

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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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 (the University), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, Slippery Rock Student Government Association and Slippery Rock University Foundation, which represent 100% 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 52 and the Schedules of Proportionate Share of Net Pension Liability and Contributions on pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2016

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 86,202,119	\$ 78,557,421
Accounts Receivable:		
Governmental Grants and Contracts	700,849	1,226,565
Students, Net of Allowance for Doubtful Accounts of \$3,058,698 in 2016 and \$2,583,193 in 2015	2,476,367	2,648,598
Other	466,200	153,431
Due from Component Unit	988,719	2,824,602
Inventories	523,959	497,562
Prepaid Expenses and Other Assets	389,841	254,634
Current Portion of Conversion Pay Receivable	5,263	9,101
Current Portion of Loans Receivable	594,632	729,993
Investment Income Receivable	125,530	97,987
Total Current Assets	92,473,479	86,999,894
NONCURRENT ASSETS		
Conversion Pay Receivable	2,010	3,671
Loans Receivable, Net	4,324,681	4,160,148
Capital Assets, Net	120,717,609	115,599,239
Total Noncurrent Assets	125,044,300	119,763,058
 Total Assets	 217,517,779	 206,762,952
DEFERRED OUTFLOWS OF RESOURCES	12,914,180	4,648,317
 Total Assets and Deferred Outflows of Resources	 \$ 230,431,959	 \$ 211,411,269

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, 2016 AND 2015**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 13,958,034	\$ 11,352,096
Unearned Revenue	5,673,248	5,426,021
Students' Deposits	367,650	731,644
Other Current Liabilities	12,549	111,464
Workers' Compensation	316,699	349,802
Compensated Absences and Postretirement Benefit Obligations	498,972	659,599
Bond Premium (Unamortized)	232,857	267,559
Notes Payable	7,200,000	-
Bonds Payable	3,255,934	3,029,376
Capital Lease Obligations	21,259	21,999
Due to System, Academic Facilities Renovation Bond Program (AFRP)	<u>374,945</u>	<u>330,628</u>
Total Current Liabilities	31,912,147	22,280,188
NONCURRENT LIABILITIES		
Workers' Compensation	379,662	383,357
Compensated Absences and Postretirement Benefit Obligations	93,251,265	89,647,517
Net Pension Liability	66,847,004	57,549,125
Bond Premium (Unamortized)	1,359,727	1,592,585
Bonds Payable	29,596,082	32,852,016
Capital Lease Obligations	60,233	81,493
Unearned Revenue	1,050,597	1,245,249
Due to System, AFRP	1,540,841	2,127,139
Other Noncurrent Liabilities	<u>4,682,752</u>	<u>4,655,037</u>
Total Noncurrent Liabilities	198,768,163	190,133,518
Total Liabilities	230,680,310	212,413,706
DEFERRED INFLOWS OF RESOURCES	2,074,080	1,115,503
NET POSITION		
Net Investment in Capital Assets	77,049,366	75,269,073
Restricted:		
Nonexpendable:		
Student Loans	751,291	733,121
Expendable:		
Scholarships and Fellowships	108,413	109,965
Capital Projects	2,166,383	1,436,231
Other	32,961	125,305
Unrestricted	<u>(82,430,845)</u>	<u>(79,791,635)</u>
Total Net Position	<u>(2,322,431)</u>	<u>(2,117,940)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 230,431,959</u>	<u>\$ 211,411,269</u>

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
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
OPERATING REVENUES		
Tuition and Fees	\$ 86,898,755	\$ 82,762,229
Less: Scholarship Discounts and Allowances	(19,544,344)	(19,123,771)
Net Tuition and Fees	67,354,411	63,638,458
Governmental Grants and Contracts:		
Federal	1,087,795	891,252
State	7,283,452	7,338,638
Local	4,386,403	3,958,113
Sales and Services of Educational Departments	2,655,989	2,719,498
Nongovernmental Grants and Contracts	8,523	37,389
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$313,879 in 2016 and \$295,554 in 2015	23,949,097	22,779,701
Other Revenues	567,623	506,111
Total Operating Revenues	107,293,293	101,869,160
OPERATING EXPENSES		
Instruction	55,666,382	54,446,940
Research	149,135	144,348
Public Service	1,621,048	1,496,381
Academic Support	14,303,262	11,897,717
Student Services	14,608,864	14,395,064
Institutional Support	19,168,550	18,667,658
Operations and Maintenance of Plant	16,104,883	15,216,388
Depreciation	7,581,311	7,331,204
Student Aid	6,676,719	6,230,555
Auxiliary Enterprises	18,020,698	17,827,786
Total Operating Expenses	153,900,852	147,654,041
NET OPERATING LOSS	(46,607,559)	(45,784,881)

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, 2016 AND 2015**

	2016	2015
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	34,831,641	32,623,254
Commonwealth On-Behalf Contributions to PSERS	681,671	572,554
Pell Grants	10,008,800	10,479,444
Investment Income, Net of Related Investment Expense of \$14,909 in 2016 and \$16,068 in 2015	916,359	844,630
Interest Expense on Capital Asset-Related Debt	(1,316,831)	(1,697,855)
Loss on Disposal of Assets	(2,054)	(131,507)
Other Nonoperating Revenue	70,759	112,567
Nonoperating Revenues, Net	45,190,345	42,803,087
LOSS BEFORE OTHER REVENUES	(1,417,214)	(2,981,794)
OTHER REVENUES		
State Appropriations, Capital	1,196,498	1,041,138
Capital Gifts and Grants	16,225	16,430
Total Other Revenues	1,212,723	1,057,568
CHANGE IN NET POSITION	(204,491)	(1,924,226)
Net Position - Beginning of Year	(2,117,940)	51,784,677
Restatement for GASB 68, Pension Liability and Related Expense	-	(51,978,391)
Net Position - Beginning of Year, as Restated	(2,117,940)	(193,714)
NET POSITION - END OF YEAR	\$ (2,322,431)	\$ (2,117,940)

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, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	\$ 67,618,787	\$ 63,897,011
Grants and Contracts	13,029,857	12,149,930
Payments to Suppliers for Goods and Services	(32,893,582)	(33,070,101)
Payments to Employees	(97,846,611)	(94,322,589)
Loans Issued to Students	(591,367)	(725,606)
Loans Collected from Students	562,195	684,608
Student Aid	(6,787,585)	(6,631,568)
Auxiliary Enterprise Charges	23,795,850	22,398,727
Sales and Services of Educational Departments	2,657,093	2,718,394
Other Operating Receipts	1,774,440	762,647
Net Cash Used by Operating Activities	(28,680,923)	(32,138,547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	34,831,641	32,623,254
Gifts and Nonoperating Grants for Other than Capital Purposes	10,008,800	10,479,444
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	75,599,938	72,358,170
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(75,599,938)	(72,358,170)
Agency Transactions	(118)	(12,595)
Other	70,759	112,567
Net Cash Provided by Noncapital Financing Activities	44,911,082	43,202,670
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	7,200,000	1,193,076
Capital Appropriations	1,196,498	1,041,138
Capital Grants and Gifts Received	16,225	16,430
Purchases of Capital Assets	(12,701,732)	(4,402,791)
Principal Paid on Capital Debt	(3,593,357)	(4,472,825)
Interest Paid on Capital Debt	(1,591,911)	(1,979,903)
Net Cash Used by Capital Financing Activities	(9,474,277)	(8,604,875)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	888,816	833,245
INCREASE IN CASH AND CASH EQUIVALENTS	7,644,698	3,292,493
Cash and Cash Equivalents - Beginning of Year	78,557,421	75,264,928
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 86,202,119	\$ 78,557,421

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, 2016 AND 2015**

	2016	2015
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	\$ (46,607,559)	\$ (45,784,881)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	7,581,311	7,331,204
Expenses Paid by Commonwealth or Donor	681,671	572,554
Changes in Assets and Liabilities:		
Receivables	699,051	(251,019)
Inventory	(26,397)	6,212
Other Assets	1,392,302	(381,623)
Accounts Payable	2,612,452	563,105
Unearned Revenue	52,575	(89,221)
Students' Deposit	(363,994)	97,982
Compensated Absences	(122,366)	(53,329)
Loans to Students and Employees	(29,172)	(40,998)
Other Liabilities	5,449,203	5,891,467
Net Cash Used by Operating Activities	\$ (28,680,923)	\$ (32,138,547)
 SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND CAPITAL FINANCING ACTIVITIES		
Capital Lease	\$ -	\$ 106,294

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, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 15,944,296	\$ 10,746,262
Investments	25,471,016	24,422,899
Accounts Receivable, Other	802,195	1,034,454
Pledges Receivable	832,524	1,191,805
Prepaid Expenses	12,610	8,596
Inventories	978,186	880,829
Total Current Assets	44,040,827	38,284,845
NONCURRENT ASSETS		
Capital Assets, Net	111,137,699	99,963,544
Other Assets	11,564,302	27,709,644
Total Noncurrent Assets	122,702,001	127,673,188
Total Assets	\$ 166,742,828	\$ 165,958,033
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 224,304	\$ 149,909
Capitalized Leases	-	10,325
Due to University	988,719	2,824,602
Annuity Liabilities	473,758	475,164
Other Liabilities	797,375	8,418,082
Total Current Liabilities	2,484,156	11,878,082
NONCURRENT LIABILITIES		
Notes Payable	116,652,145	-
Bonds Payable	-	118,075,000
Total Liabilities	119,136,301	129,953,082
NET ASSETS		
Unrestricted	21,424,131	10,176,547
Temporarily Restricted	9,552,069	9,950,355
Permanently Restricted	16,630,327	15,878,049
Total Net Assets	47,606,527	36,004,951
Total Liabilities and Net Assets	\$ 166,742,828	\$ 165,958,033

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 903,885	\$ 84,349
Investment Income	25,881	21,727
Rental Income	7,388,074	18,012
Sales and Service	4,386,502	4,593,163
Student Activity Fees	2,338,014	2,271,817
Other Revenues	2,243,778	1,976,097
Net Assets Released from Restriction	1,435,673	1,455,761
Total Revenues and Other Additions	18,721,807	10,420,926
EXPENSES AND OTHER DEDUCTIONS		
Program services:		
Scholarships and Grants	1,858,355	1,694,412
Student Activities	3,625,373	2,180,629
University Store	2,679,443	3,996,749
Housing	6,622,922	-
Other University Support	1,943,275	995,415
Management and General	790,359	889,578
Fundraising	759,911	792,962
Actuarial Losses on Annuities Payable	72,805	19,490
Total Expenses and Other Deductions	18,352,443	10,569,235
Change in Unrestricted Net Assets	369,364	(148,309)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	970,075	1,401,813
Investment Income	197,676	568,519
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(1,566,037)	(1,691,987)
Change in Temporarily Restricted Net Assets	(398,286)	278,345
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	752,278	800,180
DISCONTINUED OPERATIONS OF STUDENT HOUSING PROJECT	10,878,220	9,148
INCREASE IN NET ASSETS	11,601,576	939,364
Net Assets - Beginning of Year	36,004,951	35,065,587
NET ASSETS - END OF YEAR	\$ 47,606,527	\$ 36,004,951

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 Pennsylvania State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

The Commonwealth determines the State appropriation allocated to the State System. The State System determines the allocation to each University from the state appropriated amount. Tuition rates are set by the Board of Governors of the State System, for all fourteen member universities. Labor agreements are negotiated at either the State System level or Commonwealth level.

Reporting Entity

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

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14, *The Financial Reporting Entity*, the University has determined that Slippery Rock Student Government Association (the Association), Slippery Rock University Foundation (the Foundation), and SRUF Campus Housing Inc. (SRUF) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

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, 2016 and 2015.

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

Reporting Entity (Continued)

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 \$194,335 and \$435,736 during the years ended June 30, 2016 and 2015, respectively. The financial activity of the Foundation is presented as of June 30, 2016 and 2015.

SRUF is a legally separate, tax-exempt entity created in 2016, which acts primarily as to provide housing at the University as well as for making contributions to organizations that qualify as exempt under Section 501(c)(3) of the Internal Revenue Code. Although the University does not control the timing or amount of receipts from SRUF, the majority of resources or income thereon that SRUF holds are restricted to activities of the University by the donors. Because these restricted resources held by SRUF can only be used by, or for the benefit of the University, the SRUF is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from SRUF for rent, management fees and lease expense of \$736,050 during the years ended June 30, 2016. SRUF has a payable to the University for expenses associated with the student housing project of \$988,720 as of June 30, 2016. The financial activity of SRUF is presented as of June 30, 2016.

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

Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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, gifts for other than capital purposes, 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

Net position is the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The University maintains the following classifications of net position:

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

Restricted – Nonexpendable: Net position subject to externally imposed conditions requiring that 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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

Capital Assets

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

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. 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 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2016 and 2015.

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

The estimated cost of future payouts of annual leave and sick leave that employees have earned for services rendered, and which the employees may be entitled to receive upon termination or retirement, is recorded as a liability.

Pension Plans

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

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). The University reports as deferred outflows of resources its deferred loss on bond defeasance, which results when the carrying value of a defeased bond is 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. And for defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the University's proportion of expenses and liabilities to the pension as a whole, differences between the University's pension contributions and its proportionate share of contributions, and University's pension contributions subsequent to the pension valuation measurement date.

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JUNE 30, 2016 AND 2015**

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the University allocates the cost of scholarships, waivers, and other student financial aid between Scholarship discounts and allowances (netted against tuition and fees) and Student aid expense. 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 the State System, is tax exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

New Accounting Standards

The University has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. In accordance with Statement No. 72, the State System has classified its investments as Level 1, Level 2, or Level 3, to indicate the degree of certainty around the assets' underlying values (Note 2).

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety in its most recent actuarial valuation dated July 1, 2014, the University's accrued postretirement health care liability, as calculated by the actuaries, was \$85,944,000, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2016 was \$85,235,000. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the amount is expected to have a material negative effect on the University's balance sheet. 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 December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement No. 78 excludes certain pensions from the provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The University has determined that Statement No. 78 does not apply to its pension plans and has no effect on its financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. Statement No. 79 applies to arrangements that commingle the moneys of more than one legally separate entity and invest on the participants' behalf in an investment portfolio. The University has determined that Statement No. 79 does not apply to its investments and has no effect on its financial statements.

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

New Accounting Standards (Continued)

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

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Statement No. 81 provides recognition and measurement guidance for gifts received from donors who have transferred the gifts to an intermediary to hold and administer for the government (university) and at least one other beneficiary. An example of a split-interest agreement is a charitable remainder trust. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016. The University has determined that Statement No. 81 does not apply to its investments and has no effect on its financial statements.

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	<u>Association</u>	<u>Foundation</u>	<u>Housing</u>	<u>Total</u>
Capital Assets, Net	\$ 4,621,236	\$ 3,011,140	\$ 103,505,323	\$ 111,137,699
Other Assets	12,980,709	26,981,057	15,643,363	55,605,129
Total Assets	<u>\$ 17,601,945</u>	<u>\$ 29,992,197</u>	<u>\$ 119,148,686</u>	<u>\$ 166,742,828</u>
Due to University	\$ -	\$ -	\$ 988,720	\$ 988,720
Long-Term Debt	-	-	116,652,145	116,652,145
Other Liabilities	604,930	733,840	156,666	1,495,436
Total Liabilities	<u>\$ 604,930</u>	<u>\$ 733,840</u>	<u>\$ 117,797,531</u>	<u>\$ 119,136,301</u>
Net Assets:				
Unrestricted	\$ 16,997,015	\$ 3,075,961	\$ 1,351,155	\$ 21,424,131
Temporarily Restricted	-	9,552,069	-	9,552,069
Permanently Restricted	-	16,630,327	-	16,630,327
Total Net Assets	<u>\$ 16,997,015</u>	<u>\$ 29,258,357</u>	<u>\$ 1,351,155</u>	<u>\$ 47,606,527</u>

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

	<u>Association</u>	<u>Foundation</u>	<u>Housing</u>	<u>Total</u>
Capital Assets, Net	\$ 4,726,331	\$ 95,237,213	\$ -	\$ 99,963,544
Other Assets	12,207,743	53,786,746	-	65,994,489
Total Assets	<u>\$ 16,934,074</u>	<u>\$ 149,023,959</u>	<u>\$ -</u>	<u>\$ 165,958,033</u>
Due to University	\$ -	\$ 2,824,602	\$ -	\$ 2,824,602
Long-Term Debt	-	118,075,000	-	118,075,000
Other Liabilities	582,515	8,470,965	-	9,053,480
Total Liabilities	<u>\$ 582,515</u>	<u>\$ 129,370,567</u>	<u>\$ -</u>	<u>\$ 129,953,082</u>
Net Assets:				
Unrestricted	\$ 16,351,559	\$ (6,175,012)	\$ -	\$ 10,176,547
Temporarily Restricted	-	9,950,355	-	9,950,355
Permanently Restricted	-	15,878,049	-	15,878,049
Total Net Assets	<u>\$ 16,351,559</u>	<u>\$ 19,653,392</u>	<u>\$ -</u>	<u>\$ 36,004,951</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2016 AND 2015**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	<u>Association</u>	<u>Foundation</u>	<u>Housing</u>	<u>Total</u>
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	\$ 330	\$ 208,195	\$ 695,360	\$ 903,885
Investment Income	25,881	-	-	25,881
Rental Income	-	103,940	7,284,134	7,388,074
Sales and Service	3,931,567	454,935	-	4,386,502
Student Activity Fees	2,338,014	-	-	2,338,014
Other Revenues	915,235	1,325,539	3,004	2,243,778
Net Assets Released from Restriction	-	1,435,673	-	1,435,673
Total Revenues and Other Additions	<u>7,211,027</u>	<u>3,528,282</u>	<u>7,982,498</u>	<u>18,721,807</u>
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	-	1,858,355	-	1,858,355
Student Activities	3,625,373	-	-	3,625,373
University Stores	2,679,443	-	-	2,679,443
Housing	-	-	6,622,922	6,622,922
Other University Support	-	1,943,275	-	1,943,275
Management and General	260,755	521,183	8,421	790,359
Fundraising	-	759,911	-	759,911
Actuarial Losses on Annuities Payable	-	72,805	-	72,805
Total Expenses and Other Deductions	<u>6,565,571</u>	<u>5,155,529</u>	<u>6,631,343</u>	<u>18,352,443</u>
Increase (Decrease) in Unrestricted Net Assets	645,456	(1,627,247)	1,351,155	369,364
Changes in Temporarily Restricted Net Assets				
Contributions	-	970,075	-	970,075
Investment Income	-	197,676	-	197,676
Net Assets Released from Restrictions	-	(1,566,037)	-	(1,566,037)
Decrease in Temporarily Restricted Net Assets	-	(398,286)	-	(398,286)
Changes in Permanently Restricted Net Assets				
	-	752,278	-	752,278
Increase (Decrease) in Permanently Restricted Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Discontinued Operations of Student Housing Project	<u>-</u>	<u>10,878,220</u>	<u>-</u>	<u>10,878,220</u>
INCREASE IN NET ASSETS	645,456	9,604,965	1,351,155	11,601,576
Net Assets - Beginning	<u>16,351,559</u>	<u>19,653,392</u>	<u>-</u>	<u>36,004,951</u>
NET ASSETS - ENDING	<u>\$ 16,997,015</u>	<u>\$ 29,258,357</u>	<u>\$ 1,351,155</u>	<u>\$ 47,606,527</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2016 AND 2015**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	<u>Association</u>	<u>Foundation</u>	<u>Housing</u>	<u>Total</u>
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	\$ 1,134	\$ 83,215	\$ -	\$ 84,349
Investment Income	21,727	-	-	21,727
Rental Income	-	18,012	-	18,012
Sales and Service	4,121,104	472,059	-	4,593,163
Student Activity Fees	2,271,817	-	-	2,271,817
Other Revenues	758,335	1,217,762	-	1,976,097
Net Assets Released from Restriction	-	1,455,761	-	1,455,761
Total Revenues and Other Additions	<u>7,174,117</u>	<u>3,246,809</u>	-	<u>10,420,926</u>
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	-	1,694,412	-	1,694,412
Student Activities	2,180,629	-	-	2,180,629
University Stores	3,996,749	-	-	3,996,749
Housing	-	-	-	-
Other University Support	-	995,415	-	995,415
Management and General	259,133	630,445	-	889,578
Fundraising	-	792,962	-	792,962
Actuarial Losses on Annuities Payable	-	19,490	-	19,490
Total Expenses and Other Deductions	<u>6,436,511</u>	<u>4,132,724</u>	-	<u>10,569,235</u>
Change in Unrestricted Net Assets	737,606	(885,915)	-	(148,309)
Changes in Temporarily Restricted Net Assets				
Contributions	-	1,401,813	-	1,401,813
Investment Income	-	568,519	-	568,519
Net Assets Released from Restrictions	-	(1,691,987)	-	(1,691,987)
Increase in Temporarily Restricted Net Assets	-	278,345	-	278,345
Changes in Permanently Restricted Net Assets				
Discontinued Operations of Student Housing Project	-	9,148	-	9,148
Increase (Decrease) in Permanently Restricted Net Assets	-	9,148	-	9,148
INCREASE IN NET ASSETS	737,606	201,758	-	939,364
Net Assets - Beginning	<u>15,613,953</u>	<u>19,451,634</u>	-	<u>35,065,587</u>
NET ASSETS - ENDING	<u>\$ 16,351,559</u>	<u>\$ 19,653,392</u>	<u>\$ -</u>	<u>\$ 36,004,951</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses 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 the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$83,112,247 and \$76,298,765 at June 30, 2016 and 2015, respectively.

Board of Governors' 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, the University uses local financial institutions for activities such as cash deposits of cash. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

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

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

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JUNE 30, 2016 AND 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

CMO Risk: CMOs 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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JUNE 30, 2016 AND 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at www.passhe.edu. The University had no local investments recorded at fair value as of June 30, 2016 and 2015.

On June 30, 2016 and 2015, the carrying amount of the University's demand and time deposits were \$3,089,872 and \$2,258,656, respectively, as compared to bank balances of \$3,026,709 and \$2,200,079, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2016 and 2015, \$250,000 was covered by federal government depository insurance; and \$2,776,709 and \$1,950,079, 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, 2016 and 2015, none of the University's demand and time deposits are exposed to foreign currency risk.

NOTE 4 INVESTMENTS-COMPONENT UNIT

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

	2016	2015
Equity Securities - Level 1	\$ 10,810,592	\$ 10,229,902
Equity Securities - Level 2	8,744,604	8,776,005
Fixed Income - Level 1	2,052,567	1,803,954
Fixed Income - Level 2	3,674,853	3,424,638
Real Estate - Level 3	188,400	188,400
Total	\$ 25,471,016	\$ 24,422,899

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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:

		2016				
		Beginning Balance				Ending Balance
Life	July 01, 2015	Additions	Retirements	Reclassifications	June 30, 2016	
	\$ 11,701	\$ -	\$ -	\$ -	\$ 11,701	
Land						
	2,539,068	2,864,099		(2,177,346)	3,225,821	
Construction in Progress						
Total Capital Assets						
Assets Not being						
Depreciated	2,550,769	2,864,099	-	(2,177,346)	3,237,522	
Buildings, including						
Improvements	40	153,469,867	5,843,051	-	2,177,346	161,490,264
Improvements Other						
than Buildings	20	14,324,868	-	-	-	14,324,868
Furnishings and						
Equipment, Including						
Capital Leases	Varies	20,733,831	3,909,380	(274,554)	-	24,368,657
Library Books	10	6,609,070	85,203	(131,092)	-	6,563,181
Total Capital Assets						
being Depreciated	195,137,636	9,837,634	(405,646)	2,177,346	206,746,970	
Less: Accumulated						
Depreciation:						
Buildings, including						
Improvements		(52,017,414)	(5,639,715)	-	-	(57,657,129)
Improvements Other						
than Buildings		(8,163,854)	(605,657)	-	-	(8,769,511)
Furnishings and						
Equipment, Including						
Capital Leases		(15,846,641)	(1,235,110)	272,500	-	(16,809,251)
Library Books		(6,061,257)	(100,826)	131,091	-	(6,030,992)
Total Accumulated						
Depreciation		(82,089,166)	(7,581,308)	403,591	-	(89,266,883)
Total Capital						
Assets being						
Depreciated, Net		113,048,470	2,256,326	(2,055)	2,177,346	117,480,087
Capital Assets, Net		<u>\$ 115,599,239</u>	<u>\$ 5,120,425</u>	<u>\$ (2,055)</u>	<u>\$ -</u>	<u>\$ 120,717,609</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 5 CAPITAL ASSETS, NET (CONTINUED)

		2015				
		Beginning Balance				Ending Balance
Life	July 01, 2014	Additions	Retirements	Reclassifications	June 30, 2015	
	\$	11,701	\$ -	\$ -	\$ -	\$ 11,701
Construction in Progress		1,214,988	1,921,258	(127,615)	(469,563)	2,539,068
Total Capital Assets Not being Depreciated						
		1,226,689	1,921,258	(127,615)	(469,563)	2,550,769
Buildings, including Improvements	40	151,149,822	1,850,482	-	469,563	153,469,867
Improvements Other than Buildings	20	14,324,868	-	-	-	14,324,868
Furnishings and Equipment, including Capital Leases	Varies	20,465,146	663,606	(394,921)	-	20,733,831
Library Books	10	6,588,948	73,741	(53,619)	-	6,609,070
Total Capital Assets being Depreciated						
		192,528,784	2,587,829	(448,540)	469,563	195,137,636
Less: Accumulated Depreciation:						
Buildings, including Improvements		(46,646,860)	(5,370,554)	-	-	(52,017,414)
Improvements Other than Buildings		(7,483,243)	(680,611)	-	-	(8,163,854)
Furnishings and Equipment, including Capital Leases		(15,050,416)	(1,187,254)	391,029	-	(15,846,641)
Library Books		(6,022,089)	(92,785)	53,617	-	(6,061,257)
Total Accumulated Depreciation						
		(75,202,608)	(7,331,204)	444,646	-	(82,089,166)
Total Capital Assets being Depreciated, Net						
		117,326,176	(4,743,375)	(3,894)	469,563	113,048,470
Capital Assets, Net						
	\$	118,552,865	\$ (2,822,117)	\$ (131,509)	\$ -	\$ 115,599,239

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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 \$443,700 and \$508,992 for the years ended June 30, 2016 and 2015, respectively. Future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 243,490
2018	232,390
2019	230,790
2020	126,906
2021	56,200
Total	<u>\$ 889,776</u>

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2016</u>	<u>2015</u>
Employees	\$ 8,562,506	\$ 8,077,276
Supplies and Services	4,260,658	1,877,612
Other	1,069,780	1,325,604
Interest	65,090	71,604
Total	<u>\$ 13,958,034</u>	<u>\$ 11,352,096</u>

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Grants	\$ 152,768	\$ 414,800
Students	5,319,362	4,706,470
Auxiliary	1,240,000	1,550,000
Other	11,715	-
Total	<u>\$ 6,723,845</u>	<u>\$ 6,671,270</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, 2016 and 2015 was \$1,240,000 and \$1,550,000, respectively, and is presented as unearned auxiliary revenue.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 9 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Education Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on behalf of the University under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of 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, 2016 and 2015 are as follows:

	2016					
	Weighted	Balance		Bonds		Balance
	Average	July 01, 2015	Issued	Redeemed	June 30, 2016	
	Interest Rate					
Series AC issued in July 2006	4.89 %	\$ -	\$ -	\$ -	\$ -	
Series AG issued in July 2007	4.85 %	1,264,597	-	(616,249)	648,348	
Series AH issues in July 2008	4.67 %	7,433,353	-	(542,634)	6,890,719	
Series AI issued in August 2008	4.19 %	286,683	-	(23,655)	263,028	
Series AJ issued in July 2009	4.88 %	8,954,472	-	(474,664)	8,479,808	
Series AL issued in July 2010	5.00 %	12,720,527	-	(1,191,557)	11,528,970	
Series AM issued in July 2011	4.65 %	4,195,979	-	(180,617)	4,015,362	
Series AQ issued in July 2015	4.71 %	1,025,781	-	-	1,025,781	
Total Bonds Payable		<u>\$ 35,881,392</u>	<u>\$ -</u>	<u>\$ (3,029,376)</u>	<u>\$ 32,852,016</u>	

	2015					
	Weighted	Balance		Bonds		Balance
	Average	July 01, 2014	Issued	Redeemed	June 30, 2015	
	Interest Rate					
Series AC issued in July 2006	4.89 %	\$ 1,236,804	\$ -	\$ (1,236,804)	\$ -	
Series AG issued in July 2007	4.85 %	1,848,750	-	(584,153)	1,264,597	
Series AH issues in July 2008	4.67 %	7,949,431	-	(516,078)	7,433,353	
Series AI issued in August 2008	4.19 %	309,632	-	(22,949)	286,683	
Series AJ issued in July 2009	4.88 %	9,406,366	-	(451,894)	8,954,472	
Series AL issued in July 2010	5.00 %	13,855,535	-	(1,135,008)	12,720,527	
Series AM issued in July 2011	4.65 %	4,368,129	-	(172,150)	4,195,979	
Series AQ issued in July 2015	4.71 %	4,368,129	-	(3,342,348)	1,025,781	
Total Bonds Payable		<u>\$ 43,342,776</u>	<u>\$ -</u>	<u>\$ (7,461,384)</u>	<u>\$ 35,881,392</u>	

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NOTE 9 BONDS PAYABLE (CONTINUED)

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In April 2015, Moody's reaffirmed the State System's outlook 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 University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program will provide \$100,000,000 in funding over the next several years. The State System will issue bonds to provide a pool for funding for AFRP (\$21,918,513 and \$29,552,795 was outstanding as of June 30, 2016 and 2015, 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, 2016 and 2015, the balance owed by the University to the State System's AFRP pool of funding was \$1,915,786 and \$2,457,767, respectively.

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NOTE 9 BONDS PAYABLE (CONTINUED)

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

Series		2017	2018	2019	2020	2021	2022-2026	2027-2031	Total
AG	Principal	\$ 648,348	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 648,348
	Interest	32,417	-	-	-	-	-	-	32,417
	Total	680,765	-	-	-	-	-	-	680,765
AH	Principal	569,801	598,361	628,313	658,876	686,044	2,765,335	983,989	6,890,719
	Interest	317,673	289,183	259,265	227,849	201,494	587,619	68,098	1,951,181
	Total	887,474	887,544	887,578	886,725	887,538	3,352,954	1,052,087	8,841,900
AI	Principal	24,714	25,773	26,832	27,892	28,951	128,866	-	263,028
	Interest	11,195	10,207	9,176	8,103	6,952	14,675	-	60,308
	Total	35,909	35,980	36,008	35,995	35,903	143,541	-	323,336
AJ	Principal	497,433	522,647	548,916	576,240	605,673	3,394,658	2,334,241	8,479,808
	Interest	407,511	382,639	356,507	329,061	300,249	1,022,922	221,256	3,020,145
	Total	904,944	905,286	905,423	905,301	905,922	4,417,580	2,555,497	11,499,953
AL	Principal	1,251,156	580,493	609,938	639,384	671,633	3,896,596	3,879,770	11,528,970
	Interest	576,448	513,891	484,866	454,369	422,400	1,573,361	496,785	4,522,120
	Total	1,827,604	1,094,384	1,094,804	1,093,753	1,094,033	5,469,957	4,376,555	16,051,090
AM	Principal	189,789	199,314	207,427	217,658	228,594	1,326,407	1,646,173	4,015,362
	Interest	186,832	177,343	169,370	158,999	148,116	556,767	236,800	1,634,227
	Total	376,621	376,657	376,797	376,657	376,710	1,883,174	1,882,973	5,649,589
AQ	Principal	74,694	99,439	104,480	109,750	115,478	521,940	-	1,025,781
	Interest	51,289	47,554	42,582	37,358	31,871	66,848	-	277,502
	Total	125,983	146,993	147,062	147,108	147,349	588,788	-	1,303,283
Total	Principal	3,255,935	2,026,027	2,125,906	2,229,800	2,336,373	12,033,802	8,844,173	32,852,016
	Interest	1,583,365	1,420,817	1,321,766	1,215,739	1,111,082	3,822,192	1,022,939	11,497,900
	Total	<u>\$ 4,839,300</u>	<u>\$ 3,446,844</u>	<u>\$ 3,447,672</u>	<u>\$ 3,445,539</u>	<u>\$ 3,447,455</u>	<u>\$ 15,855,994</u>	<u>\$ 9,867,112</u>	<u>\$ 44,349,916</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 10 OBLIGATIONS UNDER CAPITAL LEASES

The University has incurred obligations under the terms of capital lease. 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, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Current Maturities of Capital Lease Obligations	\$ 21,259	\$ 21,999
Long-Term Maturities of Capital Lease Obligations	<u>60,233</u>	<u>81,493</u>
Total	<u>\$ 81,492</u>	<u>\$ 103,492</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, 2016:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 22,248
2018	22,248
2019	22,248
2020	<u>18,540</u>
Total Minimum Lease Payments	85,284
Amounts Representing Interest	<u>(3,792)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 81,492</u>

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

Compensated absences and postretirement benefits for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 498,972	\$ 8,016,538	\$ 659,599	\$ 7,978,276
Post-Retirement Benefit Obligations	-	85,234,727	-	81,669,241
Total	<u>\$ 498,972</u>	<u>\$ 93,251,265</u>	<u>\$ 659,599</u>	<u>\$ 89,647,517</u>

Changes in the compensated absence liability were as follows:

	<u>2016</u>	<u>2015</u>
Balance - July 1	\$ 8,637,875	\$ 8,691,204
Current Change in Estimate	644,278	870,993
Payouts	<u>(766,643)</u>	<u>(924,322)</u>
Balance - June 30	<u>\$ 8,515,510</u>	<u>\$ 8,637,875</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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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 (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 benefit healthcare plan administered by the State System (the System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the State System's universities. Act 188 empowers the Board to establish and amend benefit provisions. Since the System Plan is unfunded and has no assets, 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 healthcare benefits to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. The State System paid premiums of \$40,060,000 and \$36,869,000 for the fiscal years ended June 30, 2016 and 2015, 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, 2016:

- Eligible 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 the same dollar amount they paid as active employees on the day of retirement. When these annuitants become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually and future adjustments will apply if contributions increase for active employees.

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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- Other eligible annuitants who retire after on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

Total contributions made by plan members were approximately \$4,866,000 and \$4,272,000 or approximately 10.8% and 10.4% of the total premiums for the fiscal years ended June 30, 2016 and 2015, 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 (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 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:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 7,475,879	\$ 7,475,879
Interest on Net OPEB Obligation	3,197,839	3,047,974
Adjustment to Annual Required Contribution	<u>(4,202,970)</u>	<u>(4,005,998)</u>
Annual OPEB Cost	6,470,748	6,517,855
Contributions Made	<u>(2,905,262)</u>	<u>(2,752,002)</u>
Increase in Net OPEB Obligation	3,565,486	3,765,853
Net OPEB Obligation at July 1, 2015	<u>81,669,241</u>	<u>77,903,388</u>
Net OPEB Obligation at June 30, 2016	<u>\$ 85,234,727</u>	<u>\$ 81,669,241</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (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, 2016, 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, 2016	\$ 6,517,855	42.2 %	\$ 81,669,241
June 30, 2015	6,517,855	42.2 %	81,669,241
June 30, 2014	8,853,000	32.4 %	77,903,388

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:

Actuarial Accrued Liability (AAL)	\$ 85,944,371
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 85,944,371</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>- %</u>
Covered Payroll (Active Plan Members)	<u>\$ 43,853,342</u>
UAAL as a Percentage of Covered Payroll	<u>196.0 %</u>

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

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

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, 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. 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
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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program (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 2015/16, the State System contributed \$418 for each current active employee per biweekly pay period. The State System made contributions of \$37,026,000, \$30,765,000, and \$28,584,000 for the fiscal years ended June 30, 2016, 2015, and 2014, 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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 12 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal years ended June 30, 2016 and 2015:

	SERS		PSERS		ARP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Net Pension Liabilities	\$ 59,970,289	\$51,412,761	\$ 6,876,715	\$ 6,136,364	\$ -	\$ -	\$ 66,847,004	\$ 57,549,125
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	1,214,283	279,104	-	-	-	-	1,214,283	279,104
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	6,106,093	1,485,482	-	-	-	-	6,106,093	1,485,482
Changes in Assumptions	1,781,699	-	-	-	-	-	1,781,699	-
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	48,985	25,620	-	-	48,985	25,620
Changes in Proportion	-	-	304,317	146,091	-	-	304,317	146,091
Contributions after the Measurement Date	2,917,238	2,255,304	534,476	446,850	-	-	3,451,714	2,702,154
Total Deferred Outflows of Resources	12,019,313	4,019,890	887,778	618,561	-	-	12,907,091	4,638,451
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	-	-	28,375	-	-	-	28,375	-
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	13,887	438,709	-	-	13,887	438,709
Difference Between Employer Contributions and Proportionate Share of Contributions	166,933	154,083	-	-	-	-	166,933	154,083
Changes in Proportion	1,830,832	484,874	-	-	-	-	1,830,832	484,874
Total Deferred Inflows of Resources	1,997,765	638,957	42,262	438,709	-	-	2,040,027	1,077,666
Pension Expense	7,022,179	5,876,496	1,290,834	578,728	3,313,960	3,290,723	3,074,643	2,269,378
Contributions Recognized by Pension Plans	5,105,267	3,998,424	534,476	448,871	N/A	N/A	1,496,731	1,130,243

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NOTE 12 PENSION BENEFITS (CONTINUED)

The University will recognize the \$2,917,238 reported as 2016 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$534,476 reported as 2016 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended</u>	Amortization	
	SERS	PSERS
June 30, 2017	\$ 1,841,308	\$ 58,390
June 30, 2018	1,841,308	58,390
June 30, 2019	1,841,308	58,391
June 30, 2020	1,519,207	135,869
June 30, 2021	61,179	-

SERS

Plan Description

SERS is the administrator of a cost-sharing multiple-employer defined benefit plan established by the Commonwealth to provide pension benefits for employees of 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.

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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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

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

Contributions

The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. The 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 Commonwealth fiscal year 2014/15 was 4.5% and will remain at that rate until no longer needed.

The University contributed at actuarially determined rates of between 17.18% and 24.86% of active members' annual covered payroll at June 30, 2015. The University's contributions to SERS for the years ended June 30, 2016, 2015, and 2014 were \$5,105,000, \$3,998,000, and \$3,075,000, respectively, equal to the required contractual contribution.

Contribution rates for most active members is 6.25% of gross salary. The contribution rate for other members ranges between 5% and 9.3% of salary depending upon when the member was hired and what class of membership was elected.

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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2015 and 2014, 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 5.7%, with a range of 3.85% to 9.05%, 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 *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. Published in March 2016, it analyzed experience from 2011 through 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase in the net pension liability.

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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2015, 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%
Total	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 and as set by statute. 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. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

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

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Change in the Discount Rate			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	\$ 74,494,000	\$ 59,970,000	\$ 47,517,000
2014	65,807,000	51,413,000	39,036,000

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Fiduciary Net Position

The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at www.sers.state.pa.us. The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. 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, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015 was \$59,970,289. At June 30, 2015, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2014 was \$51,412,761.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2016/17 from the December 31, 2015, funding valuation to the expected funding payroll. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2015/16 from the December 31, 2014, funding valuation to the expected funding payroll. At December 31, 2015, the State System's proportion was 4.721%, a decrease of 0.018% from its proportion calculated as of December 31, 2014 measurement date.

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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

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

Benefits Provided

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

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.

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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2016, was 25.0% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 12.5% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2016, June 30, 2015 and June 30, 2014 was \$534,476, \$448,871 and \$342,243, respectively, equal to the required contractual contribution.

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2015, was determined by rolling forward PSERS' total pension liability as of the June 30, 2014, actuarial valuation to June 30, 2015, 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.

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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

- 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 1.50%.
- 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, 2014, 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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Markets Global Equity	22.5%	4.8%
Private Markets (Equity)	15.0%	6.6%
Private Real Estate	12.0%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High-Yield Bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute Return	10.0%	4.9%
Risk Parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
Total	<u>100.0%</u>	

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

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

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Change in the Discount Rate			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	\$ 8,476,224	\$ 6,876,715	\$ 5,532,318
2014	7,654,430	6,136,364	4,840,562

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.

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NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

At June 30, 2016 and 2015, the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	<u>2016</u>	<u>2015</u>
Total PSERS Net Pension Liability Associated with the University	\$ 13,753,430	\$ 12,272,728
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>6,876,715</u>	<u>6,136,364</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 6,876,715</u>	<u>\$ 6,136,364</u>

PSERS measured the net pension liability as of June 30, 2015. 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, 2014 to June 30, 2015. 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, 2015, the State System's proportion was .1852%, an increase of .0067% from its proportion calculated as of June 30, 2014.

ARP

Because 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 benefit provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The University contribution rate on June 30, 2016 and 2015 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2016 and 2015 were approximately \$3,314,000 and \$3,291,000, respectively, from the University and \$1,779,000 and \$1,780,000, respectively, from active members.

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JUNE 30, 2016 AND 2015**

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims 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 the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$23,896 and \$108,113 to the Reserve Fund for the years ended June 30, 2016 and 2015, respectively.

The liability for claims under the self-insurance limit and changes therein were as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2016	\$ 733,159	\$ -	\$ (36,798)	\$ 696,361
2015	811,385	171,581	(249,807)	733,159

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 \$2,657,988 at June 30, 2016 and \$2,539,499 at June 30, 2015.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)

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 is 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, 2016 and 2015, the Foundation held \$16,630,327 and \$15,878,049 of permanently restricted net assets for the benefit of the University. Permanently restricted net assets are primarily comprised of scholarships.

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, 2016 and 2015 was \$-0- and \$2,824,602, respectively. During the 2016 and 2015 fiscal years, the Foundation provided the following support to the University:

	2016	2015
Scholarships	\$ 1,858,355	\$ 1,694,412
Support of University Programs	1,943,275	995,415

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 \$134,907 and \$205,763 in 2016 and 2015, respectively.

For the years ended June 30, 2016 and 2015, the University paid the Foundation \$987,353 and \$921,500, respectively, 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, 2016 and 2015, the Association received \$2,338,014 and \$2,271,817, respectively, in student activity fees from the University.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 CONTINGENCIES

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

The University is self-insured for workers' compensation up to stated limits (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.

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

NOTE 16 RATINGS ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In August 2016, Moody's revised the outlook for the rating from *negative* to *stable*. Fitch Ratings reaffirmed the State System's rating of AA- with an outlook of *stable*.

NOTE 17 SUBSEQUENT EVENTS

On October 21, 2016, after more than a year of contract negotiations, the State System and the Association of Pennsylvania State College and University Faculties (APSCUF) reached tentative agreement on a new contract, ending a three day strike by faculty. Up until the strike date, APSCUF had been working under the terms of a contract that expired June 30, 2015. As of the date of these financial statements, the contract between the State System and APSCUF, which would run through June 30, 2018, had not yet been ratified by APSCUF nor approved by the State System Board of Governors. The short or long-term impact of the tentative contract terms on the University's financial statements has not yet been determined.

**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, 2016 AND 2015
(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	\$ -	\$ 106,643	\$ 106,643	- %	\$ 42,853	248.9%
July 1, 2013	-	110,631	110,631	- %	44,139	250.6%
July 1, 2014	-	85,944	85,944	- %	43,853	196.0%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	\$ 71,630	\$ 12,843,700	\$ 12,772,070	0.56 %	\$ 4,130,000	309 %
July 1, 2013	82,060	13,234,040	13,151,980	0.62 %	4,264,000	308 %
January 1, 2015	144,744	16,134,419	15,989,675	0.90 %	4,289,099	373 %

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.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
SERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2016 AND 2015
(UNAUDITED)**

Schedule of Proportionate Share of SERS Net Pension Liability (NPL)
Determined as of December 31, 2014, SERS Measurement Date
(in Thousands)

Fiscal Year	State Systems Proportion	University's Proportionate Share	University's Covered- Employee Payroll	University's Proportionate Share of NPL as a % of Covered- Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.9010%	\$ 51,413	\$ 20,970	245%	64.8%
2015/16	4.7208%	59,970	20,798	288%	58.9%

SERS Schedule of Contributions

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered- Employee Payroll
2014/15	\$ 3,967	\$ 3,967	\$ -	\$ 20,970	18.90%
2015/16	5,105	5,105		21,223	24.10%

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2016 AND 2015
(UNAUDITED)**

Schedule of Proportionate Share of PSERS Net Pension Liability
Determined as of June 30, 2014, PSERS Measurement Date
(in Thousands)

Fiscal Year	PSERS Net Pension Liability				University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Net Fiduciary as a % of Total Pension Liability
	State Systems Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total			
2014/15	0.1785%	\$ 6,136	\$ 6,136	\$ 12,272	\$ 1,978	310%	57.2%
2015/16	0.1852%	6,877	6,877	13,754	4,086	200%	54.4%

PSERS Schedule of Contributions

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 448	\$ 448	\$ -	\$ 1,978	23.0%
2015/16	534	534	-	4,080	13.0%