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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

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

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YEARS ENDED JUNE 30, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of West Chester University of Pennsylvania of the State System of Higher Education (the University) as of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-15, the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 67, and the Schedules of Proportionate Share of Net Pension Liability and Contributions (SERS and PSERS) on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 30, 2017

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, 2017 and 2016. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow.

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

The University functions independently, but being part of the State System enables the University to share resources and benefit from economies of scale. Following is an overview of the University's financial activities for the years ended June 30, 2017 and 2016.

Financial Highlights

- The total Commonwealth appropriation to the State System for operations in fiscal year 2016-17 was $444.2 million, a 2.5% increase from the $433.4 million appropriated in fiscal year 2015-16.

- The University's share of the base appropriation, through the allocation formula, increased by $1.6 million to $46.9 million. This represents a 3.6% increase from fiscal year 2015-16.

- The University also received an allocation of Commonwealth funding that the State System set aside for performance. The performance funding plan is part of the State System's continuing commitment to ensure the high quality of university programs. It rewards universities for success on measures such as productivity, diversity, and student advancement. In fiscal year 2016-17, the University received $6.2 million in performance funding; in the prior fiscal year, the University received $5.5 million in performance funding. This represents a 12.7% increase from fiscal year 2015-16.

- Total general fund appropriations from the Commonwealth for operations allocated to the University in fiscal year 2016-17 were $53.0 million; in the prior fiscal year, they were $50.7 million. This represents a 4.6% increase from fiscal year 2015-16.

- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth-funded construction, increased by $0.1 million to $1.8 million in fiscal year 2016-17. This represents an increase of 5.1% from fiscal year 2015-16.

Financial Highlights (Continued)

- The State System's Board approved a tuition increase of 2.5% for both in-state and out-of-state students at the undergraduate level for fiscal year 2016-17; the increase for 2015-16 was 3.5% for both. For graduate students the increase was 2.8% for in-state students and out-of-state students for fiscal year 2016-17. This compares to a 3.5% increase in fiscal year 2015-16. The State System's Board also increased the undergraduate technology tuition fee by 2.7% in fiscal year 2016-17. The technology tuition fee in fiscal year 2015-16 increased 3.3% for in-state students and 3.4% for out-of-state students. For graduate students the technology tuition fee increased by $1.00 per credit for both in-state students and out-of-state students in fiscal year 2016-17. This is similar to the increase in fiscal year 2015-16. Universities must use the technology tuition fee to support instructional technology.

- Mandatory fees for all undergraduate students set by the University increased by 3.5% in fiscal year 2016-17 and by 3.4% in fiscal year 2015-16. Mandatory fees for graduate students increased by 3.7% in fiscal year 2016-17 and by 3.5% in fiscal year 2015-16. Room rates (North and South Campus) increased 8.8% and 2.5% respectively. These room rates have not increased since fiscal year 2011-12. The food service rates increased 5.3% for both the 12-meal plan and the 14-meal plan in fiscal year 2016-17, compared to 2.5% for the 12-meal and 2.6% for the 14-meal plan for fiscal year 2015-16.

- Tuition and fee revenue (net of discounts) was $151.6 million for fiscal year 2016-17 and $147.3 million for fiscal year 2015-16. In addition, revenue from auxiliary enterprises (net of discounts) was $38.9 million in fiscal year 2016-17 and $37.7 million in fiscal year 2015-16. Auxiliary enterprise revenues are generated primarily from room and food service charges.

- The University purchased $34.4 million in capital assets in fiscal year 2016-17, as compared to $14.5 million in fiscal year 2015-16. Major projects in progress or completed during the fiscal year included continuation of the infrastructure and geothermal projects, renovation of Sykes Student Union, the completion of the new Business and Public Management Center (BPMC) and the Wayne 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 2016-17 and 2015-16.

- During fiscal year 2002-03, the University entered into an agreement with the Borough of West Chester to construct and operate the Sharpless and Matlack parking structures. The University has recorded this agreement as a capital lease obligation. One parking structure was completed in the fall of 2003, while the other was completed in the fall of 2004. The projects were financed through a general revenue bond issuance of $9.6 million, issued by the Borough of West Chester. The net amount outstanding on this debt was $5.5 million and $5.8 million at June 30, 2017 and 2016, respectively.

Financial Highlights (Continued)

- During fiscal year 2012-13, the University entered into an agreement with the Borough of West Chester to construct and operate the New Street parking structure. The University has recorded this agreement as a capital lease obligation. The project was financed through a general revenue bond issuance of $9.82 million, issued by the Borough of West Chester. The net amount outstanding on this debt was $8.4 million and $8.8 million at June 30, 2017 and 2016, 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 nonrecourse to the University. Construction began shortly thereafter and was completed in the first half of fiscal year 2004-05.

- In March of 2008, USH issued $100.3 million in revenue bonds through the Chester County Industrial Development Authority for the first phase of a proposed three-phase Housing Renewal Initiative. This replaced most of the University's existing housing. The first phase, comprised of two buildings (Allegheny and Brandywine), was completed and occupied at the start of the 2009 Fall semester.

- On June 22, 2012, the Foundation entered into a loan agreement with DNB First, NA in the amount of $2.4 million for the purchase of real estate located at 202 Carter Drive, West Chester, PA. The property is the administrative offices of the Foundation and the Alumni Association, Inc.

- On August 28, 2012, USH obtained a commitment to borrow up to $22.0 million as a loan payable to a bank. The proceeds from the loan were used solely to finance the construction of a new apartment style student housing building (East Village Housing).

- On February 1, 2013, USH entered into a loan agreement of $57.5 million with Chester County Industrial Development Authority (CCIDA), for the construction of student housing facilities (Commonwealth Hall). As of June 30, 2017 and 2016, the outstanding balance was $27.6 million and $28.0 million, respectively.

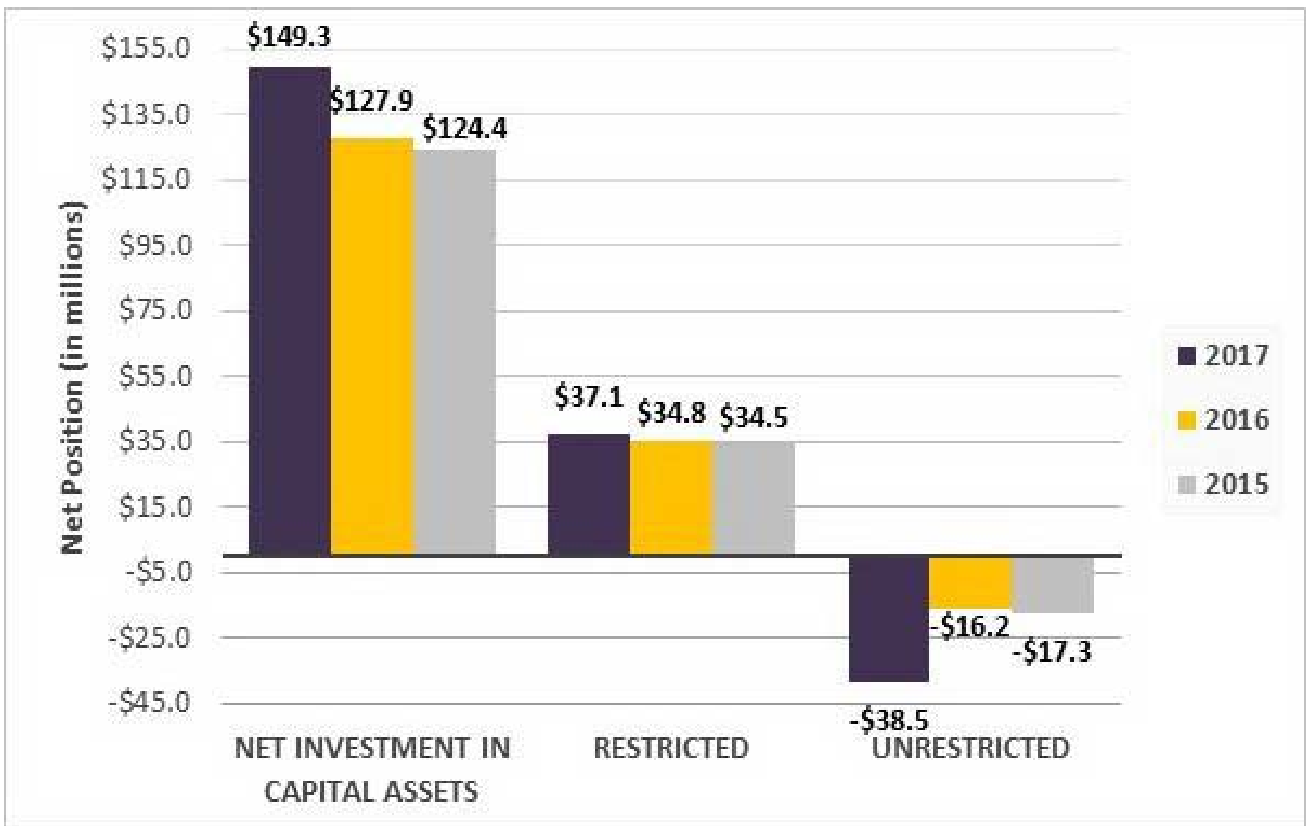
- On July 15, 2016, the University entered into a letter of understanding agreement (LOU) with Cheyney University to provide administrative services at cost in the areas of: financial services, procurement, facilities planning, construction management, facilities operations, and human resources.

The Financial Statements

Balance Sheet

This statement reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. Assets include cash; investments reported at fair value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees). The difference between the assets, deferred outflows of resources and liabilities, deferred inflows of resources is reported as net position. Net position increased by $1.3 million and $5.0 million in fiscal years 2016-17 and 2015-16, respectively.

Net Position (in millions)



The Financial Statements (Continued)

Balance Sheet (Continued)

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

	2017	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Capital Assets, Net	$ 205.0	$ 188.5	$ 190.9
Other Assets and Deferred Outflows of Resources	289.4	288.0	263.4
Total Assets and Deferred Outflows of Resources	$ 494.4	$ 476.5	$ 454.3
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES			
Workers' Compensation, Compensated Absences, and Postretirement Obligations	$ 144.2	$ 139.8	$ 135.2
Net Pension Liability	98.2	86.9	72.0
Bonds Payable	41.8	46.0	49.8
Other Liabilities and Deferred Inflows of Resources	62.4	57.3	55.8
Total Liabilities and Deferred Inflows of Resources	346.6	330.0	312.8
NET POSITION			
Net Investment in Capital Assets	149.3	127.9	124.4
Restricted	37.0	34.8	34.4
Unrestricted	(38.5)	(16.2)	(17.3)
Total Net Position	147.8	146.5	141.5
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 494.4	$ 476.5	$ 454.3

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

- Net investment in capital assets is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation and less any associated debt such as bonds payable. This balance is not available for the University's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling University land and buildings without prior approval.

- Restricted net position represents the balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. Nonexpendable restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is available for expenditure as long as any external purpose and time restrictions are met.

The Financial Statements (Continued)

Balance Sheet (Continued)

- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced by three unfunded liabilities:

  1. The liability for postretirement benefits increased by $3.4 million to $127.8 million at June 30, 2017. Because this liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.

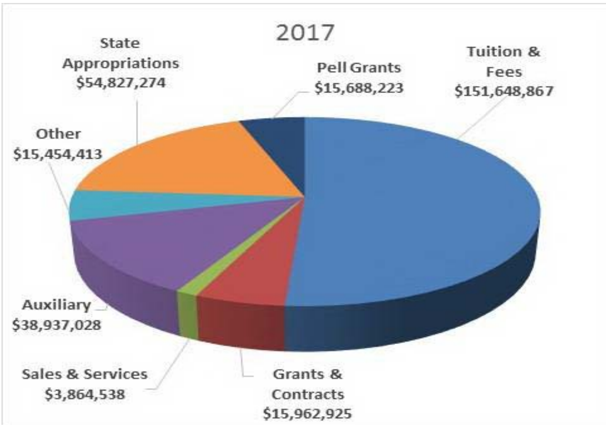
  2. The liability for compensated absences increased by $0.8 million to $15.2 million at June 30, 2017. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it becomes due.

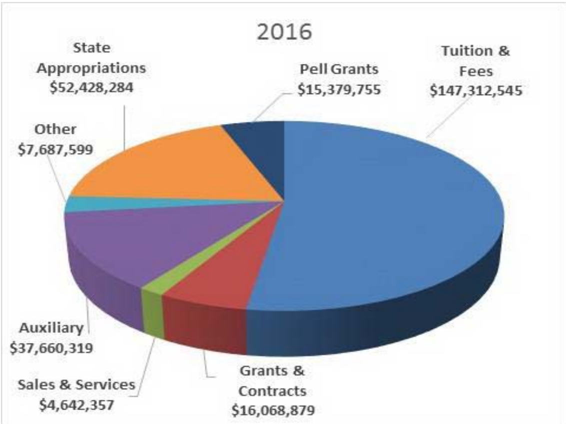
  3. Due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, the combined pension liability for fiscal year 2016-17 was $98.2 million comprised of $85.9 million for the State Employee Retirement System (SERS) and $12.3 million for the Public School Employees' Retirement System (PSERS). This is an increase of $11.2 million from fiscal year 2015-16.

Statement of Revenues, Expenses, and Changes in Net Position

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

Operating and Nonoperating Revenues

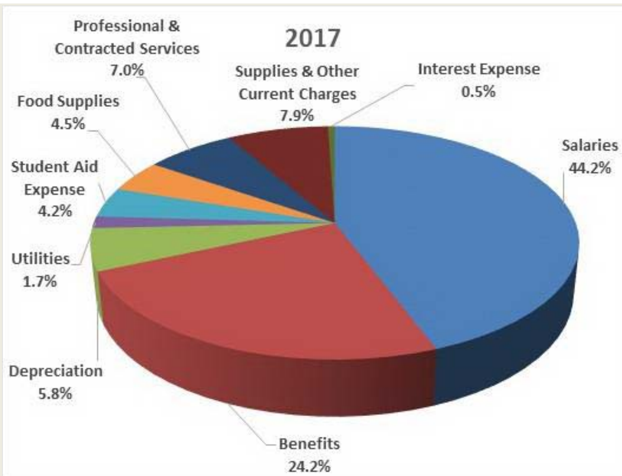


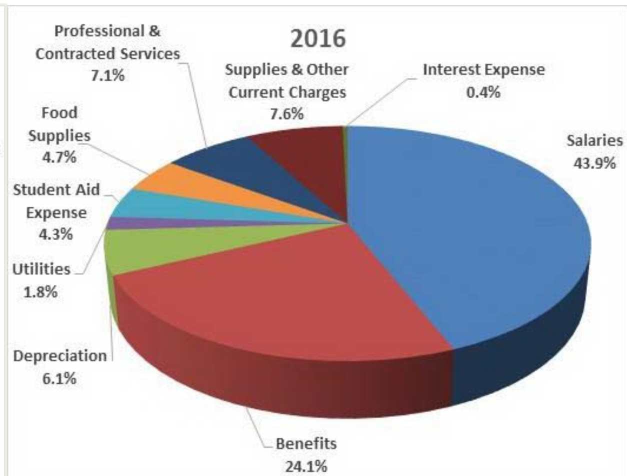


The Financial Statements (Continued)

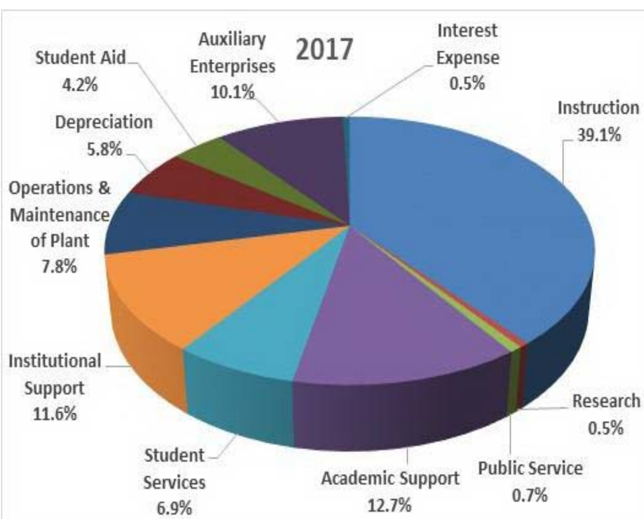
Statement of Revenues, Expenses, and Changes in Net Position (Continued)

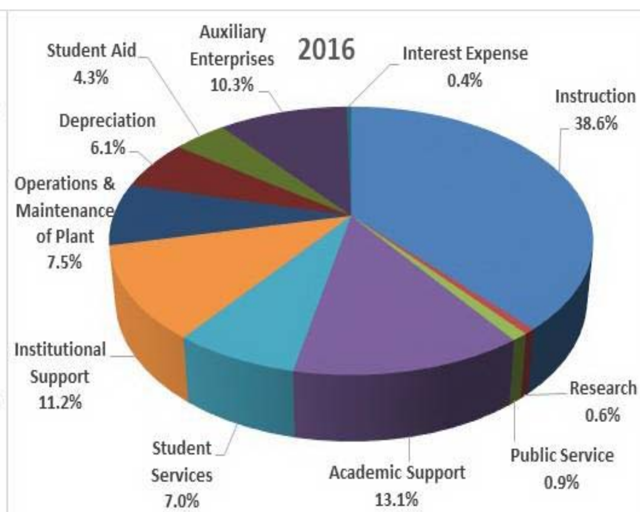
Total Operating Expenditures by Source





Total Operating Expenditures by Function





The Financial Statements (Continued)

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

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

	2017	2016	2015
Operating Revenues:			
Tuition and Fees, Net	$ 151.6	$ 147.3	$ 139.8
Grants and Contracts	15.0	14.0	13.4
Auxiliary Enterprises, Net	39.0	37.7	36.4
Other	9.3	5.8	7.4
Total Operating Revenues	214.9	204.8	197.0
Other Revenues:			
State Appropriations	54.8	52.4	49.5
Investment Income, Net (Includes Unrealized Gains and Losses)	6.3	2.7	3.1
Gifts, Grants, and Other	20.4	21.3	18.7
Total Other Revenues	81.5	76.4	71.3
Total Revenues	296.4	281.2	268.3
Operating Expenses:			
Personnel Compensation:			
Salaries	130.5	117.5	115.5
Benefits	53.4	52.3	45.2
Post Retirement Expense	14.3	14.3	13.6
Student Wages	3.8	3.8	3.2
Total Personnel Compensation	202.0	187.9	177.5
Telecommunications Charges	0.4	0.5	0.5
Travel and Transportation	2.5	2.5	2.1
Computing and Data Processing	2.6	2.8	2.5
Professional and Contracted Services	7.9	8.2	6.8
Utilities	4.8	5.3	5.1
Food Supplies	13.3	13.0	12.3
Depreciation	17.2	16.8	15.8
Student Aid Expense	12.3	11.8	11.1
Supplies and Other Current Charges	30.6	26.4	23.5
Total Operating Expenses	293.6	275.2	257.2
Other Expenses:			
Interest Expense	1.5	1.0	2.1
Total Expenses	295.1	276.2	259.3
Increase in Net Position	1.3	5.0	9.0
Net Position - Beginning of Year	146.5	141.5	197.6
Restatement for July 1, 2014, Pension Liability and Related Expense	-	-	(65.0)
Net Position - Beginning of Year, as Restated	146.5	141.5	132.5
Net Position - End of Year	$ 147.8	$ 146.5	$ 141.5

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

The Financial Statements (Continued)

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

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

- Financial aid to students in the form of waivers and scholarships was $22.0 million, an increase of $1.0 million or 4.8% from fiscal year 2015-16. 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 2016-17 was $6.3 million, an increase of $3.6 million from the prior year. This increase was due to an unrealized gain of $2.9 million on investment compared to a unrealized loss of $0.1 million in fiscal year 2015-16.

- The University spent $130.5 million, or 44.2% of its operating expenses, on salaries in fiscal year 2016-17 as compared to $117.5 million, or 43.9% of its operating expenses, in fiscal year 2015-16. Benefit costs increased in fiscal 2016-17 to $53.4 million from $52.3 million the prior year. Postretirement costs were unchanged at $14.3 million for both fiscal years 2016-17 and 2015-16. In total, the University spent $202.0 million on salaries, postretirement expense, wages, and benefits, or 68.8% of operating expenditures, in fiscal 2016-17, and $187.9 million, or 68.3% of operating expenditures, in fiscal 2015-16.

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 2017-18, the Commonwealth will provide an appropriation for operations of $453.1 million to PASSHE. This is an increase of $8.9 million or 2.0% from last year's allocation to PASSHE of $444.2 million. The University's share of the appropriation increased to $49.8 million in fiscal year 2017-18. This compares to $46.9 million in fiscal year 2016-17 and represents a 6.2% increase. The University's share of performance funding is unknown at this time. The total amount of performance funding allocated by PASSHE in fiscal year 2016-17 remained constant at $39.0 million dollars.

The Financial Statements (Continued)

Future Economic Factors (Continued)

- The State System's Board approved tuition increases of 3.5% for both in-state and out-of-state undergraduate students as well as both in-state and out-of-state graduate students. In addition, the Board increased the technology fee by 3.5 % for both in-state and out-of-state undergraduate students. The technology fee increased by 3.8% for in-state graduate students and 2.6% for out-of-state graduate students. Mandatory student fees set by the University will increase 5.9% for undergraduate students and by 28.1% for graduate students. Room rates (North Campus and South Campus) will increase 2.5%. Food service plans will increase 5.3% for both the 12 and 14-meal plans.

- West Chester University has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. However, several conditions could limit the University's financial flexibility in fiscal year 2017-18 and beyond:

  1. <u>Plans for Necessary Facilities Upgrades</u> – These requirements could commit a significant portion of the University's available fund balance. However, fees to support investments in facilities and sustainable energy, which were implemented beginning in fiscal year 2009-10, generate over $3.0 million per year. Additionally, the University has been building reserves to help fund its major projects, including the Business and Public Management Center, which opened in January of 2017; the renovation of Wayne Hall from a discontinued residence hall to an academic building; the renovation of Anderson Hall; and The Commons, which will be a combined academic building and dining facility. By building reserves for these and other projects, the University will rely less on debt financing and fee increases than otherwise would be required. New and re-purposed facilities also will require additional funding for operation and maintenance, which the University has been incorporating into its budgets.

  2. <u>Increased Costs for Salaries and Benefits Mandated by Collective Bargaining Agreements</u> – In October 2016 PASSHE signed a new contract with the faculty union, APSCUF. This contract has significant salary increases during the next three years. These salary increases will further constrain the University's financial flexibility.

  3. <u>Increases in Employer Retirement Contributions</u> – While employer retirement contribution rates had held fairly steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System (SERS) ended starting in fiscal year 2010-11. SERS is the most common defined benefit plan offered by the University. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, decisions by the SERS Board to defer funding obligations, and previous investment losses, the rate for the most common SERS plan is expected to increase to 35.13% of employees' eligible salaries in fiscal year 2018-19.

The Financial Statements (Continued)

Future Economic Factors (Continued)

4. Increased Health Care Costs – As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, employees of the University (and the State System as a whole) started to share in the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while still providing quality services to employees. Beginning January 1, 2016, the State System implemented higher levels of employee cost-sharing for certain categories of employees.

5. Volatility in Energy Costs – To help offset the volatility in energy costs, the University contracted with an energy savings company to recommend and implement facilities improvements to help reduce the University's annual utility expense. Based on the recommended improvements, the University conservatively estimates almost $8 million in net savings/cost avoidance over a 15-year period. Those estimated savings will be used to fund necessary deferred maintenance projects that will be accomplished at the same time as the energy-savings improvements. In addition, the University has embarked 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.

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

   Another possible solution that the State System might employ is consolidating certain services among two or more universities to achieve economies of scale. The State System already adopted this approach on a limited basis by requesting that West Chester University provide certain administrative and finance services — on a reimbursement basis — to Cheyney University. Effective January 2017, West Chester University completed its transition of providing administrative services to Cheyney University at cost in the areas of: financial services, procurement, facilities planning, construction management, facilities operations, and human resources.

The Financial Statements (Continued)

Future Economic Factors (Continued)

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

- The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University currently is exploring various options, including changes to its budget models. Additionally, the University President last year formed a Budget Review Committee to help develop budget recommendations and to communicate budget information to and from constituent groups on campus.

- The enrollment demand at the University has remained strong, with about 14,454 freshmen applications for 2,630 openings for the fall of 2017.

The Financial Statements (Continued)

Requests for Information

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

(Mr.) Todd Murphy
Associate Vice President for Finance & Business Services
201 Carter Drive, Suite 200
West Chester University
West Chester, PA 19383

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

The West Chester University Foundation

(Ms.) Susan Vanscovich
Interim 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, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 211,127,995	$ 217,624,152
Cash Whose Use is Restricted	14,195,422	14,017,686
Accounts Receivable:		
Governmental Grants and Contracts	692,508	1,845,025
Students, Net	1,563,854	1,309,344
Other	4,751,511	3,824,465
Inventory	125,449	108,104
Prepaid Expenses	1,457,860	1,444,642
Investment Income Receivable	433,267	330,070
Loans Receivable, Net	1,134,021	1,158,308
Total Current Assets	235,481,887	241,661,796
NONCURRENT ASSETS		
Endowment Investments	23,499,287	20,987,762
Loans Receivable, Net	6,965,002	7,347,060
Capital Assets, Net	204,992,294	188,514,984
Other Assets	321,040	582,393
Total Noncurrent Assets	235,777,623	217,432,199
Total Assets	471,259,510	459,093,995
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	352,894	430,425
SERS Deferred Outflows	20,222,965	15,620,739
PSERS Deferred Outflows	2,577,495	1,338,252
Total Deferred Outflow of Resources	23,153,354	17,389,416
Total Assets and Deferred Outflows of Resources	$ 494,412,864	$ 476,483,411

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, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 28,629,637	$ 24,175,375
Unearned Revenue	5,968,619	6,174,750
Students' Deposits	981,761	1,285,009
Workers' Compensation	550,529	541,947
Compensated Absences	830,080	302,127
Bonds Payable, Net	4,198,949	4,133,882
Capital Lease Obligation	868,977	809,769
Due to State System, Academic Facilities Renovation Bond Program	-	110,404
Other Current Liabilities	6,254	6,685
Total Current Liabilities	42,034,806	37,539,948
NONCURRENT LIABILITIES		
Workers' Compensation	612,144	533,898
Compensated Absences	14,394,677	14,092,550
Postretirement Benefit Obligations	127,832,630	124,354,370
Bonds Payable, Net	37,641,402	41,840,351
Capital Lease Obligation	13,240,932	14,010,315
Unearned Revenue	161,926	161,926
Net Pension Liability	98,225,465	86,943,165
Other Noncurrent Liabilities	8,000,483	7,768,844
Total Noncurrent Liabilities	300,109,659	289,705,419
Total Liabilities	342,144,465	327,245,367
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	80,680	93,818
SERS Deferred Inflows	4,141,981	2,557,016
PSERS Other Deferred Inflows	192,509	62,593
Total Deferred Inflows of Resources	4,415,170	2,713,427
NET POSITION		
Net Investment in Capital Assets	149,314,248	127,946,870
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	23,494,030	21,000,448
Other	2,057,286	2,057,286
Expendable:		
Scholarships and Fellowships	3,805,794	3,669,004
Capital Projects	4,853,494	5,356,216
Other	2,812,018	2,672,550
Unrestricted	(38,483,641)	(16,177,757)
Total Net Position	147,853,229	146,524,617
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 494,412,864	$ 476,483,411

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, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Tuition and Fees	$ 173,663,481	$ 168,319,429
Less: Scholarship Discounts and Allowances	(22,014,614)	(21,006,884)
Net Tuition and Fees	151,648,867	147,312,545
Governmental Grants and Contracts:		
Federal	1,781,729	1,402,787
State	12,785,423	12,219,921
Local	4,888	55
Nongovernmental Grants and Contracts	413,383	399,245
Sales and Services of Educational Departments	3,864,538	4,642,357
Auxiliary Enterprises	38,937,028	37,660,319
Other Revenues	5,444,977	1,113,591
Total Operating Revenues	214,880,833	204,750,820
OPERATING EXPENSES		
Instruction	115,465,947	106,538,756
Research	1,608,398	1,706,100
Public Service	2,118,068	2,607,724
Academic Support	37,548,196	36,074,916
Student Services	20,318,285	19,436,900
Institutional Support	34,118,948	31,028,158
Operations and Maintenance of Plant	22,890,564	20,686,141
Depreciation	17,191,173	16,790,189
Student Aid	12,311,738	11,794,775
Auxiliary Enterprises	29,933,838	28,463,038
Total Operating Expenses	293,505,155	275,126,697
NET OPERATING LOSS	(78,624,322)	(70,375,877)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	53,047,483	50,734,800
Commonwealth On-Behalf Contributions to PSERS	1,359,639	1,009,605
Pell Grants	15,688,223	15,379,755
Investment Income, Net of Investment Expense of $27,818 in 2017 and $26,808 in 2016	3,472,712	2,805,956
Unrealized Gain (Loss) on Investments	2,860,112	(113,875)
Gifts for Other than Capital Purposes	2,810,132	2,803,797
Interest Expense	(1,549,504)	(1,041,428)
Loss on Disposal of Assets	(748,127)	(64,094)
Other Nonoperating Revenue	254,970	132,619
Nonoperating Revenues, Net	77,195,640	71,647,135
INCOME (LOSS) BEFORE OTHER REVENUES	(1,428,682)	1,271,258
OTHER REVENUES		
State Appropriations, Capital	1,779,792	1,693,484
Capital Gifts and Grants	977,502	2,046,871
Total Other Revenues	2,757,294	3,740,355
INCREASE IN NET POSITION	1,328,612	5,011,613
Net Position - Beginning of Year	146,524,617	141,513,004
NET POSITION - END OF YEAR	$ 147,853,229	$ 146,524,617

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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 151,074,536	$ 147,043,969
Grants and Contracts	16,166,822	14,499,989
Payments to Suppliers for Goods and Services	(64,333,031)	(60,574,732)
Payments to Employees	(187,705,985)	(176,253,337)
Loans Issued to Students	(914,195)	(702,430)
Loans Collected from Students	1,320,540	1,351,142
Student Aid	(12,311,738)	(11,794,775)
Auxiliary Enterprise Charges	38,070,127	38,399,529
Sales and Services of Educational Departments	3,902,726	4,601,470
Other Operating Receipts	8,617,982	1,234,247
Net Cash Used by Operating Activities	(46,112,216)	(42,194,928)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	53,047,483	50,734,800
Gifts and Nonoperating Grants for Other than Capital Purposes	18,498,355	18,183,552
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	129,289,164	123,587,179
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(129,289,164)	(123,587,179)
Agency Transactions, Net	(338,870)	(95,468)
Other	254,970	132,619
Net Cash Provided by Noncapital Financing Activities	71,461,938	68,955,503
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Appropriations	1,779,792	1,693,484
Capital Grants and Gifts Received	-	878,540
Proceeds from Capital Debt and Leases	734,396	5,074,920
Proceeds from Sales of Capital Assets	-	1,075
Purchases of Capital Assets	(31,306,827)	(11,235,885)
Principal Paid on Debt	(4,609,214)	(10,595,686)
Interest Paid on Debt	(1,984,392)	(1,686,871)
Net Cash Used by Capital Financing Activities	(35,386,245)	(15,870,423)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	683,370	654,070
Interest on Investments	3,369,515	2,732,965
Purchases of Investments	(334,783)	(182,345)
Net Cash Provided by Investing Activities	3,718,102	3,204,690
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,318,421)	14,094,842
Cash and Cash Equivalents - Beginning of Year	231,641,838	217,546,996
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 225,323,417	$ 231,641,838

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, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (78,624,322)	$ (70,375,877)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	17,191,173	16,790,189
Expenses Paid by Commonwealth or Donor	(1,377,178)	1,009,605
Changes in Assets and Liabilities:		
Receivables, Net	916,019	350,571
Inventories	(17,345)	18,253
Other Assets	(696,923)	(985,378)
Accounts Payable	4,593,799	125,616
Unearned Revenue	(206,131)	57,732
Students' Deposits	35,622	(287,471)
Compensated Absences	830,080	302,128
Loans to Students, Net	406,345	648,712
Postretirement Benefits Liability (OPEB)	3,478,260	4,392,500
Defined Benefit Pensions	11,282,300	14,980,583
Other Liabilities	202,673	531,573
Deferred Outflows of Resources Related to Pensions	(5,841,469)	(10,953,679)
Deferred Inflows of Resources Related to Pensions	1,714,881	1,200,015
Net Cash Used by Operating Activities	$ (46,112,216)	$ (42,194,928)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Capital Assets Received Via Gift	$ 243,106	$ 1,168,331
Equipment Acquired Via Capital Lease	$ 129,860	$ 197,980
Capital Assets Included in Payables	$ 2,736,817	$ 1,859,984
Commonwealth On-Behalf Contributions to PSERS	$ 1,359,639	$ 1,009,605

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, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 13,954,390	$ 11,742,417
Accounts Receivable	1,631,910	971,835
Pledges Receivable, Net	2,620,561	2,578,737
Inventory	803,010	1,092,138
Due from the University	368,023	483,386
Prepaid Expenses	125,169	203,232
Total Current Assets	19,503,063	17,071,745
NONCURRENT ASSETS		
Restricted Cash	28,212,157	28,439,082
Capital Assets, Net	158,225,700	163,208,593
Investments	25,308,263	22,041,789
Other Assets	1,268,059	1,161,420
Total Noncurrent Assets	213,014,179	214,850,884
Total Assets	$ 232,517,242	$ 231,922,629
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 5,084,032	$ 4,992,517
Current Portion of Bonds Payable	4,500,293	31,756,638
Other Deposit Liabilities	220,075	199,391
Due to the University	1,706,283	2,084,078
Total Current Liabilities	11,510,683	39,032,624
BONDS PAYABLE	200,514,023	177,227,495
OTHER LIABILITIES	29,789,489	38,764,331
Total Liabilities	241,814,195	255,024,450
NET ASSETS (DEFICIT)		
Unrestricted	(31,593,152)	(42,091,901)
Temporarily Restricted	9,920,946	7,649,707
Permanently Restricted	12,375,253	11,340,373
Total Net Assets (Deficit)	(9,296,953)	(23,101,821)
Total Liabilities and Net Assets (Deficit)	$ 232,517,242	$ 231,922,629

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, 2017 AND 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS, REVENUES AND OTHER ADDITIONS		
Contributions	$ 770,142	$ 884,494
Investment Income	541,173	430,306
University Store	1,862,618	1,730,387
Student Activity Fees	4,275,920	4,344,995
Rental Income	29,591,430	28,723,853
Other Revenues	4,365,478	4,115,980
Change in Interest Rate Swap Agreement	10,410,851	(9,379,264)
Net Assets Released from Restriction	3,212,020	3,877,665
Total Revenues and Other Additions	55,029,632	34,728,416
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	37,048,394	37,490,063
University Store	1,373,134	1,345,180
Management and General	3,377,081	3,209,226
Distributions to the University	2,732,274	4,645,033
Total Expenses and Other Deductions	44,530,883	46,689,502
Increase (Decrease) in Unrestricted Net Assets	10,498,749	(11,961,086)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,668,858	4,595,864
Investment Gains	1,771,406	146,141
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(3,212,020)	(3,877,665)
Other Revenues	11,226	-
Change in Split-Interest Agreements	31,769	(274)
Increase in Temporarily Restricted Net Assets	2,271,239	864,066
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,034,880	1,136,051
CHANGE IN NET ASSETS (DEFICIT)	13,804,868	(9,960,969)
Net Assets (Deficit) - Beginning of Year	(23,101,821)	(13,140,852)
NET ASSETS (DEFICIT) - END OF YEAR	$ (9,296,953)	$ (23,101,821)

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

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

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Codification Section 958-205, *Presentation of Financial Statements*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

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

Deferred Outflows and Deferred Inflows of Resources

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

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

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

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

- Deferred gain or loss on bond refundings, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

Net Position

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

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

Restricted - nonexpendable: Net position subject to externally imposed conditions requiring that the University maintain them in perpetuity.

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

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

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

Cash Equivalents and Investments

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

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

Accounts and Loans Receivable

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

Accounts and loans receivable are reported at net realizable value. Accounts and loans are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Allowances for doubtful accounts are estimated based upon the University's historical losses and periodic review of individual accounts and loans. Accounts receivable are reported net of an allowance for doubtful accounts of approximately $689,000 in 2017 and $477,000 in 2016. Loans receivable are reported net of an allowance for doubtful accounts of approximately $13,000 in 2017 and $13,000 in 2016.

Inventory

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

Capital Assets

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

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

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2017 or 2016.

Unearned Revenue

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

Compensated Absences

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

Pension Plans

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

Scholarships and Waivers

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

Income Taxes

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

Use of Estimates

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

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

New Accounting Standards

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes 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. This statement will require the University to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the University's accrued postemployment healthcare liability, as calculated by the actuaries, was $120,078,882, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $127,832,630. The University expects that the amount recorded on the balance sheet as a postretirement healthcare liability will increase when Statement No. 75 is implemented, but the amount will not be known until the calculation 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, it is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

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

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

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

New Accounting Standards (Continued)

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the dismantling and removal of sewage treatment plants as required by law. The University has determined that, based on current regulations, facts, and circumstances, Statement No. 83 will have no effect on its financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University has determined that Statement No. 84 will have no effect on its financial statements.

In May 2017, GASB issued Statement No. 85, *Omnibus 2017*. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The University has determined that Statement No. 85 will have no effect on its financial statements.

In May 2017, GASB issued Statement No 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The University has determined that Statement No. 86 will have no effect on its financial statements.

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

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, 2017:

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the discretely presented component units for the year ended June 30, 2017:

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

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

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses of the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds was $224,547,371 at June 30, 2017 and $231,458,745 at June 30, 2016.

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Commonfund investments are valued based upon the unit values (NAV) of the funds held by the University at year-end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the University has invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice.

At June 30, 2017 and 2016, the carrying amount of the University's demand and time deposits was $776,046 and $183,093, respectively, as compared to bank balances of $773,311 and $180,299, respectively. The differences are primarily caused by items in-transit and outstanding checks. Of the bank balances at June 30, 2017 and 2016, $313,206 and $180,299, respectively, were covered by federal government depository insurance. All bank balances were covered by federal depository insurance or were collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve Banks in the name of the banking institutions, or uninsured but covered under the collateralization provisions of the Commonwealth's Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (Range) (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits				$ 225,323,417
Investments:				
U.S. Government and Agency Obligations	2	Aaa	0.51	100,200
Bond Mutual Funds	NAV		4.70	5,960,713
	2		0.51	8,644
Debt Securities	2	Aa2	1.70	29,812
	2	Aa1	4.20	25,320
	2	AA	0.15	25,001
Equity/Balanced Mutual Funds	NAV			15,599,328
	2			563,982
Common Stock	1			1,186,287
Total Investments				23,499,287
Total Deposits and Investments				$ 248,822,704

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, 2016 is presented below:

	Fair Value Hierarchy Level	Moody's Rating (If Applicable)	Modified Duration (Range) (If Applicable)	Fair Value
Deposits:				
Demand and Time Deposits				$ 231,641,838
Investments:				
U.S. Government and Agency Obligations	2	Aaa	0.51	163,856
Bond Mutual Funds	NAV		4.60	5,747,058
	2		0.51	430
Debt Securities	2	Aa2	2.76	30,640
	2	Aa1	5.25	26,365
	2	AA	1.10	25,249
Equity/Balanced Mutual Funds	NAV			13,494,833
	2			458,870
Common Stock	1			1,040,461
Total Investments				20,987,762
Total Deposits and Investments				$ 252,629,600

The University has no exposure to foreign currency risk.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Bond Fund [1]	$ 5,747,058	$ -	Monthly	5 days
Commonfund Multi-Strategy Equity Fund [2]	13,494,834	-	Monthly	5 days
	$ 19,241,892	$ -		

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

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

NOTE 4 SPLIT-INTEREST AGREEMENTS

The University is a party to various charitable gift annuity contracts in which the University receives assets from the donor and agrees to pay the donors an annuity over the life of the donor. Assets received are carried at fair value and were $8,644 in 2017 and $430 in 2016. The annuity payable is adjusted on an annual basis based on the estimated life expectancy of the donors and was $10,723 in 2017 and $37,469 in 2016.

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

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Employees	$ 15,880,902	$ 14,537,593
Suppliers and Services	5,479,231	5,005,137
Other	7,099,274	4,438,241
Interest	170,230	194,404
Total	$ 28,629,637	$ 24,175,375

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:

	2017				
	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.75%	$ 306,089	$ -	$ (306,089)	$ -
Series AI Used for Sprinklers, Refunded V, Y, AB, and AD	4.24%	4,252,391	-	(486,346)	3,766,045
Series AJ Used to Build a Recreation Center	4.87%	3,345,000	-	(190,000)	3,155,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)	4.00%	611,079	-	(144,075)	467,004
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	7,995,898	-	(385,142)	7,610,756
Series AM Used to Build a Recreation Center	4.62%	14,315,134	-	(445,616)	13,869,518
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls, and Sykes Union)	5.00%	3,153,484	-	(498,433)	2,655,051
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)	4.68%	4,847,592	-	(851,379)	3,996,213
Series AS used to current refund Series AF (ESCO, Rec Center)	3.75%	4,670,818	-	(351,695)	4,319,123
Total Bonds Payable		$ 43,497,485	$ -	$ (3,658,775)	39,838,710
Plus Unamortized Bond Premium Costs, Net					2,001,641
Outstanding - End of Year					$ 41,840,351

NOTE 7 BONDS PAYABLE (CONTINUED)

	2016				
	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF Used for ESCO Project and to Build a Recreation Center	5.00%	$ 5,348,944	$ -	$ (5,348,944)	$ -
Series AG Used for 201 Carter Drive and West Chester Sykes Union Hall	4.81%	597,026	-	(290,937)	306,089
Series AI Used for Sprinklers, Refunded V, Y, AB, and AD	4.21%	4,718,948	-	(466,557)	4,252,391
Series AJ Used to Build a Recreation Center	4.88%	3,525,000	-	(180,000)	3,345,000
Series AK Used to Current Refund Series S (Harvey Green and Philips)	4.00%	749,440	-	(138,361)	611,079
Series AL Used to Current Refund Series T and New Financing of Purchasing College Arms, and Building Parking Garage and Recreation Center	5.00%	8,364,488	-	(368,590)	7,995,898
Series AM Used to Build a Recreation Center	4.64%	14,741,032	-	(425,898)	14,315,134
Series AN Used to Current Refund Series U, W, X (Lawrence Dining Renovation, LAN, Residence Halls, and Sykes Union)	5.00%	3,633,850	-	(480,366)	3,153,484
Series AQ used to current refund Series AC, AE (Lawrence Dining, ESCO)	4.70%	5,470,317	-	(622,725)	4,847,592
Series AS used to current refund Series AF (ESCO, Rec Center)	3.72%	-	4,670,818	-	4,670,818
Total Bonds Payable		$ 47,149,045	$ 4,670,818	$ (8,322,378)	43,497,485
Plus Unamortized Bond Premium Costs, Net					2,476,748
Outstanding - End of Year					$ 45,974,233

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		2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2036	Total
AI	Principal	$ 506,135	$ 525,925	$ 546,551	$ 569,352	$ 592,279	$ 1,025,803	$ -	$ -	$ 3,766,045
	Interest	159,520	139,275	118,238	95,693	71,495	80,980	-	-	665,201
	Total	665,655	665,200	664,789	665,045	663,774	1,106,783	-	-	4,431,246
AJ	Principal	200,000	210,000	220,000	230,000	240,000	1,400,000	655,000	-	3,155,000
	Interest	150,963	140,963	130,463	119,463	107,963	351,288	46,625	-	1,047,728
	Total	350,963	350,963	350,463	349,463	347,963	1,751,288	701,625	-	4,202,728
AK	Principal	149,292	155,999	161,712	-	-	-	-	-	467,003
	Interest	18,680	12,708	6,469	-	-	-	-	-	37,857
	Total	167,972	168,707	168,181	-	-	-	-	-	504,860
AL	Principal	406,685	429,001	446,252	469,073	446,951	2,596,469	2,231,325	585,000	7,610,756
	Interest	380,538	360,204	338,754	316,441	292,987	1,106,386	415,253	59,500	3,270,063
	Total	787,223	789,205	785,006	785,514	739,938	3,702,855	2,646,578	644,500	10,880,819
AM	Principal	469,277	488,994	512,655	540,260	563,921	3,280,991	4,053,918	3,959,503	13,869,519
	Interest	803,875	780,075	749,075	716,575	682,325	2,847,513	1,851,775	575,656	9,006,869
	Total	1,273,152	1,269,069	1,261,730	1,256,835	1,246,246	6,128,504	5,905,693	4,535,159	22,876,388
AN	Principal	521,067	393,411	409,350	425,706	443,741	461,776	-	-	2,655,051
	Interest	105,907	74,086	54,963	35,038	13,641	2,443	-	-	286,078
	Total	626,974	467,497	464,313	460,744	457,382	464,219	-	-	2,941,129
AQ	Principal	899,298	945,470	991,694	1,043,320	26,987	89,444	-	-	3,996,213
	Interest	199,811	154,846	107,572	57,988	5,822	9,090	-	-	535,129
	Total	1,099,109	1,100,316	1,099,266	1,101,308	32,809	98,534	-	-	4,531,342
AF	Principal	635,373	715,741	728,306	742,940	758,314	738,449	-	-	4,319,123
	Interest	131,285	118,578	104,263	89,697	74,838	114,376	-	-	633,037
	Total	766,658	834,319	832,569	832,637	833,152	852,825	-	-	4,952,160
Total	Principal	3,787,127	3,864,541	4,016,520	4,020,651	3,072,193	9,592,932	6,940,243	4,544,503	39,838,710
	Interest	1,950,579	1,780,735	1,609,797	1,430,895	1,249,071	4,512,076	2,313,653	635,156	15,481,962
	Total	$ 5,737,706	$ 5,645,276	$ 5,626,317	$ 5,451,546	$ 4,321,264	$ 14,105,008	$ 9,253,896	$ 5,179,659	$ 55,320,672

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 ($17,539,964 and $21,918,513 was outstanding as of June 30, 2017 and 2016, 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:

	2017	2016
Balance - July 1	$ 110,404	$ 1,598,158
Repayments	(110,404)	(1,487,754)
Balance - June 30	$ -	$ 110,404

NOTE 8 CAPITAL LEASE OBLIGATION

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

	2017	2016
Balance - July 1	$ 14,820,084	$ 15,407,658
Increases	129,860	197,980
Repayments	(840,035)	(785,554)
Balance - June 30	$ 14,109,909	$ 14,820,084

NOTE 8 CAPITAL LEASE OBLIGATION (CONTINUED)

Capital assets include three parking structures under capital leases of $20,621,458 and $20,747,108 at June 30, 2017 and 2016, respectively, which is reported net of accumulated depreciation of $6,430,342 in 2017 and $5,744,506 in 2016. In addition, capital assets includes equipment under capital lease of $273,586 at June 30, 2017 and $271,408 at June 30, 2016 which are reported net of accumulated depreciation of $88,839 at June 30, 2017 and $56,992 at June 30, 2016.

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, 2017:

Year Ending June 30,	Amount
2018	$ 1,206,602
2019	1,198,991
2020	1,177,564
2021	1,175,534
2022	1,148,404
Thereafter	11,451,579
Total Minimum Lease Payments	17,358,674
Less: Amount Representing Interest	(3,248,765)
Net Present Value of Minimum Lease Payments	14,109,909
Less: Current Portion	868,977
Long-Term Capital Lease Obligations	$ 13,240,932

NOTE 9 UNEARNED REVENUE

Unearned revenue consists of the following components at June 30:

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 4,513,690	$ -	$ 4,838,964	$ -
Grants	426,990	-	398,108	-
Sales and Services	222,710	-	202,534	-
Other	805,229	161,926	735,144	161,926
Total	$ 5,968,619	$ 161,926	$ 6,174,750	$ 161,926

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

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

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 830,080	$ 14,394,677	$ 302,127	$ 14,092,550
Postretirement Benefit Obligations	-	127,832,630	-	124,354,370
Total	$ 830,080	$ 142,227,307	$ 302,127	$ 138,446,920

Compensated Absences

The changes in compensated absences are as follows:

	2017	2016
Balance - July 1	$ 14,394,677	$ 14,092,549
Current Changes in Estimate	2,049,690	1,574,364
Payouts	(1,219,610)	(1,272,236)
Balance - June 30	$ 15,224,757	$ 14,394,677

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 nonrepresented 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.

NOTE 10 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 $39,241,000 and $40,060,000 for the fiscal years ended June 30, 2017 and 2016, 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, 2017:

- 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 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.

- Other eligible annuitants who retire after July 1, 2008, pay 18% of the plan premium in effect when they retired. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were $5,558,000 and $4,866,000, or approximately 12.4% and 10.8% of the total premiums, for fiscal years ended June 30, 2017 and 2016, respectively.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

	2017	2016
Annual Required Contribution	$ 11,496,119	$ 11,693,785
Interest on Net OPEB Obligation	5,018,934	4,775,743
Adjustment to Annual Required Contribution	(7,149,579)	(6,276,836)
Annual OPEB Cost	9,365,474	10,192,692
Contributions Made	(5,887,214)	(5,800,192)
Increase in Net OPEB Obligation	3,478,260	4,392,500
Net OPEB Obligation - Beginning of Year	124,354,370	119,961,870
Net OPEB Obligation - End of Year	$ 127,832,630	$ 124,354,370

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2017 and the two preceding years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 9,365,474	62.9 %	$ 127,832,630
2016	10,192,692	56.9	124,354,370
2015	10,273,772	53.3	119,961,870

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 120,078,882
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 120,078,882
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$ 85,049,362
UAAL as a Percentage of Covered Payroll	141.2%

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 multi-year 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.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Methods and Assumptions (Continued)

In the July 1, 2016 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 2016, 6.0% in 2017, and 5.5% in 2018 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, 2016 was 19 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 2016-17, the State System contributed $362 for each current active employee per biweekly pay period. The State System made contributions of $31,875,000, $37,026,000, and $30,765,000, for the fiscal years ended June 30, 2017, 2016, and 2015, 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal years ended June 30, 2017 and 2016.

	SERS		PSERS		ARP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Pension Liabilities	$ 85,901,891	$ 76,758,240	$ 12,323,574	$ 10,184,925	$ -	$ -	$ 98,225,465	$ 86,943,165
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,239,977	$ 1,554,207	$ -	$ -	$ -	$ -	$ 1,239,977	$ 1,554,207
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	7,219,184	7,815,419	686,874	-	-	-	7,906,058	7,815,419
Changes in Assumptions	5,247,061	2,280,464	444,847	-	-	-	5,691,908	2,280,464
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	71,570	71,928	-	-	71,570	71,928
Changes in Proportion	1,335,003	-	349,474	450,717	-	-	1,684,477	450,717
Contributions After the Measurement Date	5,181,740	3,970,649	1,024,730	815,607	-	-	6,206,470	4,786,256
Total Deferred Outflows of Resources	$ 20,222,965	$ 15,620,739	$ 2,577,495	$ 1,338,252	$ -	$ -	$ 22,800,460	$ 16,958,991
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,921,965	$ -	$ 102,699	$ 42,025	$ -	$ -	$ 2,024,664	$ 42,025
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	-	-	20,568	-	-	-	20,568
Difference Between Employer Contributions and Proportionate Share of Contributions	398,588	213,665	-	-	-	-	398,588	213,665
Changes in Proportion	1,821,428	2,343,351	89,810	-	-	-	1,911,238	2,343,351
Total Deferred Inflows of Resources	$ 4,141,981	$ 2,557,016	$ 192,509	$ 62,593	$ -	$ -	$ 4,334,490	$ 2,619,609
Pension Expense	$ 14,273,086	$ 11,299,568	$ 3,413,691	$ 2,116,789	$ 7,806,701	$ 7,244,405	$ 25,493,478	$ 20,660,762
Contributions Recognized by Pension Plans	$ 8,146,696	$ 6,364,224	$ 1,024,730	$ 815,610	N/A	N/A	$ 9,171,426	$ 7,179,834

NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the $5,181,740 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $1,024,730 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

	Amortization	
Fiscal Year Ending June 30,	SERS	PSERS
2018	$ 3,408,634	$ 332,589
2019	3,408,634	332,589
2020	2,971,256	454,138
2021	987,514	240,940
2022	123,206	-
	$ 10,899,244	$ 1,360,256

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.

Benefits Provided

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

NOTE 11 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 2015-16 was 4.5% and will no longer apply effective July 1, 2017.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

The University contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were approximately $8,147,000, $6,364,000, and $5,118,000, respectively, equal to the required contractual contribution.

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

Assumptions

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

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

Some of the methods and assumptions mentioned above are based on the *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and outlook. Published in March 2016, it analyzed experience from 2011 through 2015. The actuary, under oversights of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumptions adjustments increase projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2016, are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	16.00 %	8.00 %
Global Public Equity	43.00	5.30
Real Assets	12.00	5.44
Diversifying Assets	12.00	4.75
Fixed Income	14.00	1.63
Liquidity Reserve	3.00	(0.25)
	100.00 %	

The discount rate used to measure the total SERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% and 7.50% as of December 31, 2016 and 2015, respectively, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% and 6.50% as of December 31, 2016 and 2015, respectively) or one percentage point higher (8.25% and 8.50% as of December 31, 2016 and 2015, respectively) than the current rate.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

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

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 106,307,585	$ 85,901,891	$ 68,427,354
	6.50%	7.50%	8.50%
2015	$ 95,348,203	$ 76,758,240	$ 60,818,381

Fiduciary Net Position

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

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

At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability was approximately $85,902,000. SERS measured the net pension liability as of December 31, 2016. At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015, was $76,758,000.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2017-18 from the December 31, 2016, funding valuation to the expected funding payroll. For the allocation of the 2015 amounts, this methodology applies the contribution rates for fiscal year 2016-17 from the December 31, 2015, funding valuation to the expected funding payroll. At the December 31, 2016 measurement date, the University's proportion was 4.837%, an increase of .116% from its proportion calculated as of the December 31, 2015 measurement date.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

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

Benefits Provided

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

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

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2017, was 29.2% 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 14.6% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2017, was approximately $1,025,000. The University's contributions to PSERS for the years ended June 30, 2016 and 2015 were approximately $816,000 and $665,000, respectively, equal to the required contractual contribution.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2016, was determined by rolling forward PSERS' total pension liability as of the June 30, 2015, actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit and seniority increases
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ended June 30, 2015. The recommended assumption changes, based on this experience study, were adopted by the PSERS board of trustees at its June 10, 2016 meeting, and were effective beginning with the June 30, 2016 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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, 2016.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.50 %	5.30 %
Fixed Income	28.50	2.10
Commodities	8.00	2.50
Absolute Return	10.00	3.30
Risk Parity	10.00	3.90
Infrastructure/MLPs	5.00	4.80
Real Estate	12.00	4.00
Alternative Investments	15.00	6.60
Cash	3.00	0.02
Financing (LIBOR)	(14.00)	0.05
	100.00 %	

The discount rate used to measure the total PSERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% and 7.50% as of June 30, 2016 and 2015, respectively, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% and 6.50% as of June 30, 2016 and 2015, respectively) or one percentage point higher (8.25% and 8.50% as of June 30, 2016 and 2015, respectively) 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	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 15,075,004	$ 12,323,574	$ 10,011,429
	6.50%	7.50%	8.50%
2015	$ 12,553,917	$ 10,184,925	$ 8,193,773

NOTE 11 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.

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

At June 30, 2017, 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.

	2017	2016
Total PSERS Net Pension Liability Associated with the University	$ 24,647,148	$ 20,369,850
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	12,323,574	10,184,925
University's Proportionate Share of the PSERS Net Pension Liability	$ 12,323,574	$ 10,184,925

PSERS measured the net pension liability as of June 30, 2016. 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, 2015, to June 30, 2016. 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, 2016, the University's proportion was .1833%, a decrease of .0019% from its proportion calculated as of June 30, 2015.

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, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016 were approximately $7,807,000 and $7,244,000, respectively, from the University and $4,201,566 and $3,898,939, respectively, from active members. No liability is recognized for the ARP.

NOTE 12 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 $169,079 and $44,483 to the Reserve Fund in 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, the aggregate liability for claims under the self-insurance limit was $1,162,673 and $1,075,845, respectively. Changes in the workers' compensation claims liability amount in fiscal years 2017 and 2016 follow:

	2017	2016
Balance - July 1	$ 1,075,845	$ 1,104,249
Current Year Claims and Changes in Estimates	255,907	16,079
Payments	(169,079)	(44,483)
Balance - June 30	$ 1,162,673	$ 1,075,845

NOTE 13 COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

Authorized expenditures for ongoing construction projects at June 30, 2017 and 2016 were approximately $7,758,000 and $8,289,000, respectively.

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

The University is self-insured for workers' compensation up to stated limits (Note 12). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its risk management program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The University has not reduced significantly any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the University's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

NOTE 13 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.

NOTE 14 RATINGS ACTIONS

The State System’s outstanding bonds are assigned an Aa3 rating from Moody’s Investors Service, Inc. In August 2017, Moody’s revised the outlook for the rating from *stable* to *negative*.

NOTE 15 GROUND LEASE

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

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

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

NOTE 15 GROUND LEASE (CONTINUED)

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.

At June 30, 2017, future minimum lease payments due under the ground leases are as follows:

Year Ending June 30,	2003 Lease	2008 Lease	2013 Lease	2014 Lease
2018	$ 73,427	$ 8,941	31,895	$ 10,303
2019	75,639	9,209	32,213	10,406
2020	77,898	9,485	32,858	10,510
2021	80,235	9,770	33,515	10,720
2022	82,642	10,063	34,185	10,935
Thereafter	1,339,829	297,229	1,271,294	860,736

NOTE 15 GROUND LEASE (CONTINUED)

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 $1,227,172 and $1,210,585 for the years ended June 30, 2017 and 2016, respectively. The University is responsible for leasehold improvements. The lease term is 29.5 years.

NOTE 16 SUBSEQUENT EVENTS

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The University participated in the issuance of the AU-1 revenue bonds receiving net proceeds in the amount of $9,000,000 to finance capital renovations and improvements. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

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

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013-14. The loans have been shown only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation has been that Cheyney would repay the loans and the individual universities would not be affected. The University will record its share of the expense and reduction of the pooled investments account only as the loan forgiveness conditions are met. An allocation of the loan forgiveness to each of the universities has not been finalized, and West Chester University's share of the liability is approximately $3.0 million.

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

SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2017 AND 2016 (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, 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 %
July 1, 2016	-	120,078,882	120,078,882	0 %	85,049,362	141.2 %

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, 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 %
January 1, 2017	313,226	16,546,732	16,233,506	1.90 %	4,485,000	362 %

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
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS (SERS AND PSERS)
JUNE 30, 2017 AND 2016 (UNAUDITED)

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

Fiscal Year	University's Proportion	University's Proportionate Share	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.901 %	$ 63,069,996	$ 25,724,299	245 %	64.8 %
2015/16	4.721	76,758,240	26,621,048	288	58.9
2016/17	4.837	85,901,891	27,736,138	310	57.8

SERS Schedule of Contributions

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

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

	PSERS Net Pension Liability						
Fiscal Year	University's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.17850 %	$ 8,892,586	$ 8,892,586	$ 17,785,172	$ 5,733,546	310 %	57.2 %
2015/16	0.18520	10,184,925	10,184,925	20,369,850	6,052,296	200	54.4
2016/17	0.18330	12,323,574	12,323,574	24,647,148	6,442,137	200	50.1

PSERS Schedule of Contributions

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

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