2. Plans for necessary facilities upgrades - These requirements could commit a significant portion of the University's available fund balance. However, the 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. This additional revenue will ameliorate potential problems of inadequate funds for facilities improvements.
  3. Increased costs for salaries and benefits mandated by collective bargaining agreements - Fiscal year 2014-15 represents the final year of contracts with most bargaining units. Although some contracts have been settled, the contract with the largest union (which represents faculty) is still being negotiated. Additionally, the settled contracts for all unions—except the one representing police officers—only extend through the current fiscal year. The agreement with the union representing police officers extends through August 31, 2017.
  4. Increases in employer retirement contributions - While employer retirement contribution rates had held fairly steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System (SERS) ended starting in fiscal year 2010-11. 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, rates are projected to rise significantly over the next several years. In fiscal year 2015-16 the most common rates for the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS), in which almost half of the System's employees participate, increased approximately 25% and 21%, respectively.

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

**Future Economic Factors (Continued)**

5. Increased health care costs - As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, employees of the University (and the State System as a whole) started to share in the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. Beginning January 1, 2016, the State System will implement higher levels of employee cost-sharing for certain categories of employees.
  6. Volatility in energy costs - To help offset the volatility in energy costs, the University contracted with an energy savings company to recommend and implement facilities improvements to help reduce the University's annual utility expense. Based on the recommended improvements, the University conservatively estimates almost \$8 million in net savings/cost avoidance over a 15-year period. Those estimated savings will be used to fund necessary deferred maintenance projects that will be accomplished at the same time as the energy-savings improvements. In addition, the University has embarked on a program to convert heating and cooling for most of its buildings to a geothermal system, which should provide significant long-term savings, as well as dramatically reduce particulates discharged into the atmosphere from the current coal-fired boilers. The geothermal project is being funded with federal and Commonwealth grants, direct appropriations from the Commonwealth, and funds from the University and USH.
  7. Revisions to the allocation formula - In the summer of 2014, the State System revised the formula for allocating the appropriation from the Commonwealth. This change, which became effective retroactively to July 1, 2014, is expected to result in a loss of approximately \$3.5 million for the University. This funding reduction will be phased in, with equal installments occurring in each year over a 3-year period (fiscal year 2014-15 through fiscal year 2016-17).
- 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 allocation model. Additionally, the University President recently formed a Budget Review Committee to help develop budget recommendations and to communicate budget information to and from constituent groups on campus.
  - The enrollment demand at the University has remained strong, with about 14,315 freshmen applications for 2,395 openings for the fall of 2015.

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

**Requests for Information**

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

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

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

**The West Chester University Foundation**

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

**Student Services, Inc.**

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

**The West Chester University Alumni Association**

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION  
JUNE 30, 2015 AND 2014**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2015</b>	<b>2014</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 203,683,322	\$ 189,926,485
Cash Whose Use Is Restricted	13,863,674	13,733,856
Accounts Receivable:		
Governmental Grants and Contracts	2,279,107	2,546,715
Students, Net	1,285,038	1,505,088
Other	3,914,318	2,552,251
Inventory	126,357	94,943
Prepaid Expenses	728,765	761,582
Investment Income Receivable	257,079	225,245
Loans Receivable, Net	1,194,807	1,173,658
Total Current Assets	227,332,467	212,519,823
<b>NONCURRENT ASSETS</b>		
Endowment Investments	21,573,362	21,195,179
Other Investments	-	4,880
Loans Receivable, Net	7,959,273	7,604,747
Capital Assets, Net	190,908,162	193,781,586
Other Assets	163,834	217,721
Total Noncurrent Assets	220,604,631	222,804,113
 Total Assets	 447,937,098	 435,323,936
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Loss on Refunding of Debt	371,996	122,020
SERS Contributions after Measurement Date	2,929,972	-
SERS Other Deferred Outflows	2,164,685	-
PSERS Contributions after Measurement Date	661,818	-
PSERS Actual Less Proportionate Contributions	37,127	-
PSERS Other Deferred Outflows	211,710	-
Total Deferred Outflow of Resources	6,377,308	122,020
 Total Assets and Deferred Outflows of Resources	 \$ 454,314,406	 \$ 435,445,956

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, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 21,856,568	\$ 20,829,713
Unearned Revenue	6,277,114	6,175,603
Students' Deposits	1,667,948	1,797,169
Workers' Compensation	556,543	584,089
Compensated Absences	288,774	1,093,752
Bonds Payable, Net	4,005,777	3,918,622
Capital Lease Obligation	766,579	768,852
Due to State System, Academic Facilities Renovation Bond Program	440,343	422,989
Other Current Liabilities	7,744	60,741
Total Current Liabilities	35,867,390	35,651,530
<b>NONCURRENT LIABILITIES</b>		
Workers' Compensation	547,706	486,753
Compensated Absences	13,803,775	12,710,023
Postretirement Benefit Obligations	119,961,870	115,167,529
Bonds Payable, Net	45,772,199	49,444,778
Capital Lease Obligation	14,641,079	15,379,563
Due to State System, Academic Facilities Renovation Bond Program	1,157,815	1,601,522
Unearned Revenue	1,830	8,410
Net Pension Liability	71,962,582	-
Other Noncurrent Liabilities	7,558,606	7,342,465
Total Noncurrent Liabilities	275,407,462	202,141,043
Total Liabilities	311,274,852	237,792,573
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unamortized Gain on Refunding of Debt	106,956	99,732
SERS Deferred Inflows	783,834	-
PSERS Other Deferred Inflows	635,760	-
Total Deferred Inflows of Resources	1,526,550	99,732
<b>NET POSITION</b>		
Net Investment in Capital Assets	124,389,410	122,267,547
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	21,602,794	21,196,872
Other	2,057,286	2,057,286
Expendable:		
Scholarships and Fellowships	3,773,367	3,237,061
Capital Projects	4,093,450	4,549,940
Other	2,946,122	2,743,118
Unrestricted	(17,349,425)	41,501,827
Total Net Position	141,513,004	197,553,651
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 454,314,406	\$ 435,445,956

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 159,548,929	\$ 151,138,097
Less: Scholarship Discounts and Allowances	<u>(19,764,522)</u>	<u>(18,555,043)</u>
Net Tuition and Fees	139,784,407	132,583,054
Governmental Grants and Contracts:		
Federal	1,153,897	1,337,034
State	12,101,676	11,195,199
Local	2,500	-
Nongovernmental Grants and Contracts	183,752	184,927
Sales and Services of Educational Departments	5,665,389	5,171,956
Auxiliary Enterprises	36,371,897	38,732,237
Other Revenues	<u>1,729,932</u>	<u>3,757,375</u>
Total Operating Revenues	196,993,450	192,961,782
<b>OPERATING EXPENSES</b>		
Instruction	101,302,489	97,221,114
Research	1,382,716	1,253,152
Public Service	1,962,757	2,412,933
Academic Support	33,915,238	31,074,860
Student Services	17,454,187	16,844,567
Institutional Support	27,334,457	27,885,692
Operations and Maintenance of Plant	18,277,315	18,820,811
Depreciation	15,817,300	14,730,206
Student Aid	11,098,773	10,287,860
Auxiliary Enterprises	<u>27,866,907</u>	<u>26,664,744</u>
Total Operating Expenses	256,412,139	247,195,939
<b>NET OPERATING LOSS</b>	(59,418,689)	(54,234,157)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	47,957,345	49,914,169
Pell Grants	15,168,425	14,170,624
Investment Income, Net of Investment Expense of \$27,311 in 2015 and \$26,324 in 2014	2,341,376	2,106,623
Unrealized Gains on Investments	805,805	3,251,489
Gifts for Other than Capital Purposes	2,328,845	2,105,855
Interest Expense	(2,128,940)	(2,392,519)
Loss on Disposal of Assets	(463,334)	(246,608)
Other Nonoperating Revenue	<u>113,157</u>	<u>113,851</u>
Nonoperating Revenues, Net	66,122,679	69,023,484
<b>INCOME BEFORE OTHER REVENUES</b>	6,703,990	14,789,327
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,506,538	1,517,296
Capital Gifts and Grants	<u>752,632</u>	<u>941,969</u>
Total Other Revenues	2,259,170	2,459,265
<b>INCREASE IN NET POSITION</b>	8,963,160	17,248,592
Net Position - Beginning of Year	197,553,651	180,305,059
Restatement for GASB 68 Pension Liability	<u>(65,003,807)</u>	<u>-</u>
Net Position - Beginning of Year, as restated	132,549,844	180,305,059
<b>NET POSITION - END OF YEAR</b>	<u>\$ 141,513,004</u>	<u>\$ 197,553,651</u>

See accompanying Notes to Financial Statements.

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

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Tuition and Fees	\$ 139,840,097	\$ 133,160,531
Grants and Contracts	13,822,851	10,707,833
Payments to Suppliers for Goods and Services	(52,299,995)	(51,237,236)
Payments to Employees	(168,684,084)	(156,341,135)
Loans Issued to Students	(1,717,483)	(2,809,799)
Loans Collected from Students	1,341,808	766,879
Student Aid	(11,098,773)	(10,287,860)
Auxiliary Enterprise Charges	36,381,756	38,862,356
Sales and Services of Educational Departments	5,709,326	5,205,342
Other Operating Receipts	696,967	54,958
Net Cash Used in Operating Activities	(36,007,530)	(31,918,131)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	47,957,345	49,914,169
Gifts and Nonoperating Grants for Other than Capital Purposes	17,497,270	16,276,479
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	118,883,167	111,427,940
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(118,883,167)	(111,427,940)
Agency Transactions, Net	(140,088)	(32,668)
Other	113,157	113,851
Net Cash Provided by Noncapital Financing Activities	65,427,684	66,271,831
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital Appropriations	1,506,538	1,517,298
Capital Grants and Gifts Received	736,293	529,148
Proceeds from Capital Debt and Leases	6,158,062	-
Proceeds from Sales of Capital Assets	11,425	-
Purchases of Capital Assets	(13,371,672)	(18,856,595)
Principal Paid on Debt	(10,423,202)	(10,787,747)
Interest Paid on Debt	(2,892,987)	(3,156,092)
Net Cash Used in Capital Financing Activities	(18,275,543)	(30,753,988)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	598,889	545,074
Interest on Investments	2,309,542	2,084,001
Purchases of Investments	(166,387)	(196,355)
Net Cash Provided by Investing Activities	2,742,044	2,432,720
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,886,655	6,032,432
Cash and Cash Equivalents - Beginning of Year	203,660,341	197,627,909
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 217,546,996	\$ 203,660,341

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (59,418,689)	\$ (54,234,157)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	15,817,300	14,730,206
Changes in Assets and Liabilities:		
Receivables, Net	512,416	(708,377)
Inventories	(31,414)	3,247
Other Assets	(1,300,123)	(1,701,982)
Accounts Payable	1,645,431	3,442,951
Unearned Revenue	94,931	(1,252,317)
Students' Deposits	10,867	40,547
Compensated Absences	288,774	1,093,753
Loans to Students, Net	(375,675)	(2,042,920)
Other Liabilities	6,748,652	8,710,918
Net Cash Used in Operating activities	<u>\$ (36,007,530)</u>	<u>\$ (31,918,131)</u>
 <b>SUPPLEMENTARY DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES</b>		
Capital Assets Received Via Gift	\$ -	\$ 254,869
Equipment Acquired Via Capital Lease	\$ 30,624	\$ 20,457
Net Book Value of Assets Traded in through Like-Kind Exchange	\$ -	\$ 52,097
Capital Assets Included in Payables	\$ 16,339	\$ 157,952

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS  
JUNE 30, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 10,165,262	\$ 11,054,128
Accounts Receivable	1,141,220	728,964
Pledges Receivable, Net	2,028,552	1,797,226
Inventory	1,344,115	1,117,034
Due from the University	132,588	747,887
Prepaid Expenses	130,258	-
Total Current Assets	14,941,995	15,445,239
<b>NONCURRENT ASSETS</b>		
Restricted Cash	27,739,717	22,999,839
Capital Assets, Net	171,053,022	173,811,375
Investments	22,795,021	27,925,218
Other Assets	1,159,016	4,633,066
Total Noncurrent Assets	222,746,776	229,369,498
Total Assets	\$ 237,688,771	\$ 244,814,737
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 5,193,565	\$ 9,383,456
Current Portion of Bonds Payable	3,454,823	2,645,800
Other Deposit Liabilities	148,561	121,058
Due to the University	2,953,075	2,171,780
Total Current Liabilities	11,750,024	14,322,094
<b>BONDS PAYABLE</b>	209,115,175	214,778,373
<b>OTHER LIABILITIES</b>	29,964,424	23,634,361
Total Liabilities	250,829,623	252,734,828
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	(30,130,815)	(23,113,458)
Temporarily Restricted	6,785,641	6,204,654
Permanently Restricted	10,204,322	8,988,713
Total Net Assets (Deficit)	(13,140,852)	(7,920,091)
Total Liabilities and Net Assets (Deficit)	\$ 237,688,771	\$ 244,814,737

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, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND OTHER ADDITIONS</b>		
Contributions	\$ 827,101	\$ 904,109
Investment Income	409,409	1,264,894
University Store	1,599,461	1,581,914
Student Activity Fees	4,241,774	4,178,594
Rental Income	28,379,572	21,581,978
Other Revenues	3,740,701	4,462,164
Change in Interest Rate Swap Agreement	(4,560,313)	(585,566)
Net Assets Released from Restriction	2,587,712	2,188,088
Total Revenues and Other Additions	37,225,417	35,576,175
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Program Expenses	35,971,525	30,718,547
University Store	1,260,256	1,177,613
Management and General	3,266,214	2,881,128
Distributions to the University	3,744,778	3,245,661
Total Expenses and Other Deductions	44,242,773	38,022,949
Decrease in Unrestricted Net Assets	(7,017,356)	(2,446,774)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	2,850,460	2,713,176
Investment Gains	297,045	1,318,862
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,587,712)	(2,188,088)
Other Revenues	26,930	-
Change in Split-Interest Agreements	(5,737)	14,202
Increase in Temporarily Restricted Net Assets	580,986	1,858,152
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	1,215,609	2,238,009
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	(5,220,761)	1,649,387
Net Assets (Deficit) - Beginning of Year	(7,920,091)	(9,569,478)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	\$ (13,140,852)	\$ (7,920,091)

See accompanying Notes to Financial Statements.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

**Organization**

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

**Reporting Entity**

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

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

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

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

**Measurement Focus, Basis of Accounting, and Basis of Presentation**

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

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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

**Operating Revenues and Expenses**

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

**Net Position**

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

*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. 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)/assets (Component Units).

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 \$674,000 in 2015 and \$635,000 in 2014. Loans receivable are reported net of an allowance for doubtful accounts of approximately \$13,000 in 2015 and \$13,000 in 2014.

**Inventory**

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

**Capital Assets**

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

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

**Impairment of Capital Assets**

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



WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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

**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.

**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.

**Pension Plans**

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

**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.

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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

**Deferred Outflows and Deferred Inflows of Resources (continued)**

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

**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.

**Reclassifications**

Certain reclassifications were made to the 2014 financial statements to conform to the 2015 presentation.

**New Accounting Standards**

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

	2015
Net position- beginning of year, as previously stated	\$ 197,553,651
July 1, 2014, balance of the net pension liability and related deferred outflows of resourced and deferred inflows of resources	(65,003,807)
Net position- beginning of year, restated	\$ 132,549,844

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

**New Accounting Standards (continued)**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and is effective for financial statements for reporting periods beginning after June 15, 2015. The University has determined that Statement No. 72 will have no effect on its financial statements other than to change the disclosure information for its investments.

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety: at June 30, 2015, the University's accrued postretirement health care liability, as calculated by the actuaries, was approximately \$126,574,000, but under current GASB requirements, the amount recorded on the balance sheet as a liability was approximately \$119,962,000. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the Commonwealth has advised the State System that its share of the liability at June 30, 2015, is approximately \$73,032,000. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

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

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

**New Accounting Standards (continued)**

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

**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

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

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

The following represents combining condensed statement of financial position information for the discretely presented component units as of June 30, 2014:

	2014			Total
	SSI	The Foundation	The Association	
Due from University	\$ 220,583	\$ 527,304	\$ -	\$ 747,887
Capital Assets, Net	372,586	172,987,750	451,039	173,811,375
Other Assets	10,706,634	57,533,468	2,015,373	70,255,475
<b>Total Assets</b>	<b>\$ 11,299,803</b>	<b>\$ 231,048,522</b>	<b>\$ 2,466,412</b>	<b>\$ 244,814,737</b>
Due to University	\$ 44,108	\$ 2,127,672	\$ -	\$ 2,171,780
Long-Term Debt	-	217,424,173	-	217,424,173
Other Liabilities	1,523,441	31,113,540	501,894	33,138,875
<b>Total Liabilities</b>	<b>1,567,549</b>	<b>250,665,385</b>	<b>501,894</b>	<b>252,734,828</b>
Net Assets (Deficit):				
Unrestricted	9,732,254	(34,777,605)	1,931,893	(23,113,458)
Temporarily Restricted	-	6,172,029	32,625	6,204,654
Permanently Restricted	-	8,988,713	-	8,988,713
<b>Total Net Assets (Deficit)</b>	<b>9,732,254</b>	<b>(19,616,863)</b>	<b>1,964,518</b>	<b>(7,920,091)</b>
<b>Total Liabilities and Net Assets (Deficit)</b>	<b>\$ 11,299,803</b>	<b>\$ 231,048,522</b>	<b>\$ 2,466,412</b>	<b>\$ 244,814,737</b>

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

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

	2015			Total
	SSI	The Foundation	The Association	
<b>Changes in Unrestricted Net Assets:</b>				
Revenues and Other Additions:				
Contributions	\$ -	\$ 444,516	\$ 382,585	\$ 827,101
Investment Income	15,207	349,318	44,884	409,409
University Store	1,599,461	-	-	1,599,461
Student Activity Fees	4,241,774	-	-	4,241,774
Rental Income	-	28,379,572	-	28,379,572
Other Revenues	1,039,091	2,570,446	131,164	3,740,701
Change in Interest Rate Swap Agreement	-	(4,560,313)	-	(4,560,313)
Net Assets Released from Restrictions	-	2,587,712	-	2,587,712
<b>Total Revenues and Other Additions</b>	<b>6,895,533</b>	<b>29,771,251</b>	<b>558,633</b>	<b>37,225,417</b>
Expenses and Other Deductions:				
Program Expenses	4,507,335	31,151,425	312,765	35,971,525
University Store	1,260,256	-	-	1,260,256
Management and General	1,154,955	1,907,116	204,143	3,266,214
Distributions to University	50,000	3,694,778	-	3,744,778
<b>Total Expense and Other Deductions</b>	<b>6,972,546</b>	<b>36,753,319</b>	<b>516,908</b>	<b>44,242,773</b>
Increase (Decrease) in Unrestricted Net Assets	(77,013)	(6,982,068)	41,725	(7,017,356)
<b>Changes in Temporarily Restricted Net Assets:</b>				
Contributions	-	2,850,460	-	2,850,460
Investment Gains	-	297,045	-	297,045
Other Revenues	-	-	26,930	26,930
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(2,587,712)	-	(2,587,712)
Change in Split-Interest Agreements	-	(5,737)	-	(5,737)
<b>Increase in Temporarily Restricted Net Assets</b>	<b>-</b>	<b>554,056</b>	<b>26,930</b>	<b>580,986</b>
<b>Changes in Permanently Restricted Net Assets:</b>				
Contributions	-	1,215,609	-	1,215,609
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>(77,013)</b>	<b>(5,212,403)</b>	<b>68,655</b>	<b>(5,220,761)</b>
Net Assets (Deficit) - Beginning of Year	9,732,254	(19,616,863)	1,964,518	(7,920,091)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<b>\$ 9,655,241</b>	<b>\$ (24,829,266)</b>	<b>\$ 2,033,173</b>	<b>\$ (13,140,852)</b>

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**NOTE 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, 2014:

	2014			Total
	SSI	The Foundation	The Association	
<b>Changes in Unrestricted Net Assets:</b>				
Revenues and Other Additions:				
Contributions	\$ -	\$ 545,935	\$ 358,174	\$ 904,109
Investment Income	16,650	1,038,790	209,455	1,264,895
University Store	1,581,914	-	-	1,581,914
Student Activity Fees	4,178,594	-	-	4,178,594
Rental Income	-	21,581,977	-	21,581,977
Other Revenues	1,112,300	2,820,985	528,879	4,462,164
Change in Interest Rate Swap Agreement	-	(585,566)	-	(585,566)
Net Assets Released from Restrictions	-	2,185,088	3,000	2,188,088
<b>Total Revenues and Other Additions</b>	<b>6,889,458</b>	<b>27,587,209</b>	<b>1,099,508</b>	<b>35,576,175</b>
Expenses and Other Deductions:				
Program Expenses	4,589,178	25,830,902	298,467	30,718,547
University Store	1,177,613	-	-	1,177,613
Management and General	1,145,812	1,534,584	200,732	2,881,128
Distributions to University	34,000	3,211,661	-	3,245,661
<b>Total Expense and Other Deductions</b>	<b>6,946,603</b>	<b>30,577,147</b>	<b>499,199</b>	<b>38,022,949</b>
 Increase (Decrease) in Unrestricted Net Assets	 (57,145)	 (2,989,938)	 600,309	 (2,446,774)
<b>Changes in Temporarily Restricted Net Assets:</b>				
Contributions	-	2,713,176	-	2,713,176
Investment Gain	-	1,318,862	-	1,318,862
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	-	(2,185,088)	(3,000)	(2,188,088)
Change in Split-Interest Agreements	-	14,202	-	14,202
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<b>-</b>	<b>1,861,152</b>	<b>(3,000)</b>	<b>1,858,152</b>
<b>Changes in Permanently Restricted Net Assets:</b>				
Contributions	-	2,238,009	-	2,238,009
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>(57,145)</b>	<b>1,109,223</b>	<b>597,309</b>	<b>1,649,387</b>
Net Assets (Deficit) - Beginning of Year	9,789,399	(20,726,086)	1,367,209	(9,569,478)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<b>\$ 9,732,254</b>	<b>\$ (19,616,863)</b>	<b>\$ 1,964,518</b>	<b>\$ (7,920,091)</b>

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**NOTE 3 DEPOSITS AND INVESTMENTS**

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses of the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1 and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds was \$217,274,354 at June 30, 2015 and \$203,490,923 at June 30, 2014.

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.



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

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

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

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

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

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

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

At June 30, 2015 and 2014, the carrying amount of the University's demand and time deposits was \$272,642 and \$169,418, respectively, as compared to bank balances of \$267,888 and \$163,180, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2015 and 2014, \$267,888 and \$163,180, respectively, were covered by federal government depository insurance. All bank balances were covered by federal depository insurance or were collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve Banks in the name of the banking institutions, or uninsured but covered under the collateralization provisions of the Commonwealth's Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

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

	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
U.S. Treasury and Agency Obligations		0.20 - 0.70	\$ 72,206
Fixed Income Mutual Funds		1.00	81,036
Equity Mutual Funds			20,418,560
Common Stocks			1,001,560
Total Investments			<u>\$ 21,573,362</u>

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**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, 2014 is presented below:

	<u>Moody's Rating (If Applicable)</u>	<u>Modified Duration (Range) (If Applicable)</u>	<u>Fair Value</u>
U.S. Treasury and Agency Obligations		0.20 - 0.70	\$ 41,729
Fixed Income Mutual Funds		1.00	84,179
Equity Mutual Funds			20,074,937
Common Stocks			999,214
Total Investments			<u>\$ 21,200,059</u>

The University has no exposure to foreign currency risk.

**NOTE 4 SPLIT-INTEREST AGREEMENTS**

The University is a party to various charitable gift annuity contracts in which the University receives assets from the donor and agrees to pay the donors an annuity over the life of the donor. Assets received are carried at fair value and were \$385 in 2015 and \$4,880 in 2014. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was \$39,393 in 2015 and \$41,430 in 2014.

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**NOTE 5 CAPITAL ASSETS**

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

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

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**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	Estimated Lives in Years	Beginning Balance July 1, 2013	Additions	Retirements	Reclassifications	Ending Balance June 30, 2014
<b>Capital Assets Not Being Depreciated:</b>						
Construction in Progress		\$ 24,656,462	\$ 15,890,350	\$ (173,249)	\$ (27,928,501)	\$ 12,445,062
Land		6,002,438	-	-	142,740	6,145,178
<b>Total Capital Assets Not Depreciated</b>		<b>30,658,900</b>	<b>15,890,350</b>	<b>(173,249)</b>	<b>(27,785,761)</b>	<b>18,590,240</b>
<b>Capital Assets Being Depreciated, Cost:</b>						
Buildings and Improvements	10-40	220,580,610	-	-	25,766,240	246,346,850
Furnishings and Equipment	3-40	78,105,709	3,184,709	(549,337)	2,019,521	82,760,602
Library Books	10	7,910,133	266,911	(129,530)	-	8,047,514
<b>Total Capital Assets Being Depreciated</b>		<b>306,596,452</b>	<b>3,451,620</b>	<b>(678,867)</b>	<b>27,785,761</b>	<b>337,154,966</b>
<b>Less Accumulated Depreciation:</b>						
Buildings and Improvements		(85,366,737)	(8,850,501)	-	-	(94,217,238)
Furnishings and Equipment		(55,965,755)	(5,590,726)	423,880	-	(61,132,601)
Library Books		(6,454,332)	(288,979)	129,530	-	(6,613,781)
<b>Total Accumulated Depreciation</b>		<b>(147,786,824)</b>	<b>(14,730,206)</b>	<b>553,410</b>	<b>-</b>	<b>(161,963,620)</b>
<b>Total Capital Assets Being Depreciated, Net</b>		<b>158,809,628</b>	<b>(11,278,586)</b>	<b>(125,457)</b>	<b>27,785,761</b>	<b>175,191,346</b>
<b>Capital Assets, Net</b>		<b>\$ 189,468,528</b>	<b>\$ 4,611,764</b>	<b>\$ (298,706)</b>	<b>\$ -</b>	<b>\$ 193,781,586</b>

**NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	<u>2015</u>	<u>2014</u>
Employees	\$ 13,791,937	\$ 12,503,926
Suppliers and Services	4,383,888	4,655,117
Other	3,468,748	3,455,398
Interest	211,995	215,272
<b>Total</b>	<b>\$ 21,856,568</b>	<b>\$ 20,829,713</b>

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**NOTE 7 BONDS PAYABLE**

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

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

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**NOTE 7 BONDS PAYABLE (CONTINUED)**

	2014				
	Weighted Average Interest Rate	Balance July 1, 2013	Bonds Issued	Bonds Redeemed	Balance June 30, 2014
Series AC Used for Dining Hall Project	4.90%	\$ 294,631	\$ -	\$ (18,615)	\$ 276,016
Series AE used for ESCO Project	4.99%	6,879,129	-	(715,472)	6,163,657
Series AF Used for ESCO Project and to Build a Recreation Center	4.95%	6,400,619	-	(512,424)	5,888,195
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.60%	1,807,815	-	(935,006)	872,809
Series AI Used for Sprinklers, Refunded V, Y, AB and AD	4.01%	5,606,255	-	(436,416)	5,169,839
Series AJ Used to Build a Recreation Center	4.90%	3,860,000	-	(165,000)	3,695,000
Series AK Used to Current Refund Series S (Harvey Green and Phillips)	3.66%	1,014,738	-	(130,910)	883,828
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	9,048,668	-	(336,758)	8,711,910
Series AM Used to Build a Recreation Center	4.62%	19,695,000	-	(4,547,787)	15,147,213
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls and Sykes Union)	4.78%	5,891,881	-	(1,796,152)	4,095,729
Total Bonds Payable		<u>\$ 60,498,736</u>	<u>\$ -</u>	<u>\$ (9,594,540)</u>	50,904,196
Plus Unamortized Bond Premium Costs, Net Outstanding at End of Year					<u>2,459,204</u> <u>\$ 53,363,400</u>

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**NOTE 7 BONDS PAYABLE (CONTINUED)**

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

Series	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	2036-2041	Total
AF Principal	566,451	594,020	624,028	656,105	688,552	1,902,657	317,131	-	-	5,348,944
AF Interest	267,453	239,130	209,429	178,228	145,423	276,235	23,988	-	-	1,339,886
AF Total	833,904	833,150	833,457	834,333	833,975	2,178,892	341,119	-	-	6,688,830
AG Principal	290,936	306,090	-	-	-	-	-	-	-	597,026
AG Interest	29,851	15,304	-	-	-	-	-	-	-	45,155
AG Total	320,787	321,394	-	-	-	-	-	-	-	642,181
AI Principal	466,557	486,346	506,135	525,925	546,551	2,187,434	-	-	-	4,718,948
AI Interest	197,637	178,974	159,520	139,275	118,238	248,168	-	-	-	1,041,812
AI Total	664,194	665,320	665,655	665,200	664,789	2,435,602	-	-	-	5,760,760
AI Principal	180,000	190,000	200,000	210,000	220,000	1,270,000	1,255,000	-	-	3,525,000
AI Interest	169,463	160,463	150,963	140,963	130,463	476,563	148,775	-	-	1,377,653
AI Total	349,463	350,463	350,963	350,963	350,463	1,746,563	1,403,775	-	-	4,902,653
AK Principal	138,362	144,075	149,292	155,999	161,712	-	-	-	-	749,440
AK Interest	29,978	24,443	18,680	12,708	6,469	-	-	-	-	92,278
AK Total	168,340	168,518	167,972	168,707	168,181	-	-	-	-	841,718
AL Principal	368,590	385,142	406,685	429,001	446,252	2,396,251	3,007,567	925,000	-	8,364,488
AL Interest	418,224	399,795	380,538	360,204	338,754	1,349,767	697,050	143,750	-	4,088,082
AL Total	786,814	784,937	787,223	789,205	785,006	3,746,018	3,704,617	1,068,750	-	12,452,570
AM Principal	425,898	445,616	469,277	488,994	512,655	2,985,230	3,718,721	4,637,556	1,057,085	14,741,032
AM Interest	859,125	832,125	803,875	780,075	749,075	3,217,613	2,284,900	1,111,031	60,300	10,698,119
AM Total	1,285,023	1,277,741	1,273,152	1,269,069	1,261,730	6,202,843	6,003,621	5,748,587	1,117,385	25,439,151
AN Principal	480,366	498,433	521,067	393,411	409,349	1,331,224	-	-	-	3,633,850
AN Interest	152,727	129,808	105,907	74,086	54,963	51,122	-	-	-	568,613
AN Total	633,093	628,241	626,974	467,497	464,312	1,382,346	-	-	-	4,202,463
AQ Principal	622,725	851,379	899,298	945,470	991,694	1,159,751	-	-	-	5,470,317
AQ Interest	306,946	242,380	199,811	154,846	107,572	72,899	-	-	-	1,084,454
AQ Total	929,671	1,093,759	1,099,109	1,100,316	1,099,266	1,232,650	-	-	-	6,554,771
Total Principal	3,539,885	3,901,101	3,775,782	3,804,905	3,976,765	13,232,547	8,298,419	5,562,556	1,057,085	47,149,045
Total Interest	2,431,404	2,222,422	2,028,723	1,840,385	1,650,957	5,692,367	3,154,713	1,254,781	60,300	20,336,052
Total	\$ 5,971,289	\$ 6,123,523	\$ 5,804,505	\$ 5,645,290	\$ 5,627,722	\$ 18,924,914	\$ 11,453,132	\$ 6,817,337	\$ 1,117,385	\$ 67,485,097



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**NOTE 7 BONDS PAYABLE (CONTINUED)**

The University participated in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program provided \$100,000,000 in funding over several years. The State System issued bonds to provide a pool for AFRP funding (\$29,552,778 and \$33,625,368 was outstanding as of June 30, 2015 and 2014, respectively). Universities requested funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	<u>2015</u>	<u>2014</u>
Balance at July 1	\$ 2,024,511	\$ 2,434,335
Repayments	(426,353)	(409,824)
Balance at June 30	<u>\$ 1,598,158</u>	<u>\$ 2,024,511</u>

**NOTE 8 DEBT REFUNDING**

In May 2015, the net proceeds from the Series AQ revenue bonds, together with funds provided by the State System, were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to current refund Series AC and advance refund Series AE revenue bonds. This refunding was performed to reduce debt service by approximately \$321,600 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$314,500. The economic gain is reported as a deferred outflow of resources. As of June 30, 2015, \$0 of Series AC and \$71,565,000 of Series AE Revenue Bonds remained outstanding and the fair market value of the escrow account was \$74,877,000. The funds in escrow will be used to pay the December 15, 2015 interest payment and the June 30, 2016 principal and interest payment of Series AE. Neither the funds in escrow nor the outstanding balance of Series AE is reflected in the balance sheet.

**NOTE 9 CAPITAL LEASE OBLIGATION**

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

	<u>2015</u>	<u>2014</u>
Balance at July 1	\$ 16,148,415	\$ 16,911,341
Increases	30,624	20,457
Repayments	(771,381)	(783,383)
Balance at June 30	<u>\$ 15,407,658</u>	<u>\$ 16,148,415</u>

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

Capital assets include three parking garages under capital leases of \$20,732,062 and \$20,721,825 at June 30, 2015 and 2014, respectively, which is reported net of accumulated depreciation of \$5,055,529 in 2015 and \$4,366,928 in 2014. In addition, capital assets includes equipment under capital lease of \$147,210 at June 30, 2015 and \$248,083 at June 30, 2014 which are reported net of accumulated depreciation of \$91,039 at June 30, 2015 and \$160,197 at June 30, 2014.

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, 2015:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 1,219,318
2017	1,207,362
2018	1,201,186
2019	1,199,239
2020	1,188,656
Thereafter	<u>14,173,275</u>
Total Minimum Lease Payments	20,189,036
Less: Amount Representing Interest	<u>(4,781,378)</u>
Net Present Value of Minimum Lease Payments	15,407,658
Less: Current Portion	<u>766,579</u>
Long-Term Capital Lease Obligations	<u>\$ 14,641,079</u>

**NOTE 10 UNEARNED REVENUE**

Unearned revenue consists of the following components at June 30:

	<u>2015</u>		<u>2014</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Student Tuition and Fees	4,951,793	1,830	\$ 5,115,329	\$ 3,662
Grants	354,209	-	240,791	-
Sales and Services	184,216	-	165,037	4,748
Other	786,896	-	654,446	-
Total	<u>\$ 6,277,114</u>	<u>\$ 1,830</u>	<u>\$ 6,175,603</u>	<u>\$ 8,410</u>

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**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS**

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

	<u>2015</u>		<u>2014</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 288,774	\$ 13,803,775	\$ 1,093,752	\$ 12,710,023
Postretirement Benefit Obligations	-	119,961,870	7,721,000	107,446,529
Total	<u>\$ 288,774</u>	<u>\$ 133,765,645</u>	<u>\$ 8,814,752</u>	<u>\$ 120,156,552</u>

**Compensated Absences**

The changes in compensated absences are as follows:

	<u>2015</u>	<u>2014</u>
Balance at July 1	\$ 13,803,775	\$ 12,710,022
Current Changes in Estimate	1,650,653	1,542,647
Payouts	(1,361,879)	(448,894)
Balance at June 30	<u>\$ 14,092,549</u>	<u>\$ 13,803,775</u>

**Postretirement Benefits**

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

**System Plan**

**Plan Description**

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

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

System Plan (Continued)

Funding Policy

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

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

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

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

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 11,693,785	\$ 16,651,000
Interest on Net OPEB Obligation	4,517,794	4,167,000
Adjustment to Annual Required Contribution	<u>(5,937,807)</u>	<u>(5,258,000)</u>
Annual OPEB Cost	10,273,772	15,560,000
Contributions Made	<u>(5,479,431)</u>	<u>(5,268,110)</u>
Increase in Net OPEB Obligation	4,794,341	10,291,890
Net OPEB Obligation, Beginning of Year	<u>115,167,529</u>	<u>104,875,639</u>
Net OPEB Obligation, End of Year	<u>\$ 119,961,870</u>	<u>\$ 115,167,529</u>

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 10,273,772	53.3 %	\$ 119,961,870
2014	15,560,000	33.9 %	115,167,529
2013	14,850,000	34.1 %	104,875,639

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

System Plan (Continued)

Funded Status and Funding Progress

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

Actuarial Accrued Liability (AAL)	\$ 126,574,305
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 126,574,305</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>0%</u>
Covered Payroll	<u>\$ 79,542,151</u>
UAAL as a Percentage of Covered Payroll	<u>159.1%</u>

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

Actuarial Methods and Assumptions

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

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

**System Plan (Continued)**

**Actuarial Methods and Assumptions (Continued)**

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

**Retired Employees Health Program**

**Plan Description**

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

**Funding Policy**

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
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**NOTE 12 PENSION BENEFITS**

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

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

	SERS	PSERS	ARP	Total
Net Pension Liabilities	\$63,069,996	\$8,892,586	N/A	\$71,962,582
Deferred Outflows of Resources	\$5,094,657	\$910,655	N/A	\$6,005,312
Deferred Inflows of Resources	\$783,834	\$635,760	N/A	\$1,419,594
Pension Expense	\$7,313,940	\$838,670	\$7,159,390	\$15,312,000
Contributions Made (pay-as-you-go)	\$5,117,734	\$664,810	\$7,159,390	\$12,941,934
Contributions Recognized by Pension Plans	\$5,065,638	\$664,810	N/A	\$5,730,448

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

**SERS**

*Plan Description*

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

*Benefits Provided*

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



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**NOTE 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.

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

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

*Contributions*

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

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**NOTE 12**      **PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

*Contributions (continued)*

The University contributed at actuarially determined rates of between 13.77% and 19.92% of active members' annual covered payroll at June 30, 2015. The University's contributions to SERS for the years ended June 30, 2015, 2014, and 2013, were approximately \$5,118,000, \$3,772,000, and \$2,491,000, respectively, equal to the required contractual contribution.

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

*Assumptions*

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

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

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

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

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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)  
Assumptions (continued)

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

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

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

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

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2014	\$80,728,077	\$63,069,996	\$47,886,906
2013	\$76,220,777	\$58,725,465	\$43,686,468

*Fiduciary Net Position*

The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at [www.sers.state.pa.us](http://www.sers.state.pa.us). The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. 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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

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

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

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

For the year ended June 30, 2015, the University recognized SERS pension expense of \$7,313,940. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the SERS pension are as follows.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 342,388	\$ -
Net difference between projected and actual investment earnings	1,822,297	-
Changes in proportions	-	594,814
Difference between employer contributions and proportionate share of total contributions	-	189,020
Contributions after the measurement date	2,929,972	-
	<u>\$ 5,094,657</u>	<u>\$ 783,834</u>

The University will recognize the \$2,929,972 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the SERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in SERS pension expense as follows.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

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

Fiscal Year Ended	Amortization
June 30, 2016	\$359,608
June 30, 2017	359,608
June 30, 2018	359,608
June 30, 2019	359,608
June 30, 2020	(57,580)
	\$ 1,380,852

**PSERS**

*Plan Description*

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

*Benefits Provided*

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

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

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

*Benefits Provided (continued)*

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.

*Employer Contributions*

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2015, was 20.5% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 10.25% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2015, was approximately \$665,000. The University's contributions to PSERS for the years ended June 30, 2014 and 2013, were approximately \$496,000 and \$339,000, respectively, equal to the required contractual contribution.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

*Actuarial Assumptions*

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

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

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

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

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

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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)  
*Actuarial Assumptions (continued)*

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19.00%	5.00%
Private markets (equity)	21.00%	6.50%
Private real estate	13.00%	4.70%
Global fixed income	8.00%	2.00%
U.S. long treasuries	3.00%	1.40%
TIPS	12.00%	1.20%
High-yield bonds	6.00%	1.70%
Cash	3.00%	0.90%
Absolute return	10.00%	4.80%
Risk parity	5.00%	3.90%
MLPs/Infrastructure	3.00%	5.30%
Commodities	6.00%	3.30%
Financing (LIBOR)	-9.00%	1.10%
	100.00%	

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

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

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

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2014	\$11,092,510	\$8,892,586	\$7,014,759



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

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

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

Total PSERS net pension liability associated with the University	\$ 17,785,172
Commonwealth's proportionate share of the PSERS net pension liability associated with the University	<u>8,892,586</u>
University's proportionate share of the PSERS net pension liability	<u><u>\$ 8,892,586</u></u>

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

For the year ended June 30, 2015, the University recognized PSERS' pension expense of \$838,670. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 635,760
Changes in proportions	211,710	-
Difference between employer contributions and proportionate share of total contributions	37,127	-
Contributions after the measurement date	661,818	-
	\$ 910,655	\$ 635,760

The University will recognize the \$661,818 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PSERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as PSERS pension expense as follows.

Fiscal Year Ended	Amortization
June 30, 2016	\$ (98,979)
June 30, 2017	(98,979)
June 30, 2018	(98,979)
June 30, 2019	(98,979)
June 30, 2020	8,994
	\$ (386,922)

**ARP**

Because the ARP is a defined contribution plan, benefits depend upon amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University contribution rate on June 30, 2015 and 2014 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2015 and 2014 were approximately \$7,159,000 and \$6,654,000, respectively, from the University and \$3,866,071 and \$4,391,486, respectively, from active members.

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**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 \$33,407 and \$87,631 to the Reserve Fund in 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the aggregate liability for claims under the self-insurance limit was \$1,104,249 and \$1,070,842, respectively. Changes in the workers' compensation claims liability amount in fiscal years 2015 and 2014 follow:

	<u>2015</u>	<u>2014</u>
Balance at July 1	\$ 1,070,842	\$ 1,158,473
Current Year Claims and Changes in Estimates	73,372	(31,531)
Payments	(39,965)	(56,100)
Balance at June 30	<u>\$ 1,104,249</u>	<u>\$ 1,070,842</u>

**NOTE 14 COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS**

Authorized expenditures for ongoing construction projects at June 30, 2015 and 2014 were approximately \$9,933,000 and \$13,063,000, respectively.

The nature of the education 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.

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**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.

New regulation under the federal Affordable Care Act require the University to complete and submit various reports and forms to employees and the Internal Revenue Service (IRS) between January 31, 2016 and March 31, 2016, for the calendar year ending December 31, 2015. Failure to submit the required information accurately and on time could result in significant IRS penalties. The State System is in the process of implementing the Affordable Care Act requirements and expects to be in compliance by the applicable deadlines. No reporting or compliance penalties are anticipated as of June 30, 2015.

**NOTE 15 RATINGS ACTIONS**

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In April 2015, Moody's reaffirmed the outlook for the rating as negative. In April 2015, Fitch Ratings downgraded the State System's rating from AA to AA- and revised the outlook 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.

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 16 GROUND LEASE (CONTINUED)**

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

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

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

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

WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

**NOTE 16 GROUND LEASE (CONTINUED)**

At June 30, 2015, future minimum lease payments due under the ground leases are as follows:

<u>Year Ending June 30,</u>	<u>2003 Lease</u>	<u>2008 Lease</u>	<u>2013 Lease</u>	<u>2014 Lease</u>
2016	\$ 69,212	\$ 8,428	\$ 31,266	\$ 10,100
2017	71,288	8,680	31,579	10,201
2018	73,427	8,941	31,895	10,303
2019	75,629	9,209	32,213	10,406
2020	77,898	9,485	32,858	10,510
Thereafter	1,563,588	326,011	1,338,994	882,391

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 \$1,192,554 and \$1,026,332 for the years ended June 30, 2015 and 2014, respectively. The University is responsible for leasehold improvements. The lease term is 29.5 years.

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

Schedule of Funding Progress for the System Plan (OPEB)

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

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

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

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

**WEST CHESTER UNIVERSITY OF PENNSYLVANIA OF THE  
STATE SYSTEM OF HIGHER EDUCATION  
SUPPLEMENTARY SCHEDULES OF PROPORTIONATE SHARE OF  
NET PENSION LIABILITY AND CONTRIBUTIONS (SERS AND PSERS)  
YEARS ENDED JUNE 30, 2015 AND 2014  
(UNAUDITED)**

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

*Determined as of December 31, 2014, 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	0.424502%	\$63,069,996	\$25,724,299	245%	64.8%

**SERS Schedule of Contributions**

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

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

*Determined as of June 30, 2014, PSERS Measurement Date*

Fiscal Year	PSERS Net Pension Liability				University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	University's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total			
2014/15	0.022467%	\$8,892,586	\$8,892,586	\$17,785,172	\$2,866,773	310%	57.2%

**PSERS Schedule of Contributions**

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