

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Millersville University of Pennsylvania
of the State System of Higher Education
Millersville, 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 Millersville University of Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100%, 100%, and 100%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon 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 audits 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Millersville University as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

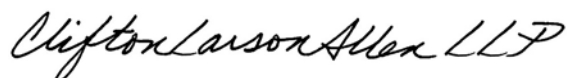
As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the University’s net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, Student Services, Inc. recorded a prior period adjustment to properly state accounts receivable, rental revenue and changes in net assets for identified revenue that was not remitted to the Corporation from Millersville University for the year ended June 30, 2017. A summary of this prior period adjustment is presented in Note 16. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the Management’s Discussion and Analysis as well as various schedules of Proportionate Share of Net Pension Liability, Changes in the System Plan Total OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 74-77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of financial results of Millersville University of Pennsylvania of the State System of Higher Education (the University) for the years ended June 30, 2018, 2017 and 2016. The University's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow and should be read in conjunction with the financial statements and accompanying notes.

Millersville University is a public university of the Commonwealth of Pennsylvania (Commonwealth). The University is one of fourteen member institutions comprising the Pennsylvania State System of Higher Education (State System) the purpose of which is to provide high quality education at the lowest possible cost to its students. With 7,748 students enrolled in fall 2017 the University ranked 7th in size within the State System in fiscal year 2016-17. The University had 7,927 students enrolled in the fall of 2016 and ranked 6th in size within the State System.

Like all State System institutions, the University functions independently, but being part of the State System enables the University to benefit from economies of scale for shared services and key central systems and administrative support.

Following is an overview of the University's financial activities for the years ended June 30, 2018, 2017 and 2016. The tables throughout do not include the effects of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for years presented prior to fiscal year 2017/18.

Financial Highlights

- As a public institution of higher education the University receives state appropriations to support its operations. These appropriations are allocated by the State System out of the total Commonwealth appropriation for all State System member institutions. In fiscal year 2011-12 the Commonwealth appropriation to the State System was reduced by \$90.6 million or 18.0% and held constant at \$412.8 million per year for four fiscal years. In fiscal year 2015-16 the total Commonwealth base allocation to the State System was increased by 5% to \$433.4 million. Increases of 2.5% to \$444.2 million were received in fiscal year 2016-17 and 2.0% to \$453.1 million in fiscal year 2017-18.
- Total State appropriations by the Commonwealth to the University increased by 4.12% in fiscal year 2017-18. Appropriation levels are determined by two primary means:
 - The majority of Commonwealth funding to the University is based on an allocation formula established by the State System's Board of Governors. In fiscal year 2017-18, the University received approximately \$30.60 million in funding through the allocation formula, which was a 2.2% increase from the \$29.90 million received in fiscal year 2016-17.
 - The University also receives an allocation of Commonwealth funding based on achieving performance targets. This performance funding is part of the State System's continuing commitment to ensure the high quality of university programs, and financially rewards universities based on performance in such areas as student achievement, diversity, and operational efficiency. In fiscal 2017-18, the University received \$3.20 million in performance funding, which was a 25.00% increase from fiscal year 2016-17 when the University received \$2.56 million in performance funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

- The State System Board approved a tuition rate increase of 3.5% for 2017-18. Increases of 2.5% and 3.5% were approved for fiscal year 2016-17 and 2015-16 respectively. Millersville University entered into a pilot tuition program beginning with fiscal year 2014-15. Undergraduate in-state tuition rates per credit were \$309 in fiscal year 2017-18, \$299 in fiscal year 2016-17 and \$282 in fiscal year 2015-16. Millersville's per credit rate remains 1% below the calculated per credit rate for other State System institutions which charge a flat tuition rate for full time undergraduate resident students.
- Total operating revenues were \$110.0 million in fiscal year 2017-18 representing a 2.5% increase compared to \$107.4 million in fiscal year 2016-17. Of this total, tuition and fee revenue (net of discounts) was \$67.8 million for fiscal year 2017-18 and \$67.7 million for fiscal year 2016-17. Revenue from auxiliary operations was \$25.8 million for fiscal year 2017-18 and \$25.2 million for fiscal year 2016-17, an increase of 2.4%. Auxiliary enterprise revenues are generated primarily from food service charges and operation of the student center.
- The University purchased \$10.9 million in capital assets in fiscal year 2017/18, which included \$9.9 million to build or improve academic and auxiliary facilities on campus.
- Bond Principal of \$3.9 million and bond interest of \$1.9 million were paid, bringing the total outstanding bond debt to \$50.1 million.
- The University retired its share of the obligation for Series AG bonds (originally issued as Series Q in 1998)
- All bonds held by the University are issued through the Pennsylvania State System of Higher Education. Moody's Investor Service, Inc., continues to assign an Aa3 credit rating to the State System's outstanding bonds. Fitch Rating, Inc., has assigned the State System's bonds with an A+ rating a downgrade from last year's AA- rating. In August 2018, both Moody's and Fitch revised their outlooks for the ratings from negative to stable.

The Financial Statements

Balance Sheet (Statement of Net Position)

This statement reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the net position of the University as of fiscal year end. Assets include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation. Deferred outflows of resources, which is defined as a consumption of net position that applies to future periods, includes deferred losses on refunding of debt and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense. Liabilities include payments due to vendors and students; the balance of bonds payable; and liabilities such as worker's compensation (the University is self-insured), compensated absences (the value of sick and annual leave earned by employees), and postretirement benefits (health and tuition benefits expected to be paid to current and future retirees). Deferred inflows of resources, which is defined as an acquisition of net position that applies to future periods, includes deferred gains on refunding of debt and certain items associated with the net pension and OPEB liabilities and annual pension and OPEB expense. The difference between the assets, deferred outflows of resources, liabilities, and deferred inflows of resources is reported as net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

In FY 2014-15 the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires the University to report its share of the pension liability that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record. The liability recorded in FY 2016-17 amounted to \$76.3 million for SERS and \$7.3 million for PSERS. In FY 2017-18 these liabilities were \$71.3 million for SERS and \$7.2 million for PSERS.

In FY 2017-18 the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the University to report its share of the postemployment benefits other than pensions (OPEB) liability that the Commonwealth of Pennsylvania must record for the following plans: State System Plan (SSHE Plan), Commonwealth Retired Employees Health Program (REHP Plan), and PSERS Healthcare Premium Assistance Program (PSERS OPEB Plan). The impact of this change was an overall increase in our OPEB liability of \$99.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The net position of the University decreased by \$111.3 million in fiscal year 2017-18, much of it due to the implementation of GASB 75. Unrestricted net position, including both the current and plant funds – assets that can be used to finance day to day operations without constraints and restrictions – decreased from (\$109.7 million) at the end of fiscal year 2016-17 to (\$228.7 million) at the end of fiscal year 2017-18.

Millersville University of Pennsylvania of the State System of Higher Education

Balance Sheet

As of June 30, 2018, 2017, 2016

	2018	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets	\$ 75,633,597	\$ 78,782,480	\$ 84,865,780
Noncurrent Assets			
Capital Assets, Net	135,728,072	134,801,513	132,575,266
Other Noncurrent Assets	12,196,064	11,847,373	9,377,973
Total Assets	223,557,733	225,431,366	226,819,019
Deferred Outflows of Resources	17,174,527	19,591,986	15,318,140
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 240,732,260	\$ 245,023,352	\$ 242,137,159
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities	\$ 26,634,518	\$ 22,618,131	\$ 21,078,884
Noncurrent Liabilities			
OPEB and Compensated Absences	189,147,943	93,746,971	90,395,217
Pension Liability	78,508,270	83,603,096	77,224,088
Long-Term Debt	49,452,196	54,207,215	58,684,415
Other Noncurrent Liabilities	5,522,699	6,076,904	6,480,062
Total Liabilities	349,265,626	260,252,317	253,862,666
Deferred Inflows of Resources	21,923,789	3,904,763	2,509,193
NET POSITION			
Net Investment in Capital Assets	77,593,855	71,876,223	65,303,236
Total Restricted	20,643,950	18,681,163	16,023,239
Unrestricted	(228,694,960)	(109,691,114)	(95,561,175)
Total Net Position	(130,457,155)	(19,133,728)	(14,234,700)
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$ 240,732,260	\$ 245,023,352	\$ 242,137,159

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

- Restricted net position represents the balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. Nonexpendable restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is available for expenditure as long as any external purpose and time restrictions are met.
- Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced primarily by three unfunded liabilities:
 - The liability for postretirement benefits is realized gradually over time, and because of its size, the University funds it only as it becomes due.
 - The liability for compensated absences is similar to the postretirement benefits liability as cash payouts to employees upon termination or retirement for annual and sick leave balances are realized gradually over time, and because of its size, the University funds it only as it become due.
 - The net pension liability is similar to the liabilities for postretirement benefits and compensated absences in that the University funds this liability with annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Millersville University of Pennsylvania of the State System of Higher Education
Statement of Revenues, Expenses, and Change in Net Position - Primary institution
Years Ended June 30, 2018, 2017, 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUES			
Tuition and Fees, Net	\$ 67,754,685	\$ 67,660,686	\$ 65,418,041
Governmental Grants and Contracts	12,240,512	10,396,644	12,054,001
Sales and Services	2,956,465	2,950,152	2,820,095
Auxiliary Enterprises, Net	25,759,453	25,163,719	28,508,844
Other Revenues, Net	1,376,733	1,235,424	1,281,079
Total Operating Revenues	<u>110,087,848</u>	<u>107,406,625</u>	<u>110,082,060</u>
NONOPERATING REVENUES			
State Appropriations, General and Restricted	33,793,847	32,457,613	32,145,404
Pell Grants	9,445,150	8,649,565	9,623,364
Gifts for Other Than Capital Purposes	4,077,763	5,694,551	8,066,960
Investment Income, Net	2,321,889	2,398,078	1,338,197
Gain (Loss) on Disposal of Assets	(111,834)	(1,103,081)	(4,076,197)
Other Nonoperating Revenue	970,150	971,470	840,612
Total Nonoperating Revenues	<u>50,496,965</u>	<u>49,068,196</u>	<u>47,938,340</u>
OTHER REVENUES			
State Appropriations, Capital	1,346,961	1,184,099	1,128,785
Capital Gifts and Grants	982,406	1,751,106	1,376,073
Total Other Revenues	<u>2,329,367</u>	<u>2,935,205</u>	<u>2,504,858</u>
Total Revenues	162,914,180	159,410,026	160,525,258
OPERATING EXPENSES			
Instruction	60,862,649	57,202,584	53,918,538
Research	1,014,670	718,956	684,369
Public Service	4,523,476	3,854,573	3,410,948
Academic Support	11,825,689	13,276,774	14,129,310
Student Services	18,897,361	18,184,910	16,951,292
Institutional Support	24,212,738	18,829,839	17,828,318
Operations and Maintenance of Plant	13,379,840	11,483,784	9,557,670
Depreciation	9,858,056	9,820,136	9,675,032
Student Aid	5,483,254	5,401,878	5,567,961
Auxiliary Enterprises	18,225,819	23,454,495	24,882,659
Total Operating Expenses	<u>168,283,552</u>	<u>162,227,929</u>	<u>156,606,097</u>
NONOPERATING EXPENSES			
Interest Expense on Capital Asset-Related Debt	1,925,804	2,081,125	2,002,067
Total Expenses	<u>170,209,356</u>	<u>164,309,054</u>	<u>158,608,164</u>
CHANGE IN NET POSITION	(7,295,176)	(4,899,028)	1,917,094
Net Position-Beginning of Year	(19,133,728)	(14,234,700)	(16,151,794)
Restatement for July 1, 2017, OPEB Liability	(104,028,251)	-	-
Net Position-Beginning of Year, Restated	<u>(123,161,979)</u>	<u>(14,234,700)</u>	<u>(16,151,794)</u>
NET POSITION - END OF YEAR	<u>\$ (130,457,155)</u>	<u>\$ (19,133,728)</u>	<u>\$ (14,234,700)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses, and Changes in Net Position

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

Utilizing these definitions, the University realized operating losses of \$58.2 million in fiscal year 2017-18, \$54.8 million in fiscal year 2016-17, and \$46.5 million in fiscal year 2015-16. In fiscal year 2017-18 compared to the prior year, operating revenues increased by \$2.7 million and program expenses increased by \$6.1 million.

Non-operating revenues increased in fiscal year 2017-18 by \$1.4 million largely due to increases in state appropriations (\$1.33 million).

The combination of operating and non-operating activity resulted in Income (Loss) Before Other Revenues of (\$9.6) million in fiscal year 2017-18 and (\$7.8 million) in fiscal year 2016-17. Capital revenues of \$2.3 million in fiscal year 2017-18 and \$2.9 million in fiscal year 2016-17 yielded Changes in Net Position (losses) of (\$7.3 million) and (\$4.9 million), respectively. The University's net position across all fund categories at the end of fiscal year 2017-18 was (\$130 million).

Millersville University of Pennsylvania of the State System of Higher Education

Statement of Cash Flows - Primary institution
Years Ended June 30, 2018, 2017, 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (37,728,558)	\$ (36,687,734)	\$ (30,965,325)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	46,894,746	46,531,560	45,555,557
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	(15,113,665)	(16,477,939)	(5,250,288)
CASH FLOWS FROM INVESTING ACTIVITIES	<u>1,740,606</u>	<u>677,133</u>	<u>1,056,869</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,206,871)	(5,956,980)	10,396,813
Cash and Cash Equivalents--Beginning	<u>71,792,708</u>	<u>77,749,688</u>	<u>67,352,875</u>
CASH AND CASH EQUIVALENTS -ENDING	<u>\$ 67,585,837</u>	<u>\$ 71,792,708</u>	<u>\$ 77,749,688</u>

Statement of Cash Flows

This statement's primary purpose is to provide relevant information about the cash receipts and cash payments of the University. It may be used to determine the University's ability to generate future net cash flows and meet its obligations as they come due, as well as its possible need for external financing.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

GASB defines four major sources of cash flows:

- Cash flows from operating activities (student related revenues, payments to suppliers, employees, etc.)
- Cash flows from non-capital financing activities (state appropriations, gifts, non-operating grants, student loan processing, etc.)
- Cash flows from capital financing activities (capital appropriations, capital leases, debt, purchases, and sales of assets, etc.)
- Cash flows from investing activities (proceeds from sales of investments, interest on investments, purchase of investments, etc.)

Cash decreased by \$4.2 million in fiscal year 2017-18 and decreased by \$6.0 million in fiscal year 2016-17. Cash used by operating activities (\$37.7 million), and cash used by capital financing activities (\$15.1 million), were offset by inflows from noncapital financing activities of \$46.9 million. Investing activities provided \$1.7 million in cash.

Future Economic Factors

Several conditions could limit the University's financial flexibility in fiscal year 2017-2018 and beyond:

1. State Appropriations – Following several years of declining or flat state appropriations, recent trends are for slight annual increases in state appropriation levels. Nevertheless, the Commonwealth of Pennsylvania remains near the bottom of all states for its state funding levels per student and financial pressures on state government could result in future reductions in state support.
2. Increasing competition for traditional student enrollments – Millersville remains a standout institution within the Pennsylvania State System, due to a long-standing reputation for solid academics, a safe campus, and a welcoming environment. Millersville has strong geographic advantages due to its central regional location and its close proximity to the vibrant city of Lancaster. The Commonwealth of Pennsylvania is projected to experience a 5% decline in traditional high school graduates from 2018-30. [i] During that same period of time, the University is projected to experience a decrease within eight of the ten primary counties we serve (York, Berks, Chester, Montgomery, Cumberland, Dauphin, Delaware, and Bucks). Lancaster County and Philadelphia County are projected to experience increases in traditional high school graduates of 4.7% and 23.5%, respectively.[ii] Within our primary out-of-state markets (NJ, DE, MD and VA) the number of traditional high school graduates are projected to increase in Maryland and Virginia and are forecasted to have a slight decrease in New Jersey and Delaware. Competition among both public and private colleges and universities to maintain or increase enrollments will continue to grow under these market conditions, requiring the university to be strategic in the areas of scholarship, marketing, recruitment, and program development. Currently, the University is implementing the following plans to address the current market for traditional student enrollments: Undergraduate Recruitment Plan and Undergraduate Integrated Marketing and Communication Plan.

i Western Interstate Commission for Higher Education

ii Source: Pennsylvania State Data Center, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

3. New business models – Like an increasing number of public colleges and universities, Millersville University relies largely on tuition and fee revenues to support its operations and must compete successfully for enrollments in multiple student markets including traditional residential undergraduate, graduate, online, and nontraditional student markets. Millersville has implemented a per credit tuition rate structure for its graduate and in-state undergraduate students, providing significant additional revenues compared to traditional pricing structures. Maintaining access for those students least able to afford costs of attendance will require Millersville to expand institutional financial aid and need-based scholarships.
4. Facilities maintenance and upgrades – While the condition of the University's physical plant is very good, a significant portion of the University's available unrestricted current fund balance will be needed to support planned facility major maintenance in the future. In the coming year Millersville will complete a campus master plan, its first new comprehensive facilities master plan in a decade, including a facility condition assessment. Millersville's reliance on a relatively large number of structures originally built as residences, and the historic preservation protection of many of these structures, results in higher maintenance and operating costs for the campus.
5. Increased costs for salaries and benefits mandated by collective bargaining agreements – Fiscal year 2018-19 will be the final year of current collective bargaining agreements for University faculty. These multi-year contracts are negotiated by the State System or the Commonwealth; the historical financial impact has been a continuing increase in compensation levels (salaries and benefits) not tied to growth or contraction in the revenues and appropriations realized by the University. Because compensation constitutes such a significant portion of operating costs, if Millersville University fails to increase revenues as compensation costs increase, it may be necessary to reduce staffing levels.
6. Increases in employer retirement contributions – While employer retirement contribution rates had held steady for many years, the era of low and relatively stable employer contribution rates for the State Employee Retirement System (SERS) ended starting in fiscal year 2010-11. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, decisions by the SERS Board to defer funding obligations, and previous investment losses, rates are projected to rise significantly over the next several years.
7. Increased health care costs – As has occurred at the national level, health care costs for the University have increased significantly in recent years and are projected to increase further, albeit at a slower rate. Beginning with fiscal year 2005-06, State System employees (including those of the University) began to contribute to the cost of health care. The State System also implemented a Health Care Cost Containment Committee to study ways to contain costs while providing quality services to employees. During fiscal year 2015-16, nonrepresented (management) employee contributions to health care coverage increased and plans were modified to decrease costs. These plan modifications are projected to yield net cost decreases to the State System and University going forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The factors mentioned above could reduce the University's flexibility beginning in the current fiscal year and might necessitate alternative and less costly methods of providing some support services. The University is currently exploring various options for streamlining administrative support functions and leveraging partnerships with other State System institutions to develop more cost-effective shared service delivery models.

Request for Information

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

(Mr.) Guilbert Brown
Interim Vice President for Finance and Administration
Dilworth Building
Millersville University
Millersville PA 17551

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS — PRIMARY INSTITUTION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 67,585,837	\$ 71,792,708
Accounts Receivable:		
Governmental Grants and Contracts	662,346	289,524
Students, Net of Allowance for Doubtful Accounts of \$1,484,185 in 2018 and \$1,179,377 in 2017	2,701,086	2,756,174
Other, Net of Allowance for Doubtful Accounts of \$31,826 in 2018 and \$21,900 in 2017	381,546	369,736
Interest Income Receivable	106,939	56,983
Inventory	98,544	103,396
Prepaid Expenses	378,908	291,434
Loans Receivable, Net of Allowance for Doubtful Accounts of \$353 in 2018 and \$178 in 2017	213,706	213,180
Due from Component Units	3,424,596	2,860,154
Other Assets	80,089	49,191
Total Current Assets	75,633,597	78,782,480
NONCURRENT ASSETS		
Investments	3,204,568	2,985,621
Beneficial Interests	8,108,926	7,796,546
Loans Receivable, Net	882,570	1,065,206
Capital Assets, Net	135,728,072	134,801,513
Total Noncurrent Assets	147,924,136	146,648,886
 Total Assets	 223,557,733	 225,431,366
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	256,316	295,515
Deferred Outflows from SERS Contributions	11,027,077	17,791,992
Deferred Outflows from PSERS Contributions	1,205,024	1,504,479
Deferred Outflows from OPEB Contributions	4,686,110	-
Total Deferred Outflows of Resources	17,174,527	19,591,986
 Total Assets and Deferred Outflows of Resources	 \$ 240,732,260	 \$ 245,023,352

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS — PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2018 AND 2017**

LIABILITIES, NET POSITION, AND DEFERRED INFLOWS OF RESOURCES	2018	2017
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 12,793,431	\$ 12,695,064
Unearned Revenue	1,777,878	1,681,199
Students' Deposits	377,026	1,208,721
Workers' Compensation, Current	500,166	431,064
Compensated Absences, Current	847,858	797,078
Other Postemployment Benefits Liability, Current	4,670,092	-
Capital Lease Obligations, Current	137,134	87,945
Current Portion of Bonds Payable, Net	4,459,658	4,401,620
Due to System, Academic Facilities Renovation Bond Program (AFRP)	342,606	351,379
Due to Component Units	675,117	644,790
Other Deposit Liabilities	53,552	319,271
Total Current Liabilities	26,634,518	22,618,131
NONCURRENT LIABILITIES		
Workers' Compensation, Net of Current Portion	446,451	490,530
Compensated Absences, Net of Current Portion	8,406,759	8,010,376
Other Postemployment Benefits Liability, Net of Current Portion	180,741,184	85,736,595
Net Pension Liability	78,508,270	83,603,096
Capital Lease Obligations, Net of Current Portion	349,373	296,546
Bonds Payable, Net of Current Portion	48,326,112	52,785,769
Due to System, AFRP	776,711	1,124,900
Other Noncurrent Liabilities	5,076,248	5,586,374
Total Noncurrent Liabilities	322,631,108	237,634,186
Total Liabilities	349,265,626	260,252,317
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	98,821	113,113
Deferred Inflows from SERS Contributions	5,717,457	3,676,879
Deferred Inflows from PSERS Contributions	148,277	114,771
Deferred Inflows from OPEB Contributions	15,959,234	-
Total Deferred Inflows of Resources	21,923,789	3,904,763
Total Liabilities and Deferred Inflows of Resources	371,189,415	264,157,080
NET POSITION		
Net Investment in Capital Assets	77,593,855	71,876,223
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	2,352,555	2,306,175
Other	398,645	422,220
Expendable:		
Scholarships and Fellowships	8,202,825	6,952,488
Research	31,620	(43,500)
Capital Projects	1,409,170	1,949,592
Other	8,249,135	7,094,188
Unrestricted (Deficit)	(228,694,960)	(109,691,114)
Total Net Position	(130,457,155)	(19,133,728)
Total Liabilities, Net Position, and Deferred Inflows of Resources	\$ 240,732,260	\$ 245,023,352

See accompanying Notes to Financial Statements.

**MILLERSVILLE 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, 2018 AND 2017**

	2018	2017
OPERATING REVENUES		
Tuition and Fees	\$ 84,133,648	\$ 82,780,950
Less: Scholarship Discounts and Allowances	<u>(16,378,963)</u>	<u>(15,120,264)</u>
Net Tuition and Fees	67,754,685	67,660,686
Governmental Grants and Contracts:		
Federal	5,432,102	3,894,962
State	6,770,908	6,484,422
Local	37,502	17,260
Nongovernmental Grants and Contracts	230,726	95,511
Sales and Services of Educational Departments	2,956,465	2,950,152
Auxiliary Enterprises	25,759,453	25,163,719
Other Revenues	<u>1,146,007</u>	<u>1,139,913</u>
Total Operating Revenues	110,087,848	107,406,625
OPERATING EXPENSES		
Instruction	60,862,649	57,202,584
Research	1,014,670	718,956
Public Service	4,523,476	3,854,573
Academic Support	11,825,689	13,276,774
Student Services	18,897,361	18,184,910
Institutional Support	24,212,738	18,829,839
Operations and Maintenance of Plant	13,379,840	11,483,784
Depreciation	9,858,056	9,820,136
Student Aid	5,483,254	5,401,878
Auxiliary Enterprises	<u>18,225,819</u>	<u>23,454,495</u>
Total Operating Expenses	168,283,552	162,227,929
NET OPERATING LOSS	(58,195,704)	(54,821,304)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	33,793,847	32,457,613
Commonwealth on Behalf Contributions to PSERS	806,703	810,593
Pell Grant	9,445,150	8,649,565
Investment Income, Net of Related Investment		
Expense of \$16,064 in 2018 and \$15,651 in 2017	1,790,562	1,461,830
Unrealized Gain on Investments	531,327	936,248
Gifts for Other than Capital Purposes	4,077,763	5,694,551
Interest Expense	(1,925,804)	(2,081,125)
Loss on Disposal of Assets	(111,834)	(1,103,081)
Other Nonoperating Revenue	<u>163,447</u>	<u>160,877</u>
Nonoperating Revenues, Net	48,571,161	46,987,071
LOSS BEFORE OTHER REVENUES	(9,624,543)	(7,834,233)
OTHER REVENUES		
State Appropriations, Capital	1,346,961	1,184,099
Capital Gifts and Grants	<u>982,406</u>	<u>1,751,106</u>
Total Other Revenues	2,329,367	2,935,205
DECREASE IN NET POSITION	(7,295,176)	(4,899,028)
Net Position - Beginning of Year	(19,133,728)	(14,234,700)
Restatement for July 1, 2017, OPEB liabilities and related expenses	<u>(104,028,251)</u>	-
Net Position - Beginning of Year, Restated	<u>(123,161,979)</u>	<u>(14,234,700)</u>
NET POSITION - END OF YEAR	<u>\$ (130,457,155)</u>	<u>\$ (19,133,728)</u>

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS — PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 67,024,678	\$ 67,734,899
Grants and Contracts	12,111,088	11,220,106
Payments to Suppliers for Goods and Services	(37,312,955)	(36,004,646)
Payments to Employees	(103,259,238)	(101,962,825)
Loans Issued to Students	(49,026)	(231,293)
Loans Collected from Students	228,637	281,523
Student Aid	(5,483,254)	(5,401,878)
Auxiliary Enterprise Charges	25,789,900	25,027,339
Sales and Services of Educational Departments	2,965,997	3,193,490
Other Receipts (Payments)	255,615	(544,449)
Net Cash Used by Operating Activities	(37,728,558)	(36,687,734)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, Including Federal ARRA	33,793,847	32,457,613
Gifts for Other than Capital Purposes	4,077,828	4,891,288
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	64,646,387	63,870,692
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(64,646,387)	(63,870,692)
Pell Grant	9,445,150	8,649,565
Agency Transactions	(585,526)	372,215
Other	163,447	160,879
Net Cash Provided by Noncapital Financing Activities	46,894,746	46,531,560
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Appropriations	1,346,961	613,624
Capital Gifts and Grants Received	837,026	1,751,106
Proceeds from Sale of Capital Assets	6,973	13,879
Purchases of Capital Assets	(10,533,838)	(12,100,960)
Principal Paid on Debt and Leases	(4,333,063)	(4,122,420)
Interest Paid on Debt and Leases	(2,437,724)	(2,633,168)
Net Cash Used by Capital Financing Activities	(15,113,665)	(16,477,939)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	-	37,482
Interest Income	1,740,606	1,458,263
Purchase of Investments	-	(818,612)
Net Cash Provided by Investing Activities	1,740,606	677,133
DECREASE IN CASH AND CASH EQUIVALENTS	(4,206,871)	(5,956,980)
Cash and Cash Equivalents - Beginning of Year	71,792,708	77,749,688
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 67,585,837	\$ 71,792,708

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS — PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (58,195,704)	\$ (54,821,304)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	9,858,056	9,820,136
Expenses Paid by Commonwealth or Donor	806,703	810,593
Effect of Changes in Operating Assets and Liabilities:		
Receivables, Net	(305,703)	263,375
Inventory	4,852	106
Prepaid Expenses	(87,474)	198,671
Other Assets	(296,940)	(651,061)
Accounts Payable and Accrued Expenses	(164,271)	627,787
Unearned Revenue	85,986	48,652
Students' Deposits	(831,695)	515,104
Workers' Compensation	25,023	(122,428)
Compensated Absences	447,163	158,037
Loans Receivable	179,611	50,230
Postretirement Benefit Obligations	(4,353,570)	3,282,912
Net Pension Liability	(5,094,826)	6,379,008
Deferred Outflows of Resources Related to Pensions	7,064,370	(4,313,045)
Deferred outflows of resources related to OPEB	(4,686,110)	-
Deferred Inflows of Resources Related to Pensions	2,074,084	1,409,861
Deferred inflows of resources related to OPEB	15,959,234	-
Other Current and Noncurrent Liabilities	(217,347)	(344,368)
Net Cash Used by Operating Activities	\$ (37,728,558)	\$ (36,687,734)

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL
FINANCING ACTIVITIES**

Capital Assets Acquired through Capital Leases	\$ 206,407	\$ 476,063
Accounts Payable Incurred for Capital Assets	\$ 17,797	\$ 15,845
Donated Capital Assets	\$ 145,380	\$ 570,475
Like-Kind Exchanges	\$ -	\$ 8,939
Commonwealth on Behalf Contributions to PSERS	\$ 806,703	\$ 810,593

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET ASSETS — COMPONENT UNITS
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 32,345,374	\$ 30,316,359
Investments	34,517,115	30,875,707
Accounts Receivable	1,044,984	426,546
Pledges Receivable	1,785,359	1,193,130
Due from University	675,117	644,790
Net Capital Assets	154,234,385	156,768,415
Other Assets	1,005,879	1,302,506
Total Assets	\$ 225,608,213	\$ 221,527,453
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 3,936,455	\$ 4,219,748
Annuity Liabilities	166,962	186,613
Due to University	3,207,361	2,406,969
Funds Held for Other Independent Organizations	193,519	192,027
Bonds Payable	143,042,318	144,517,319
Notes Payable	28,785,245	26,273,138
Other Liabilities	8,818,814	10,652,053
Total Liabilities	188,150,674	188,447,867
NET ASSETS		
Unrestricted	2,599,945	1,907,100
Temporarily Restricted	6,852,776	6,055,056
Permanently Restricted	28,004,818	25,117,430
Total Net Assets	37,457,539	33,079,586
Total Liabilities and Net Assets	\$ 225,608,213	\$ 221,527,453

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Additions:		
Contributions	\$ 325,777	\$ 204,533
Sales and Services	2,373,718	2,513,025
Investment Income	10,856	788
Change in Value of Charitable Gift Annuities	(2,134)	61,154
Change in Value of Fair Value of Interest Rate Swaps	440,949	786,985
Rental Income	22,402,057	22,214,519
Net Assets Released from Restrictions	1,624,200	1,502,541
Other Revenues and Gains	2,040,853	18,879
Total Revenues and Other Additions	29,216,276	27,302,424
Expenses and Other Deductions:		
Program Services:		
Scholarships and Grants	1,336,909	1,270,262
University Stores	2,918,766	2,767,584
Housing	20,296,913	19,342,674
Management and General	3,556,604	3,678,346
Fundraising	382,833	242,629
Other Expenses and Losses	31,406	3,343,477
Total Expenses and Other Deductions	28,523,431	30,644,972
Increase (Decrease) in Unrestricted Net Assets	692,845	(3,342,548)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	199,666	340,135
Investment Income	599,980	533,669
Net Realized and Unrealized Gain (Loss) on Investments	1,622,274	2,801,101
Donor Requested Transfer	-	(330,469)
Net Assets Released from Restrictions,		
Satisfaction of Program Restrictions	(1,624,200)	(1,502,541)
Decrease in Temporarily Restricted Net Assets	797,720	1,841,895
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,887,388	2,540,351
Donor Requested Transfer	-	330,469
Increase in Permanently Restricted Net Assets	2,887,388	2,870,820
INCREASE IN NET ASSETS	4,377,953	1,370,167
Net Assets - Beginning of Year	32,307,201	31,487,616
Prior Period Adjustment	772,385	221,803
Net Assets - Beginning of Year, as Restated	33,079,586	31,709,419
NET ASSETS - END OF YEAR	\$ 37,457,539	\$ 33,079,586

See accompanying Notes to Financial Statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Millersville University of Pennsylvania of the State System of Higher Education (the University), a public four year institution located in Millersville, Pennsylvania, was founded in 1855. The University is one of fourteen universities of Pennsylvania's 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).

Reporting Entity

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

The University has determined the Millersville University Foundation (the Foundation); Student Services, Inc.; and Student Lodging, Inc. 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 financial activity of these component units are presented as of June 30, 2018 and 2017.

In fiscal year 2013/14, as a result of the University's relationship with Student Services, Inc. who were constructing new dormitories for the benefit of Millersville students, the University determined that Student Services, Inc. met the criteria of being a discretely presented component unit. In addition, because of the integral relationship between Student Services, Inc. and Student Lodging, Inc., the University also determined that Student Lodging met the criteria of being a discretely presented component unit. Therefore, both organizations are included in the accompanying component unit financial statements.

The Foundation is a tax-exempt entity that acts primarily as a fund-raising organization to supplement 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 and invests, is restricted to the activities of the University by the donors.

During the years ended June 30, 2018 and 2017, the Foundation distributed \$1,457,774 and \$1,358,914, respectfully, to the University for both restricted and unrestricted purposes. As of June 30, 2018 and 2017, the Foundation has an accounts payable to the University of \$37,732 and \$16,560, respectively.

Student Services, Inc. is a tax-exempt entity that provides services not readily available through the University to students. Because the economic resources received and held by Student Services are for the direct benefit of the University and the influence of the University over Student Services, Student Services is considered a component unit of the University and is included within the University's financial reporting entity.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Reporting Entity (Continued)

During the years ended June 30, 2018 and 2017, respectively, the University received rental income in the amounts of \$27,204 and \$26,412. In addition, the University received \$2,738,865 and \$2,752,194 during the years ended June 30, 2018 and 2017, respectively, for management costs associated with student housing facilities owned by the Corporation. The total amounts due to the University at June 30, 2018 and 2017 were \$2,428,088 and \$2,271,922, respectively. Amounts due from the University at June 30, 2018 and 2017 were \$326,419 and \$772,385, respectively. Student Services, Inc. made contributions to the University of \$915,500 and \$1,111,776 during the years ended June 30, 2018 and 2017, respectively.

Student Services, Inc. also performs various administrative services for University student organizations. The total amounts due to the University related to student organizations at June 30, 2018 and 2017 were \$1,067,960 and \$891,479, respectively.

Student Lodging, Inc. is a tax-exempt entity that was formed for the purpose of purchasing an apartment complex and other property to provide housing for students of the University. Because the economic resources received and held by Student Lodging are for the direct benefit of the University and the influence of the University over Student Lodging, Student Lodging is considered a component unit of the University and is included within the University's financial reporting entity.

On May 29, 2012, the University entered into several leases with Student Lodging, Inc. for the use of certain buildings and office space. In addition, on December 11, 2012, the University entered into an agreement with Student Lodging, Inc. for the use of Shenks Hall and Reighard Hall. The University collects rent and reimburses Student Lodging, Inc. for expenses on a quarterly basis. The University also remits a portion of total profits to Student Lodging, Inc. During the fiscal years ended June 30, 2018 and 2017, rental payments amounted to \$1,951,547 and \$1,903,364, respectively. During the years ended June 30, 2018 and 2017 the University received contributions from Student Lodging, Inc. of \$125,000 and \$299,232, respectively. Amounts due to Student Lodging, Inc. included rents payable at June 30, 2018 and 2017 in the amounts of \$675,117 and \$644,790.

Complete financial statements for the Millersville University Foundation; Student Services, Inc.; and Student Lodging, Inc. may be obtained at the University's Accounting 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.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

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

The Foundation; Student Services, Inc.; and Student Lodging, Inc. are private nonprofit organizations, reported in accordance with Financial Accounting Standards (FASB) requirements, including FASB Codification Section 958-205, *Presentation of Financial Statements*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial reporting entity for these differences.

Operating Revenues and Expenses

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

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 discounts and allowances (netted against tuition and fees) and student aid expense. Scholarships and waivers of room and board fees are reported in auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

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 – The portion of net position subject to externally imposed conditions requiring that it be maintained by the University in perpetuity.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Net Position (Continued)

Restricted – Expendable – The portion of 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 and Investments

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

Accounts and Loans Receivable

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

Inventory

Inventory consists mainly of supplies and is stated at the lower of average cost or market.

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.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Capital Assets (Continued)

All assets with an individual purchase cost, or acquisition 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 on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The 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 under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2018 or 2017.

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 and OPEB Plans

Employees of the University are required to 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.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

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

Pension Plans and OPEB Plans (Continued)

The University also offers healthcare and tuition benefits to eligible employees upon employment, which vary depending upon the employee's labor group.

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, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

New Accounting Standards

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 also has significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the State System administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan.

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

New Accounting Standards (Continued)

The July 1, 2017, balances of these other postemployment benefit liabilities (with other meaning other than pensions), known as OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources, are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2017 Net position—beginning of year*. The plans did not provide sufficient information to restate the June 30, 2017, financial statements.

Net Position - Beginning of Year	\$ (19,133,728)
Restatement for July 1, 2017, OPEB Liabilities and Related Expenses	<u>(104,028,251)</u>
Net Position - Beginning of Year, Restated	<u><u>\$ (123,161,979)</u></u>

In addition, the University has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements. Under Statement No. 81, the University is reporting as beneficial interests, along with the associated deferred inflows of resources, the value of irrevocable split-interest agreements held by a third-party of which the University is the beneficiary. The University also is reporting as beneficial interests the value of funds held in perpetual trusts by third-parties of which the University is the beneficiary. The University previously reported beneficial interests with investments, therefore, there was no effect on net position.

GASB has issued several accounting standards that are required to be adopted by the University in future years. The University is evaluating the impact of the adoption of these standards on its financial statements as discussed below.

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

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 is intended to improve the information that is disclosed in notes to government financial statements related to debt. The University has determined that Statement No. 88 will have no effect on its financial statements.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

New Accounting Standards (Continued)

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and should no longer be capitalized as part of the cost of an asset. The University has determined that the effect of Statement No. 89 on its financial statements will vary from year to year, depending upon the amount of new debt incurred for capital assets. The provisions of Statement No. 89 are effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. Statement No. 90 is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The University has determined that Statement No. 90 will have no effect on its financial statements.

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for *deferred outflows of resources and deferred inflows of resources*.

Deferred outflows of resources, reported after *total assets*, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). *Deferred inflows of resources*, reported after *total liabilities*, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s).

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

The University is required to report the following as deferred outflows of resources or deferred inflows of resources.

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

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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JUNE 30, 2018 AND 2017**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed statement of net assets information for the component units as of June 30, 2018:

	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	\$ 1,360,513	\$ 26,963,281	\$ 4,021,580	\$ 32,345,374
Capital Assets, Net	-	120,453,480	33,780,905	154,234,385
Investments	34,517,115	-	-	34,517,115
Due from University	-	-	675,117	675,117
Other Assets	1,888,020	1,026,961	921,241	3,836,222
Total Assets	<u>\$ 37,765,648</u>	<u>\$ 148,443,722</u>	<u>\$ 39,398,843</u>	<u>\$ 225,608,213</u>
Liabilities				
Accounts Payable	\$ 18,822	\$ 2,757,111	\$ 1,160,522	\$ 3,936,455
Long-Term Debt	-	143,042,318	28,785,245	171,827,563
Due to University	37,732	3,169,629	-	3,207,361
Funds Held for Other Independent Organizations	-	193,519	-	193,519
Other Liabilities	2,612,869	5,119,527	1,253,380	8,985,776
Total Liabilities	<u>2,669,423</u>	<u>154,282,104</u>	<u>31,199,147</u>	<u>188,150,674</u>
Net Assets				
Unrestricted	238,631	(5,838,382)	8,199,696	2,599,945
Temporarily Restricted	6,852,776	-	-	6,852,776
Permanently Restricted	28,004,818	-	-	28,004,818
Total Net Assets	<u>35,096,225</u>	<u>(5,838,382)</u>	<u>8,199,696</u>	<u>37,457,539</u>
Total	<u>\$ 37,765,648</u>	<u>\$ 148,443,722</u>	<u>\$ 39,398,843</u>	<u>\$ 225,608,213</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed statement of net assets information for the component units as of June 30, 2017:

	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	\$ 1,766,501	\$ 25,862,681	\$ 2,687,177	\$ 30,316,359
Capital Assets, Net	-	124,231,975	32,536,440	156,768,415
Investments	30,875,707	-	-	30,875,707
Due from University	-	-	644,790	644,790
Other Assets	1,300,106	1,176,199	445,877	2,922,182
Total Assets	<u>\$ 33,942,314</u>	<u>\$ 151,270,855</u>	<u>\$ 36,314,284</u>	<u>\$ 221,527,453</u>
Liabilities				
Accounts Payable	\$ 10,414	\$ 2,475,801	\$ 1,733,533	\$ 4,219,748
Long-Term Debt	-	144,517,319	26,273,138	170,790,457
Due to University	15,953	2,391,016	-	2,406,969
Funds Held for Other Independent Organizations	-	192,027	-	192,027
Other Liabilities	2,488,480	7,171,693	1,178,493	10,838,666
Total Liabilities	<u>2,514,847</u>	<u>156,747,856</u>	<u>29,185,164</u>	<u>188,447,867</u>
Net Assets				
Unrestricted	254,981	(5,477,001)	7,129,120	1,907,100
Temporarily Restricted	6,055,056	-	-	6,055,056
Permanently Restricted	25,117,430	-	-	25,117,430
Total Net Assets	<u>31,427,467</u>	<u>(5,477,001)</u>	<u>7,129,120</u>	<u>33,079,586</u>
Total	<u>\$ 33,942,314</u>	<u>\$ 151,270,855</u>	<u>\$ 36,314,284</u>	<u>\$ 221,527,453</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed statement of activities for the component units for year ended June 30, 2018:

	Foundation	Student Services	Student Lodging	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	\$ 325,777	\$ -	\$ -	\$ 325,777
Sales and Services	-	2,373,718	-	2,373,718
Investment Income	-	-	10,856	10,856
Change in Value of Charitable Gift Annuities	(2,134)	-	-	(2,134)
Change in Value of Fair Value of Interest Rate Swaps	-	-	440,949	440,949
Rental Income	-	15,773,898	6,628,159	22,402,057
Net Assets Released from Restrictions	1,624,200	-	-	1,624,200
Other Revenues and Gains	-	2,023,589	17,264	2,040,853
Total Revenues and Other Additions	<u>1,947,843</u>	<u>20,171,205</u>	<u>7,097,228</u>	<u>29,216,276</u>
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	1,336,909	-	-	1,336,909
University Stores	-	2,918,766	-	2,918,766
Housing	-	15,967,208	4,329,705	20,296,913
Management and General	244,451	1,646,612	1,665,541	3,556,604
Fundraising	382,833	-	-	382,833
Other Expenses and Losses	-	-	31,406	31,406
Total Expenses and Other Deductions	<u>1,964,193</u>	<u>20,532,586</u>	<u>6,026,652</u>	<u>28,523,431</u>
Change in Unrestricted Net Assets	(16,350)	(361,381)	1,070,576	692,845
Changes in Temporarily Restricted Net Assets				
Contributions	199,666	-	-	199,666
Investment Income	599,980	-	-	599,980
Net Realized and Unrealized Gain on Investments	1,622,274	-	-	1,622,274
Donor Requested Transfer	-	-	-	-
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	<u>(1,624,200)</u>	<u>-</u>	<u>-</u>	<u>(1,624,200)</u>
Change in Temporarily Restricted Net Assets	797,720	-	-	797,720
Changes in Permanently Restricted Net Assets				
Contributions	2,887,388	-	-	2,887,388
Donor Requested Transfer	-	-	-	-
Change in Permanently Restricted Net Assets	<u>2,887,388</u>	<u>-</u>	<u>-</u>	<u>2,887,388</u>
CHANGE IN NET ASSETS	3,668,758	(361,381)	1,070,576	4,377,953
Net Assets - Beginning of Year	31,427,467	(6,249,386)	7,129,120	32,307,201
Prior Period Adjustment	-	772,385	-	772,385
Net Asset at Beginning of Year as Restated	<u>31,427,467</u>	<u>(5,477,001)</u>	<u>7,129,120</u>	<u>33,079,586</u>
NET ASSETS - END OF YEAR	<u>\$ 35,096,225</u>	<u>\$ (5,838,382)</u>	<u>\$ 8,199,696</u>	<u>\$ 37,457,539</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Student Services	Student Lodging	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	\$ 204,533	\$ -	\$ -	\$ 204,533
Sales and Services	-	2,513,025	-	2,513,025
Investment Income	-	-	788	788
Change in Value of Charitable Gift Annuities	61,154	-	-	61,154
Change in Value of Fair Value of Interest Rate Swaps	-	-	786,985	786,985
Rental Income	-	15,957,678	6,256,841	22,214,519
Net Assets Released from Restrictions	1,502,541	-	-	1,502,541
Other Revenues and Gains	181	-	18,698	18,879
Total Revenues and Other Additions	<u>1,768,409</u>	<u>18,470,703</u>	<u>7,063,312</u>	<u>27,302,424</u>
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	1,270,262	-	-	1,270,262
University Stores	-	2,767,584	-	2,767,584
Housing	-	15,288,281	4,054,393	19,342,674
Management and General	219,452	1,744,337	1,714,557	3,678,346
Fundraising	242,629	-	-	242,629
Other Expenses and Losses	-	3,320,995	22,482	3,343,477
Total Expenses and Other Deductions	<u>1,732,343</u>	<u>23,121,197</u>	<u>5,791,432</u>	<u>30,644,972</u>
Change in Unrestricted Net Assets	36,066	(4,650,494)	1,271,880	(3,342,548)
Changes in Temporarily Restricted Net Assets				
Contributions	340,135	-	-	340,135
Investment Income	533,669	-	-	533,669
Net Realized and Unrealized Gain on Investments	2,801,101	-	-	2,801,101
Donor Requested Transfer	(330,469)	-	-	(330,469)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	<u>(1,502,541)</u>	<u>-</u>	<u>-</u>	<u>(1,502,541)</u>
Change in Temporarily Restricted Net Assets	1,841,895	-	-	1,841,895
Changes in Permanently Restricted Net Assets				
Contributions	2,540,351	-	-	2,540,351
Donor Requested Transfer	<u>330,469</u>	<u>-</u>	<u>-</u>	<u>330,469</u>
Change in Permanently Restricted Net Assets	<u>2,870,820</u>	<u>-</u>	<u>-</u>	<u>2,870,820</u>
CHANGE IN NET ASSETS	4,748,781	(4,650,494)	1,271,880	1,370,167
Net Assets - Beginning of Year	26,678,686	(1,048,310)	5,857,240	31,487,616
Prior Period Adjustment	-	221,803	-	221,803
Net Asset at Beginning of Year as Restated	<u>26,678,686</u>	<u>(826,507)</u>	<u>5,857,240</u>	<u>31,709,419</u>
NET ASSETS - END OF YEAR	<u>\$ 31,427,467</u>	<u>\$ (5,477,001)</u>	<u>\$ 7,129,120</u>	<u>\$ 33,079,586</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The reconciliation of differences in the due to/from accounts is as follows:

	2018	2017
Component Units Due to University, Net	\$ 3,207,361	\$ 2,406,969
Activity Fees Due to Student Services, Inc. not Remitted by the University	326,419	452,578
Revenues Recorded Based on FASB Standards	(109,184)	607
University Due from Component Units	\$ 3,424,596	\$ 2,860,154

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 \$67,570,422 and \$71,777,293 at June 30, 2018 and 2017, 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, universities use local financial institutions for activities such as deposits of cash. In addition, universities may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

The State System's operating funds are invested and reinvested in the following types of instruments with qualifications as provided. (See Board 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.

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

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

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

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

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

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

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

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued):

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.

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

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

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

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

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

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 receives income from perpetual trusts held by a third-party. Under the terms of the trusts, the University has the irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. Income from these trusts is restricted for scholarships and capital and is included in interest income in the statement of revenues, expenses, and changes in net assets.

The fair value of cash, cash equivalents and investments at June 30, 2018 and 2017 is as follows:

	Fair Value Hierarchy	<u>2018</u>	<u>2017</u>
Primary Institution			
Cash and Cash Equivalents:			
Noncategorized Cash:			
Cash on Hand	N/A	\$ 15,415	\$ 15,415
Deposits in PASSHE Pooled Fund	N/A	<u>67,570,422</u>	<u>71,777,293</u>
Total Cash and Cash Equivalents		<u>\$ 67,585,837</u>	<u>\$ 71,792,708</u>
Long-Term Investments-Primary Institution			
Noncategorized Long-Term Investments:			
Common Fund			
Multi-Strategy Equity Fund	NAV	\$ 1,270,021	\$ 1,141,622
Multi-Strategy Bond Fund	NAV	317,778	326,220
Cash Equivalent	3	100,465	99,888
Excess VPAC Project Gifts Invested with Foundation	3	513,400	485,456
Scholarship Funds Invested with Foundation	3	1,002,904	932,435
Beneficial Interest in Perpetual Trusts:	3	<u>8,108,926</u>	<u>7,796,546</u>
Total Long-Term Investments		<u>\$ 11,313,494</u>	<u>\$ 10,782,167</u>
Foundation			
Certificates of Deposit	1	\$ 803,365	\$ 150,685
Preferred Stocks	1	27,450	29,600
Corporate Bonds	1	75,576	104,492
Municipal Bonds	1	-	50,037
Collective Trust Fund	2	1,483,733	1,452,612
Mutual Funds	1	31,511,479	28,638,249
Private Equity Funds	3	<u>615,512</u>	<u>450,032</u>
Total Investments		<u>\$ 34,517,115</u>	<u>\$ 30,875,707</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Equity Fund	\$ 1,270,021	\$ -	Monthly	5 days
Commonfund Multi-Strategy Bond Fund	317,778	-	Monthly	5 days
	<u>\$ 1,587,799</u>	<u>\$ -</u>		
	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Multi-Strategy Equity Fund	\$ 1,141,622	\$ -	Monthly	5 days
Commonfund Multi-Strategy Bond Fund	326,220	-	Monthly	5 days
	<u>\$ 1,467,842</u>	<u>\$ -</u>		

Credit Risk

The University 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.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure, the University would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Management believes they are not exposed to this credit risk.

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The University does not have a formal investment policy for concentration of credit risk. At June 30, 2018, the University had the following investments which exceeded 5% of the University's total investments:

<u>Issuer</u>	<u>Type of Investment</u>	<u>Amount</u>	<u>Percentage of Total Long-Term Investments</u>
Common Fund	Multi-Strategy Equity Fund	\$ 1,270,021	11.23 %
Common Fund	Multi-Strategy Bond Fund	317,778	2.81%

NOTE 4 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2018:

	<u>Life</u>	<u>Beginning Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending Balance June 30, 2018</u>
Capital Assets Not Being Depreciated						
Land		\$ 594,260	\$ -	\$ -	\$ -	\$ 594,260
Construction in Progress		24,513,123	163,604	-	(16,019,740)	8,656,987
Total Capital Assets Not Being Depreciated		25,107,383	163,604	-	(16,019,740)	9,251,247
Capital Assets Being Depreciated						
Buildings, Including Improvements	10-40	151,285,091	9,571,480	(209,717)	15,329,338	175,976,192
Improvements, Other than Buildings	20	23,037,657	133,838	(46,389)	12,762	23,137,868
Furnishings and Equipment, Including Capital Leases	3-10	37,292,647	1,029,215	(1,814,528)	677,640	37,184,974
Library Books	10	3,921,424	5,285	(410)	-	3,926,299
Total Capital Assets Being Depreciated		215,536,819	10,739,818	(2,071,044)	16,019,740	240,225,333
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(61,538,448)	(6,511,065)	142,551	-	(67,906,962)
Land Improvements		(11,419,929)	(1,012,255)	43,388	-	(12,388,796)
Furnishings and Equipment Including Capital Leases		(29,187,408)	(2,258,726)	1,765,887	-	(29,680,247)
Library Books		(3,696,904)	(76,010)	411	-	(3,772,503)
Total Accumulated Depreciation		(105,842,689)	(9,858,056)	1,952,237	-	(113,748,508)
Total Capital Assets Being Depreciated, Net		109,694,130	881,762	(118,807)	16,019,740	126,476,825
Capital Assets, Net		\$ 134,801,513	\$ 1,045,366	\$ (118,807)	\$ -	\$ 135,728,072

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

At June 30, 2018, the University capitalized interest in the amount of \$350,340.

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2017:

	Life	Beginning Balance July 1, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Capital Assets Not Being Depreciated						
Land		\$ 594,260	\$ -	\$ -	\$ -	\$ 594,260
Construction in Progress		16,238,234	9,260,800	-	(985,911)	24,513,123
Total Capital Assets Not Being Depreciated		16,832,494	9,260,800	-	(985,911)	25,107,383
Capital Assets Being Depreciated						
Buildings, Including Improvements	10-40	153,578,944	510,578	(3,779,430)	974,999	151,285,091
Improvements, Other than Buildings	20	22,720,993	394,168	(88,416)	10,912	23,037,657
Furnishings and Equipment, including Capital Leases	3-10	41,482,803	2,991,039	(7,181,195)	-	37,292,647
Library Books	10	3,955,512	15,697	(49,785)	-	3,921,424
Total Capital Assets Being Depreciated		221,738,252	3,911,482	(11,098,826)	985,911	215,536,819
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(57,824,522)	(6,406,723)	2,692,797	-	(61,538,448)
Land Improvements		(10,477,706)	(1,030,639)	88,416	-	(11,419,929)
Furnishings and Equipment Including Capital Leases		(34,046,731)	(2,282,606)	7,141,929	-	(29,187,408)
Library Books		(3,646,521)	(100,168)	49,785	-	(3,696,904)
Total Accumulated Depreciation		(105,995,480)	(9,820,136)	9,972,927	-	(105,842,689)
Total Capital Assets Being Depreciated, Net		115,742,772	(5,908,654)	(1,125,899)	985,911	109,694,130
Capital Assets, Net		\$ 132,575,266	\$ 3,352,146	\$ (1,125,899)	\$ -	\$ 134,801,513

At June 30, 2017, the University capitalized interest in the amount of \$309,443.

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2018 and 2017:

	2018	2017
Employees	\$ 9,345,742	\$ 9,517,248
Supplies and Services	3,351,083	3,074,292
Interest	96,606	103,524
Total	\$ 12,793,431	\$ 12,695,064

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 LEASES

The University has entered into long-term operating leases for the use of facilities. Future annual minimum payments in the aggregate, under noncancelable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 64,296
2020	64,296
2021	64,296
2022	64,296
Total	<u>\$ 257,184</u>

Total rent expense was \$2,415,471 and \$2,325,491 for the years ended June 30, 2018 and 2017, respectively.

The University has entered into lease agreements for the financing of printing equipment which have been accounted for as capital leases. Changes in capital lease obligations were as follows:

	<u>2018</u>	<u>2017</u>
Balance - July 1	\$ 384,491	\$ 106,842
Increases	206,407	476,063
Repayments	(104,391)	(198,414)
Balance - June 30	<u>\$ 486,507</u>	<u>\$ 384,491</u>

At June 30, 2018 and 2017, capital assets include equipment under capital lease of \$682,469 and \$731,173, respectively, which is reported net of accumulated depreciation of \$201,363 and \$296,977, respectively.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 143,705
2020	141,867
2021	141,792
2022	50,741
2023	23,474
Total	<u>501,579</u>
Less: Amounts Representing Interest on Capital Leases	<u>(15,072)</u>
Present Value of Net Minimum Lease Payments	486,507
Less: Current Portion	137,134
Long-Term Capital Lease Obligations	<u>\$ 349,373</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTE 7 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA 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 Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University and their balances as of June 30, 2018 are as follows:

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JUNE 30, 2018 AND 2017**

NOTE 7 BONDS PAYABLE (CONTINUED)

	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AG Used for Refunding of Series Q					
Final Maturity June 2018	4.52 %	\$ 144,629	\$ -	\$ (144,629)	\$ -
Series AI Used for Installation of Sprinklers					
Final Maturity June 2025	4.27 %	1,043,758	-	(137,740)	906,018
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure					
Final Maturity June 2029	4.86 %	8,254,067	-	(580,401)	7,673,666
Series AK Used for Refunding of Series S					
Final Maturity June 2020	4.00 %	439,683	-	(140,558)	299,125
Series AL Used for Sprinklers and Union/Recreation Center					
Final Maturity June 2030	5.00 %	8,311,547	-	(509,026)	7,802,521
Series AM Used for Visual and Performing Arts Center					
Final Maturity June 2031	4.66 %	14,167,898	-	(780,680)	13,387,218
Series AP Used for Residence Hall Refunded AA					
Final Maturity June 2024	4.60 %	2,290,988	-	(291,646)	1,999,342
Series AQ Used for Refunding of Residence, Buildings, Infrastructure					
Final Maturity June 2026	4.65 %	8,744,514	-	(838,960)	7,905,554
Series AR Used for Dining Hall Renovations					
Final Maturity June 2035	3.95 %	9,161,620	-	(389,261)	8,772,359
Series AS Used for Infrastructure Refunded AF					
Final Maturity June 2027	3.83 %	1,399,691	-	(58,807)	1,340,884
Total Bonds Payable		<u>\$ 53,958,395</u>	<u>\$ -</u>	<u>\$ (3,871,708)</u>	50,086,687
Plus: Unamortized Bond Premium					<u>2,699,083</u>
Outstanding at June 30, 2018					52,785,770
Less: Current Portion					<u>(4,459,658)</u>
Bonds Payable, Net of Current Portion					<u><u>\$ 48,326,112</u></u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTE 7 BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2017 were as follows:

	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG Used for Refunding of Series Q					
Final Maturity June 2018	4.75 %	\$ 282,801	\$ -	\$ (138,172)	\$ 144,629
Series AI Used for Installation of Sprinklers					
Final Maturity June 2025	4.24 %	1,176,134	-	(132,376)	1,043,758
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure					
Final Maturity June 2029	4.87 %	8,806,132	-	(552,065)	8,254,067
Series AK Used for Refunding of Series S					
Final Maturity June 2020	4.00 %	575,330	-	(135,647)	439,683
Series AL Used for Sprinklers and Union/Recreation Center					
Final Maturity June 2030	5.00 %	8,796,407	-	(484,860)	8,311,547
Series AM Used for Visual and Performing Arts Center					
Final Maturity June 2031	4.62 %	14,899,395	-	(731,497)	14,167,898
Series AP Used for Residence Hall Refunded AA					
Final Maturity June 2024	4.55 %	2,572,993	-	(282,005)	2,290,988
Series AQ Used for Refunding of Residence, Buildings, Infrastructure					
Final Maturity June 2026	4.68 %	9,473,966	-	(729,452)	8,744,514
Series AR Used for Dining Hall Renovations					
Final Maturity June 2035	3.98 %	9,540,317	-	(378,697)	9,161,620
Series AS Used for Infrastructure Refunded AF					
Final Maturity June 2027	3.75 %	1,399,691	-	-	1,399,691
Total Bonds Payable		<u>\$ 57,523,166</u>	<u>\$ -</u>	<u>\$ (3,564,771)</u>	53,958,395
Plus: Unamortized Bond Premium					<u>3,228,994</u>
Outstanding at June 30, 2017					57,187,389
Less: Current Portion					<u>(4,401,620)</u>
Bonds Payable, Net of Current Portion					<u><u>\$ 52,785,769</u></u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 BONDS PAYABLE (CONTINUED)

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

Series		2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	Total
AG	Principal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Interest	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	-	-
AI	Principal	143,103	148,980	155,242	161,537	168,312	128,844	-	-	906,018
	Interest	38,696	32,972	26,827	20,229	13,162	7,623	-	-	139,509
	Total	181,799	181,952	182,069	181,766	181,474	136,467	-	-	1,045,527
AJ	Principal	609,736	640,070	672,402	704,733	740,123	3,536,466	770,136	-	7,673,666
	Interest	368,077	337,590	305,587	271,967	236,730	666,131	36,581	-	2,222,663
	Total	977,813	977,660	977,989	976,700	976,853	4,202,597	806,717	-	9,896,329
AK	Principal	146,873	152,252	-	-	-	-	-	-	299,125
	Interest	11,965	6,090	-	-	-	-	-	-	18,055
	Total	158,838	158,342	-	-	-	-	-	-	317,180
AL	Principal	535,028	560,939	589,147	554,824	582,400	3,379,686	1,600,497	-	7,802,521
	Interest	390,126	363,375	335,328	305,870	278,129	923,512	121,002	-	2,717,342
	Total	925,154	924,314	924,475	860,694	860,529	4,303,198	1,721,499	-	10,519,863
AM	Principal	825,540	881,884	940,391	999,978	1,066,727	5,514,455	3,158,243	-	13,387,218
	Interest	626,785	585,508	541,414	494,394	444,395	1,418,457	304,389	-	4,415,342
	Total	1,452,325	1,467,392	1,481,805	1,494,372	1,511,122	6,932,912	3,462,632	-	17,802,560
AP	Principal	300,082	312,134	324,185	337,442	354,314	371,185	-	-	1,999,342
	Interest	90,603	78,600	66,114	53,147	36,275	18,559	-	-	343,298
	Total	390,685	390,734	390,299	390,589	390,589	389,744	-	-	2,342,640
AQ	Principal	880,783	925,022	972,474	1,019,939	1,071,414	3,035,922	-	-	7,905,554
	Interest	395,278	351,239	304,987	256,364	205,367	283,777	-	-	1,797,012
	Total	1,276,061	1,276,261	1,277,461	1,276,303	1,276,781	3,319,699	-	-	9,702,566
AR	Principal	403,345	413,908	427,993	442,077	459,683	2,523,769	2,847,711	1,253,873	8,772,359
	Interest	380,577	367,372	353,640	339,203	324,063	1,386,897	1,057,575	312,306	4,521,633
	Total	783,922	781,280	781,633	781,280	783,746	3,910,666	3,905,286	1,566,179	13,293,992
AS	Principal	130,504	132,920	135,337	138,559	145,407	658,157	-	-	1,340,884
	Interest	55,081	52,471	49,813	47,106	40,178	84,284	-	-	328,933
	Total	185,585	185,391	185,150	185,665	185,585	742,441	-	-	1,669,817
Total	Principal	3,974,994	4,168,109	4,217,171	4,359,089	4,588,380	19,148,484	8,376,587	1,253,873	50,086,687
	Interest	2,357,188	2,175,217	1,983,710	1,788,280	1,578,299	4,789,240	1,519,547	312,306	16,503,787
Total		<u>\$ 6,332,182</u>	<u>\$ 6,343,326</u>	<u>\$ 6,200,881</u>	<u>\$ 6,147,369</u>	<u>\$ 6,166,679</u>	<u>\$ 23,937,724</u>	<u>\$ 9,896,134</u>	<u>\$ 1,566,179</u>	<u>\$ 66,590,474</u>

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTE 7 BONDS PAYABLE (CONTINUED)

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. In the past, the State System issued bonds to provide a pool for funding for AFRP (\$13,298,828 and \$17,539,964 was outstanding as of June 30, 2018 and 2017, respectively). Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance owed by the University to the AFRP pool of funding were as follows:

	2018	2017
Balance - July 1	\$ 1,476,279	\$ 1,835,514
Repayments	(356,962)	(359,235)
Balance - June 30	<u>\$ 1,119,317</u>	<u>\$ 1,476,279</u>

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30, 2018 and 2017:

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	\$ 1,511,920	\$ 64,155	\$ 1,426,678	\$ 74,848
Grants	265,958	-	254,521	-
Total	<u>\$ 1,777,878</u>	<u>\$ 64,155</u>	<u>\$ 1,681,199</u>	<u>\$ 74,848</u>

NOTE 9 COMPENSATED ABSENCES

Compensated absences consisted of the following at June 30, 2018 and 2017:

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	<u>\$ 847,858</u>	<u>\$ 8,406,759</u>	<u>\$ 797,078</u>	<u>\$ 8,010,376</u>

Compensated absences activity consisted of the following during 2018 and 2017:

	2018	2017
Balance - July 1	\$ 8,807,454	\$ 8,649,417
Current Changes in Estimate	1,299,276	990,050
Payouts	(852,113)	(832,013)
Balance - June 30	9,254,617	8,807,454
Less: Current Portion	(847,858)	(797,078)
Noncurrent Portion	<u>\$ 8,406,759</u>	<u>\$ 8,010,376</u>

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave.

University employees who retire after meeting specified service and age requirements are eligible to receive healthcare and tuition benefits in retirement. 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), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a defined benefit healthcare plan administered by the State System (System Plan). 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 a defined benefit healthcare plan sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). In addition to the above, any employee who participates in the Public School Employees' Retirement System (PSERS) pension plan is eligible to receive benefits from the PSERS Health Insurance Premium Assistance Program (Premium Assistance), a defined benefit plan, and all eligible retirees and their eligible dependents receive tuition waivers at any of the 14 State System universities.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2018 and 2017.

	SSHE Plan		REHP		PSERS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	\$105,619,527	\$85,736,595	\$79,495,490	*	\$296,259	*	\$185,411,276	\$85,736,595
Deferred outflows of resources:								
Net Differences Between Projected and Actual								
Investment Earnings on OPEB Plan Investments	-	N/A	-	*	321	*	321	*
Contributions After the Measurement Date	2,723,805	*	1,946,287	*	15,697	*	4,685,789	*
Total Deferred Outflows of Resources	\$ 2,723,805	\$ -	\$ 1,946,287	\$ -	\$ 16,018	\$ -	\$ 4,686,110	\$ -
Deferred inflows of resources:								
Net Differences Between Projected and Actual								
Investment Earnings on OPEB Plan Investments	-	N/A	66,394	*	-	*	66,394	*
Changes in Assumptions	8,632,616	*	7,243,123	*	13,809	*	15,889,548	*
Changes in Proportion	-	N/A	-	*	3,292	*	3,292	*
Total Deferred Inflows of Resources	\$ 8,632,616	\$ -	\$ 7,309,517	\$ -	\$ 17,101	\$ -	\$ 15,959,234	\$ -
OPEB Expense	\$ 4,246,980	\$ 6,065,573	\$ 3,690,400	\$ 2,943,445	\$ 24,390	\$ 16,201	\$ 7,961,770	\$ 9,025,219
Contributions Recognized by OPEB Plans	N/A	N/A	\$ 1,946,287	\$ 2,943,445	\$ 15,697	\$ 16,201	\$ 1,961,984	\$ 2,959,646

* Information is not reported because GASB 75 actuarial valuations were not performed for prior years and fiscal year 2016/17 was not restated.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$2,723,805 for the System Plan, \$1,946,287 for the REHP plan, and \$15,697 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

Fiscal Year Ended	Amortization		
	SSHE	REHP	PSER
June 30, 2019	\$ (1,726,523)	\$ (1,554,578)	\$ (2,970)
June 30, 2020	(1,726,523)	(1,554,578)	(2,730)
June 30, 2021	(1,726,523)	(1,554,578)	(2,730)
June 30, 2022	(1,726,523)	(1,554,578)	(2,730)
June 30, 2023	(1,726,524)	(1,091,852)	(2,810)
Thereafter	-	647	(2,810)
	<u>\$ (8,632,616)</u>	<u>\$ (7,309,517)</u>	<u>\$ (16,780)</u>

System Plan

Plan Description

The System Plan is a single-employer defined benefit healthcare plan administered by the Office of the Chancellor. Act 188 empowers the board to establish and amend benefit provisions and to require the Office of the Chancellor to pay OPEB as the benefits come due. The Office of the Chancellor discretely accounts for and accumulates all employer and employee System Plan contributions that have been collected from the universities, employees, and retirees, but not yet been paid to the provider; however, the System Plan has no assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors.

The System Plan provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the benefits in effect when they retired, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 19 or until age 25 if a certified full-time student. SCUPA, SPFPA, OPEIU, and nonrepresented employees whose retirement date is on or after January 1, 2016, and APSCUF employees whose retirement date is on or after July 1, 2017, receive the same pre-Medicare benefits as active employees, with benefits changing as active employee benefits change. All other retirees continue to receive the same benefits to which they were entitled at retirement.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

A total of 12,511 employees are covered by the benefit terms, including 7,762 inactive employees currently receiving benefit payments, 52 inactive employees entitled to but not yet receiving benefits, and 4,697 active employees. Effective January 16, 2016, the State System OPEB Plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

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 or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, 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 plan members 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.
- Plan members, with the exception of nonfaculty coaches, who retire 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.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 2.75% of their final annual gross salary at the time of retirement.

Actuarial Assumptions and Other Inputs

The actuarial valuation on which the total OPEB liability is based is dated July 1, 2016. Update procedures were used to roll forward the total OPEB liability to the measurement date of July 1, 2017. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Inflation of 2.2%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.5% in 2018 through 2023, with rates gradually decreasing from 5.4% in 2024 to 3.9% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model. The healthcare cost trend rate was updated based on the Society of Actuaries Getzen Model.
- Annual salary increase of 4%, updated from 3%.
- 90% of employees are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2020 is 40% of the projected premiums in excess of the annual limits.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2017 to reflect mortality improvement, updated from Scale MP-2016.
- The discount rate increased from 2.49% to 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index.
- Participant data is based on census information as of July 1, 2016.
- Experience was last reviewed in 2012 for withdrawal and retirement. Experience for election percentages were reviewed in 2017. Neither of these reviews were published in a formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all retirees, regardless of employee bargaining unit when active and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%).

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Sensitivity of the University's Proportionate Share of the System Plan's
Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 87,451,300	\$ 105,619,527	\$ 129,332,143

The following presents the University's net OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%).

Sensitivity of the University's Proportionate Share of the System Plan's
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 124,484,833	\$ 105,619,527	\$ 90,727,322

OPEB Liability

The System Plan's total OPEB liability of \$105,619,527 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

University's Proportionate Share of the System Plan OPEB Liability

Determined as of the June 30 measurement dates

Changes in the University's Proportionate Share of the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	\$ 109,689,232
Service Cost	1,997,487
Interest	1,619,822
Changes in Assumptions	(5,881,263)
Benefit Payments	(1,805,751)
Net Changes	(4,069,705)
Total OPEB Liability - Ending Balance	<u>\$ 105,619,527</u>

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board. 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, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at www.budget.pa.us.

The REHP provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the plan they choose, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 26.

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members who retired on or after July 1, 2005, and prior to July 1, 2007, pay 1% of their final annual salary.
- Plan members who retired on or after July 1, 2007, and prior to July 1, 2011, pay 3% of either final gross annual base salary or final average salary, whichever is less. Members eligible for Medicare pay 1.5% of either final gross annual base salary or final average salary, whichever is less.
- Plan members who retire on or after July 1, 2011, pay 3% of final average salary. Members eligible for Medicare pay 1.5% of final gross annual base salary.

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of \$300 for each current REHP eligible active employee during the period July 1, 2017, through January 18, 2018, and \$188 from January 19, 2018, through June 30, 2018. The rate was \$362 per biweekly pay period during the fiscal year ended June 30, 2017.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.9% in 2018, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2016_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2016.
- Projected benefits based on estimates of future years of service and projected health benefit costs.

The Commonwealth's State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the SERS Board in March 2016. The approved recommendations from that study were used to determine the assumptions in the REHP valuation, where applicable.

The following assumptions were made with regard to the discount rate:

- Discount rate of 3.58% as of June 30, 2017, and 2.85% as of June 30, 2016.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.
- The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows:

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	47.0 %	7.5 %
International Equity	20.0	8.5
Fixed Income	25.0	3.0
Real Estate	8.0	3.0
Cash	-	1.0
Total	<u>100.0 %</u>	

The actuarial valuation on which the total REHP OPEB liability is based was dated July 1, 2017. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of July 1, 2017.

The following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%).

Sensitivity of the University's Proportionate Share of the REHP Net OPEB
Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (5.0% decreasing to 2.9%)	Current Rate Trend Rates (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 68,989,739	\$ 79,495,490	\$ 95,222,260

The following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current healthcare cost trend rates (3.58%).

Sensitivity of the University's Proportionate Share of the REHP Net OPEB
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	\$ 93,142,902	\$ 79,495,490	\$ 70,443,756

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Fiduciary Net Position

The REHP is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at www.budget.pa.us.

The assets of the REHP are managed by the Commonwealth's Treasury in an investment pool. The REHP investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania's amendment to fiscal code 72 P.S. §30.1, the principles of Prudent Investors Standards.

Premium Assistance

Plan Description

The Health Insurance Premium Assistance Program (Premium Assistance) is a governmental cost sharing, multiple-employer OPEB plan administered by the administrative staff of PSERS. The members eligible to participate in the program 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 control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (PSERS Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of PSERS by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2018 and 2017. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 0.415% of covered payroll.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2016, to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year and assume a trend rate of between 5% and 8%.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015, determined the employer contribution rate for fiscal year 2016/17.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set-back 3 for both males and females for healthy annuitants and for dependent beneficiaries, with adjustments made for disabled annuitants.

The following assumptions were made with regard to the discount rate:

- The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017, and 2.71% at June 30, 2016.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4 %	0.6 %
Fixed Income	23.6	1.5
Total	<u>100.0 %</u>	

The actuarial valuation on which the total Premium Assistance OPEB liability is based was dated June 30, 2016 and rolled forward to June 30, 2017. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.18% for the measurement date of June 30, 2017.

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the current healthcare cost trend rates (between 5% and 8%).

Sensitivity of the University's Proportionate Share of the Premium Assistance Net OPEB
Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (between 4% and 7%)	Current Rate Trend Rates (between 5% and 8%)	1% Increase (between 6% and 9%)
2018	\$ 296,179	\$ 296,259	\$ 296,339

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NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%).

Sensitivity of the University's Proportionate Share of the Premium Assistance Net OPEB
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 336,724	\$ 296,259	\$ 262,619

Fiduciary Net Position

For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS, and additions to and deductions from PSERS' fiduciary net position, have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Additional plan information can be found in the PSERS Comprehensive Annual Financial Report at www.psers.pa.gov.

NOTE 11 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, deferred outflows and deferred inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2018 and 2017:

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NOTE 11 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Pension Liabilities	\$ 71,288,762	\$ 76,255,991	\$ 7,219,508	\$ 7,347,105	\$ -	\$ -	\$ 78,508,270	\$ 83,603,096
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	\$ 1,205,346	\$ 1,100,741	\$ 75,309	\$ -	\$ -	\$ -	\$ 1,280,655	\$ 1,100,741
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	6,408,544	167,327	409,503	-	-	167,327	6,818,047
Changes in Assumptions	3,569,134	4,657,870	196,143	265,210	-	-	3,765,277	4,923,080
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	40,870	47,720	-	-	40,870	47,720
Changes in Proportion	1,704,317	1,185,095	129,309	208,350	-	-	1,833,626	1,393,445
Contributions After the Measurement Date	4,548,280	4,439,742	596,066	573,696	-	-	5,144,346	5,013,438
Total Deferred Outflows of Resources	<u>\$ 11,027,077</u>	<u>\$ 17,791,992</u>	<u>\$ 1,205,024</u>	<u>\$ 1,504,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,232,101</u>	<u>\$ 19,296,471</u>
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	\$ 1,353,599	\$ 1,706,148	\$ 43,587	\$ 61,228	\$ -	\$ -	\$ 1,397,186	\$ 1,767,376
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	2,834,403	-	-	-	-	-	2,834,403	-
Difference Between Employer Contributions and Proportionate Share of Contributions	411,715	353,831	-	-	-	-	411,715	353,831
Changes in Proportion	1,117,740	1,616,900	104,690	53,543	-	-	1,222,430	1,670,443
Total Deferred Inflows of Resources	<u>\$ 5,717,457</u>	<u>\$ 3,676,879</u>	<u>\$ 148,277</u>	<u>\$ 114,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,865,734</u>	<u>\$ 3,791,650</u>
Pension Expense	<u>\$ 11,639,035</u>	<u>\$ 10,774,365</u>	<u>\$ 1,596,010</u>	<u>\$ 1,124,189</u>	<u>\$ 3,261,782</u>	<u>\$ 3,281,893</u>	<u>\$ 16,496,827</u>	<u>\$ 15,180,447</u>
Contributions Recognized by Pension Plans	<u>\$ 7,800,771</u>	<u>\$ 7,038,441</u>	<u>\$ 596,066</u>	<u>\$ 573,696</u>	N/A	N/A	<u>\$ 8,396,837</u>	<u>\$ 7,612,137</u>

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NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the \$4,548,280 reported as 2018 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$596,066 reported as 2018 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows.

<u>Year Ending June 30,</u>	Amortization	
	SERS	PSERS
2019	\$ 1,601,081	\$ 160,732
2020	1,195,841	231,487
2021	(644,182)	105,019
2022	(1,441,630)	(36,557)
2023	50,230	-
Total	\$ 761,340	\$ 460,681

SERS

Plan Description

SERS is a governmental 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 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

Employees who were hired prior to January 1, 2011 and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The 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 State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. 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.

The University contributed at actuarially determined rates of between 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016 were \$7,800,771, \$7,038,441, and \$5,649,586, 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 from 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 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011–2015 was released in March 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 it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2017, measurement date.

- Entry age actuarial cost method.
- Straight-line amortization on a closed-period basis of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments.

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 manager fees 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' target asset allocation as of December 31, 2017 and 2016 are summarized below:

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NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

<u>Asset Class</u>	<u>2017 Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Private Equity	16.00 %	8.00 %
Global Public Equity	43.00	5.30
Real Estate	12.00	5.44
Multi-Strategy	12.00	5.10
Fixed Income	14.00	1.63
Cash	3.00	(0.25)
Total	<u>100.00 %</u>	

<u>Asset Class</u>	<u>2016 Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Private Equity	16.00 %	8.00 %
Global Public Equity	43.00	5.30
Real Estate	12.00	5.44
Hedge Funds	12.00	4.75
Fixed Income	14.00	1.63
Cash	3.00	(0.25)
Total	<u>100.00 %</u>	

At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add multi-strategy as a new assets class. Targets will be updated to reflect the new assumed investment rate of return and asset classes in the 2018-19 Investment Plan.

The discount rate used to measure the total SERS pension liability was 7.25% as of December 31, 2017 and 2016. 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.

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NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% as of December 31, 2017 and 2016, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2017 and 2016) or one percentage point higher (8.25% in 2017 and 2016) than the current rate:

Sensitivity of the University's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	\$ 90,487,672	\$ 71,288,762	\$ 54,842,672
2016	\$ 94,370,335	\$ 76,255,991	\$ 60,743,665

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 accounting principles generally accepted in the United States of America (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, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017 was \$71,288,762. At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016, was \$76,255,991.

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NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/19, from the December 31, 2017 funding valuation, to the expected funding payroll. For the allocation of the December 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2017/18, from the December 31, 2016, funding valuation, to the expected funding payroll. At the December 31, 2017, measurement date, the State System's proportion was 4.906%, an increase of .07% from its proportion calculated as of December 31, 2016, measurement date.

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. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (University), and the Commonwealth. 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 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.

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NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS

Benefits Provided (Continued)

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

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

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

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute 5.25% (Class T-C members) or 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 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.

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NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2018 was 31.74% 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 15.87% of covered payroll. The University's contribution to PSERS for the years ending June 30, 2018 and 2017, and 2016 was \$596,066, \$573,696, and \$486,254, respectively, equal to the required contractual contribution.

Actuarial Assumptions

The total PSERS pension liability as of the June 30, 2017 measurement date was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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, 2017 and 2016:

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NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>2017 Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	20.0 %	5.1 %
Fixed Income	36.0	2.6
Commodities	8.0	3.0
Absolute Return	10.0	3.4
Risk Parity	10.0	3.8
Infrastructure/MLPS	8.0	4.8
Real Estate	10.0	3.6
Alternative Investments	15.0	6.2
Cash	3.0	0.6
Financing (LIBOR)	(20.0)	1.1
Total	<u>100.0 %</u>	

<u>Asset Class</u>	<u>2016 Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	22.5 %	5.3 %
Fixed Income	28.5	2.1
Commodities	8.0	2.5
Absolute Return	10.0	3.3
Risk Parity	10.0	3.9
Infrastructure/MLPS	5.0	4.8
Real Estate	12.0	4.0
Alternative Investments	15.0	6.6
Cash	3.0	0.2
Financing (LIBOR)	(14.0)	0.5
Total	<u>100.0 %</u>	

The discount rate used to measure the total PSERS pension liability was 7.25% as of June 30, 2017 and 2016. 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.

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NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as of June 30, 2017 and 2016, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2017 and 2016) or one percentage point higher (8.25% in 2017 and 2016) than the current rate.

Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	\$ 8,886,641	\$ 7,219,508	\$ 5,812,042
2016	\$ 8,987,461	\$ 7,347,105	\$ 5,968,643

Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, the fiduciary net position of PSERS and additions to or deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported in the PSERS's financial statements. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found at www.psers.state.pa.us.

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

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:

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NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

	2018	2017
Total PSERS Net Pension Liability Associated with the University	\$ 14,439,016	\$ 14,694,210
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	7,219,508	7,347,105
University's Proportionate Share of the PSERS Net Pension Liability	\$ 7,219,508	\$ 7,347,105

PSERS measured the 2018 and 2017 net pension liabilities as of June 30, 2017, and June 30, 2016, respectively. 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, 2017, the State System's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2016.

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The University's contribution rate on June 30, 2018 and 2017 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017 were \$3,262,000 and \$3,282,000, respectively, from the University and \$1,773,780 and \$1,746,241, respectively, from active members. No liability is recognized for the ARP.

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NOTE 12 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 all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$174,749 to the Reserve Fund during the year ended June, 30 2018 and was given a refund of \$75,025 from the Reserve Fund during the year ended June 30, 2017, and contributed approximately \$56,000 to the Reserve Fund for the year ended June 30, 2016.

Changes in the University's claims liability were as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance - July 1	\$ 921,594	\$ 1,044,022	\$ 1,086,083
Current Year Claims and Changes in Estimate	676,784	83,179	447,803
Payments	<u>(651,761)</u>	<u>(205,607)</u>	<u>(489,864)</u>
Balance - June 30	<u>\$ 946,617</u>	<u>\$ 921,594</u>	<u>\$ 1,044,022</u>

NOTE 13 RELATED PARTY TRANSACTIONS

The University has a separately incorporated affiliated organization, the General Alumni Association. Since this affiliated organization operates under an independent governing board and management, the financial activities of this organization is not included in the accompanying financial statements. Based upon audited financial statements at June 30, 2018, the organization had net assets of \$1,466,596, revenues of \$297,150, and expenditures of \$221,089.

NOTE 14 CONTINGENCIES

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

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 14 CONTINGENCIES (CONTINUED)

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

The University receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlements to resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2018, the University estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2018 and 2017 were approximately \$2,341,322 and \$6,556,391, respectively.

Cheyney University Loan Forgiveness

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

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

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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NOTE 14 CONTINGENCIES (CONTINUED)

Cheyney University Loan Forgiveness (Continued)

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

NOTE 15 RATING ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc., as well as an A+ rating from Fitch Ratings, a downgrade from last year's AA-rating. In August 2018, both Moody's and Fitch revised their outlooks for the ratings from *negative* to *stable*.

NOTE 16 COMPONENT UNIT PRIOR PERIOD ADJUSTMENT-STUDENT SERVICES, INC.

During the year ended June 30, 2018, Student Services, Inc. identified revenue earned for rooming refunds, damage payments, summer camps, and conferences that were not remitted to the Corporation from Millersville University for the year ended June 30, 2017. As a result, accounts receivable, rental revenue, and change in net assets as reported on the previously issued financial statements were understated by \$772,385. The restatement increased unrestricted net assets as of June 30, 2017 by \$772,385.

NOTE 17 SUBSEQUENT EVENTS

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of \$102,345,000 and Series AV-2 taxable revenue bonds in the amount of \$134,600,000. The net proceeds from the Series AV-1 revenue bonds were used to finance a capital project at West Chester University and to current refund Series AG and a significant portion of Series AI revenue bonds. The refunding was performed to reduce debt service by approximately \$2,700,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,400,000. The net proceeds from the Series AV-2 revenue bonds were used to acquire student housing facility at Shippensburg University. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

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(SEE INDEPENDENT AUDITORS' REPORT)**

University's Proportionate Share of the System Plan OPEB Liability
Determined as of the June 30 measurement dates

Changes in the University's Proportionate Share of the System Plan Total OPEB Liability	<u>Fiscal Year Ending June 30, 2018</u>
Total OPEB Liability - Beginning Balance	\$ 109,689,232
Service Cost	1,997,487
Interest	1,619,822
Changes in Assumptions	(5,881,263)
Benefit Payments	(1,805,751)
Net Changes	<u>(4,069,705)</u>
Total OPEB Liability - Ending Balance	<u>\$ 105,619,527</u>
Covered Employee Payroll	\$ 42,843,020
OPEB Liability as a Percent of Covered Payroll	246.53 %

Note to Schedule: The System plan has no plan assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors

Schedule of Proportionate Share of REHP's Net OPEB Liability
Determined as of REHP's June 30 Measurement Dates
(in Thousands)

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	Share of Net Liability as a % of Covered- Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374 %	\$ 79,495	\$ 10,838	733.5 %	1.4 %

REHP Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Deficiency (Excess)	Covered- Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 1,946	\$ 1,946	\$ -	\$ 12,854	15.1 %

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(SEE INDEPENDENT AUDITORS' REPORT)**

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

Fiscal Year	State System's Proportion	PSERS Net OPEB Liability			University's Covered Employee Payroll	University's Proportionate Share of Net Liability as a % of Covered- Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
		University's Proportion Share	Proportion Share	Total			
2017/18	0.00181 %	\$ 296	\$ 296	\$ 592	\$ 3,873	7.65 %	5.73 %

PSERS Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 16	\$ 16	\$ -	3,946	0.40 %

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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Schedule of Proportionate Share of SERS Net Pension Liability (NPL)
Determined as of SERS December 31 Measurement Date
(in thousands)

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered- Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.901 %	\$ 59,723	\$ 24,359	245 %	64.8 %
2015/16	4.721 %	\$ 70,203	\$ 24,348	288 %	58.9 %
2016/17	4.837 %	\$ 76,256	\$ 24,622	310 %	57.8 %
2017/18	4.906 %	\$ 71,289	\$ 25,974	275 %	63.0 %

SERS Schedule of Contributions
(in thousands)
Determined as of the University's June 30 Fiscal Year End

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a % of Covered- Employee Payroll
2014/15	\$ 4,691	\$ 4,691	\$ -	\$ 24,359	19.3 %
2015/16	\$ 5,650	\$ 5,650	\$ -	\$ 23,863	23.7 %
2016/17	\$ 7,038	\$ 7,038	\$ -	\$ 25,132	28.0 %
2017/18	\$ 7,801	\$ 7,801	\$ -	\$ 24,840	31.4 %

**MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
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(SEE INDEPENDENT AUDITORS' REPORT)**

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)
Determined as of PSERS June 30 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 Fiduciary Net Position as a % of Total Pension Liability
	State System's Proportion	University's Proportionate Share	Commonwealth's Proportion Share	Total			
2014/15	0.1785 %	\$ 6,223	\$ 6,223	\$ 12,446	\$ 2,006	310 %	57.2 %
2015/16	0.1852 %	\$ 7,021	\$ 7,021	\$ 14,042	\$ 4,172	200 %	54.4 %
2016/17	0.1833 %	\$ 7,347	\$ 7,347	\$ 14,694	\$ 3,841	200 %	50.1 %
2017/18	0.1811 %	\$ 7,220	\$ 7,220	\$ 14,439	\$ 3,893	200 %	51.8 %

PSERS Schedule of Contributions
(in thousands)
Determined as of the University's June 30 Fiscal Year End

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 458	\$ 458	\$ -	\$ 4,172	11.0 %
2015/16	\$ 486	\$ 486	\$ -	\$ 3,929	12.4 %
2016/17	\$ 574	\$ 574	\$ -	\$ 4,015	14.3 %
2017/18	\$ 596	\$ 596	\$ -	\$ 3,946	15.1 %



Investment advisory services are offered through CliftonLarsonAllen
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