

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA OF THE STATE SYSTEM OF  
HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2013 AND 2012**

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2013 AND 2012**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEETS – PRIMARY INSTITUTION</b>	<b>3</b>
<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY     INSTITUTION</b>	<b>5</b>
<b>STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION</b>	<b>7</b>
<b>COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS</b>	<b>9</b>
<b>COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS</b>	<b>10</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>11</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)</b>	<b>39</b>

## INDEPENDENT AUDITORS' REPORT

Council of Trustees  
Slippery Rock University of Pennsylvania of the State System of Higher Education  
Slippery Rock, 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 Slippery Rock University of Pennsylvania of the State System of Higher Education ("University"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% percent of the assets, net position, 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 audit 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 University as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 39 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 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.

*Other Information*

The financial statements of the University as of June 30, 2012, were audited by other auditors whose report dated October 31, 2012, expressed an unmodified opinion on those statements.



**CliftonLarsonAllen LLP**

Harrisburg, Pennsylvania  
November 20, 2013

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION  
JUNE 30, 2013 AND 2012**

<b>ASSETS</b>	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 79,736,458	\$ 80,129,732
Accounts Receivable:		
Governmental Grants and Contracts	939,323	1,514,838
Students, Net of Allowance for Doubtful Accounts of \$1,768,342 in 2013 and \$1,592,052 in 2012	2,722,277	2,612,043
Other	214,711	86,786
Due from Component Unit	3,811,201	5,105,679
Inventories	512,316	519,512
Prepaid Expenses and Other Assets	177,474	192,252
Current Portion of Conversion Pay Receivable	9,848	14,782
Current Portion of Loans Receivable	681,654	352,056
Interest Income Receivable	79,195	102,912
Current Portion of Bond Issuance Costs	364	388
Total Current Assets	88,884,821	90,630,980
<b>NONCURRENT ASSETS</b>		
Conversion Pay Receivable	9,914	8,848
Bond Issuance Costs	17,580	20,721
Loans Receivable, Net	3,917,388	4,038,578
Capital Assets, Net	121,671,321	123,148,223
Total Noncurrent Assets	125,616,203	127,216,370
Total Assets	\$ 214,501,024	\$ 217,847,350

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)  
JUNE 30, 2013 AND 2012**

<b>LIABILITIES AND NET POSITION</b>	2013	2012
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 10,723,158	\$ 11,329,047
Unearned Revenue	4,950,150	4,388,526
Students' Deposits	551,001	660,505
Other Deposit Liabilities	8,077	-
Workers' Compensation	321,961	285,360
Compensated Absences and Postretirement Benefit Obligations	4,635,001	4,911,793
Bond Premium	310,429	339,025
Bonds Payable	3,057,691	2,924,187
Capital Lease Obligations	35,042	36,200
Due to System, AFRP	304,890	293,252
Total Current Liabilities	24,897,400	25,167,895
<b>NONCURRENT LIABILITIES</b>		
Workers' Compensation	115,822	209,360
Compensated Absences and Postretirement Benefit Obligations	75,851,368	69,571,227
Bond Premium	2,080,774	2,391,202
Bonds Payable	44,829,604	47,887,295
Capital Lease Obligations	33,179	68,222
Unearned Revenue	1,990,774	2,201,201
Due to System, AFRP	2,780,713	3,085,640
Other Noncurrent Liabilities	4,486,982	4,963,810
Total Noncurrent Liabilities	132,169,216	130,377,957
Total Liabilities	157,066,616	155,545,852
<b>NET POSITION</b>		
Net Investment in Capital Assets	74,977,933	74,504,895
Restricted for:		
Expendable:		
Scholarships and Fellowships	111,174	26,843
Capital Projects	682,346	548,576
Student Loans	718,936	-
Other	175,428	18,780
Unrestricted	(19,231,409)	(12,797,596)
Total Net Position	57,434,408	62,301,498
Total Liabilities and Net Position	\$ 214,501,024	\$ 217,847,350

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION – PRIMARY INSTITUTION  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 76,293,626	\$ 74,112,622
Less: Scholarship Discounts and Allowances	(17,528,232)	(17,947,691)
Net Tuition and Fees	58,765,394	56,164,931
Governmental Grants and Contracts:		
Federal	1,751,088	1,402,452
State	7,214,310	8,686,850
Local	3,743,056	3,608,068
Sales and Services of Educational Departments	2,361,684	2,098,969
Nongovernmental Grants and Contracts	93,619	83,660
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$283,325 in 2013 and \$253,204 in 2012	21,264,971	21,655,600
Other Revenues	586,568	1,566,585
Total Operating Revenues	95,780,690	95,267,115
<b>OPERATING EXPENSES</b>		
Instruction	50,425,901	47,476,208
Research	187,880	239,584
Public Service	1,387,450	1,603,963
Academic Support	10,170,013	10,336,957
Student Services	12,817,676	12,747,282
Institutional Support	23,275,618	22,098,275
Operations and Maintenance of Plant	14,179,585	14,318,739
Depreciation	7,942,120	7,178,136
Student Aid	6,255,839	6,956,622
Auxiliary Enterprises	16,309,055	15,679,619
Total Operating Expenses	142,951,137	138,635,385
<b>NET OPERATING LOSS</b>	(47,170,447)	(43,368,270)

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION – PRIMARY INSTITUTION (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	32,012,491	32,494,341
Pell Grants	10,175,533	10,200,494
Investment Income, Net of Related Investment		
Expense of \$15,096 in 2013 and \$20,329 in 2012	856,775	1,060,718
Interest Expense on Capital Asset-Related Debt	(2,219,561)	(2,288,158)
Loss on Disposal of Assets	(120,931)	(18,683)
Other Nonoperating Revenue	86,155	94,544
Nonoperating Revenues, Net	40,790,462	41,543,256
<b>LOSS BEFORE OTHER REVENUES</b>	(6,379,985)	(1,825,014)
<b>OTHER REVENUES</b>		
State Appropriations, Capital	911,816	529,890
Capital Gifts and Grants	601,079	3,117,026
Total Other Revenues	1,512,895	3,646,916
<b>CHANGE IN NET POSITION</b>	(4,867,090)	1,821,902
Net Position, Beginning of Year	62,301,498	60,479,596
<b>NET POSITION, END OF YEAR</b>	\$ 57,434,408	\$ 62,301,498

See accompanying Notes to Financial Statements.



**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Tuition and Fees	\$ 58,708,430	\$ 56,123,053
Grants and Contracts	13,665,278	12,820,608
Payments to Suppliers for Goods and Services	(33,518,796)	(34,135,305)
Payments to Employees	(89,874,168)	(89,642,638)
Loans Issued to Students	(678,215)	(422,552)
Loans Collected from Students	469,807	693,501
Student Aid	(6,356,958)	(7,054,765)
Auxiliary Enterprise Charges	21,178,308	21,323,275
Sales and Services of Educational Departments	2,374,315	2,103,651
Other Operating Receipts	196,750	(198,936)
Net Cash Used by Operating Activities	(33,835,249)	(38,390,108)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations, including Federal ARRA	32,012,491	32,494,341
Pell Grants	10,175,533	10,200,494
Agency Transactions	97	(5,000)
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	57,268,395	69,045,096
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(57,268,395)	(69,045,096)
Other	86,155	94,544
Net Cash Provided by Noncapital Financing Activities	42,274,276	42,784,379
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt	-	11,991,543
Capital Appropriations	911,816	529,890
Capital Grants and Gifts Received	601,079	3,117,026
Proceeds from Sales of Capital Assets	-	-
Purchases of Capital Assets	(5,405,950)	(21,794,723)
Principal Paid on Capital Debt	(3,253,677)	(3,089,075)
Interest Paid on Capital Debt	(2,566,061)	(2,657,686)
Net Cash Used by Capital Financing Activities	(9,712,793)	(11,903,025)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	880,492	1,080,260
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(393,274)	(6,428,494)
Cash and Cash Equivalents - Beginning of Year	80,129,732	86,558,226
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 79,736,458	\$ 80,129,732

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Net Operating Loss	\$ (47,170,447)	\$ (33,167,776)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	7,942,120	7,178,136
Changes in Assets and Liabilities:		
Receivables	465,281	(1,370,434)
Inventory	7,196	(29,881)
Other Assets	1,185,199	2,492,657
Accounts Payable	(1,775,447)	(6,972,769)
Unearned Revenue	351,197	(42,325)
Students' Deposit	(109,504)	59,199
Compensated Absences	389,329	396,096
Loans to Students and Employees	(208,408)	270,949
Other Liabilities	5,088,235	2,996,534
Net Cash Used by Operating Activities	\$ (33,835,249)	\$ (28,189,614)
 <b>SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND CAPITAL FINANCING ACTIVITIES</b>		
Accounts Payable for Construction	\$ 1,180,199	\$ 426,742
Capital Lease	-	41,639
Total	\$ 1,180,199	\$ 468,381

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS  
JUNE 30, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 11,156,848	\$ 11,008,988
Investments	20,360,347	17,755,366
Accounts Receivable, Other	584,493	624,722
Pledges Receivable	754,182	777,072
Inventories	873,529	760,193
Total current assets	33,729,399	30,926,341
<b>NONCURRENT ASSETS</b>		
Capital Assets, Net	107,513,730	111,517,565
Other Assets	25,136,141	25,189,546
Total Noncurrent Assets	132,649,871	136,707,111
Total Assets	\$ 166,379,270	\$ 167,633,452
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 195,906	\$ 170,239
Capitalized Leases	29,655	41,577
Due to University	3,810,900	5,105,679
Annuity Liabilities	538,211	515,356
Other Liabilities	8,970,977	9,235,325
Total current liabilities	13,545,649	15,068,176
<b>NONCURRENT LIABILITIES</b>		
Bonds Payable	122,420,000	124,215,000
Total Liabilities	135,965,649	139,283,176
<b>NET ASSETS</b>		
Unrestricted	11,048,421	10,246,852
Temporarily Restricted	5,387,796	5,215,293
Permanently Restricted	13,977,404	12,888,131
Total Net Assets	30,413,621	28,350,276
Total Liabilities and Net Assets	\$ 166,379,270	\$ 167,633,452

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
STATEMENTS OF ACTIVITIES – COMPONENT UNITS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND OTHER ADDITIONS</b>		
Contributions	\$ 115,271	\$ 46,834
Investment Income	2,542,891	247,661
Rental Income	13,897,390	14,050,554
Sales and Service	5,319,296	5,640,852
Student Activity Fees	2,215,074	2,196,011
Other Revenues	2,721,590	3,661,839
Net Assets Released from Restriction	796,890	1,304,115
Total Revenues and Other Additions	27,608,402	27,147,866
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Program services:		
Scholarships and Grants	2,201,796	2,009,499
Student Activities	3,366,070	2,915,915
University Store	3,374,851	3,219,885
Housing	14,335,702	14,624,427
Other University Support	1,557,088	1,943,637
Management and General	808,898	942,675
Transfer of Surplus to University	332,878	318,457
Fundraising	829,550	958,569
Total Expenses and Other Deductions	26,806,833	26,933,064
Increase in Unrestricted Net Assets	801,569	214,802
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	969,393	1,431,425
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(796,890)	(1,304,115)
Increase in Temporarily Restricted Net Assets	172,503	127,310
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	\$ 1,089,273	411,699
<b>INCREASE IN NET ASSETS</b>	2,063,345	753,811
Net Assets - Beginning of Year	28,350,276	27,596,465
<b>NET ASSETS - END OF YEAR</b>	\$ 30,413,621	\$ 28,350,276

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Organization**

Slippery Rock University of Pennsylvania of the State System of Higher Education (the "University"), a public four year institution located in Slippery Rock, Pennsylvania, was founded in 1889. The University is one of fourteen universities of the State System of Higher Education (PASSHE). PASSHE was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). PASSHE is a component unit of the Commonwealth of Pennsylvania (the "Commonwealth").

**Reporting Entity**

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

The Slippery Rock Student Government Association (the "Association") is a legally separate, tax-exempt entity, which is responsible for the operations of the University Store and community activities. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of June 30, 2013 and 2012.

The Slippery Rock University Foundation (the "Foundation") is a legally separate, tax-exempt entity, which acts primarily as a fund-raising organization and supplements the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from the Foundation of \$332,878 and \$318,457 during the years ended June 30, 2013 and 2012, respectively. The financial activity of the Foundation is presented as of June 30, 2013 and 2012.

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

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

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows, and balances that affect an entity's net position. 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 University records tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity; and corporate partnerships 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 on capital asset-related debt and losses on the disposal of assets, are recorded as operating expenses. Appropriations, Pell Grants, investment income, and parking and library fines are reported as nonoperating revenue.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship discount and allowance.

**Net Position (formerly referred to as Net Assets)**

The University maintains the following classifications of net position. The term "net position" has replaced the term "net assets" as required by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Net Position (formerly referred to as Net Assets) (Continued)**

*Net investment in capital assets (previously referred to and the same as “Invested in capital assets, net of related debt”; terminology was changed by GASB in Statement No. 63):* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

*Restricted – nonexpendable:* Net position subject to externally imposed conditions requiring that they be maintained by the University in perpetuity.

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

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

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

**Cash Equivalents**

The University considers all demand and time deposits, money market funds and overnight repurchase agreements to be cash equivalents.

**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 and 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 University’s historical losses and periodic review of individual accounts.

**Inventories**

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Capital Assets**

Land and buildings at the University's campus acquired or constructed prior to the creation of PASSHE on July 1, 1983, are owned by the Commonwealth and made available to the University. Since the University neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed utilizing capital funds appropriated by the Commonwealth after June 10, 1983 and made available to the University.

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 University 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 and depreciated. Assets purchased 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 University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Amortization of assets purchased 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 University 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, 2013 and 2012.

**Unearned Revenue (previously Deferred 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. The University previously referred to "unearned revenue" as "deferred revenue," but changed the terminology in accordance with new GASB requirements.

**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.



**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Pension Plans**

Employees of the University are required to enroll in one of three available retirement plans immediately upon employment. The University recognizes annual pension expenditures equal to its contractually required contributions to the Plan.

**Scholarships and Waivers**

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

**Income Taxes**

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**New Accounting Standards**

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. Statement No. 60 establishes guidance for accounting and financial reporting for service concession arrangements, which are a type of public-private or public-public partnership. The University was required to adopt Statement No. 60 for the fiscal year ending June 30, 2013. The University has determined that Statement No. 60 has no effect on its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With Statements No. 63 and 65, GASB has reclassified certain assets and liabilities as "deferred outflows" and "deferred inflows" of resources. Further, GASB has replaced the term "net assets" with "net position," and has changed the balance sheet presentation to "assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position." The University was required to adopt Statement No. 63 for the fiscal year ending June 30, 2013, and is required to adopt Statement No. 65 for the fiscal year ending June 30, 2014. The University has determined that Statement No. 63 has no effect on the substance of its

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**New Accounting Standards (Continued)**

financial statements; however, the changes increase the complexity of the financial statements to its readers, as the new presentation differs from the traditional and familiar business reporting model. The University has determined that the adoption of Statement No. 65 will require that bond issuance costs, which previously were netted against the associated bond payable, now will be expensed in the period incurred. The amount of fiscal year 2012/13 bond issuance costs that will be restated as an expense on next year's financial statements is \$319,000.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 will require the University to report its share of the pension liabilities that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record beginning in fiscal year 2014/15. Although the University has not received an estimate of its share of the pension liabilities from either organization, the liabilities are expected to be significant and have a detrimental effect on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. The University has determined that Statements No. 69 and 70 have no effect on its financial statements.

**Reclassifications**

Certain reclassifications have been made to the prior year's financial statements in order for them to conform to the current year's presentation. These reclassifications had no effect on prior year change in net position.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

The following represents combining condensed statement of financial position information for the component units as of June 30, 2013:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Capital Assets, Net	\$ 4,942,324	\$ 102,570,406	\$ 107,512,730
Other Assets	10,796,529	48,070,011	58,866,540
Total Assets	<u>\$ 15,738,853</u>	<u>\$ 150,640,417</u>	<u>\$ 166,379,270</u>
Due to University	\$ -	\$ 3,810,900	\$ 3,810,900
Long-Term Debt	-	122,420,000	122,420,000
Other Liabilities	727,794	9,006,955	9,734,749
Total Liabilities	<u>\$ 727,794</u>	<u>\$ 135,237,855</u>	<u>\$ 135,965,649</u>
Net Assets:			
Unrestricted	\$ 15,011,059	\$ (3,962,638)	\$ 11,048,421
Temporarily Restricted	-	5,387,796	5,387,796
Permanently Restricted	-	13,977,404	13,977,404
Total Net Assets	<u>\$ 15,011,059</u>	<u>\$ 15,402,562</u>	<u>\$ 30,413,621</u>

The following represents combining condensed statement of financial position information for the component units as of June 30, 2012:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Capital Assets, Net	\$ 5,049,170	\$ 106,468,395	\$ 111,517,565
Other Assets	10,294,186	45,821,701	56,115,887
Total Assets	<u>\$ 15,343,356</u>	<u>\$ 152,290,096</u>	<u>\$ 167,633,452</u>
Due to University	\$ -	\$ 5,105,680	\$ 5,105,680
Long-Term Debt	-	124,215,000	124,215,000
Other Liabilities	647,395	9,315,101	9,962,496
Total Liabilities	<u>\$ 647,395</u>	<u>\$ 138,635,781</u>	<u>\$ 139,283,176</u>
Net Assets:			
Unrestricted	\$ 14,695,961	\$ (4,449,109)	\$ 10,246,852
Temporarily Restricted	-	5,215,293	5,215,293
Permanently Restricted	-	12,888,131	12,888,131
Total Net Assets	<u>\$ 14,695,961</u>	<u>\$ 13,654,315</u>	<u>\$ 28,350,276</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

The following represents combining statement of activities for the component units for the year ended June 30, 2013:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
<b>Changes in Unrestricted Net Assets</b>			
Revenues and Other Additions:			
Contributions	\$ 355	\$ 114,916	\$ 115,271
Investment Income	22,547	2,520,344	2,542,891
Rental Income	-	13,897,390	13,897,390
Sales and Service	4,560,251	759,045	5,319,296
Student Activity Fees	2,215,074	-	2,215,074
Other Revenues	536,680	2,184,910	2,721,590
Net Assets Released from Restriction	-	796,890	796,890
Total Revenues and Other Additions	<u>7,334,907</u>	<u>20,273,495</u>	<u>27,608,402</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships and Grants	-	2,201,796	2,201,796
Student Activities	3,366,070	-	3,366,070
University Stores	3,374,851	-	3,374,851
Housing	-	14,335,702	14,335,702
Other University Support	-	1,557,088	1,557,088
Management and General	278,888	530,010	808,898
Transfer of Surplus to University	-	332,878	332,878
Fundraising	-	829,550	829,550
Total Expenses and Other Deductions	<u>7,019,809</u>	<u>19,787,024</u>	<u>26,806,833</u>
Increase (Decrease) in Unrestricted Net Assets	315,098	486,471	801,569
<b>Changes in Temporarily Restricted Net Assets</b>			
Contributions	-	969,393	969,393
Net Assets Released from Restrictions	-	(796,890)	(796,890)
Increase in Temporarily Restricted Net Assets	-	172,503	172,503
<b>Changes in Permanently Restricted Net Assets</b>			
Contributions	-	1,089,273	1,089,273
<b>INCREASE IN NET ASSETS</b>	315,098	1,748,247	2,063,345
Net Assets - Beginning	<u>14,695,961</u>	<u>13,654,315</u>	<u>28,350,276</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 15,011,059</u>	<u>\$ 15,402,562</u>	<u>\$ 30,413,621</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

The following represents combining statement of activities for the component units for the year ended June 30, 2012:

**Changes in Unrestricted Net Assets**

Revenues and Other Additions:

Contributions	\$ 375	\$ 46,459	\$ 46,834
Investment Income	38,986	208,678	247,664
Rental Income	-	14,050,554	14,050,554
Sales and Service	4,526,339	1,114,513	5,640,852
Student Activity Fees	2,196,011	-	2,196,011
Other Revenues	554,622	3,107,214	3,661,836
Net Assets Released from Restriction	-	1,304,115	1,304,115
Total Revenues and Other Additions	<u>7,316,333</u>	<u>19,831,533</u>	<u>27,147,866</u>

Expenses and Other Deductions:

Program Services:

Scholarships and Grants	-	2,009,499	2,009,499
Student Activities	2,915,915	-	2,915,915
University Stores	3,219,885	-	3,219,885
Housing	-	14,624,427	14,624,427
Other University Support	-	1,943,637	1,943,637
Management and General	270,364	672,311	942,675
Transfer of Surplus to University	-	318,457	318,457
Fundraising	-	958,569	958,569
Total Expenses and Other Deductions	<u>6,406,164</u>	<u>20,526,900</u>	<u>26,933,064</u>

Increase (Decrease) in Unrestricted

Net Assets	910,169	(695,367)	214,802
------------	---------	-----------	---------

**Changes in Temporarily Restricted**

**Net Assets**

Contributions	-	1,431,425	1,431,425
Net Assets Released from Restrictions	-	(1,304,115)	(1,304,115)
Increase in Temporarily Restricted Net Assets	-	127,310	127,310

**Changes in Permanently Restricted**

**Net Assets**

Contributions	-	411,699	411,699
---------------	---	---------	---------

**INCREASE (DECREASE) IN NET ASSETS**

910,169	(156,358)	753,811
---------	-----------	---------

Net Assets - Beginning

<u>13,785,792</u>	<u>13,810,673</u>	<u>27,596,465</u>
-------------------	-------------------	-------------------

**NET ASSETS - ENDING**

<u>\$ 14,695,961</u>	<u>\$ 13,654,315</u>	<u>\$ 28,350,276</u>
----------------------	----------------------	----------------------

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 3 DEPOSITS AND INVESTMENTS**

The University predominantly maintains its cash balances on deposit with PASSHE. PASSHE maintains these and other PASSHE funds on a pooled basis. Although PASSHE pools its funds in a manner similar to an internal investment pool, individual PASSHE entities do not hold title to any assets in the fund. PASSHE as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at PASSHE level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$77,785,595 and \$75,828,353 at June 30, 2013 and 2012, respectively.

Board Policy 1986-02-A, *Investment*, authorizes PASSHE 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 amounts and amounts designated by the Board or university trustees may be invested in the investments described above, as well as corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as cash deposits. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, PASSHE recognizes a fiduciary responsibility to invest all funds prudently 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 PASSHE'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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

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

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

**CMO Risk:** CMOs are sometimes based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in PASSHE'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:** PASSHE 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Modified Duration:** PASSHE 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. PASSHE 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. PASSHE's duration targets are not applicable to its long-term investments.

On June 30, 2013 and 2012, the carrying amount of the University's demand and time deposits were \$1,950,863 and \$4,298,014, respectively, as compared to bank balances of \$2,145,015 and \$4,281,495, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2013 and 2012, \$250,000 was covered by federal government depository insurance; and \$1,895,015 and \$4,031,495, respectively, was uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2013 and 2012, none of the University's demand and time deposits are exposed to foreign currency risk.

**NOTE 4 INVESTMENT-COMPONENT UNIT**

The fair value of investments at June 30 is as follows:

	<u>2013</u>	<u>2012</u>
Equity Securities	\$ 15,921,104	\$ 13,514,284
Fixed Income	4,250,843	4,052,682
Real Estate	188,400	188,400
Total	<u>\$ 20,360,347</u>	<u>\$ 17,755,366</u>



**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 5 CAPITAL ASSETS, NET**

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

		2013				
	Life	Beginning Balance July 1, 2012	Additions	Retirements	Reclassifications	Ending Balance June 30, 2013
Land		11,701	\$ -	\$ -	\$ -	11,701
Construction in Progress		2,691,981	813,141		(2,303,558)	1,201,564
Total Capital Assets Not being Depreciated		2,703,682	813,141	-	(2,303,558)	1,213,265
Buildings, including						
Improvements	40	141,549,775	4,735,649	-	2,303,558	148,588,982
Improvements Other than Buildings		13,191,107	-	-	-	13,191,107
Furnishings and Equipment						
Including Capital Leases	Varies	20,387,137	912,321	(432,341)	-	20,867,117
Library Books	10	7,599,242	125,037	(448,661)	-	7,275,618
Total Capital Assets being Depreciated		182,727,261	5,773,007	(881,002)	2,303,558	189,922,824
Less: Accumulated Depreciation:						
Buildings, including						
Improvements		(36,178,596)	(5,212,949)	-	-	(41,391,545)
Improvements Other than Buildings		(6,212,311)	(624,234)	-	-	(6,836,545)
Furnishings and Equipment						
Including Capital Leases		(12,957,707)	(1,994,508)	420,088	-	(14,532,127)
Library Books		(6,934,106)	(110,429)	339,984	-	(6,704,551)
Total Accumulated Depreciation		(62,282,720)	(7,942,120)	760,072	-	(69,464,768)
Total Capital Assets being Depreciated, Net		120,444,541	(2,169,113)	(120,930)	2,303,558	120,458,056
Capital Assets, Net		\$ 123,148,223	\$ (1,355,972)	\$ (120,930)	\$ -	\$ 121,671,321

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 5 CAPITAL ASSETS, NET (CONTINUED)**

	Life	2012				Ending Balance June 30, 2012
		Beginning Balance July 1, 2011	Additions	Retirements	Reclassifications	
Land		\$ 11,701	\$ -	\$ -	\$ -	\$ 11,701
Construction in Progress		25,376,294	2,132,717	(33,751)	(24,783,279)	2,691,981
Total Capital Assets Not being Depreciated		25,387,995	2,132,717	(33,751)	(24,783,279)	2,703,682
Buildings, including Improvements	40	113,519,644	20,944,522	-	20,276,716	154,740,882
Furnishings and Equipment, including Capital Lease	Varies	14,730,638	1,267,975	(118,039)	4,506,563	20,387,137
Library Books	10	7,593,911	129,890	(124,559)	-	7,599,242
Total Capital Assets being Depreciated		135,844,193	22,342,387	(242,598)	24,783,279	182,727,261
Less: Accumulated Depreciation:						
Buildings, including Improvements		(37,496,367)	(4,894,539)	-	-	(42,390,906)
Furnishings and Equipment		(10,904,787)	(2,170,960)	118,039	-	(12,957,708)
Library Books		(6,927,343)	(112,637)	105,874	-	(6,934,106)
Total Accumulated Depreciation		(55,328,497)	(7,178,136)	223,913	-	(62,282,720)
Total Capital Assets being Depreciated, Net		80,515,696	15,164,251	(18,685)	24,783,279	120,444,541
Capital Assets, Net		<u>\$ 105,903,691</u>	<u>\$ 17,296,968</u>	<u>\$ (52,436)</u>	<u>\$ -</u>	<u>\$ 123,148,223</u>

**NOTE 6 LEASES**

The University has entered into operating leases for certain office and classroom space on a year-to-year basis. Total rent expense for operating leases was \$158,640 and \$147,823 for the years ended June 30, 2013 and 2012, respectively. Future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 158,640
2015	20,000
2016	20,000
Total	<u>\$ 198,640</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 7    ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Employees	\$ 7,674,743	\$ 7,278,216
Supplies and Services	1,905,009	1,834,496
Other	1,054,257	2,116,545
Interest	89,149	99,790
Total	<u>\$ 10,723,158</u>	<u>\$ 11,329,047</u>

**NOTE 8    UNEARNED REVENUE**

Unearned revenue consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Grants	\$ 465,038	\$ 177,348
Students	4,005,781	3,832,039
Auxiliary	2,395,000	2,480,000
Other	75,105	100,340
Total	<u>\$ 6,940,924</u>	<u>\$ 6,589,727</u>

During the year ended June 30, 2011, the University entered into a contract with their food service provider. This contract required the food service provider to make an investment in the University at the inception of the contract to be recognized over a 10-year period. The remaining unamortized amount as of June 30, 2013 and 2012 was \$2,395,000 and \$2,480,000, respectively, and is presented as unearned auxiliary revenue.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9 BONDS PAYABLE**

Bonds payable consist of tax-exempt revenue bonds issued by PASSHE through the Pennsylvania Higher Education Facilities Authority (PHEFA). In connection with the bond issuances, PASSHE entered into a loan agreement with PHEFA on behalf of the University under which PASSHE has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of PASSHE. PASSHE's Board of Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2013 and 2012 are as follows:

	2013				
	Weighted Average Interest Rate	Balance July 1, 2012	Bonds Issued	Bonds Redeemed	Balance June 30, 2013
			\$	\$	\$
Series AC issued in July 2006	4.89 %	1,398,793	-	(79,047)	1,319,746
Series AG issued in July 2007	4.75 %	2,957,144		(543,498)	2,413,646
Series AH issues in July 2008	4.70 %	8,910,271		(468,534)	8,441,737
Series AI issued in August 2008	4.10 %	353,412		(21,537)	331,875
Series AJ issued in July 2009	4.89 %	10,246,399		(409,854)	9,836,545
Series AL issued in July 2010	5.00 %	15,966,211		(1,029,413)	14,936,798
Series AM issued in July 2011	4.68 %	10,979,252		(372,304)	10,606,948
<b>Total Bonds Payable</b>		<u>\$ 50,811,482</u>	<u>\$ -</u>	<u>\$ (2,924,187)</u>	<u>\$ 47,887,295</u>

  

	2012				
	Weighted Average Interest Rate	Balance July 1, 2011	Bonds Issued	Bonds Redeemed	Balance June 30, 2012
			\$	\$	\$
Series AC issued in July 2006	4.89 %	1,473,945	-	(75,152)	1,398,793
Series AG issued in July 2007	4.75 %	3,479,245		(522,101)	2,957,144
Series AH issues in July 2008	4.70 %	9,356,259		(445,988)	8,910,271
Series AI issued in August 2008	4.10 %	374,242		(20,830)	353,412
Series AJ issued in July 2009	4.89 %	10,636,982		(390,583)	10,246,399
Series AL issued in July 2010	5.00 %	16,946,577		(980,366)	15,966,211
Series AM issued in July 2011	4.68 %	-	11,314,408	(335,156)	10,979,252
<b>Total Bonds Payable</b>		<u>\$ 42,267,250</u>	<u>\$ 11,314,408</u>	<u>\$ (2,770,176)</u>	<u>\$ 50,811,482</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9    BONDS PAYABLE (CONTINUED)**

The University participates in the PASSHE's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the PASSHE. This program will provide \$100,000,000 in funding over the next several years. The PASSHE will issue bonds to provide a pool for funding for AFRP (\$37,540,089 and \$41,271,274 was outstanding as of June 30, 2013 and 2012, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. As of June 30, 2013 and 2012, the balance owed by the University to the PASSHE's AFRP pool of funding was \$3,085,603 and \$3,378,892, respectively.

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 9 BONDS PAYABLE (CONTINUED)**

Series		2013	2014	2015	2016	2017	2018-2022	2023-2027	Thereafter	Total
<b>AC</b>	Principal	\$ 82,942	\$ 87,067	\$ 91,420	\$ 96,002	\$ 100,814	\$ 585,179	\$ 276,321	\$ -	\$ 1,319,745
	Interest	64,260	60,113	55,760	51,189	46,389	151,086	18,264	-	447,061
	Total	<u>147,260</u>	<u>147,202</u>	<u>147,180</u>	<u>147,180</u>	<u>147,191</u>	<u>736,174</u>	<u>441,880</u>	<u>-</u>	<u>1,914,067</u>
<b>AG</b>	Principal	564,896	584,154	616,250	648,346	-	-	-	-	2,413,646
	Interest	112,209	92,438	63,230	32,417	-	-	-	-	300,294
	Total	<u>674,050</u>	<u>677,105</u>	<u>676,592</u>	<u>679,480</u>	<u>680,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,387,990</u>
<b>AH</b>	Principal	492,306	516,078	542,634	569,801	598,361	3,428,217	2,294,340	-	8,441,737
	Interest	395,224	370,609	344,805	317,673	289,183	1,008,185	336,140	-	3,061,819
	Total	<u>887,185</u>	<u>887,530</u>	<u>886,687</u>	<u>887,439</u>	<u>887,474</u>	<u>4,436,650</u>	<u>2,991,795</u>	<u>525,981</u>	<u>12,390,741</u>
<b>AI</b>	Principal	22,243	22,949	23,655	24,714	25,773	145,460	67,081	-	331,875
	Interest	13,781	13,002	12,142	11,195	10,207	34,346	4,560	-	99,233
	Total	<u>36,018</u>	<u>36,024</u>	<u>35,951</u>	<u>35,797</u>	<u>35,909</u>	<u>179,971</u>	<u>107,456</u>	<u>-</u>	<u>467,126</u>
<b>AJ</b>	Principal	430,179	451,894	474,664	497,433	522,647	3,032,917	3,613,571	813,240	9,836,546
	Interest	475,348	453,839	431,244	407,511	382,639	1,493,992	697,375	38,629	4,380,577
	Total	<u>905,694</u>	<u>905,527</u>	<u>905,733</u>	<u>905,908</u>	<u>904,944</u>	<u>4,527,002</u>	<u>4,364,178</u>	<u>1,703,830</u>	<u>15,122,816</u>
<b>AL</b>	Principal	1,081,264	1,135,008	1,191,557	1,251,156	580,493	3,366,580	4,296,210	2,034,530	14,936,799
	Interest	746,840	692,777	636,026	576,448	513,891	2,104,007	1,173,956	153,817	6,597,762
	Total	<u>1,827,724</u>	<u>1,828,104</u>	<u>1,827,785</u>	<u>1,827,583</u>	<u>1,827,604</u>	<u>5,471,078</u>	<u>5,470,026</u>	<u>3,282,380</u>	<u>23,362,284</u>
<b>AM</b>	Principal	383,861	402,847	422,660	444,123	466,411	2,680,423	3,394,488	2,412,133	10,606,946
	Interest	497,671	478,478	458,336	437,203	414,997	1,726,663	1,012,892	232,479	5,258,719
	Total	<u>881,145</u>	<u>881,533</u>	<u>881,327</u>	<u>880,996</u>	<u>881,326</u>	<u>4,407,293</u>	<u>4,407,185</u>	<u>3,526,009</u>	<u>16,746,814</u>
<b>Total</b>	Principal	3,057,691	3,199,997	3,362,840	3,531,575	2,294,500	13,238,777	13,942,011	5,259,904	47,887,295
	Interest	<u>2,305,333</u>	<u>2,161,256</u>	<u>2,001,543</u>	<u>1,833,636</u>	<u>1,657,306</u>	<u>6,518,279</u>	<u>3,243,187</u>	<u>424,925</u>	<u>20,145,465</u>
	Total	<u>\$ 5,363,024</u>	<u>\$ 5,361,253</u>	<u>\$ 5,364,383</u>	<u>\$ 5,365,211</u>	<u>\$ 3,951,806</u>	<u>\$ 19,757,056</u>	<u>\$ 17,185,198</u>	<u>\$ 5,684,829</u>	<u>\$ 68,032,760</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 10 OBLIGATION UNDER CAPITAL LEASES**

The University has incurred obligations under the terms of capital lease arrangements in 2010. The obligations are collateralized by the related leased equipment.

The present value of future net minimum lease payments has been classified in the accompanying financial statements at June 30, 2013 as follows:

Current Maturities of Capital Lease Obligations	\$ 35,042
Long-term Maturities of Capital Lease Obligations	33,179
Total	<u>\$ 68,221</u>

The following is a schedule, by year, of minimum, lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 37,358
2015	21,033
2016	9,830
Total Minimum Lease Payments	68,221
Amounts Representing Interest	(3,272)
Present Value of Net Minimum Lease Payments	<u>\$ 64,949</u>

**NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS**

Compensated absences and postretirement benefits for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 419,001	\$ 8,151,818	\$ 558,793	\$ 7,622,697
Post-Retirement Benefit Obligations	4,216,000	67,699,550	4,353,000	61,948,530
Total	<u>\$ 4,635,001</u>	<u>\$ 75,851,368</u>	<u>\$ 4,911,793</u>	<u>\$ 69,571,227</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefits plans. 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, the State College and University Professional Association, Security Police and Fire Professionals of America, Pennsylvania Nurses Association, and management employees participate in a single-employer defined benefit healthcare plan administered by PASSHE (the "System Plan"). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of PASSHE's universities. Act 188 empowers the Board to establish and amend benefit provisions. Since the System Plan is unfunded, no financial report is prepared. The System Plan has no assets and no financial report is prepared.

**Funding Policy**

The contribution requirements of plan members and PASSHE are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. PASSHE paid premiums of \$42,975,000 and \$38,729,000 for the fiscal years ended June 30, 2013 and 2012, 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, 2013:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired 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 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.
- Other eligible annuitants who retire 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.



**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**System Plan (Continued)**

**Funding Policy (Continued)**

Total contributions made by plan members were \$3,667,000 and \$3,189,000 or approximately 7.7% and 7.6% of the total premiums for the fiscal years ended June 30, 2013 and 2012, respectively.

**Annual OPEB Cost and Net OPEB Obligation**

The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in net OPEB obligation:

Annual Required Contribution	\$ 9,019,000
Interest on Net OPEB Obligation	2,597,000
Adjustment to Annual Required Contribution	<u>(3,153,000)</u>
Annual OPEB Cost	8,463,000
Contributions Made	<u>(2,848,980)</u>
Increase in Net OPEB Obligation	5,614,020
Net OPEB Obligation at July 1, 2012	<u>66,301,530</u>
Net OPEB Obligation at June 30, 2013	<u><u>\$ 71,915,550</u></u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for June 30, 2013, and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 8,463,000	33.7 %	\$ 71,915,550
June 30, 2012	8,616,000	33.4 %	66,301,530
June 30, 2011	8,158,000	33.4 %	60,562,848

**Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date was as follows:

Actuarial Accrued Liability (AAL)	\$ 106,643,000
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 42,853,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>- %</u>
Covered Payroll (Active Plan Members)	<u>\$ 42,853,000</u>
UAAL as a Percentage of Covered Payroll	<u>248.9 %</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**Funded Status and Funding Progress (Continued)**

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2012 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on PASSHE's operating portfolio, and an annual healthcare cost trend rate of 8.0% for pre-Medicare and 7.0% for post-Medicare, initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2012, was 23 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. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

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

**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 2012/13, PASSHE contributed \$265 for each current active employee per biweekly pay period. PASSHE made contributions of \$25,638,000, \$23,228,000, and \$20,069,000 for the fiscal years ended June 30, 2013, 2012, and 2011, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE 12 PENSION BENEFITS**

The Public School Employees' Retirement System (PSERS) and the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by the PASSHE.

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multiple-employer defined benefit plan. PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. Section 8101-8535) is the authority by which benefit provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (University), and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 6.18% of annual covered payroll at June 30, 2013. The University's contributions to PSERS for the years ended June 30, 2013, 2012 and 2011 were \$268,993, \$173,374 and \$104,250, respectively, equal to the required contractual contribution. 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 by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 12 PENSION BENEFITS (CONTINUED)**

SERS provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Active members contribute at a rate 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. The University contributed at an actuarially determined rates of between 8.43% and 10.51% of an active member's annual covered payroll at June 30, 2013. The University's contribution to SERS for the years ended June 30, 2013, 2012 and 2011 were \$2,140,902, \$1,447,636 and \$940,666, respectively, equal to the required contractual contribution. 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 by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, P.O. Box 1147, Harrisburg, Pennsylvania 17108.

Because the ARP is a defined contribution plan, benefits equal amounts contributed to the plan plus investment earnings. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University's contribution rate on June 30, 2013 and 2012 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2013 and 2012 were \$3,236,640 and \$3,128,817, respectively, from the University and \$1,733,248 and \$1,625,891, respectively, from active members.

**NOTE 13 WORKERS' COMPENSATION**

The University participates in PASSHE's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$124,308 and \$169,395 to the Reserve Fund for the years ended June 30, 2013 and 2012, respectively.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 13 WORKERS' COMPENSATION (CONTINUED)**

The liability for claims under the self-insurance limit for the years ended June 30, 2013 and 2012 were \$437,783 and \$494,720, respectively. Changes in the University's claims liability amount for fiscal years 2013 and 2012 were:

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2013	\$ 494,720	\$ 456,555	\$ (477,492)	\$ 473,783
2012	\$ 566,024	\$ 221,385	\$ (292,689)	\$ 494,720

**NOTE 14 RELATED PARTY TRANSACTIONS**

**Alumni Association**

Slippery Rock University Alumni Association (the "Alumni Association") is a non-profit association formed to promote the welfare of the University by initiating and/or participating in fund raising drives aimed at providing scholarship assistance, research fellowships and grants, and additional facilities to meet special cultural, research or athletic needs. Since the Alumni Association operates under an independent governing board and management, the financial activity of the Alumni Association is not included in the University's financial statements.

Based upon internal financial statements, the Alumni Association had net assets of \$1,297,456 at June 30, 2013 and \$1,165,696 at June 30, 2012.

**Slippery Rock University Foundation (the "Foundation")**

The Foundation, which is a component unit of the University, was organized for the purpose of raising private support, and managing funds which are used solely for the benefit and support of the University. The Foundation does this by raising private support to provide the University with resources not available through normal system funding, in accordance with restrictions, if any, imposed by donors. The primary source of income to the Foundation are contributions from both individual and corporate donors, investment income, and camp fees. The Foundation also has oversight and management of campus student housing complexes. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources and income thereon is restricted for the activities of the University by donors. As of June 30, 2013 and 2012, the Foundation held \$13,977,404 and \$12,888,131 of permanently restricted net assets for the benefit of the University. Permanently restricted net assets are primarily comprised of scholarship.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)**

**Slippery Rock University Foundation (the "Foundation") (Continued)**

endowments. The Foundation annually agrees with the University to manage the investment of monies received from various sources under the fiduciary agreement. The amount due to the University under this agreement as of June 30, 2013 and 2012 was \$3,810,900 and \$5,105,679, respectively. During the 2013 and 2012 fiscal years, the Foundation provided the following support to the University:

	2013	2012
Scholarships	\$ 2,201,796	\$ 2,009,499
Support of University Programs	1,557,088	1,943,637

The Foundation entered into an agreement with the University to provide office space, management and accounting personnel, computer and office equipment, and supplies at no cost. The total in-kind services provided to the Foundation by the University amounted to \$239,798 and \$441,061 in 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the University paid the Foundation \$945,000 for the cost of employee's salaries, benefits, and other expenses related to comprehensive fundraising services.

**Slippery Rock Student Government Association (the "Association")**

The Association, which is a component unit of the University, was organized to provide student services and to promote and support educational cultural and recreational activities for the students of the University. The Association primarily conducts student activity fee supported organizations, bookstore operations, vending machine operations, child day care and Pre-K Counts operations. During the years ended June 30, 2013 and 2012, the Association received \$2,215,074 and \$2,196,011, respectively, in student activity fees from the University.

**NOTE 15 CONTINGENCIES**

Authorized expenditures for services, supplies, equipment, and construction projects unexpended as of June 30, 2013 and 2012 were \$2,824,128 and \$4,676,778, respectively.

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 15 CONTINGENCIES (CONTINUED)**

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

**NOTE 16 TERMINATION BENEFITS**

In March 2013, PASSHE's Board of Governors approved a Voluntary Retirement Incentive Program for APSCUF employees meeting certain age and service requirements. Eligible faculty who indicated their intent to retire by May 31, 2013, and eligible coaches who indicated their intent to retire by June 28, 2013, qualified for a cash incentive payout between \$10,000 and \$30,000, depending on base salary and years of service. A total of 2 eligible University employees accepted the offer by signing a release and settlement agreement releasing PASSHE and the University from all legal claims related to their employment and retirement. For the year ended June 30, 2013, the University recorded an expense of \$53,000 for the cash incentive and \$4,000 for associated Social Security and Medicare taxes, for a total expense of \$57,000. The cash incentive is not eligible for retirement benefits.



**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)  
JUNE 30, 2013 AND 2012  
(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, 2010	\$ -	\$ 101,083	\$ 101,083	- %	\$ 42,049	240.4 %
July 1, 2011	-	105,536	105,536	- %	43,311	243.7 %
July 1, 2012	-	106,643	106,643	- %	42,853	248.9 %

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010	\$ 56,320	\$ 13,674,250	\$ 13,617,930	0.41 %	\$ 3,786,000	360 %
July 1, 2011	70,740	12,907,790	12,837,050	0.55 %	3,858,000	334 %
July 1, 2012	71,630	12,843,700	12,772,070	0.56 %	4,130,000	309 %

The information above related 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.