PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

Pennsylvania's
STATE SYSTEM
of Higher Education

FINANCIAL STATEMENTS

JUNE 30, 2015

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2015

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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Governors
Pennsylvania State System of Higher Education
Harrisburg, 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 the Pennsylvania State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the State System'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 an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, which represent 100% percent, 100% percent, and 100% percent, 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 the 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 opinion.

Opinion

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

Emphasis of Matter

As discussed in Note (1) to the financial statements, the State System implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* for the year ended June 30, 2015, which represents a change in accounting principle. As of July 1, 2014, the State System's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (1). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-16, schedules of funding progress for OPEB on page 48, schedules of proportionate share of SERS/PSERS Net Pension Liability and SERS/PSERS schedules of contributions on page 49 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

Harrisburg, Pennsylvania
September 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As the public universities of the Commonwealth of Pennsylvania (Commonwealth), the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high quality education at the lowest possible cost to the students. With nearly 110,000 degree-seeking students enrolled, and thousands more who are enrolled in certificate and other career-development programs, the State System is the state's largest higher education provider. Its 14 universities offer the lowest-cost four-year baccalaureate degree programs in the state with more than 2,300 degree and certificate programs in more than 530 academic areas. The universities function independently, but being part of the State System enables them to share resources and benefit from economies of scale.

The State System financial statements comprise:

- Bloomsburg University of Pennsylvania
- California University of Pennsylvania
- Cheyney University of Pennsylvania
- Clarion University of Pennsylvania
- East Stroudsburg University of Pennsylvania
- Edinboro University of Pennsylvania
- Indiana University of Pennsylvania
- Kutztown University of Pennsylvania
- Lock Haven University of Pennsylvania
- Mansfield University of Pennsylvania
- Millersville University of Pennsylvania
- Shippensburg University of Pennsylvania
- Slippery Rock University of Pennsylvania
- West Chester University of Pennsylvania
- Office of the Chancellor

The universities also operate branch campuses in Oil City (Clarion), Freeport and Punxsutawney (Indiana), and Clearfield (Lock Haven), and offer classes and programs at several regional centers, including the Dixon University Center in Harrisburg and Center City in Philadelphia.

Following is an overview of the State System's financial activities for the year ended June 30, 2015, as compared to the year ended June 30, 2014.

FINANCIAL HIGHLIGHTS

In fiscal year 2014/15, the State System received $412.8 million in General Fund **appropriations** from the Commonwealth, the same amount as received in the last three fiscal years, and essentially the same level of funding the State System received in fiscal year 1997/98—17 years ago.

The State System received a $13.4 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, a decrease of $0.2 million, or 1%, from fiscal year 2013/14. With the exception of fiscal years 2010/11 and 2009/10, when no funding was provided, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

The State System received $65 million in **Commonwealth capital funding**, primarily for renovation or replacement of existing educational and general buildings. With the exception of fiscal years 2010/11 and 2009/10, when the Commonwealth's capital funding for the State System was $130 million each year, the State System has received $65 million annually in Commonwealth capital funding since fiscal year 2000/01. Annual funding is expected to remain at $65 million for the foreseeable future. The capital appropriations reflected in these statements represent the furnishings and equipment for the Commonwealth-funded construction projects and total $13.6 million and $14.4 million in fiscal years 2014/15 and 2013/14, respectively.

As part of its continuing commitment to reward the universities for demonstrated success and continued improvement in student achievement, university excellence, and operational efficiency, the State System's Board of Governors (Board) allocated $37.4 million of the general appropriation for **performance funding** in fiscal year 2014/15, approximately 1% more than the $37.0 million allocated in fiscal year 2013/14. Performance funding allocated in fiscal year 2012/13 was $36.6 million.

Fall 2014 enrollment was 109,606, a decrease of 2,422 students, or 2.2%, from fall 2013. This is the fourth year in a row that the State System has experienced an **enrollment decline**. Fall 2011 was the first year enrollment had declined since 1999 following 14 years of record growth. Despite the recent decline, the State System's fall enrollment has increased 35% since fall 1983, which was the first year of operation as a System.

Year	Fall Enrollment	% Decrease from Prior Year
2014	109,606	2.2%
2013	112,028	2.1%
2012	114,471	3.2%
2011	118,224	1.0%

Of the 109,606 **students** in the fall 2014 enrollment, 92,788 (85%) were full-time and 16,818 (15%) were part-time students; 95,804 (87%) were undergraduate and 13,802 (13%) were graduate students. These percentages of full- and part-time, graduate and undergraduate, are approximately the same as in fall 2013.

In academic year 2013/14, the State System awarded 25,495 **degrees**, comprising 20,035 bachelor's degrees; 4,891 master's degrees; 185 doctoral degrees; and 384 associate's degrees. This compares to 25,632 degrees awarded in academic year 2012/13 and 26,203 degrees awarded in academic year 2011/12.

The Board approved an annual full-time **tuition rate increase** of $198 (3%) for undergraduate resident students in fiscal year 2014/15. This compares to an increase of $194 (3%) in fiscal year 2013/14. The State System's 2014/15 annual tuition rate of $6,820 for full-time, resident, undergraduate students is the lowest of baccalaureate degree programs in the state.

The Board approved **new tuition rates for resident graduate students and all nonresident students**. The resident graduate tuition rate in 2014/15 was $454 per credit, an increase of $12. Nonresident graduate tuition increased by $18 per credit to $681. Full-time, undergraduate tuition for nonresident students ranged from $10,230 to $17,050, depending on a variety of factors, including the university and program in which a student enrolled, academic preparation, and state of residency. All of the increases average approximately 3%.

The Board approved a $54 increase to the **technology tuition fee (**$422 annually) for full-time resident undergraduate students and an $84 increase ($642 annually) for full-time nonresident undergraduate students. All funds raised by the technology tuition fee are used to directly benefit student learning. Universities have used the funds to install new computer labs and to design multimedia classrooms, among other projects.

Mandatory student fees set by the universities increased, on average, by 4.1%. These increases, combined with the increase in tuition and reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of $1.08 billion, a 2.0% increase over fiscal year 2013/14. The average increase in mandatory student fees was 4.2% in fiscal year 2013/14 over the prior year.

Auxiliary revenue from **room and board fees** (excluding privatized housing revenue recorded by affiliates) was $262.2 million, a decrease of $4.6 million, or 1.7%, over fiscal year 2013/14. This compares to a fiscal year 2013/14 increase of 1.2% in room and board revenue over the prior fiscal year. The primary reason for the decrease in revenue is the replacement of university housing with privatized housing provided by affiliated organizations. The affiliated organizations are responsible for the associated expenses, capital expenditures, and debt service.

The State System's **average price of attendance** (tuition, mandatory fees, room, and board) of $18,868 in 2014/15 was $75 below the average among all four-year public universities in the United States and $2,072 below the average in the Middle States region (Delaware, Maryland, New Jersey, New York, Pennsylvania, and Washington, D.C.), according to the latest College Board survey.

The State System purchased $104.9 million in **capital assets** in fiscal year 2014/15, including $88.7 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2014/15, the State System issued Series AQ bonds, totaling $95.0 million, to current refund Series AC and advance refund Series AE revenue bonds. $54.7 million of bond principal and $39.3 million of interest were paid, and $99.7 million of bonds were refunded, bringing the total outstanding **bond debt** to $800.5 million at June 30, 2015.

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

THE FINANCIAL STATEMENTS

Balance Sheet

The *Balance Sheet* reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the State System as of the end of the fiscal year.

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.

- *Deferred Outflows of Resources*, which is defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the net pension liability and annual pension expense.

- *Liabilities* include payments due to vendors and students; the balance of bonds payable; and liabilities such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees), and pension benefits.

- *Deferred Inflows of Resources*, which is defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance and certain items associated with the net pension liability and annual pension expense.

- *Net Position*, colloquially referred to as *Net Assets* or *Fund Balance*, is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position.

In accordance with GASB requirements, the State System 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 gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and losses on disposals of assets as nonoperating. The State System classifies all of its remaining activities as operating.

Statement of Cash Flows

The *Statement of Cash Flows* provides information about the State System's cash receipts and cash payments. It can be used to determine the State System's ability to generate future net cash flows and meet its obligations as they come due and its need for external financing.

Net Position

In accordance with GASB requirements, the State System reports three components of net position:

- *Net investment in capital assets* is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation, less any associated debt (primarily bonds payable). This balance is not available for the State System'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 portion of 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 the corpus of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.

- *Unrestricted* net position includes funds that the Board or university presidents have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

  Unrestricted net position reflects three unfunded liabilities. Because these liabilities are expected to be realized in the future, and because of their size, the universities fund them only as they become due.

  - The liability for **compensated absences** decreased by $0.1 million to $114.6 million for the year ended June 30, 2015. Universities fund this liability as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.

  - The liability for **postretirement benefits** for employees who participate in the State System health care plan increased by $51.6 million to $1.06 billion for the year ended June 30, 2015. Universities fund this liability on a "pay-as-you-go" basis; i.e., they make biweekly contributions that are estimated to fund the actual claims made during the year.

  - The **net pension liability**, which was not required to be reported in previous years, is $798.7 million. Like the postretirement liability, universities fund this liability on a "pay-as-you-go" basis with annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

    Because the net pension liability was recorded for the first time in fiscal year 2014/15, the beginning-year balance of unrestricted net position was decreased by $720.9 million to reflect the balance of the net pension liability at July 1, 2014.

Overall, net position decreased by $797.5 million in fiscal year 2014/15, including the $720.9 million net pension liability restatement. This compares to a decrease of $52.8 million in fiscal year 2013/14 from fiscal year 2012/13.

Following is a summary of the balance sheet at June 30, 2015, 2014, and 2013.

(in millions)

Balance Sheet

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	*Restated* June 30, 2013	Change from Prior Year
Assets						
Cash and investments	$1,333.9	(2.1%)	$1,363.1	0.0%	$1,362.8	1.7%
Capital assets, net	1,589.2	(1.7%)	1,616.8	(0.8%)	1,629.6	0.4%
Other assets and deferred outflows	263.9	42.8%	184.8	5.1%	175.9	(5.6%)
Total assets and deferred outflows	$3,187.0	0.7%	$3,164.7	(0.1%)	$3,168.3	0.6%
Liabilities						
Workers' compensation	$22.6	4.1%	$21.7	1.9%	$21.3	7.6%
Compensated absences	114.6	(0.1%)	114.7	4.4%	109.9	1.6%
Postretirement benefits	1,058.7	5.1%	1,007.1	7.9%	933.7	8.0%
Net pension liability	798.7	N/A	N/A	N/A	N/A	N/A
Bonds payable	800.5	(6.9%)	859.9	(4.4%)	899.8	(4.4%)
Other liabilities and deferred inflows	450.4	6.7%	422.3	2.5%	411.8	0.4%
Total liabilities and deferred inflows	3,245.5	33.8%	2,425.7	2.1%	2,376.5	1.4%
Net Position						
Net investment in capital assets	700.3	2.3%	684.4	5.7%	647.7	5.4%
Restricted	98.1	(5.0%)	103.3	11.7%	92.5	7.3%
Unrestricted	(856.9)	(1,659.5%)	(48.7)	(194.4%)	51.6	(50.9%)
Total net position	(58.5)	(107.9%)	739.0	(6.7%)	791.8	(1.7%)
Total liabilities, deferred inflows, and net position	$3,187.0	0.7%	$3,164.7	(0.1%)	$3,168.3	0.6%

Revenues and Gains

Following is a summary of revenues and gains for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Revenues and Gains

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Operating revenues						
Tuition and fees, net	$816.6	0.9%	$809.3	0.6%	$804.2	2.3%
Grants and contracts	150.7	(6.3%)	160.8	1.8%	157.9	(9.8%)
Auxiliary enterprises, net	324.0	(2.2%)	331.4	(0.5%)	332.9	1.8%
Other	52.6	(0.9%)	53.2	19.6%	44.5	(21.5%)
Total operating revenues	1,343.9	(0.8%)	1,354.7	1.1%	1,339.5	(0.4%)
Nonoperating revenues and gains						
State appropriations	426.4	(0.2%)	427.1	(0.1%)	427.6	1.2%
Investment income, net	31.0	18.3%	26.2	28.4%	20.4	(16.7%)
Gifts, nonoperating grants, and other	167.9	-	167.4	(2.6%)	171.8	(1.5%)
Total nonoperating revenues and gains	625.3	0.8%	620.7	0.1%	619.8	(2.1%)
Total revenues and gains	$1,969.2	(0.3%)	$1,975.4	0.8%	$1,959.3	(1.0%)

Overall, fiscal year 2014/15 **operating revenues** decreased by 0.8% from the prior fiscal year. Nonoperating revenues increased by 0.8%, for an overall decrease in revenues and gains of 0.3%.

Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances 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. Bad debt expense is an estimate of the amount owed by students that will not be collected.

Despite the decline in enrollment, net tuition and fee revenue increased by $7.3 million, or 0.9%, over fiscal year 2013/14. This can be attributed to both the increase in the tuition and fee rates and to 19 new flexible tuition pricing programs implemented by the universities in fiscal years 2014/15 and 2013/14. These pilot programs are designed to address unique market conditions affecting each of the universities and will be evaluated over a two- or three-year period to determine their effectiveness as well as whether they should be duplicated at other universities.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, decreased by $7.4 million from fiscal year 2013/14. The main reason for the decrease is a $7.4 million decrease in housing revenue, caused primarily by the replacement of university housing with privatized housing provided by affiliated organizations. The affiliated organizations are responsible for the associated expenses, capital expenditures, and debt service.

State appropriations include capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. Although the $412.8 million received as a general appropriation is the same as received in fiscal year 2013/14, the amount received as noncash capital appropriations decreased by $0.7 million from fiscal year 2013/14.

Investment income (net of related investment expenses) for fiscal year 2014/15 was $31.0 million. This represents an increase of $4.8 million from the prior year. The increase is due to $5.0 million of investment earnings in the reimbursement bond investment portfolio, which is dedicated to pay associated debt service. While interest rates slightly increased during the course of the fiscal year, the average monthly university operating capital was $17 million, or 1.3%, lower than in the previous fiscal year. Without the effect of the reimbursement bond investment portfolio, universities' investment income on operating capital decreased by $0.3 million.

Expenses and Losses
Following is a summary of expenses and losses for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Expenses and Losses

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Operating expenses						
Instruction	$735.6	2.0%	$721.0	2.3%	$704.5	3.1%
Research	5.7	11.8%	5.1	(5.6%)	5.4	(18.2%)
Public service	37.4	(0.3%)	37.5	9.6%	34.2	1.2%
Academic support	178.5	3.8%	171.9	0.6%	170.8	7.5%
Student services	180.3	2.1%	176.6	3.7%	170.3	2.4%
Institutional support	247.9	(6.1%)	264.0	2.3%	258.1	2.7%
Operations and maintenance of plant	153.1	0.5%	152.3	6.4%	143.2	4.4%
Depreciation	119.7	(0.4%)	120.2	0.6%	119.5	5.6%
Student aid	72.9	(3.6%)	75.6	1.5%	74.5	(2.7%)
Auxiliary enterprises	255.5	1.5%	251.8	3.5%	243.3	3.3%
Total operating expenses	1,986.6	0.5%	1,976.0	2.7%	1,923.8	3.3%
Other expenses and losses						
Interest expense on capital asset-related debt	36.6	(0.8%)	36.9	(2.6%)	37.9	(8.9%)
Loss on disposal of assets	9.6	20.7%	12.1	92.1%	6.3	173.9%
Unrealized loss on investment	13.1	309.4%	3.2	(37.3%)	5.1	-
Total other expenses and losses	59.3	13.6%	52.2	5.7%	49.3	(3.1%)
Total expenses and losses	$2,045.9	0.9%	$2,028.2	2.8%	$1,973.1	3.1%

Universities spent $735.6 million on **instruction**, or 37.0% of total operating expenses, in fiscal year 2014/15. This represents an increase of $14.6 million, or 2.0%, over fiscal year 2013/14.

Financial aid to students in the form of waivers and scholarships was $300.5 million in fiscal year 2014/15, an increase of $3.3 million from the previous year. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System reported $225.6 million of financial aid as *discounts and allowances,* netted against tuition and fees, and $73.0 million as *student aid* expense in fiscal year 2014/15. $1.9 million of financial aid was reported in Auxiliary enterprises. Following is the breakdown of scholarship discounts and allowances and waivers in fiscal years 2014/15 and 2013/14.

(in millions)

Student Financial Aid

	2014/15	2013/14
Federal Pell grants	$145.6	$143.7
Other federal aid	5.0	5.3
State financial aid including PHEAA grants	91.5	95.4
Local government financial aid	1.5	1.7
Scholarships from endowments and restricted gifts and grants	16.4	15.5
Unrestricted scholarships and fellowships	10.6	13.9
Tuition and fee waivers	28.5	20.4
Housing and dining waivers	1.4	1.3
Total	$300.5	$297.2

Interest expense on capital asset-related debt was $36.6 million, a decrease of $0.3 million over fiscal year 2013/14.

Salaries and benefits totaled $1.4 billion in fiscal year 2014/15. Compared to fiscal year 2013/14, salary and wage expenses increased by $12.5 million, or 1.4%, while benefits expenses increased by $25.2 million, or 5.5%, for an overall increase of $37.7 million.

Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Salaries and wages	$892.0	1.4%	$879.5	1.2%	$869.4	1.8%
Benefits						
Employee health care	121.9	3.4%	117.9	8.6%	108.6	3.6%
Health & Welfare Fund	8.4	(5.6%)	8.9	7.2%	8.3	(5.7%)
Postretirement health care	119.3	(18.4%)	146.2	6.0%	137.9	2.2%
SERS	83.5	92.0%	43.5	42.6%	30.5	48.1%
PSERS	6.7	71.8%	3.9	39.3%	2.8	55.6%
Alternative Retirement Plan (ARP)	44.6	1.6%	43.9	1.9%	43.1	2.6%
Other benefits	99.7	5.4%	94.6	(2.3%)	96.8	1.6%
Total benefits	484.1	5.5%	458.9	7.2%	428.0	4.9%
Total salaries, wages, and benefits	$1,376.1	2.8%	$1,338.4	3.2%	$1,297.4	2.8%

- Employer share of **employee health care costs**, including the Health & Welfare fund, increased $3.5 million over fiscal year 2013/14, for a total increase of 2.8%. This follows consecutive increases of 8.5% ($9.9 million) and 2.9% ($3.3 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years.

- Employer share of **postretirement health care** payments, or "pay-as-you-go" contributions, decreased $7.3 million, or 16.6%, over fiscal year 2013/14. This follows consecutive increases of 2.9% ($1.2 million) and 11.0% ($4.2 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. Although both the cost of health care and the number of retirees are increasing, fiscal year 2014/15 costs decreased for the State System because of a decrease in medical claims from its retirees.

  Corresponding to this decrease, and due to a change in actuaries (resulting from a required competitive procurement process) and modification of certain actuarial estimates and assumptions to more precisely capture the specific experience of the State System, the annual postemployment benefits other than pensions (Other Postemployment Benefits or OPEB) decreased by 24.7% over fiscal year 2013/14, and the accrued actuarial liability decreased by 18.9% from the prior fiscal year to $1.195 billion. The net OPEB obligation, or the amount recorded on the balance sheet, increased, however, by 5.1% over fiscal year 2013/14 to $1.059 billion, primarily due to the annual amortization of the unfunded liability.

Following is a schedule of postretirement medical benefits annual payments, expense, and liability for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Postretirement Medical Benefits (referred to as Other Postemployment Benefits or OPEB)

	June 30, 2015	**Change from Prior Year**	**June 30, 2014**	**Change from Prior Year**	**June 30, 2013**	**Change from Prior Year**
Premiums paid ("pay-as-you-go")	$36.9	(16.6%)	$44.2	2.9%	$43.0	11.0%
Annual OPEB cost (actuarial expense reported)	$88.5	(24.7%)	$117.6	4.7%	$112.3	0.5%
Net OPEB obligation (liability reported on the balance sheet)	$1,058.7	5.1%	$1,007.1	7.9%	$933.7	8.0%
Accrued actuarial liability (total liability as estimated by actuaries)	$1,194.8	(18.9%)	$1,473.6	3.7%	$1,420.5	3.5%

- The State System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2014/15. Statement No. 68 requires the State System to report on its balance sheet the difference between the State System's allocated share of the total **SERS and PSERS pension liabilities** and the funding set aside in a qualified trust to pay the benefits to current employees, retirees, and their beneficiaries. As a result, the annual SERS pension expense increased by 92.0%, or $40.0 million, while the annual PSERS pension expense increased by 71.8%, or $2.8 million in fiscal year 2014/15 over fiscal year 2013/14. The large increases are due to the change in accounting from recording only "pay-as-you-go" pension contributions to recording the amount calculated by the actuary that current employees earned in fiscal year 2014/15 as a pension benefit, based on years of service, age, and actuarial estimates of future service and employee longevity. Employer contributions account for $13.7 million of the increase in the fiscal year SERS expense and $1.3 million of the PSERS expense.

- **Employer contributions to SERS**, a defined benefits pension plan, increased $13.7 million over fiscal year 2013/14, for a total increase of 31.4%. This follows consecutive increases of 42.6% ($13.0 million) and 48.1% ($9.9 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The increases were instituted by SERS to fund its net pension liability, which was $14.9 billion at December 31, 2014, a decrease from the $17.9 billion actuarial accrued liability reported at December 31, 2013. The decrease in the liability is due to the change to the actuarial cost method required by GASB Statement No. 67, *Financial Reporting for Pension Plans*, which resulted in more favorable financial reporting valuation results. Had the December 31, 2013, liability been calculated under Statement No. 67, the net pension liability would have been $13.7 billion. Approximately 40% of the State System's employees are enrolled in SERS.

- **Employer contributions to PSERS**, a defined benefits pension plan, increased 32.9% over fiscal year 2013/14, for a total increase of $1.3 million. This follows consecutive increases of 39.3% ($1.1 million) and 55.6% ($1.0 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The increases were instituted by PSERS to fund its unfunded net pension liability, which was $39.6 billion at June 30, 2014, up from the $29.5 billion actuarial accrued liability reported at June 30, 2013. Unlike SERS, the change in the financial reporting valuation specifically attributed to the actuarial cost method required under GASB Statement No. 67 caused PSERS' liability to increase dramatically. Had the December 31, 2013, liability been calculated under Statement No. 67, the net pension liability would have been $40.9 billion. Since approximately only 7% of the State System's employees are enrolled in PSERS, the impact of contribution rate increases from PSERS is far less than the impact from SERS.

- **Employer contributions to the ARP** (Alternative Retirement Plan), a defined contribution plan, increased 1.7% over fiscal year 2013/14, for a total increase of $0.7 million. This follows consecutive increases of 1.9% ($0.8 million) and 2.6% ($1.1 million) in fiscal years 2013/14 and 2012/13, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation and salary increases. The employer contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, the State System has no liabilities related to future benefits. Approximately 49% of the State System's employees are enrolled in the ARP.

Following is a summary of pension benefits annual contributions, expense, and liability for the years ending June 30, 2015, 2014, and 2013.

(in millions)

Pension Benefits

	June 30, 2015	Change from Prior Year	June 30, 2014	Change from Prior Year	June 30, 2013	Change from Prior Year
Employer contributions						
SERS	$57.2	31.4%	$43.5	42.6%	$29.8	48.1%
PSERS	$5.2	32.9%	$3.9	39.3%	$2.7	55.6%
ARP	$44.6	1.7%	$43.9	1.9%	$43.1	2.6%
Pension expense						
SERS	$83.5	92.0%	$43.5	42.6%	$29.8	48.1%
PSERS	$6.7	71.8%	$3.9	39.3%	$2.7	55.6%
ARP	$44.6	1.7%	$43.9	1.9%	$43.1	2.6%
Net pension liability						
SERS	$728.1	7.4%	$677.9	-	Not calculated	-
PSERS	$70.7	0.0%	$71.0	-	Not calculated	-
ARP	$0.0	-	$0.0	-	$0.0	-

- The total cost for **all other employee benefits**, such as Social Security and workers' compensation, increased by a total of $5.1 million, or 5.4% more than fiscal year 2013/14, compared to a decrease of $2.2 million in fiscal year 2013/14, or 2.3%, from fiscal year 2012/13.

FUTURE ECONOMIC FACTORS

The **Commonwealth** ended fiscal year 2014/15 with General Fund collections that were $412.2 million, or 1.4%, more than estimated. The Commonwealth budget, which is highly dependent on a growing economy, faces continued challenges, such as increasing pension obligations, wages and benefits, debt service, and medical and entitlement costs. These mandated cost drivers are expected to consume virtually all revenue growth if there is no change in current revenue sources. In his 2015/16 budget recommendations, Governor Tom Wolf proposed significant tax changes in support of Commonwealth budget growth. This budget plan has not been embraced by the Legislature, who passed a budget on June 30, 2015, that was vetoed by the Governor. As of the date of these financial statements, the Commonwealth continues to be at a budget impasse.

Revenue

Since the Commonwealth budget has not yet been enacted, the State System's 2015/16 **General Fund appropriation** is unknown. The Commonwealth budget passed by the Legislature, but vetoed by the Governor, provided a 3% increase for the State System, while the Governor's recommended budget included an 11% increase for the System. Although the System's funding is unknown, it is anticipated that the System's appropriation will increase above the $412.8 million appropriated in each of the past four fiscal years. The funding level received in fiscal years 2014/15, 2013/14, 2012/13, and 2011/12 is approximately the same as the funding level received in fiscal year 1997/98.

Because of the budget impasse, the State System has not yet received its fiscal year 2015/16 allocation from **Key '93**; however, based on existing legislation, the State System expects to receive $14.2 million. The State System received $13.4 million from this revenue stream in fiscal year 2014/15. Key '93 funds are derived from the Realty Transfer Tax funds and are restricted for university deferred maintenance projects.

The Board approved a $240 (3.0%) **increase in tuition** for the 2015/16 academic year while pledging to continue to seek additional state funding to support the universities' operations. This sets the new rate for full-time, resident, undergraduate students—who comprise about 90% of all State System students—at $7,060, the lowest among all four-year colleges and universities in Pennsylvania. The tuition increase will provide about half of the additional funds the universities need to balance their budgets. Significant cost increases are expected this year in several areas, including health care and pension contributions, over which the universities essentially have no control. Most of the universities also are expecting their enrollments to decline slightly, as the number of high school graduates in the state continues to drop, resulting in reduced revenue.

Enrollment

With an undergraduate population comprising approximately 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. Following is the projected number of Pennsylvania **high school graduates** based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates

Fiscal Year	Number of Graduates	% Increase (Decrease)
2014/15	124,625	(2.4%)
2015/16	123,817	(0.6%)
2016/17	124,415	0.5%
2017/18	126,337	1.5%
2018/19	125,559	(0.6%)
2019/20	122,956	(2.1%)
2020/21	124,508	1.3%
2021/22	125,850	1.1%
2022/23	124,481	(1.1%)

Pension Costs

In May 2015, the Legislature introduced a bill to reduce pension benefits for future public school employees and most future state workers by offering new employees a defined contribution, rather than a defined benefit, plan. Governor Wolf vetoed the bill and in September 2015 proposed a pension plan that would offer new employees a hybrid defined benefit/defined contribution plan. As of the date of these statements, no legislation has been enacted to change existing pension plans.

In fiscal year 2015/16, SERS continued its increases in employer **pension contribution rates** that are anticipated to persist through fiscal year 2016/17 and remain high for the foreseeable future. The most predominant employer-paid SERS rates for State System employees rose nearly 25% in 2015/16, after increases of 32% in 2014/15 and more than 44% in 2013/14; the rates are anticipated to increase by 18% in 2016/17. A similar pattern is occurring with PSERS. The contribution rate for the ARP, a defined contribution plan, remains unchanged.

In its June 30, 2014, Comprehensive Annual Financial Report (CAFR), PSERS states:

> *Even with the recent increase in the employer contribution rates, an additional cash infusion and/or still higher employer contribution rates are necessary to pay down the "principal" of the existing debt in the [PSERS] System. Although there has been much discussion of additional pension reform as a solution to the funding issue, the impact of further benefit reductions for new members will only have a marginal impact on projected employer contribution rates. The primary question that needs to be addressed is how to pay for the higher employer contributions rates needed to reach the funding levels recommended by PSERS' actuary and begin to pay off the existing debt.*

On a positive note, SERS states in its December 31, 2014, CAFR:

> *Despite the increasing outflows, SERS funded ratio is projected to continually improve as employees hired before January 2011 retire and post-January 2011 hires begin to fill employee ranks in greater proportion. In fact, if employers maintain the payment schedule provided in Act 2010-120, projections show that contribution rates will peak within the next two fiscal years and begin a slow, steady decline while, at the same time continuing to improve the health of the SERS Fund.*

There is no employer liability associated with the ARP.

SERS

- Based on the actuarial methods used for financial reporting purposes (as required by GASB Statement No. 67), as of December 31, 2014, the SERS net pension liability was $14.9 billion, compared to $13.7 billion at December 31, 2013. SERS plan fiduciary net position as a percentage of the total pension liability was approximately 64.8% at December 31, 2014, compared to 66.7% at December 31, 2013.
- In 2014, more than 6,200 new retirees were added to the annuity payroll, with an average annual benefit of approximately $25,200. More than 4,000 retirees, who had average annual benefits of about $14,700, were removed from the rolls.
- In 2014, SERS assets produced investment returns of 6.4%, down from 13.6% in 2013.
- At December 31, 2014, State System employees represented 4.8% of active SERS members.

PSERS

- Based on the actuarial methods used for financial reporting purposes (as required by GASB Statement No. 67), as of June 30, 2014, the PSERS net pension liability was $39.6 billion, compared to $40.9 billion at June 30, 2013. PSERS plan fiduciary net position as a percentage of the total pension liability was approximately 57.2% at June 30, 2014, compared to 54.5% at June 30, 2013.
- In fiscal year 2013/14, PSERS assets produced investment returns of 14.91%.
- State System employees represent approximately 0.4% of reported member salaries covered under PSERS.

Compensation Costs

In September 2015, the Board approved new collective bargaining agreements with five of its labor unions, which combined represent about 4,725 professional staff working in areas including admissions, financial aid, residence life and career services; university health center nurses; social workers and counselors; campus police and security; and clerical and maintenance staff. The one-year agreements provide an annual service increment equivalent to either 2.25% or 2.5% of the represented employees' annual salaries. The agreement with the nurses' unions also provides a $650 payment to all permanent employees who had attained one or more specialization certifications by July 1.

The agreements with the State College and University Professional Association (SCUPA); the Pennsylvania Social Services Union (PSSU); and the American Federation of State, County and Municipal Employees (AFSCME) freeze both the employee and employer contribution rates to the Pennsylvania Employee Benefit Trust Fund (PEBTF), the health care plan administered by the Commonwealth, resulting in savings that will partially offset the cost of the salary increases. Nurses are covered under a separate health care plan administered by the State System; the health care benefits they receive and level of premium cost sharing are the same as those provided to the System's nonrepresented employees.

Negotiations with the Association of Pennsylvania State College and University Faculties (APSCUF), which represents university faculty and athletic coaches separately, remain unresolved, and both of these bargaining units are continuing to work under the terms of their most recent contracts.

Performance Funding

Calls for increased accountability among colleges and universities have come from various sources across the nation. The State System has more than a decade of experience in this area, having introduced performance funding in 2000/01 and having grown it into a national model. The State System continues to be one of the few public university systems in the nation to voluntarily implement this type of performance program.

State System universities have "earned" over **$417 million** through performance since this program's inception. This initiative has resulted in increased graduation and retention rates, especially among underrepresented student groups; greater diversity among both the student population and all employee groups—executives, faculty, and professional staff; and higher fundraising results for the universities despite a still sluggish economy.

The State System is committed to funding its performance program at a level equal to 2.4% of the Educational and General (E&G) budget. The Board allocated **$38.49 million** in performance funding for fiscal year 2015/16, an increase of $1.1 million over fiscal year 2014/15.

Pricing Flexibility Pilot Program

The State System's founding legislation and Board policies provide the framework under which the Board annually sets tuition and university councils of trustees set university fees. In 2014, the Board established a **Pricing Flexibility Pilot Program** to allow State System universities to develop more market-driven pricing practices and assume the financial and operational risks of doing so. This requires Board approval of particular exceptions to existing policy. To date, approval has been granted for 23 pricing pilots, 19 of the pilots have been implemented, and three are scheduled to be implemented in fall 2016.

The pricing pilots include differential pricing for high cost/high demand programs or courses, elimination of block tuition for 12–18 credits, reduced tuition for military, reduced tuition for off-campus sites, and variable out-of-state student pricing. The intent of the pricing pilots is to increase enrollment, graduation, and revenue, as well as to generate more funding for need-based financial aid. In addition, this new practice is part of the Board's efforts to strike a better balance between State System coordination and more local decision-making.

Cheyney University

Cheyney University ended fiscal year 2014/15 with a $5.5 million loss in unrestricted funds and an Unrestricted Net Position deficit of $12.0 million at June 30, 2015 (excluding unfunded pension, postretirement, and compensated absences liabilities). This follows a $4.2 million loss in unrestricted funds in fiscal year 2013/14 and an Unrestricted Net Position deficit of $6.7 million at June 30, 2014 (excluding unfunded pension, postretirement, and compensated absences liabilities). Net tuition and fees dropped $0.9 million in fiscal year 2014/15, and the allowance for doubtful accounts, which is an estimate of amounts owed by students that will not be collected, increased by $2.0 million. At June 30, 2015, the University's balances of cash and investments was $2.1 million; however, restricted cash balances should be $4.3 million, while unrestricted cash is negative $2.2 million. This is despite the fact that the University has borrowed $8.5 million from the State System pooled investment account as of June 30, 2015. The University has since borrowed another $4.5 million from the State System, bringing the balance of loans owed to the State System to $13 million as of the date of these financial statements.

The University is projecting a $7.4 million loss in unrestricted funds in fiscal year 2015/16, which would bring the Unrestricted Net Position to a deficit of $19.4 million (excluding unfunded pension, postretirement, and compensated absences liabilities). Cheyney's fall 2015 enrollment is down to 700 students, a 31% decrease from the 1,020 students enrolled in fall 2014.

In August 2015, a year-long process of reconciliation and analysis of Cheyney's federal financial aid for fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records, was completed by a consultant hired by the Office of the Chancellor. The study found deficiencies in the University's policies and procedures, communications, academic progress, student accounts, student records, financial records, and student information management systems, resulting in overall findings of noncompliance with federal regulations for the administration and delivery of federal student aid totaling $29.6 million. The State System has been engaged with the U.S. Department of Education (DOE) throughout this review and has voluntarily reported the results to the DOE. Although the State System has not received a response from the DOE, it is expected that this self-report will serve as a catalyst for resolution toward final reconciliation and determination of any amount of federal funds that may have to be returned.

The consultant is now serving Cheyney by administering its federal financial aid programs for 2014/15, 2015/16, and 2016/17, as coordinated by the Office of the Chancellor with the support of Cheyney's President and Council of Trustees. The System also is assisting with reimplementation of Cheyney's student and financial aid information systems. Processes are in place to ensure that the University's administrative policies and procedures, information systems, and data are properly aligned and integrated to support not only the award and distribution of financial aid, but also student progress to graduation. The State System believes that these efforts will ensure that Cheyney University's federal student aid programs are administered in compliance with federal regulations.

The State System, through the Office of the Chancellor, continues to partner with Cheyney's governance and management in an attempt to stabilize its financial condition and implement a comprehensive plan for operational effectiveness that includes timely and accurate financial aid processing, increasing student enrollment, restructuring course offerings, and right-sizing personnel and facilities.

Moody's Rating and Outlook

In April 2015, Moody's Investors Service, Inc. (Moody's), reaffirmed the State System's **bond rating of Aa3** and *negative* outlook. In its April 17, 2015, Summary Rating Rationale, Moody's stated:

> *The assignment and affirmation of the Aa3 reflects PASSHE's very strong liquidity and good cash flow of around $200 million that affords the system time to work through enrollment, revenue and expense pressures including rising OPEB and pension contributions. The rating also incorporates PASSHE's large scale as a public university system of 14 campuses located throughout Commonwealth of Pennsylvania (Aa3, stable), strong system management and governance and significant debt principal repayments scheduled over the next 18 months. These strengths are offset by high leverage (including privatized student housing), constrained revenues, rising retirement costs, and a rigid expense structure due to the largely unionized faculty and staff. It also factors declining system enrollment and significant financial challenges at Cheyney University as well as remediation related to improperly awarded student financial aid.*

Moody's details as State System **challenges** the growing OPEB (postretirement health care) liability of $1.0 billion; enrollment and tuition revenue pressures from high competition and a declining number of Pennsylvania high school graduates; significant expense challenges from unionized faculty and staff; high balance sheet leverage, with $2.3 billion of debt (including campuses' privatized student housing debt); and distressed operations at Cheyney University, with an anticipated liability to the U.S. Department of Education for improperly awarded financial aid.

Moody's details as State System **strengths** its substantial unrestricted liquidity; a positive cash flow; modest near-term debt plans with rapidly amortizing debt; market standing as one of the nation's largest systems; and effective management, with strong fiscal oversight of State System and university operations, liquidity, capital projects, and debt issuance.

Moody's predicts that a ratings upgrade could result from consistently stronger operating performance and cash flow generation, stabilized student demand and growing net tuition per student, and a restructuring of postretirement benefits for a significant reduction in the OPEB liability. Conversely, a ratings downgrade could result from further increases in the OPEB liability and pension contributions without offsetting reductions in other expenditures, adverse changes in Commonwealth appropriations or collective bargaining agreements, deterioration of liquidity, and a material debt increase.

*For **further information** about these financial statements, contact Pennsylvania's State System of Higher Education, Accounting Office, 2986 North Second Street, Harrisburg, PA 17110.*

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Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2015	June 30, 2014
Current Assets		
Cash and cash equivalents	$ 20,314	$ 48,528
Short-term investments	534,596	490,897
Accounts receivable, students, net of allowance for doubtful accounts of $30,578 in 2015 and $29,963 in 2014	44,397	42,776
Accounts receivable, other	24,742	19,608
Governmental grants and contracts receivable	23,121	25,806
Inventories	3,569	3,471
Prepaid expenses	11,723	10,394
Current portion of loans receivable, net	8,681	8,714
Due from component units	26,393	20,214
Other current assets	2,366	1,705
Total Current Assets	699,902	672,113
Noncurrent Assets		
Restricted cash and cash equivalents	131	25
Endowment investments	30,270	29,622
Other long-term investments	748,621	794,056
Loans receivable, net	33,505	32,748
Due from component units	10,324	11,491
Capital Assets:		
Land	32,360	32,360
Buildings, including improvements	2,056,185	2,039,800
Improvements other than buildings	274,779	264,498
Equipment and furnishings	454,128	454,757
Library books	81,940	83,690
Construction in progress	99,144	70,206
	2,998,536	2,945,311
Less accumulated depreciation	(1,409,352)	(1,328,503)
Capital assets, net	1,589,184	1,616,808
Other noncurrent assets	1,497	1,362
Total Noncurrent Assets	2,413,532	2,486,112
Total Assets	3,113,434	3,158,225
Deferred Outflows of Resources	73,556	6,527
Total Assets and Deferred Outflows of Resources	$ 3,186,990	$ 3,164,752

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2015	June 30, 2014
Current Liabilities		
Accounts payable and accrued expenses	$ 154,790	$ 147,001
Unearned revenue	50,309	50,990
Deposits	45,974	41,910
Current portion of workers' compensation liability	4,686	4,776
Current portion of compensated absences liability	10,670	11,355
Current portion of capitalized lease obligations	3,364	3,226
Current portion of bonds payable	55,890	54,695
Due to component units	10,562	10,474
Other current liabilities	39,235	34,733
Total Current Liabilities	375,480	359,160
Noncurrent Liabilities		
Unearned revenue	4,173	4,916
Deposits	-	283
Workers' compensation liability, net of current portion	17,864	16,934
Compensated absences liability, net of current portion	103,970	103,355
Capitalized lease obligations, net of current portion	48,228	50,565
Bonds payable, net of current portion	744,565	805,195
Postretirement benefits liability	1,058,749	1,007,071
Net pension liability	798,744	-
Other noncurrent liabilities	78,409	77,893
Total Noncurrent Liabilities	2,854,702	2,066,212
Total Liabilities	3,230,182	2,425,372
Deferred Inflows of Resources	15,311	332
Net Position		
Net investment in capital assets	700,280	684,396
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	32,832	10,662
Other	8,461	8,273
Expendable:		
Scholarships and fellowships	16,537	36,049
Research	1,330	1,574
Student loans	23	551
Capital projects	27,247	38,369
Other	11,643	7,835
Unrestricted	(856,856)	(48,661)
Total Net Position	(58,503)	739,048
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 3,186,990	$ 3,164,752

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015		2014	
Operating Revenues				
Tuition and fees	$ 1,050,135		$ 1,029,150	
Less discounts and allowances	(233,562)		(219,840)	
Net tuition and fees		$ 816,573		$ 809,310
Governmental grants and contracts:				
Federal		34,393		38,268
State		104,967		109,812
Local		4,094		3,901
Nongovernmental grants and contracts		7,208		8,849
Sales and services		41,885		39,003
Auxiliary enterprises, net of discounts of $1,749 in 2015 and $928 in 2014		324,007		331,431
Other revenues, net		10,736		14,089
Total Operating Revenues		1,343,863		1,354,663
Operating Expenses				
Instruction		735,576		720,970
Research		5,742		5,115
Public service		37,413		37,457
Academic support		178,481		171,911
Student services		180,271		176,618
Institutional support		247,942		263,981
Operations and maintenance of plant		153,136		152,304
Depreciation		119,652		120,193
Student aid		72,948		75,592
Auxiliary enterprises		255,512		251,781
Total Operating Expenses		1,986,673		1,975,922
Operating Loss		(642,810)		(621,259)
Nonoperating Revenues (Expenses)				
State appropriations, general and restricted		412,751		412,751
Pell grants		145,658		143,572
Investment income, net of related investment expense of $467 in 2015 and $465 in 2014		31,010		26,226
Unrealized loss on investments		(13,055)		(3,179)
Gifts for other than capital purposes		16,557		17,791
Interest expense on capital asset-related debt		(36,577)		(36,862)
Loss on disposal of assets		(9,622)		(12,055)
Other nonoperating revenue		1,555		1,504
Net Nonoperating Revenues		548,277		549,748
Loss before other revenues		(94,533)		(71,511)
State appropriations, capital		13,610		14,385
Capital gifts and grants		4,145		4,375
Additions to permanent endowments		105		-
Decrease in Net Position		(76,673)		(52,751)
Net position—beginning of year		739,048		791,799
Restatement for July 1, 2014, pension liability and related expense		(720,878)		-
Net position—beginning of year, restated		18,170		791,799
Net position—end of year		$ (58,503)		$ 739,048

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014
(dollars in thousands)

	2015	2014
Cash Flows from Operating Activities		
Tuition and fees	$ 816,148	$ 808,988
Grants and contracts	151,234	161,103
Payments to suppliers for goods and services	(422,825)	(446,878)
Payments to employees	(1,288,967)	(1,256,943)
Loans issued to students	(7,763)	(8,532)
Loans collected from students	7,034	5,346
Student aid	(74,020)	(76,363)
Auxiliary enterprise charges	322,451	333,019
Sales and services	41,694	38,729
Other receipts (payments)	4,709	14,650
Net cash used in operating activities	(450,305)	(426,881)
Cash Flows from Noncapital Financing Activities		
State appropriations	412,751	412,751
Gifts and nonoperating grants for other than capital purposes	162,424	161,086
PLUS, Stafford, and other loans receipts (non-Perkins)	893,464	735,150
PLUS, Stafford, and other loans disbursements (non-Perkins)	(893,505)	(735,202)
Agency transactions, net	1,843	7,918
Other	1,555	1,504
Net cash provided by noncapital financing activities	578,532	583,207
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	106,909	105,656
Capital appropriations	13,607	14,233
Capital grants and gifts received	3,369	3,166
Proceeds from sales of capital assets	194	354
Purchases of capital assets	(96,657)	(115,470)
Principal paid on capital debt and leases	(157,849)	(141,732)
Interest paid on capital debt and leases	(45,429)	(44,387)
Net cash used in capital financing activities	(175,856)	(178,180)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	17,772,937	17,987,001
Interest on investments	30,866	26,090
Purchase of investments	(17,784,282)	(17,978,593)
Net cash provided by investing activities	19,521	34,498
Net Increase in Cash and Cash Equivalents	(28,108)	12,641
Cash and cash equivalents—beginning of year	48,553	35,912
Cash and cash equivalents—end of year	$ 20,445	$ 48,553

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2015 and 2014
(dollars in thousands)

	2015	2014
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (642,810)	$ (621,259)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	119,652	120,193
Expenses paid by Commonwealth or donor	(560)	295
Effect of changes in operating assets and liabilities:		
Receivables, net	898	3,354
Inventories	(98)	153
Other assets	(12,746)	(6,639)
Accounts payable	135	(2,803)
Unearned revenue	(1,332)	(522)
Student deposits	(173)	(125)
Compensated absences	(82)	4,802
Loans to students and employees	(728)	(3,187)
Other liabilities	87,539	78,857
Net cash used in operating activities	$ (450,305)	$ (426,881)
Noncash Capital Financing Activities		
Capital assets included in payables	$ 5,902	$ 2,818
Capital assets acquired through capital leases	$ 1,161	$ 304
Like-kind exchanges	$ 15	$ 106
Capital assets acquired by gift or appropriation	$ 1,190	$ 1,244

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2015	June 30, 2014
Assets		
Cash and cash equivalents	$ 142,205	$ 137,107
Accounts receivable	6,926	6,049
Contributions/pledges receivable	16,568	16,844
Due from universities	10,711	11,158
Prepaid expenses	3,207	1,873
Inventories	8,701	7,850
Short-term investments	70,229	68,439
Investments	481,682	505,661
Capital assets:		
Land	31,724	31,074
Buildings	1,282,000	1,120,274
Building improvements	19,407	16,974
Improvements other than buildings	10,370	10,306
Equipment and furnishings	93,429	84,905
Construction in progress	99,614	160,792
	1,536,544	1,424,325
Less accumulated depreciation	(287,068)	(245,846)
Capital assets, net	1,249,476	1,178,479
Other assets	132,723	135,857
Total Assets	$ 2,122,428	$ 2,069,317
Liabilities		
Accounts payable and accrued expenses	$ 31,120	$ 34,167
Deferred revenue	10,221	9,283
Interest payable	10,402	12,184
Annuity liabilities	7,787	8,054
Due to universities	36,417	31,230
Deposits payable	22,140	21,800
Interest rate swap agreements	60,596	53,658
Capitalized leases	29,151	30,612
Bonds payable	1,232,289	1,199,328
Notes payable	296,239	288,071
Other liabilities	20,152	23,165
Total Liabilities	1,756,514	1,711,552
Net Assets		
Unrestricted	11,855	12,044
Temporarily restricted	97,859	97,343
Permanently restricted	256,200	248,378
Total Net Assets	365,914	357,765
Total Liabilities and Net Assets	$ 2,122,428	$ 2,069,317

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Component Units Statement of Activities
For the Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Revenues and Gains		
Contributions	$ 39,374	$ 39,635
Sales and services	47,839	50,724
Student fees	34,356	34,840
Grants and contracts	11,591	10,799
Rental income	169,980	147,322
Investment income, gains, and losses	7,723	47,867
Other revenues and gains	16,239	20,865
Total Revenues and Gains	327,102	352,052
Expenses and Losses		
Program services:		
Scholarships and grants	14,407	12,573
Student activities and programs	31,985	31,766
University stores	30,687	30,967
Housing	162,946	142,717
Other university support	16,324	16,372
Other programs	16,595	18,200
Management and general	29,175	29,076
Fundraising	9,908	8,475
Other expenses and losses	6,926	1,465
Total Expenses and Losses	318,953	291,611
Change in Net Assets	8,149	60,441
Net assets—beginning of year	357,765	297,324
Net assets—end of year	$ 365,914	$ 357,765

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pennsylvania's State System of Higher Education (State System) is a body corporate and politic, 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 (Commonwealth) and is governed by a Board of Governors (Board), as provided for in Act 188. The State System comprises the 14 universities and the Office of the Chancellor.

Reporting Entity

The State System functions as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB).

Certain affiliated organizations are included in the State System's financial statements as discretely presented component units. Some of the organizations, such as university student associations, are included because the Board has oversight responsibility for the organizations. The criteria used in determining the organizations for which the State System has oversight responsibility include financial interdependency, the ability to select members of the governing body, the ability to designate management, the ability to influence operations significantly, and accountability for fiscal matters. Other affiliated organizations for which the Board does not have oversight responsibility, such as university foundations and alumni associations, are included when the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the State System, the activity of the organization is significant to the State System universities, and the State System historically has received a majority of these economic resources. Neither the State System nor its universities control the timing or amount of receipts from these organizations.

The State System does not consider any of its component units to be major, and has aggregated all component unit information into a separate set of financial statements. Information on individual component units can be obtained by contacting the respective universities.

Transactions between the universities and the Office of the Chancellor have been eliminated in the accompanying financial statements.

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 (GAAP), as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows, and balances that affect an entity's net assets. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Operating Revenues and Expenses

The State System records tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity; corporate partnerships; and revenue from cogeneration sales as operating revenue. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the university are recorded as operating revenue. All expenses, with the exception of interest expense, loss on investments, loss on the disposal of assets, and extraordinary expenses, are recorded as operating expenses. Appropriations, gifts, investment income, capital grants, gains on investments, 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

The balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

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

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

- Deferred gain or loss on bond defeasance, which results when the carrying value of a defeased bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans: 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 State System's proportion of expenses and liabilities to the pension as a whole, differences between the State System's pension contributions and its proportionate share of contributions, and State System 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 State System 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: The portion of net position subject to externally imposed conditions requiring that it be maintained by the State System in perpetuity.

Restricted—expendable: The portion of net position use of which is subject to externally imposed conditions that can be fulfilled by the actions of the State System or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated for specific purposes by the Board.

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

Cash Equivalents and Investments

The State System considers all demand and time deposits and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift. The State System classifies investments as short-term when they are readily marketable and intended to be converted to cash within one year.

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

Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the universities' historical losses and periodic review of individual accounts.

Inventories
Inventories are stated at the lower of cost or market, with cost being determined principally on the weighted average method.

Capital Assets
Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System 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 using capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the universities.

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. Buildings, portions of buildings, and capital improvements acquired or constructed by the universities after June 30, 1983, through the expenditure of university funds or the incurring of debt are stated at cost less accumulated depreciation.

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The State System provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

The State System does not capitalize collections of art, rare books, historical items, etc., as they are held for public exhibition, education, or research rather than financial gain.

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

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

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

Pension Plans
Employees of the State System 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 State System allocates the cost of scholarships, waivers, and other student financial aid between *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 State System and its member universities are 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, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

(in thousands)	**2015**
Net position—beginning of year, as previously stated	$739,048
July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources	(720,878)
Net position—beginning of year, restated	$18,170

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

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the State System to record its postretirement health care liability in its entirety: at June 30, 2015, the State System's accrued postretirement health care liability, as calculated by the actuaries, was $1,194,849,000, but under current GASB requirements, the amount recorded on the balance sheet as a liability was $1,058,749,000. The State System expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the State System record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the State System 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 State System will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the Commonwealth has advised the State System that its share of the liability at June 30, 2015, is $73,032,000. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

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

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

(2) Deposits and Investments

Board Policy 1986-02-A, *Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board or university trustees may be invested in the investments described above as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, universities use local financial institutions for activities such as deposits of cash. In addition, universities 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.

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 U.S. 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 the 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 sometimes are 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.

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.

On June 30, 2015 and 2014, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $20,458,000 and $48,576,000, respectively, compared to bank balances of $19,970,000 and $48,688,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $3,200,000 and $3,334,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $660,000 and $629,000, respectively, were uninsured and uncollateralized; and $16,110,000 and $44,725,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2015 and 2014, follow.

State System Pooled Deposits and Investments
June 30, 2015
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Demand and time deposits			$114
Money market funds			7,968
Total deposits			8,082
Investments			
Commercial paper	Aaa	0.06	7,602
	P1	0.31	150,938
Government money market mutual fund	Aaa	0.00	62,832
U.S. government and agency obligations	Aaa	2.62	440,072
Asset-backed securities	Aaa	0.76	88,060
	Aa1	1.71	6,225
	P1	0.40	17,426
Collateralized mortgage obligations (CMOs)	Aaa	4.10	251,458
Corporate bonds and notes	Aaa	1.12	11,300
	Aa1	2.73	7,690
	Aa2	0.63	18,395
	Aa3	1.10	8,803
	A1	1.33	34,951
	A2	1.51	64,851
	A3	1.39	39,524
	Baa1	1.14	33,932
	Baa2	1.03	22,203
	Baa3	0.00	725
Total investments			1,266,987
Total deposits and investments			$1,275,069

State System Pooled Deposits and Investments
June 30, 2014
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Money market funds			$36,981
Total deposits			36,981
Investments			
Repurchase agreements			13,749
Commercial paper	P1	0.11	181,411
U.S. government and agency obligations	Aaa	3.10	410,727
Asset-backed securities	Aaa	1.55	110,487
	A1	0.83	2,928
	P1	0.95	68,762
Collateralized mortgage obligations (CMOs)	Aaa	2.74	214,795
Corporate bonds and notes	Aaa	2.04	11,527
	Aa1	3.77	15,316
	Aa2	1.61	18,437
	Aa3	1.23	25,185
	A1	1.64	23,345
	A2	1.92	59,885
	A3	1.42	57,286
	Baa1	1.46	34,430
	Baa2	1.72	20,661
	Baa3	0.00	725
Total investments			1,269,656
Total deposits and investments			$1,306,637

Of the investments noted above at June 30, 2015 and 2014, $4,569,000 and $19,819,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 8). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

The carrying values (fair values) of local university deposits and investments on June 30, 2015 and 2014, follow.

University Local Deposits and Investments
June 30, 2015
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Demand and time deposits			$12,362
Certificates of deposit			14
Total deposits			12,376
Investments			
U.S. government and agency obligations		0.55	72
Bond mutual funds		4.73	5,904
Debt securities		4.17	81
Equity/balanced mutual funds			37,812
Common stock			2,618
Total investments			46,487
Total deposits and investments			$58,863

University Local Deposits and Investments
June 30, 2014
(in thousands)

	Moody's Rating (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits			
Demand and time deposits			$11,572
Certificates of deposit			23
Total deposits			11,595
Investments			
U.S. government and agency obligations		3.43	411
Bond mutual funds		4.68	5,936
Debt securities		5.03	80
Equity/balanced mutual funds			36,013
Common stock			2,456
Total investments			44,896
Total deposits and investments			$56,491

Of the local investments noted above, the exposure to foreign currency risk is as follows.

(*in thousands)*

Investment	Currency	Fair Value June 30, 2015	Fair Value June 30, 2014
Deposit	British Pound	$6	$7

The universities are beneficiaries of trust funds held by others with an approximate fair value of $3,795,000 and $4,091,000 on June 30, 2015 and 2014, respectively. Since the universities have neither possession nor control of these trusts, the principal is not included in the accompanying balance sheet.

(3) LEASES

Total rent expense for the State System operating leases amounted to $16,371,000 and $11,676,000 for the years ended June 30, 2015 and 2014, respectively.

Capital assets acquired through leases that have been capitalized are as follows.

(*in thousands)*

	June 30, 2015	June 30, 2014
Cost:		
Buildings	$76,416	$76,405
Equipment	3,520	3,625
Total	$79,936	$80,030
Accumulated Depreciation:		
Buildings	$33,748	$29,471
Equipment	1,805	2,269
Total	$35,553	$31,740

Future minimum payments, by year and in the aggregate, under capital and noncancelable operating leases, with initial or remaining terms of one year or more, are as follows.

(in thousands)

	Operating Leases	Capital Leases
2016	$7,030	$5,708
2017	5,130	5,590
2018	3,508	5,475
2019	2,738	5,404
2020	2,007	5,105
Thereafter	60,915	42,840
Total minimum lease payments	$81,328	70,122
Amount representing interest on capital leases		18,530
Present value of net minimum capital lease payments		$51,592

Changes in the liability for capital leases in fiscal years 2015 and 2014 follow.

(in thousands)

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
2014	$56,882	$304	$3,395	$53,791
2015	$53,791	$1,161	$3,360	$51,592

(4) PENSION BENEFITS

Employees of the State System 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 State System's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal year ended June 30, 2015.

(in thousands)	SERS	PSERS	ARP	Total
Net pension liabilities	$728,094	$70,650	N/A	$798,744
Deferred outflows of resources	$57,018	$7,190	N/A	$64,208
Deferred inflows of resources	$9,049	$5,051	N/A	$14,100
Pension expense	$83,545	$6,663	$44,619	$134,827
Contributions made (pay-as-you-go)	$57,234	$5,236	$44,619	$107,089
Contributions recognized by pension plans	$57,837	$5,236	N/A	$63,073

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

SERS

Plan Description

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

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.

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

The State System contributed at actuarially determined rates of between 13.77% and 19.92% of active members' annual covered payroll at June 30, 2015. The State System's contributions to SERS for the years ended June 30, 2015, 2014, and 2013, were $57,234,000, $43,548,000, and $30,490,000, respectively, equal to the required contractual contribution.

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

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

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

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

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

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

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

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

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2014	$931,943	$728,094	$552,817
2013	$879,910	$677,940	$504,326

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, 2015, the amount recognized as the State System's proportionate share of the SERS net pension liability was $728,094,000. SERS measured the net pension liability as of December 31, 2014.

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

For the year ended June 30, 2015, the State System recognized SERS pension expense of $83,545,000. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the SERS pension are as follows.

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$3,953	-
Net difference between projected and actual investment earnings	21,036	-
Changes in proportions	-	$6,867
Difference between employer contributions and proportionate share of total contributions	-	2,182
Contributions after the measurement date	32,028	-
	$57,017	$9,049

The State System will recognize the $32,028,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the SERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in SERS pension expense as follows.

(in thousands)

Fiscal Year Ended	Amortization
June 30, 2016	$4,151
June 30, 2017	$4,151
June 30, 2018	$4,151
June 30, 2019	$4,151
June 30, 2020	($664)

PSERS

Plan Description

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

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.

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 State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2015, was 20.5% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 10.25% of covered payroll. The State System's contribution to PSERS for the year ending June 30, 2015, was $5,213,000. The State System's contributions to PSERS for the years ended June 30, 2014 and 2013, were $3,940,000 and $2,752,000, respectively, equal to the required contractual contribution.

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19.0%	5.0%
Private markets (equity)	21.0%	6.5%
Private real estate	13.0%	4.7%
Global fixed income	8.0%	2.0%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.2%
High-yield bonds	6.0%	1.7%
Cash	3.0%	0.9%
Absolute return	10.0%	4.8%
Risk parity	5.0%	3.9%
MLPs/Infrastructure	3.0%	5.3%
Commodities	6.0%	3.3%
Financing (LIBOR)	(9.0%)	1.1%
	100.0%	

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

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

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$88,128	$70,650	$55,731

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

(in thousands)	
Total PSERS net pension liability associated with the State System	$141,300,000
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	70,650,000
State System's proportionate share of the PSERS net pension liability	$70,650,000

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

For the year ended June 30, 2015, the State System recognized PSERS' pension expense of $6,663,000. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows.

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	-	$5,051
Changes in proportions	$1,682	-
Difference between employer contributions and proportionate share of total contributions	295	-
Contributions after the measurement date	5,213	-
	$7,190	$5,051

The State System will recognize the $5,213,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PSERS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as PSERS pension expense as follows.

(in thousands)

Fiscal Year Ended	Amortization
June 30, 2016	($786)
June 30, 2017	($786)
June 30, 2018	($786)
June 30, 2019	($786)
June 30, 2020	$70

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2015 and 2014, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2015 and 2014, were $44,619,000 and $43,869,000, respectively, from the State System; and $23,903,000 and $23,802,000, respectively, from active members. No liability is recognized for the ARP.

(5) Postretirement Benefits

State System employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined health care benefits plans, referred to here as the *System Plan* and the *Retired Employees Health Program*. These plans include hospital, medical/surgical, and 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 health care plan administered by the State System (System Plan). The System Plan provides eligible retirees and their eligible dependents with health care benefits and tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no plan assets and no financial report is prepared.

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 health care benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of $36,869,000 and $44,201,000 for the fiscal years ending June 30, 2015 and 2014, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2015.

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, 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 these annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire on or after July 1, 2008, pay 15% of the plan premium in effect on their retirement date. Future

adjustments will apply if contributions increase for active employees.

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

Annual OPEB Cost and Net OPEB Obligation
The State System'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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment 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 State System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the State System's net OPEB obligation.

(in thousands)	**June 30, 2015**	**June 30, 2014**
Annual required contribution	$102,000	$127,861
Interest on net OPEB obligation	42,800	39,257
Adjustment to ARC	(56,253)	(49,536)
Annual OPEB cost (expense)	88,547	117,582
Contributions made	(36,869)	(44,201)
Increase in net OPEB obligation	51,678	73,381
Net OPEB obligation at July 1	1,007,071	933,690
Net OPEB obligation at June 30	$1,058,749	$1,007,071

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

(in thousands)

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
June 30, 2013	$112,270	38.3%	$933,690
June 30, 2014	$117,582	37.6%	$1,007,071
June 30, 2015	$88,547	41.6%	$1,058,749

Funded Status and Funding Progress
The funded status of the plan as of July 1, 2014, the most recent actuarial valuation date, was as follows.

(in thousands)	
Actuarial accrued liability (AAL)	$1,194,849
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$1,194,849
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$589,917
UAAL as a percentage of covered payroll	203%

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 health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits 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.

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

Retired Employees Health Program

Plan Description

Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Pennsylvania Social Services Union (PSSU) 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. Benefits 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 nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2014/15, the State System contributed $334 for each current active employee per biweekly pay period. The State System made contributions of $30,765,000, $28,584,000, and $25,638,000 for the fiscal years ending June 30, 2015, 2014, and 2013, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(6) Workers' Compensation

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to $100,000; for claims occurring on or after July 1, 1995, State System universities 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 State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities contributed $1,405,000 and $1,875,000 to the Reserve Fund during the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the aggregate liability for claims under the self-insurance limit was $9,825,000 and $9,902,000, respectively. The Reserve Fund assets of $12,724,000 and $11,808,000 are equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2015 and 2014, respectively. Changes in the workers' compensation claims liability in fiscal years 2015 and 2014 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2014	$21,344	$5,244	$4,878	$21,710
2015	$21,710	$5,177	$4,337	$22,550

(7) Compensated Absences

Changes in the compensated absences liability in fiscal years 2015 and 2014 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2014	$109,909	$11,536	$6,735	$114,710
2015	$114,710	$11,272	$11,342	$114,640

(8) Bonds Payable

Bonds payable on June 30, 2015 and 2014, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, 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 bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds.

Activity for the various bond series for the years ended June 30, 2015 and 2014, was as follows.

Bonds Payable
June 30, 2015 and 2014
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2013	2014 Bonds Issued	2014 Bonds Redeemed/ Refunded	Balance June 30, 2014	2015 Bonds Issued	2015 Bonds Redeemed/ Refunded	Balance June 30, 2015	Current Portion
Series Z issued March 2004, final maturity June 2024	$71,760	4.04%	$39,300	-	$39,300	-	-	-	-	-
Series AA issued July 2004, final maturity June 2024	28,750	4.65%	15,785	-	15,785	-	-	-	-	-
Series AC issued July 2005, final maturity June 2025	52,650	4.87%	33,905	-	2,810	$31,095	-	$31,095	-	-
Series AE issued July 2006, final maturity June 2036	103,290	4.95%	79,835	-	4,030	75,805	-	75,805	-	-
Series AF issued July 2007, final maturity June 2037	68,230	5.00%	56,720	-	2,195	54,525	-	2,305	$52,220	$2,420
Series AG issued March 2008, final maturity June 2024	101,335	4.85%	77,505	-	7,000	70,505	-	10,875	59,630	11,485
Series AH issued July 2008, final maturity June 2038	140,760	4.67%	123,025	-	4,020	119,005	-	4,220	114,785	4,435
Series AI issued August 2008, final maturity June 2025	32,115	4.19%	23,510	-	1,785	21,725	-	1,845	19,880	1,910
Series AJ issued July 2009, final maturity June 2039	123,985	4.88%	109,800	-	4,515	105,285	-	4,835	100,450	5,245
Series AK issued Sept. 2009, final maturity June 2024	47,310	4.00%	35,945	-	3,705	32,240	-	3,795	28,445	3,910
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	115,880	-	25,815	90,065	-	7,710	82,355	7,935
Series AM issued July 2011, final maturity June 2036	119,085	4.65%	112,160	-	3,990	108,170	-	4,200	103,970	4,420
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	76,435	-	1,070	75,365	-	4,000	71,365	8,235
Series AO issued July 2013, final maturity June 2038	30,915	4.28%	-	$30,915	920	29,995	-	1,040	28,995	1,075
Series AP issued May 2014, final maturity June 2024	46,110	4.34%	-	46,110	-	46,110	-	2,685	43,425	2,940
Series AQ issued May 2015, final maturity June 2036	94,975	4.71%	-	-	-	-	$94,975	-	94,975	1,880
Total	**$1,273,490**	**-**	**$899,805**	**$77,025**	**$116,940**	**$859,890**	**$94,975**	**$154,410**	**$800,455**	**$55,890**

Principal and interest requirements to maturity are as follows.

(in thousands)	Principal	Interest	Total
2016	$55,890	$38,408	$94,298
2017	62,100	35,235	97,335
2018	61,445	32,242	93,687
2019	64,955	29,299	94,254
2020	72,260	26,212	98,472
2021–2025	266,190	87,100	353,290
2026–2030	137,905	36,321	174,226
2031–2035	64,675	11,310	75,985
2036–2039	15,035	1,154	16,189
Total	**$800,455**	**$297,281**	**$1,097,736**

(9) Debt Refunding

In May 2015, the net proceeds from the Series AQ revenue bonds, together with funds provided by the State System, were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to current refund Series AC and advance refund Series AE revenue bonds. This refunding was performed to reduce debt service by approximately $9,405,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $9,034,000. The economic gain is reported as a deferred outflow of resources. As of June 30, 2015, $0 of Series AC and $71,565,000 of Series AE Revenue Bonds remained outstanding, and the fair market value of the escrow account was $74,877,000. The funds in escrow will be used to pay the December 15, 2015, interest payment and the June 30, 2016, principal and interest payment of Series AE. Neither the funds in escrow nor the outstanding balance of Series AE is reflected in the balance sheet.

(10) Rating Actions

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

(11) Capital Assets

The classifications of capital assets and related depreciation at June 30, 2015 and 2014, follow.

(in thousands)	Balance June 30, 2013	2013/14 Additions	2013/14 Retirements/ Adjustments	Balance June 30, 2014	2014/15 Additions	2014/15 Retirements/ Adjustments	Balance June 30, 2015
Land	$29,263	$2,954	$143	$32,360	-	-	$32,360
Construction in progress	103,782	56,997	(90,573)	70,206	$65,737	($36,799)	99,144
Total capital assets not being depreciated	133,045	59,951	(90,430)	102,566	65,737	(36,799)	131,504
Buildings, including improvements	1,953,267	31,516	55,017	2,039,800	18,588	(2,203)	2,056,185
Improvements other than buildings	242,462	8,159	13,877	264,498	4,414	5,867	274,779
Equipment and furnishings	445,431	19,135	(9,809)	454,757	15,292	(15,921)	454,128
Library books	83,911	1,181	(1,402)	83,690	894	(2,644)	81,940
Total capital assets being depreciated	2,725,071	59,991	57,683	2,842,745	39,188	(14,901)	2,867,032
Less accumulated depreciation:							
Buildings and improvements	(703,610)	(79,062)	5,417	(777,255)	(79,045)	13,342	(842,958)
Land improvements	(112,279)	(9,721)	416	(121,584)	(10,379)	439	(131,524)
Equipment and furnishings	(339,086)	(29,276)	12,996	(355,366)	(28,215)	22,374	(361,207)
Library books	(73,566)	(2,134)	1,402	(74,298)	(2,013)	2,648	(73,663)
Total accumulated depreciation	(1,228,541)	(120,193)	20,231	(1,328,503)	(119,652)	38,803	(1,409,352)
Total capital assets being depreciated, net	1,496,530	(60,202)	77,914	1,514,242	(80,464)	23,902	1,457,680
Capital assets, net	$1,629,575	($251)	($12,516)	$1,616,808	($14,727)	($12,897)	$1,589,184

(12) Deferred Outflows of Resources and Deferred Inflows of Resources

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2015 and 2014, follow.

(in thousands)	June 30, 2015	June 30, 2014
Deferred Outflows of Resources		
Net pension liability related (see note 4)	$64,207	-
Unamortized loss on refunding of debt	9,349	$6,527
Total Deferred Outflows of Resources	$73,556	$6,527
Deferred Inflows of Resources		
Net pension liability related (see note 4)	$14,100	-
Unamortized gain on refunding of debt	1,211	$332
Total Deferred Inflows of Resources	$15,311	$332

(13) Contingencies and Commitments

Contingencies

The nature of the educational industry is such that, from time to time, the State System 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 State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2015, the State System estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements, with one exception: In August 2015 the State System completed an analysis and reconciliation of almost 4,400 student accounts at Cheyney University for fiscal years 2011/12, 2012/13, and 2013/14. It was determined that as a result of deficiencies in the University's policies, processes, and procedures related to the financial aid function, noncompliance with federal regulations in the administration and delivery of federal financial aid totaled $29.6 million over the three years. The State System, which undertook the analysis in consultation with the U.S. Department of Education (DOE), self-reported the findings to the DOE in August. No action has been taken at this point by the DOE and the determination of any amounts to be repaid is uncertain until communication is received from the DOE. The State System has contracted with the third-party consultant who completed the financial aid analysis to provide financial aid leadership on the University's campus and full service administration of the University's federal financial aid programs beginning in fiscal year 2014/15. The State System is now closely monitoring the financial aid function at the University.

The State System is self-insured for workers' compensation up to stated limits (note 6). For all other risks of loss, the State System pays annual premiums to the Commonwealth to participate in its Risk Management Program. The State System 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 State System has not significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the State System'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.

Affordable Care Act Requirements

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2015 and 2014, were approximately $69,604,000 and $75,162,000, respectively.

(14) Subsequent Event

In September 2015, PHEFA issued Series AR tax-exempt revenue bonds in the amount of $102,365,000. The net proceeds from the Series AR revenue bonds were used to finance capital projects at several universities. 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.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2015 and 2014
(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$0	$1,420,502	$1,420,502	0%	$566,753	251%
July 1, 2013	$0	$1,473,632	$1,473,632	0%	$583,755	252%
July 1, 2014	$0	$1,194,849	$1,194,849	0%	$589,917	203%

Schedule of Funding Progress for the REHP (OPEB)

(in thousands)

The information below 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.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$71,630	$12,843,700	$12,772,070	.56%	$4,130,000	309%
July 1, 2013	$82,060	$13,234,040	$13,151,980	.62%	$4,264,000	308%
January 1, 2015	$144,744	$16,134,419	$15,989,675	.90%	$4,289,000	373%

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

Determined as of December 31, 2014, SERS Measurement Date
(in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	.1785%	$728,094	$296,967	245%	64.8%

SERS Schedule of Contributions

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$57,837	$57,837	$0	$296,967	19.5%

Schedule of Proportionate Share of PSERS Net Pension Liability

Determined as of June 30, 2014, PSERS Measurement Date
(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	State System's Proportionate Share	Commonwealth's Proportionate Share	Total	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	.1785%	$70,650	$70,650	$141,350	$22,776	310%	57.2%

PSERS Schedule of Contributions

(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$5,236	$5,236	$0	$22,776	23.0%

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