

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

Council of Trustees
East Stroudsburg University of Pennsylvania
of the State System of Higher Education

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 East Stroudsburg University of Pennsylvania of the State System of Higher Education ("University"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities and the aggregate discretely presented component units of the University as of June 30, 2014 and 2013, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014, which represents a change in accounting principle. As of July 1, 2012, the net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 14. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2014

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

ASSETS	2014	2013 (As Restated)
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 51,454,969	\$ 45,980,397
Short-Term Investments	23,089	23,077
Accounts Receivable:		
Governmental Grants and Contracts	727,184	768,097
Students, Net of Allowance for Doubtful Accounts of \$3,297,755 in 2014 and \$6,179,923 in 2013	2,872,541	3,214,993
Other	1,085,859	1,180,982
Inventories	224,635	224,087
Prepaid Expenses	514,494	264,698
Due from Component Units	5,380,688	5,260,586
Loans Receivable	443,860	445,687
Investment Income Receivable	53,387	53,975
Other Current Assets	89,049	79,762
Total Current Assets	62,869,755	57,496,341
NONCURRENT ASSETS		
Loans Receivable, Net of Allowance for Doubtful Accounts of \$0 in 2014 and \$574,053 in 2013	1,749,677	1,178,415
Capital Assets, Net	98,410,812	102,804,127
Other Assets	2,296,485	2,368,985
Total Noncurrent Assets	102,456,974	106,351,527
Total Assets	165,326,729	163,847,868
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	170,246	193,215
Total Assets and Deferred Outflows of Resources	\$ 165,496,975	\$ 164,041,083

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

LIABILITIES AND NET POSITION	2014	2013 (As Restated)
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 7,934,646	\$ 7,967,691
Unearned Revenue	2,909,208	3,174,029
Students' Deposits	773,648	644,164
Workers' Compensation	370,719	391,456
Compensated Absences	623,361	733,757
Postretirement Benefits	3,514,000	3,328,000
Bonds Payable	3,615,938	3,475,417
Due to System, AFRP	239,012	229,450
Due to Component Units	554,204	637,466
Other Current Liabilities	165,211	112,634
Total Current Liabilities	20,699,947	20,694,064
NONCURRENT LIABILITIES		
Unearned Revenue	-	10,490
Workers' Compensation	330,402	529,338
Compensated Absences	6,084,042	5,797,609
Postretirement Benefits	54,107,445	49,492,218
Bonds Payable, Net	47,701,356	51,004,586
Due to System, AFRP	1,855,168	2,096,304
Other Noncurrent Liabilities	3,609,000	2,855,614
Total Noncurrent Liabilities	113,687,413	111,786,159
Total Liabilities	134,387,360	132,480,223
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	18,154	19,440
NET POSITION		
Net Investment Capital Assets	49,428,432	50,324,538
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	10,000	10,000
Other	394,052	7,000
Expendable:		
Scholarships and fellowships	70,725	11,905
Research	1,226	1,226
Student Loans	23,158	23,157
Capital Projects	2,170,583	2,155,035
Other	34,976	1,135
Unrestricted Net Position	(21,041,691)	(20,992,576)
Total Net Position	31,091,461	31,541,420
Total Liabilities and Net Position	\$ 165,496,975	\$ 164,041,083

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG 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, 2014 AND 2013**

	2014	2013 (As Restated)
OPERATING REVENUES		
Tuition and Fees	\$ 70,611,769	\$ 69,182,553
Less: Scholarship Discounts and Allowances	13,244,529	12,003,420
Net Tuition and Fees	57,367,240	57,179,133
Governmental Grants and Contracts:		
Federal	1,482,012	1,607,383
State	5,422,699	4,754,550
Local	565	6,842
Nongovernment Grants and Contracts	108,672	95,143
Sales and Services of Educational Departments	1,844,698	1,862,893
Auxiliary Enterprises (Net of Scholarship Discounts and Allowances of \$163,742 in 2014 and \$192,595 in 2013)	20,354,814	20,283,524
Other Revenues	599,645	186,682
Total Operating Revenues	87,180,345	85,976,150
OPERATING EXPENSES		
Instruction	39,087,169	39,850,958
Research	277,744	445,206
Public Service	1,732,694	1,633,266
Academic Support	14,445,146	14,309,255
Student Services	9,424,553	8,974,692
Institutional Support	19,380,220	21,384,239
Operations and Maintenance of Plant	7,238,321	7,128,416
Depreciation	7,541,883	7,676,887
Student Aid	4,460,647	4,152,983
Auxiliary Enterprises	16,040,134	15,096,327
Total Operating Expenses	119,628,511	120,652,229
NET OPERATING LOSS	(32,448,166)	(34,676,079)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	21,160,935	20,806,735
Pell Grants	8,628,809	7,936,339
Investment Income, Net of Related Investment Expense of \$9,425 in 2014 and \$9,070 in 2013	473,015	517,503
Gifts for Other than Capital Purposes	2,869,061	1,200,513
Interest Expense on Capital Asset-Related Debt	(2,155,117)	(2,273,545)
Loss on Disposal of Assets	(478)	(2,053,414)
Other Nonoperating Revenue	163,420	134,425
Net Nonoperating Revenues	31,139,645	26,268,556
LOSS BEFORE OTHER REVENUES	(1,308,521)	(8,407,523)
OTHER REVENUES		
State Appropriations, Capital	829,113	745,556
Capital Gifts and Grants	29,449	94,561
Total Other Revenues	858,562	840,117
DECREASE IN NET POSITION	(449,959)	(7,567,406)
Net Position - Beginning of Year	31,541,420	39,472,075
Effect of Adoption of GASB 65	-	(363,249)
Net Position - Beginning of Year, As Restated	-	39,108,826
NET POSITION - END OF YEAR	\$ 31,091,461	\$ 31,541,420

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 57,541,513	\$ 60,958,862
Grants and Contracts	7,069,138	10,162,537
Payments to Suppliers for Goods and Services	(29,388,810)	(33,641,638)
Payments to Employees	(73,650,100)	(72,953,295)
Loans Issued to Students	(352,650)	(283,714)
Loans Collected from Students	357,269	442,087
Student Aid	(4,460,647)	(4,152,983)
Auxiliary Enterprise Charges	20,367,544	21,406,797
Sales and Services of Educational Departments	1,888,215	3,406,919
Other Receipts (Payments)	629,133	(3,695,584)
Net Cash Used by Operating Activities	(19,999,395)	(18,350,012)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	21,160,935	20,806,735
Gifts and Nonoperating Grants for Other Than Capital Purposes	11,497,870	9,136,852
PLUS, Stafford, and Other Loan Receipts (Non-Perkins)	40,841,156	42,029,640
PLUS, Stafford, and Other Loan Disbursements (Non-Perkins)	(40,841,156)	(42,029,640)
Agency Transactions, Net	2,174	9
Other	163,420	134,425
Net Cash Provided by Noncapital Financing Activities	32,824,399	30,078,021
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	490,100	-
Capital Appropriations	829,113	745,556
Capital Grants and Gifts Received	29,449	94,561
Proceeds from Sales of Capital Assets	4,708	-
Purchases of Capital Assets	(3,153,754)	(4,199,047)
Principal Paid on Capital and Other Debt	(3,547,054)	(9,428,246)
Interest Paid on Capital Debt	(2,476,585)	(2,670,173)
Net Cash Used by Capital Financing Activities	(7,824,023)	(15,457,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Endowment Investments	(12)	(10)
Interest on Investments	473,603	526,931
Net Cash Provided by Investing Activities	473,591	526,921
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,474,572	(3,202,419)
Cash and Cash Equivalents - Beginning of Year	45,980,397	49,182,816
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 51,454,969	\$ 45,980,397

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013 (As Restated)
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	\$ (32,448,166)	\$ (34,676,079)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	7,541,883	7,676,887
Changes in Assets and Liabilities:		
Accounts Receivables, Net	383,365	10,211,868
Inventories	(548)	685
Other Assets	(785,615)	(3,780,489)
Accounts Payable and Accrued Expenses	(33,045)	(2,544,778)
Unearned Revenue	(275,311)	62,480
Students' Deposits	129,484	(113,180)
Compensated Absences	176,037	(191,826)
Loans Receivable	4,618	158,373
Other Liabilities	5,307,903	4,846,047
Net Cash Used by Operating Activities	\$ (19,999,395)	\$ (18,350,012)

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 25,293,553	\$ 22,824,289
Accounts Receivable	88,571	253,212
Pledges Receivable	185,569	365,079
Due from University	564,270	636,931
Other Current Assets	178,262	185,364
Total Current Assets	26,310,225	24,264,875
NONCURRENT ASSETS		
Capital Assets, Net	81,068,543	83,768,805
Investments	20,675,797	20,142,767
Pledges Receivable	505,515	550,350
Other Assets	2,660,168	2,722,783
Total Noncurrent Assets	104,910,023	107,184,705
Total Assets	\$ 131,220,248	\$ 131,449,580
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 5,683,358	\$ 4,990,269
Annuity Liabilities	255,419	276,031
Due to University	5,401,522	5,193,011
Deposit Liabilities	2,949	3,887
Current Portion of Long-Term Debt	1,310,000	1,115,000
Other Liabilities	78,830	176,266
Total Current Liabilities	12,732,078	11,754,464
LONG-TERM DEBT	95,023,176	96,354,652
Total Liabilities	107,755,254	108,109,116
NET ASSETS		
Unrestricted	5,723,242	8,195,689
Temporarily Restricted	8,755,459	9,583,849
Permanently Restricted	8,986,293	5,560,926
Total Net Assets	23,464,994	23,340,464
Total Liabilities and Net Assets	\$ 131,220,248	\$ 131,449,580

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 319,697	\$ 684,642
Sales and Services	315,727	3,247,772
Student Fees	2,458,864	2,526,450
Grants and Contracts	29,994	41,824
Rental Income	11,059,022	11,162,858
Investment Income	922,503	501,898
Service Fee Income - University	1,266,667	1,900,000
Other Revenues and Gains	1,598,744	1,034,291
Net Assets Released from Restrictions	2,273,964	1,326,428
Total Revenues and Other Additions	20,245,182	22,426,163
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses:		
Scholarships and Grants	578,918	536,385
Student Activities and Programs	1,609,105	1,661,135
University Store	-	2,868,784
Housing	12,614,069	11,599,906
Other University Support	2,180,225	1,824,616
Other Programs	990,112	1,394,273
Management and General	3,137,427	3,311,647
Fundraising	391,466	481,035
Reclassification of Net Assets	1,216,307	-
Total Expenses and Other Deductions	22,717,629	23,677,781
Decrease in Unrestricted Net Assets	(2,472,447)	(1,251,618)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	826,623	804,719
Investment Income	1,879,939	1,048,479
Other Expenses and Losses	(293,064)	(371,024)
Net Assets Released from Restrictions	(2,273,964)	(1,326,428)
Reclassification of Net Assets	(967,924)	-
Increase in Temporarily Restricted Net Assets	(828,390)	155,746
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,241,136	285,301
Reclassification of Net Assets	2,184,231	-
Increase in Permanently Restricted Net Assets	3,425,367	285,301
INCREASE (DECREASE) IN NET ASSETS	124,530	(810,571)
Net Assets - Beginning of Year	23,340,464	24,151,035
NET ASSETS - END OF YEAR	\$ 23,464,994	\$ 23,340,464

See accompanying Notes to Financial Statements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

The University has determined that the East Stroudsburg University Student Activity Association, Inc. (Association), the East Stroudsburg University Foundation (Foundation), The Rose Mekeel Child Care Center ("Mekeel"), the East Stroudsburg University Center for Research and Economic Development, Inc. (CFRED) and University Properties, Inc. (UPI) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

The Association is a legally separate, tax-exempt entity, which is responsible for the operations of the Student Activity Association, whose primary function is acting as a liaison between students, faculty and alumni, the University Store and Stony Acres, Inc., a recreation site and field campus for faculty and students. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of and for the years ended May 31, 2014 and 2013.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fundraising 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, which the Foundation holds and invests, is restricted to activities of the University by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Foundation is presented as of and for the years ended June 30, 2014 and 2013.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Reporting Entity (Continued)

Mekeel is a legally separate, tax-exempt entity, which operates a childcare center for the children of students, faculty and staff enrolled and/or employed at the University. It also assists various departments of the University with educational programs. Although the University does not control the resources of Mekeel, the activities of Mekeel are solely for the benefit of the University and its students. Mekeel is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of Mekeel is presented as of and for the years ended May 31, 2014 and 2013.

CFRED is a legally separate, tax-exempt entity, whose primary function is acting as the principal economic development and research extension of the University, through research and workforce training. CFRED and the University have entered into a memorandum of understanding, which recognizes CFRED as an affiliated organization of the University. CFRED is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of CFRED is presented as of and for the years ended June 30, 2014 and 2013.

UPI is a legally separate, tax-exempt entity, whose primary function is the operation and maintenance of certain housing for University students. Although the University does not control the resources of UPI, the activities of UPI are solely for the benefit of the University and its students. UPI is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of UPI is presented as of and for the years ended June 30, 2014 and 2013.

At June 30, 2014 and 2013, the University owed amounts to and was due amounts from its component units. Such balances are incurred as a normal part of doing business and are expected to be liquidated within the next fiscal year.

Complete financial statements for the component units may be obtained at the University's administrative office.

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

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

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

Operating Revenues and Expenses

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

Scholarship Discounts and Allowances

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

Net Position (previously Net Assets)

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

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

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Net Position (previously Net Assets) (Continued)

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, money market funds and overnight repurchase agreements to be cash equivalents. Investments purchased are stated at fair value. Investment received as gifts are recorded at their fair value or appraised value as of the date of the gift. The University classifies investment as short-term when they are readily marketable and intended to be converted cash within one year.

Accounts and Loans Receivable

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

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

Inventories

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

Capital Assets

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Capital Assets (Continued)

All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. Equipment and furnishings are stated at cost less accumulated depreciation. All library books are capitalized and depreciated. Assets purchased under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. 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 the impairment is identified. No write down of capital assets was required for the years ended June 30, 2014 or 2013.

Deferred Outflows of Resources And Deferred Inflows of Resources

In addition to assets and liabilities, the statements of net position report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

Unamortized gains and losses on refunding of bonds results from a difference in the carrying value of refunded debt to its reacquisition price. The amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

Unearned Revenue (previously Deferred Revenue)

Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period. The University previously referred to "unearned revenue" as "deferred revenue," but changed the terminology in accordance with new GASB requirements.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

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

Compensated Absences

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

Pension Plans

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

Scholarships and Waivers

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

Income Taxes

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

Use of Estimates

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

New Accounting Standards

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The University was required to adopt Statement No. 65 for the fiscal year ending June 30, 2014. The University determined that the changes increase the complexity of the financial statements to its readers, as the new presentation differs from the traditional and familiar business reporting model. The University has determined that the adoption of Statement No. 65 requires the bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now will be expensed in the period incurred. The fiscal year 2012/13 bond issuance costs expense of \$44,616 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2013 *Decrease in Net Position*. The June 30, 2012, balance of the deferred bond issuances costs of \$363,249 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the 2013 *Net position—beginning of year* (See note 14).

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

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

New Accounting Standards (Continued)

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 will require the University to report its share of the pension liabilities that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record beginning in fiscal year 2014/15. Although the University has not received an estimate of its share of the pension liabilities from either organization, the liabilities are expected to be significant and have a detrimental effect on its financial statements.

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

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

The following represents combining condensed statement of financial position information for the component units as of June 30, 2014:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	\$ 28,257	\$ 682,023	\$ 80,358,263	\$ -	\$ -	\$ 81,068,543
Investments	16,812,627	3,745,525	-	-	117,645	20,675,797
Due from University	-	28,328	535,942	-	-	564,270
Other Assets	1,060,337	8,171,561	19,179,719	413,301	86,720	28,911,638
Total Assets	\$ 17,901,221	\$ 12,627,437	\$ 100,073,924	\$ 413,301	\$ 204,365	\$ 131,220,248
Due to University	\$ 1,279,756	\$ -	\$ 4,120,167	\$ 1,599	\$ -	\$ 5,401,522
Long-Term Debt	-	-	96,333,176	-	-	96,333,176
Other Liabilities	277,458	578,149	5,144,422	5,312	15,215	6,020,556
Total Liabilities	1,557,214	578,149	105,597,765	6,911	15,215	107,755,254
Net Assets:						
Unrestricted	(1,311,745)	11,963,288	(5,523,841)	406,390	189,150	5,723,242
Temporarily Restricted	8,755,459	-	-	-	-	8,755,459
Permanently Restricted	8,900,293	86,000	-	-	-	8,986,293
Total Net Assets	16,344,007	12,049,288	(5,523,841)	406,390	189,150	23,464,994
Total Liabilities and Net Assets	\$ 17,901,221	\$ 12,627,437	\$ 100,073,924	\$ 413,301	\$ 204,365	\$ 131,220,248

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	\$ 45,986	\$ 801,745	\$ 82,921,074	\$ -	\$ -	\$ 83,768,805
Investments	15,086,392	4,938,885	-	-	117,490	20,142,767
Due from University	-	127,605	509,326	-	-	636,931
Other Assets	1,880,485	6,080,473	18,365,507	513,710	60,902	26,901,077
Total Assets	\$ 17,012,863	\$ 11,948,708	\$ 101,795,907	\$ 513,710	\$ 178,392	\$ 131,449,580
Due to University	\$ 1,705,029	\$ -	\$ 3,487,978	\$ 4	\$ -	\$ 5,193,011
Long-Term Debt	-	-	97,469,652	-	-	97,469,652
Other Liabilities	422,473	656,450	4,347,589	3,903	16,038	5,446,453
Total Liabilities	2,127,502	656,450	105,305,219	3,907	16,038	108,109,116
Net Assets:						
Unrestricted	(154,810)	11,206,258	(3,509,312)	491,199	162,354	8,195,689
Temporarily Restricted	9,565,245	-	-	18,604	-	9,583,849
Permanently Restricted	5,474,926	86,000	-	-	-	5,560,926
Total Net Assets	14,885,361	11,292,258	(3,509,312)	509,803	162,354	23,340,464
Total Liabilities and Net Assets	\$ 17,012,863	\$ 11,948,708	\$ 101,795,907	\$ 513,710	\$ 178,392	\$ 131,449,580

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2014:

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Unrestricted Net Assets						
Revenues and Other Additions:						
Contributions	\$ 276,697	\$ -	\$ -	\$ 43,000	\$ -	\$ 319,697
Sales and Services	-	-	-	-	315,727	315,727
Student Fees	-	2,458,864	-	-	-	2,458,864
Grants and Contracts	-	-	-	1,599	28,395	29,994
Rental Income	-	-	11,059,022	-	-	11,059,022
Investment Income	492,000	339,756	89,816	776	155	922,503
Service Fees Income	1,266,667	-	-	-	-	1,266,667
Other Revenues and Gains	293,064	1,227,205	78,350	125	-	1,598,744
Net Assets Released from Restrictions	2,255,360	-	-	18,604	-	2,273,964
Total Revenues and Other Additions	4,583,788	4,025,825	11,227,188	64,104	344,277	20,245,182
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	578,918	-	-	-	-	578,918
Student Activities and Programs	-	1,609,105	-	-	-	1,609,105
Housing	-	-	12,614,069	-	-	12,614,069
Other University Support	1,730,225	-	450,000	-	-	2,180,225
Other Programs	609,676	-	-	99,029	281,407	990,112
Management and General	1,215,504	1,659,690	177,648	49,884	34,701	3,137,427
Fundraising	390,093	-	-	-	1,373	391,466
Reclassification of Net Assets	1,216,307	-	-	-	-	1,216,307
Total Expenses and Other Deductions	5,740,723	3,268,795	13,241,717	148,913	317,481	22,717,629
Change in Unrestricted Net Assets	(1,156,935)	757,030	(2,014,529)	(84,809)	26,796	(2,472,447)
Changes in Temporarily Restricted Net Assets						
Contributions	826,623	-	-	-	-	826,623
Investment Income	1,879,939	-	-	-	-	1,879,939
Other Expenses and Losses	(293,064)	-	-	-	-	(293,064)
Net Assets Released from Restrictions	(2,255,360)	-	-	(18,604)	-	(2,273,964)
Reclassification of Net Assets	(967,924)	-	-	-	-	(967,924)
Change in Temporarily Restricted Net Assets	(809,786)	-	-	(18,604)	-	(828,390)
Changes in Permanently Restricted Net Assets						
Contributions	1,241,136	-	-	-	-	1,241,136
Reclassification of Net Assets	2,184,231	-	-	-	-	2,184,231
Change in Permanently Restricted Net Assets	3,425,367	-	-	-	-	3,425,367
CHANGE IN NET ASSETS	1,458,646	757,030	(2,014,529)	(103,413)	26,796	124,530
Net Assets - Beginning of Year	14,885,361	11,292,258	(3,509,312)	509,803	162,354	23,340,464
NET ASSETS - END OF YEAR	<u>\$ 16,344,007</u>	<u>\$ 12,049,288</u>	<u>\$ (5,523,841)</u>	<u>\$ 406,390</u>	<u>\$ 189,150</u>	<u>\$ 23,464,994</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Unrestricted Net Assets						
Revenues and Other Additions:						
Contributions	\$ 426,877	\$ 209,072	\$ -	\$ 48,693	\$ -	\$ 684,642
Sales and Services	-	3,013,238	-	-	234,534	3,247,772
Student Fees	-	2,526,450	-	-	-	2,526,450
Grants and Contracts	-	-	-	13,429	28,395	41,824
Rental Income	-	-	10,811,958	350,900	-	11,162,858
Investment Income (Loss)	(10,259)	512,434	89,334	(90,279)	668	501,898
Service Fees Income	1,900,000	-	-	-	-	1,900,000
Other Revenues and Gains	386,587	502,116	144,912	676	-	1,034,291
Net Assets Released from Restrictions	1,320,245	-	-	6,183	-	1,326,428
Total Revenues and Other Additions	4,023,450	6,763,310	11,046,204	329,602	263,597	22,426,163
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	536,385	-	-	-	-	536,385
Student Activities and Programs	-	1,661,135	-	-	-	1,661,135
University Store	-	2,868,784	-	-	-	2,868,784
Housing	-	-	11,599,906	-	-	11,599,906
Other University Support	1,498,102	-	326,514	-	-	1,824,616
Other Programs	656,193	-	-	497,730	240,350	1,394,273
Management and General	1,361,140	1,687,071	172,476	59,036	31,924	3,311,647
Fundraising	479,885	-	-	-	1,150	481,035
Total Expenses and Other Deductions	4,531,705	6,216,990	12,098,896	556,766	273,424	23,677,781
Change in Unrestricted Net Assets	(508,255)	546,320	(1,052,692)	(227,164)	(9,827)	(1,251,618)
Changes in Temporarily Restricted Net Assets						
Contributions	804,719	-	-	-	-	804,719
Investment Income	1,048,479	-	-	-	-	1,048,479
Other Expenses and Losses	(371,024)	-	-	-	-	(371,024)
Net Assets Released from Restrictions	(1,320,245)	-	-	(6,183)	-	(1,326,428)
Change in Temporarily Restricted Net Assets	161,929	-	-	(6,183)	-	155,746
Changes in Permanently Restricted Net Assets						
Contributions	285,301	-	-	-	-	285,301
CHANGE IN NET ASSETS	(61,025)	546,320	(1,052,692)	(233,347)	(9,827)	(810,571)
Net Assets - Beginning of Year	14,946,386	10,745,938	(2,456,620)	743,150	172,181	24,151,035
NET ASSETS - END OF YEAR	<u>\$ 14,885,361</u>	<u>\$ 11,292,258</u>	<u>\$ (3,509,312)</u>	<u>\$ 509,803</u>	<u>\$ 162,354</u>	<u>\$ 23,340,464</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 \$48,435,503 and \$43,313,749 at June 30, 2014 and 2013, respectively.

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

At June 30, 2014 and 2013, the carrying amount of the University's demand and time deposits were \$3,019,466 and \$2,666,648, respectively, as compared to bank balances of \$2,865,851 and \$2,568,979, respectively. The differences are primarily caused by items in-transit and outstanding checks. All bank balances were covered by federal government depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2014 and 2013, none of the University's demand and time deposits is exposed to foreign currency risk.

Short-term investments at June 30, 2014 and 2013 consist of certificates of deposit carried at cost, which approximates fair value.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 CAPITAL ASSETS

Capital assets and the changes therein are summarized as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2013	Additions	Retirements	Reclassifications	Ending Balance June 30, 2014
Capital Assets Not Being Depreciated:						
Depreciated:						
Land		\$ 6,259,241	\$ -	\$ -	\$ -	\$ 6,259,241
Construction in Progress		1,467,580	427,455	(5,187)	(686,193)	1,203,655
Total Capital Assets Not being Depreciated		7,726,821	427,455	(5,187)	(686,193)	7,462,896
Capital Assets Being Depreciated:						
Buildings, including Improvements	10-40	116,637,038	1,429,740	-	151,489	118,218,267
Improvements Other than Buildings	20	22,634,447	386,519	-	534,704	23,555,670
Furnishings and Equipment	Varies	22,800,188	856,470	-	-	23,656,658
Library Books	10	6,110,939	53,570	(2,078)	-	6,162,431
Total Capital Assets Being Depreciated		168,182,612	2,726,299	(2,078)	686,193	171,593,026
Less Accumulated Depreciation:						
Buildings, including Improvements		(52,507,517)	(5,752,682)	-	-	(58,260,199)
Furnishings and Equipment		(15,059,288)	(1,678,661)	-	-	(16,737,949)
Library Books		(5,538,501)	(110,540)	2,079	-	(5,646,962)
Total Accumulated Depreciation		(73,105,306)	(7,541,883)	2,079	-	(80,645,110)
Total Capital Assets Being Depreciated, Net		95,077,306	(4,815,584)	1	686,193	90,947,916
Capital Assets, Net		\$ 102,804,127	\$ (4,388,129)	\$ (5,186)	\$ -	\$ 98,410,812

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Estimated Lives (in Years)	Beginning Balance July 1, 2012	Additions	Retirements	Reclassifications	Ending Balance June 30, 2013
Capital Assets Not Being Depreciated:						
Land		\$ 6,259,241	\$ -	\$ -	\$ -	\$ 6,259,241
Construction in Progress		2,126,246	401,696	(50,750)	(1,009,612)	1,467,580
Total Capital Assets Not being Depreciated		8,385,487	401,696	(50,750)	(1,009,612)	7,726,821
Capital Assets Being Depreciated:						
Buildings, including Improvements	10-40	120,414,116	9,178,898	(13,630,099)	674,123	116,637,038
Improvements Other than Buildings	20	21,933,287	370,852	-	330,308	22,634,447
Furnishings and Equipment	Varies	21,645,631	1,178,223	(28,847)	5,181	22,800,188
Library Books	10	6,017,731	95,740	(2,532)	-	6,110,939
Total Capital Assets Being Depreciated		170,010,765	10,823,713	(13,661,478)	1,009,612	168,182,612
Less Accumulated Depreciation:						
Buildings, including Improvements		(51,311,112)	(5,797,732)	4,601,327	-	(52,507,517)
Furnishings and Equipment		(13,318,627)	(1,769,507)	28,846	-	(15,059,288)
Library Books		(5,431,132)	(109,648)	2,279	-	(5,538,501)
Total Accumulated Depreciation		(70,060,871)	(7,676,887)	4,632,452	-	(73,105,306)
Total Capital Assets Being Depreciated, Net		99,949,894	3,146,826	(9,029,026)	1,009,612	95,077,306
Capital Assets, Net		\$ 108,335,381	\$ 3,548,522	\$ (9,079,776)	\$ -	\$ 102,804,127

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2014	2013
Employees	\$ 5,639,275	\$ 5,440,005
Suppliers and Services	1,355,974	1,478,362
Other	939,397	1,049,324
Total	\$ 7,934,646	\$ 7,967,691

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

NOTE 6 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority ("PHEFA"). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2014 and 2013 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2013	Bonds Issued	Bonds Redeemed	Balance June 30, 2014
Series AA	4.65%	\$ 196,639	\$ -	\$ (196,639)	\$ -
Series AC	4.88%	335,813	-	(21,105)	314,708
Series AE	4.97%	5,933,760	-	(332,146)	5,601,614
Series AF	5.00%	14,309,769	-	(993,813)	13,315,956
Series AH	4.69%	10,855,109	-	(432,176)	10,422,933
Series AI	4.15%	2,454,999	-	(189,316)	2,265,683
Series AJ	4.89%	3,291,459	-	(119,388)	3,172,071
Series AK	3.88%	101,473	-	(13,091)	88,382
Series AL	5.00%	4,027,402	-	(385,801)	3,641,601
Series AM	4.67%	8,022,556	301,336	(401,442)	7,922,450
Series AN	5.00%	2,576,156	-	(230,562)	2,345,594
Series AP	4.20%	-	167,712	-	167,712
Total Bonds Payable		<u>\$ 52,105,135</u>	<u>\$ 469,048</u>	<u>\$ (3,315,479)</u>	<u>49,258,704</u>
Plus: Unamortized Bond Premium					<u>2,058,590</u>
Outstanding at End of Year					<u>\$ 51,317,294</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 BONDS PAYABLE (CONTINUED)

	Weighted Average Interest Rate	Balance July 1, 2012	Bonds Issued	Bonds Redeemed	Balance June 30, 2013
Series AA	4.65%	\$ 210,160	\$ -	\$ (13,521)	\$ 196,639
Series AC	4.89%	355,927	-	(20,114)	335,813
Series AE	4.98%	6,249,834	-	(316,074)	5,933,760
Series AF	5.00%	15,263,395	-	(953,626)	14,309,769
Series AG	4.75%	210,130	-	(210,130)	-
Series AH	4.70%	11,268,658	-	(413,549)	10,855,109
Series AI	4.10%	2,638,028	-	(183,029)	2,454,999
Series AJ	4.89%	3,402,304	-	(110,845)	3,291,459
Series AK	3.79%	114,142	-	(12,669)	101,473
Series AL	5.00%	4,393,298	-	(365,896)	4,027,402
Series AM	4.68%	8,400,104	-	(377,548)	8,022,556
Series AN	4.90%	2,799,250	-	(223,094)	2,576,156
Total Bonds Payable		<u>\$ 55,305,230</u>	<u>\$ -</u>	<u>\$ (3,200,095)</u>	<u>52,105,135</u>
Plus: Unamortized Bond Premium					<u>2,374,868</u>
Outstanding at End of Year					<u>\$ 54,480,003</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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JUNE 30, 2014 AND 2013**

NOTE 6 BONDS PAYABLE (CONTINUED)

Principal and interest maturities for each of the next five years as of June 30, 2014 and in subsequent five-year periods ending June 30 are as follows:

Series		2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	2035	Total
AC	Principal	\$ 22,155	\$ 23,262	\$ 24,428	\$ 25,652	\$ 26,935	\$ 156,363	\$ 35,913	\$ -	\$ -	\$ 314,708
	Interest	15,296	14,188	13,025	11,804	10,521	30,999	1,571	-	-	97,404
	Total	37,451	37,450	37,453	37,456	37,456	187,362	37,484	-	-	412,112
AE	Principal	349,557	368,307	387,727	407,816	427,906	2,483,728	1,176,573	-	-	5,601,614
	Interest	282,845	264,493	245,157	224,801	204,410	678,823	88,963	-	-	1,989,492
	Total	632,402	632,800	632,884	632,617	632,316	3,162,551	1,265,536	-	-	7,591,106
AF	Principal	1,044,469	1,096,796	1,150,798	1,209,405	1,270,944	5,442,824	2,100,720	-	-	13,315,956
	Interest	665,790	613,567	558,727	501,187	440,717	1,231,781	213,488	-	-	4,225,257
	Total	1,710,259	1,710,363	1,709,525	1,710,592	1,711,661	6,674,605	2,314,208	-	-	17,541,213
AH	Principal	455,803	478,228	501,300	527,524	551,895	3,151,803	3,383,880	1,372,500	-	10,422,933
	Interest	489,593	466,803	442,892	417,827	391,450	1,571,014	777,372	173,900	-	4,730,851
	Total	945,396	945,031	944,192	945,351	943,345	4,722,817	4,161,252	1,546,400	-	15,153,784
AI	Principal	195,604	202,432	211,067	219,703	228,338	1,122,989	85,550	-	-	2,265,683
	Interest	94,106	86,771	78,674	70,231	61,443	159,805	3,850	-	-	554,880
	Total	289,710	289,203	289,741	289,934	289,781	1,282,794	89,400	-	-	2,820,563
AJ	Principal	123,127	132,063	135,999	145,328	149,854	870,430	1,105,270	510,000	-	3,172,071
	Interest	153,716	147,560	140,957	134,157	126,891	513,873	284,977	79,000	-	1,581,131
	Total	276,843	279,623	276,956	279,485	276,745	1,384,303	1,390,247	589,000	-	4,753,202
AK	Principal	13,438	13,836	14,408	14,929	15,600	16,171	-	-	-	88,382
	Interest	3,401	2,998	2,444	1,868	1,271	647	-	-	-	12,629
	Total	16,839	16,834	16,852	16,797	16,871	16,818	-	-	-	101,011
AL	Principal	405,704	425,610	452,108	470,420	495,102	1,117,657	110,000	135,000	30,000	3,641,601
	Interest	182,080	161,795	140,514	117,909	94,388	160,316	58,500	28,500	1,500	945,502
	Total	587,784	587,405	592,622	588,329	589,490	1,277,973	168,500	163,500	31,500	4,587,103
AM	Principal	420,115	439,383	464,840	485,891	349,565	2,027,833	2,548,613	1,186,210	-	7,922,450
	Interest	371,081	350,076	328,107	304,865	285,429	1,145,897	625,412	83,604	-	3,494,471
	Total	791,196	789,459	792,947	790,756	634,994	3,173,730	3,174,025	1,269,814	-	11,416,921
AN	Principal	242,046	252,356	264,169	272,894	284,952	1,029,177	-	-	-	2,345,594
	Interest	106,941	94,762	81,897	68,167	53,816	66,050	-	-	-	471,633
	Total	348,987	347,118	346,066	341,061	338,768	1,095,227	-	-	-	2,817,227
AP	Principal	13,976	14,951	15,211	15,731	16,186	91,657	-	-	-	167,712
	Interest	7,069	6,114	5,815	5,359	4,887	13,630	-	-	-	42,874
	Total	21,045	21,065	21,026	21,090	21,073	105,287	-	-	-	210,586
Total	Principal	3,285,994	3,447,224	3,622,055	3,795,293	3,817,277	17,510,632	10,546,519	3,203,710	30,000	49,258,704
	Interest	2,371,918	2,209,127	2,038,209	1,858,175	1,675,223	5,572,835	2,054,133	365,004	1,500	18,146,124
	Total	\$ 5,657,912	\$ 5,656,351	\$ 5,660,264	\$ 5,653,468	\$ 5,492,500	\$ 23,083,467	\$ 12,600,652	\$ 3,568,714	\$ 31,500	\$ 67,404,828

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

NOTE 6 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. The State System will issue bonds to provide a pool for funding for AFRP (\$33,625,385 and \$37,540,089 was outstanding at June 30, 2014 and 2013, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 2,325,754	\$ 2,546,472
Repayments	(231,574)	(220,718)
Balance at June 30	<u>\$ 2,094,180</u>	<u>\$ 2,325,754</u>

NOTE 7 LEASES

The University has entered into noncancelable lease agreements which have been reported as operating leases in the accompanying financial statements. Future minimum payments at June 30, 2014 for leases with initial or remaining terms of one year or more are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 654,232
2016	665,360
2017	694,104
2018	584,135
2019	529,255
Thereafter	36,010,072
Total	<u>\$ 39,137,158</u>

Total rent expense for operating leases in 2014 and 2013 was \$1,781,986 and \$1,271,716, respectively.

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Student Tuition and Fees	\$ 2,405,728	\$ 2,690,661
Grants	247,504	233,227
Sales and Services and Other	255,976	260,631
Total	<u>\$ 2,909,208</u>	<u>\$ 3,184,519</u>

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTE 9 COMPENSATED ABSENCES

Changes in the compensated absences liability were as follows:

	2014	2013
Balance at July 1	\$ 6,531,366	\$ 6,723,192
Current Changes in Estimate	548,226	734,979
Payouts	(372,189)	(926,805)
Balance at June 30	\$ 6,707,403	\$ 6,531,366

NOTE 10 POSTRETIREMENT BENEFITS

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefit plans, referred to here as the *System Plan* and the *Retired Employees Health Program*. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare Supplement for individuals over age 65.

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Pennsylvania Nurses Association (PNA), and unrepresented employees participate in a single-employer defined benefits healthcare plan administered by the State System (System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the 14 the State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no assets and no financial report is prepared.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis, i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. The State System paid premiums of \$44,201,000 and \$42,975,000 for the fiscal years ended June 30, 2014 and 2013, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the date of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2014:

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire on or after July 1, 2008, pay 15% of the plan premium in effect on their retirement date. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were \$3,969,000 and \$3,607,000, or approximately 8.2% and 7.7% of the total premiums, for the fiscal years ended June 30, 2014 and 2013, respectively.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over thirty years.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Annual Required Contribution	\$ 7,577,000	\$ 7,119,000
Interest on Net OPEB Obligation	2,060,000	1,867,000
Adjustment to Annual Required Contribution	<u>(2,599,000)</u>	<u>(2,267,000)</u>
Annual OPEB Cost	7,038,000	6,719,000
Contributions Made	<u>(2,236,773)</u>	<u>(2,278,049)</u>
Increase in Net OPEB Obligation	4,801,227	4,440,951
Net OPEB Obligation, Beginning of Year	<u>52,820,218</u>	<u>48,379,267</u>
Net OPEB Obligation, End of Year	<u><u>\$ 57,621,445</u></u>	<u><u>\$ 52,820,218</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2014 and the two preceding years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 7,038,000	31.8 %	\$ 57,621,445
2013	\$ 6,719,000	33.9 %	\$ 52,820,218
2012	\$ 7,034,000	33.0 %	\$ 48,379,267

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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JUNE 30, 2014 AND 2013**

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 87,331,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 87,331,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	\$ 35,061,200
UAAL as a Percentage of Covered Payroll	249.1%

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

Actuarial Methods and Assumptions

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

In the July 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio, and an annual healthcare cost trend rate of 7.8% for pre-Medicare and 6.8% for post-Medicare, initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2013, was 22 years.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program

Plan Description

Employee members of the American Federation of State, County and Municipal Employees (AFSCME); Pennsylvania Doctors Alliance (PDA); and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with health care benefits. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2013/14, the State System contributed \$305 for each current active employee per biweekly pay period. The State System made contributions of \$28,584,000, \$25,638,000, and \$23,228,000 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
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NOTE 11 PENSION BENEFITS (CONTINUED)

Public School Employees' Retirement System

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multiple-employer defined benefit plan. PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. Section 8101-8535) is the authority by which benefit provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (University), and the Commonwealth of Pennsylvania. Active members contribute at a rate of between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 8.465% and 6.18% of annual covered payroll at June 30, 2014 and 2013, respectively. The University's contributions to PSERS for the years ended June 30, 2014, 2013 and 2012 were \$204,171, \$148,956 and \$95,195, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125.

State Employees' Retirement System

SERS provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Active members contribute at a rate between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. The University contributed at an actuarially determined rates of between 10.46% and 15.12% of an active member's annual covered payroll at June 30, 2014. The University's contribution to SERS for the years ended June 30, 2014, 2013 and 2012 were \$1,974,349, \$1,401,312 and \$973,530, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, P.O. Box 1147, Harrisburg, Pennsylvania 17108.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 11 PENSION BENEFITS (CONTINUED)

Alternative Retirement Plan

Because the ARP is a defined contribution plan, benefits equal amounts contributed to the plan plus investment earnings. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University's contribution rate for 2014 and 2013 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2014 and 2013 were \$3,001,369 and \$2,974,952, respectively, from the University and \$1,503,947 and \$1,576,487, respectively, from active members.

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 less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$145,502 and \$151,161 to the Reserve Fund for the years ended June 30, 2014 and 2013, respectively.

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

	2014	2013
Balance at July 1	\$ 920,794	\$ 854,582
Current Year Claims and Changes in Estimates	183,638	382,803
Payments	(403,311)	(316,591)
Balance at June 30	<u>\$ 701,121</u>	<u>\$ 920,794</u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction projects unexpended were approximately \$1,803,736 and \$2,069,000 as of June 30, 2014 and 2013, respectively.

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

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 13 COMMITMENTS AND 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. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

NOTE 14 CHANGE IN ACCOUNTING PRINCIPLE

The University has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that previously were reported as assets and liabilities; and (b) recognize, as outflows of resources or inflows of resources, certain items that previously were reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now are expensed in the period incurred. The fiscal year 2012/13 bond issuance costs expense of \$44,616 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2013 Decrease in Net Position*. The June 30, 2012, balance of the deferred bond issuances costs of \$363,249 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the *2013 Net position—beginning of year*.

	2013
Net Position, Beginning of Year, as Previously Reported	\$ 39,472,075
Cumulative Effect of Adoption of New Accounting Standard, GASB 65	(363,249)
Net Position, Beginning of Year, as Restated	\$ 39,108,826
Decrease in Net Position, as Previously Reported	\$ (7,612,022)
FY 2012/13 Bond Issuance Costs	44,616
Decrease in Net Position, as Restated	\$ (7,567,406)

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 15 RECLASSIFICATION

During the year ended June 30, 2014 the Foundation identified certain net assets which had been historically recorded under an incorrect net asset classification based on the original donor's intent. Therefore, the Foundation reclassified \$1,216,307 of unrestricted net assets and \$967,924 of temporarily restricted net assets to permanently restricted net assets on June 30, 2014.

**EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2014 AND 2013
(UNAUDITED)**

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ -	\$ 85,726	\$ 85,726	0%	\$ 35,245	243.2%
July 1, 2012	\$ -	\$ 84,182	\$ 84,182	0%	\$ 34,040	247.3%
July 1, 2013	\$ -	\$ 87,331	\$ 87,331	0%	\$ 35,061	249.1%

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 70,740	\$ 12,907,790	\$ 12,837,050	0.55%	\$ 3,839,000	334%
July 1, 2012	\$ 71,630	\$ 12,843,700	\$ 12,772,070	0.56%	\$ 4,130,000	309%
July 1, 2013	\$ 82,060	\$ 13,234,040	\$ 13,151,980	0.62%	\$ 4,264,000	308%

The information above relates to the Commonwealth's REHP as a whole; i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.