THE STATE UNIVERSITY OF **NEW YORK**

2018 ANNUAL FINANCIAL REPORT

SUNY The State University of **New York**

Table of Contents

Board of Trustees and Chancellor's Executive Leadership Team 2

A Message from the Chairman and the Chancellor 3

Independent Auditors' Report 4

Management's Discussion and Analysis (Unaudited) 8

Financial Statements:

- Balance Sheets 16
- Statements of Revenues, Expenses, and Changes in Net Position 17
- Statements of Cash Flows 18
- Component Units Balance Sheet 20
- Component Units Statement of Activities 21
- Notes to Financial Statements 22

Required Supplementary Information (Unaudited) 58

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 65

Chancellor

Kristina M. Johnson

Board of Trustees

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A Message from the Chairman and the Chancellor

We are pleased to present the Annual Financial Report of the State University of New York. The report provides an overview of the State University's finances and operating results for the year ending June 30, 2018.

The State University inaugurated a new Chancellor committed to carrying out the mission "To Learn, To Search, To Serve"; delivering on the promise to create opportunities and define excellence while encouraging its students, faculty and staff to make a positive impact on their communities and the world. The goals of the University are to spur innovation and promote entrepreneurship, enhancing student outcomes and research output, using a vast network of partnerships with industry, government, and academia.

Innovation, excellence, and impact are fundamental to the State University. For the academic year 2017/18, the State University graduated 94,466 students, and 1.8 million alumni currently participate in the State workforce. The faculty and students produced $1.3 billion in sponsored research and grants, a 7 percent increase over the prior year, which generated new patents and licenses, new company startups, and new products. While we are proud of these vital contributions, the State University will remain a higher education leader through investing, becoming a University for the 21st Century. We will invest in maintaining our affordability and accessibility, in growing and diversifying our distinguished faculty, and in enhancing and enabling our world-class academic offerings and research programs.

Affordability and accessibility was enhanced with the introduction of Governor Andrew Cuomo's Excelsior Scholarship program. The State University will partner with the State to expand upon the promise with comprehensive services to our students and outreach to all potential learners.

The State University promotes diversity and inclusion as a way to ensure that our students, faculty and staff reflect the communities and world in which we live and work. With nearly 40 percent of faculty nearing retirement age, we have an opportunity and a responsibility to hire faculty that are as diverse as the students they are teaching. Having a diverse faculty gives our students the role models they need as they advance in their studies and enter the workforce.

The State University will further underpin its sustainability through its commitment to a comprehensive energy-saving initiative. The State University plays a critical role in Governor Andrew Cuomo's efforts to promote a clean energy future that is increasingly reliant on renewable energy and less dependent on fossil fuels. Across our 64 campuses, the State University is working to reduce its carbon footprint and lower its greenhouse gas emissions, while also training tomorrow's clean energy workforce.

The State University stands ready and is eager to aid New York to become a leader in a new economy, continually seeking efficiencies wherever we can, being vigilant stewards of public dollars, while meeting its statutory mission "To Learn, To Search, To Serve" through access, quality, and enhancing the well-being of the people of New York State.

Sincerely,

H. Carl McCall
Chairman

Kristina M. Johnson, Ph.D.
Chancellor

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Trustees
State University of New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the State University of New York (the University), as of and for the years ended June 30, 2018 and 2017, and the financial statements of the aggregate discretely presented component units of the University as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 certain discretely presented component units, which represent 63% of the total assets and 77% of the total revenues of the aggregate discretely presented component units. The financial statements of those entities were audited by other auditors whose reports have been furnished to us and our opinions, insofar as they relate to the amounts included for those certain discretely presented component units, are 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component units identified in note 16 were not audited in accordance with *Government Auditing Standards*.

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 auditors consider 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 respective financial position of the business-type activities of the State University of New York as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended, and the financial position of the aggregate discretely presented component units of the State University of New York as of June 30, 2018, and the respective changes in net assets thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Financial Presentation of the University

As discussed in note 1, the financial statements of the University are intended to present the financial position, the changes in financial position, the changes in net assets, and, where applicable, cash flows of only that portion of the State of New York that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the State of New York as of June 30, 2018 or 2017, the changes in its financial position and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

New Accounting Pronouncement

As discussed in notes 1 and 15 to the financial statements, in 2018, the University retrospectively adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2017 financial statements and, based on our audit and the reports of the other auditors, we expressed unmodified audit opinions on those audited financial statements in our report dated November 8, 2017. In our opinion, based on our audit and the reports of the other auditors, the summarized comparative information related to the aggregate discretely presented component units presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 8 to 15 and the required supplementary information on pages 58 to 64 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 management's discussion and analysis and 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State University of New York's basic financial statements. A Message from the Chairman and the Chancellor on page 3 is not a required part of the basic financial statements, and has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

November 26, 2018

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Management's Discussion and Analysis

(Unaudited)

Management's discussion and analysis (MD&A) provides a broad overview of the State University of New York's (State University) financial condition as of June 30, 2018 and 2017, the results of its operations for the years then ended, and significant changes from the previous years. Management has prepared the financial statements and related note disclosures along with this MD&A. The MD&A should be read in conjunction with the audited financial statements and related notes of the State University, which directly follow the MD&A.

For financial reporting purposes, the State University's reporting entity consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), and central services, but excluding community colleges. The financial statements also include the financial activity of The Research Foundation for The State University of New York (Research Foundation), which administers the sponsored program activity of the State University; the State University Construction Fund (Construction Fund), which administers the capital program of the State University; and the auxiliary services corporations, foundations, and student housing corporations located on its campuses.

The auxiliary services corporations, foundations, and student housing corporations meet the criteria for component units under the Governmental Accounting Standards Board (GASB) accounting and financial reporting requirements for inclusion in the State University's financial statements. For financial statement presentation purposes, these component units are not included in the reported amounts of the State University, but the combined totals of these component units are discretely presented on pages 20 and 21 of the State University's financial statements, in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB) for not-for-profit organizations.

The State University entered into an Integration and Affiliation Agreement (IAA) with Southampton Hospital Association (SHA) effective August 1, 2017. In accordance with the IAA, the State University acquired certain assets and assumed certain liabilities of SHA. The operations of Southampton Hospital, a 125 bed hospital, were transferred to and are being operated by the State University. As part of the transaction, SHA entered into an agreement with Staffco of Brooklyn, LLC (Staffco), a registered professional employer organization, which offered employment to substantially all of the SHA employees. In addition, the State University entered into a professional employer agreement with Staffco under which the State University assumed the cost of the former SHA employees.

The focus of the MD&A is on the State University financial information contained in the balance sheets, the statements of revenues, expenses, and changes in net position, and the statements of cash flows, which generally exclude the auxiliary services corporations, foundations, and student housing corporations.

Overview of the Financial Statements

The financial statements of the State University have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. As disclosed in note 1 of the financial statements, the State University adopted three new GASB pronouncements during 2018. The State University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting for other postemployment benefits (OPEB) by enhancing the consistency, comparability and transparency of the information. GASB Statement No. 75 requires the use of a discount rate that considers the availability of the plan's fiduciary net position associated with the benefits of current and inactive employees and the investment horizon of those resources; a single method of attributing the actuarial present value of projected benefit payments to periods of employee service; immediate recognition of employee expense; and recognition of OPEB expense over a defined, closed period. This Statement establishes standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expenses, as well as the required note disclosures. It also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of adopting this pronouncement, the State University has restated the beginning net position as of July 1, 2016, and the related amounts on the statements of revenues, expenses, and changes in net position for the year ended June 30, 2017.

The State University also adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement also requires the State University to recognize revenue when the resources become applicable to the reporting period. As a result of adopting this pronouncement, the State University has restated the beginning net position as of July 1, 2016, and the related amounts on the statements of revenues, expenses, and changes in net position for the year ended June 30, 2017.

Further, the State University adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement 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. As a result, these interest costs will not be included in the historical cost of a capital asset.

The financial statement presentation consists of comparative balance sheets, statements of revenues, expenses, and changes in net position, statements of cash flows, and accompanying notes for the June 30, 2018 and 2017 fiscal years. These statements provide information on the financial position of the State University and the financial activity and results of its operations during the years presented. A description of these statements follows:

The *Balance Sheets* present information on all of the State University's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State University is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing the change in the State University's net position during each fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in these statements include items that will result in cash received or disbursed in future fiscal periods.

The *Statements of Cash Flows* provide information on the major sources and uses of cash during the year. The cash flow statements portray net cash provided by or used in operating, investing, capital, and noncapital financing activities.

Financial Highlights

The State University's net position of $(10.86) billion is comprised of $20.90 billion in total assets and deferred outflows of resources, less $31.76 billion in total liabilities and deferred inflows of resources. The net position decreased $75 million in 2018 as a result of this year's operations. The State University's total revenues increased $794 million and total expenses increased $712 million in 2018 compared to 2017. The growth in revenues is primarily due to increases in hospital revenues of $533 million, State appropriation revenue of $276 million, and Federal and State nonoperating grants of $94 million. Expense growth was driven by an overall increase in operating expenses of $474 million, or 4% compared to the prior year, mainly due to an increase of $306 million in hospital expenses. In addition, nonoperating expenses increased $238 million primarily due to a $166 million transfer to the State for the non-federal share of Medicaid Disproportionate Share Hospital (DSH) matching funds.

Balance Sheets

The balance sheets present the financial position of the State University at the end of its fiscal years. The State University's net position was $(10.86) billion and $(10.78) billion at June 30, 2018 and 2017, respectively, and experienced a decrease of $75 million in 2018, and $156 million in 2017. The State University's total assets and deferred outflows of resources increased $1.75 billion and $331 million in 2018 and 2017, respectively. Total liabilities and deferred inflows of resources during 2018 and 2017 increased $1.82 billion and $487 million, respectively. The following table reflects the financial position at June 30, 2018, 2017, and 2016 (in thousands):

	2018	2017	2016
Current assets	$ 4,361,225	3,789,995	3,554,432
Capital assets, net	12,848,335	12,458,133	12,103,259
Other noncurrent assets	3,207,380	2,338,237	2,328,600
Deferred outflows of resources	484,563	567,291	836,229
Total assets and deferred outflows of resources	20,901,503	19,153,656	18,822,520
Current liabilities	3,333,929	3,210,280	2,155,338
Noncurrent liabilities	26,050,662	25,524,388	27,101,017
Deferred inflows of resources	2,373,562	1,200,905	191,834
Total liabilities and deferred inflows of resources	31,758,153	29,935,573	29,448,189
Net investment in capital assets	1,013,312	1,126,096	1,144,763
Restricted - nonexpendable	498,348	466,739	433,720
Restricted - expendable	433,512	388,883	354,839
Unrestricted	(12,801,822)	(12,763,635)	(12,558,991)
Total net position	$ (10,856,650)	(10,781,917)	(10,625,669)

Current Assets

Current assets at June 30, 2018 increased $571 million compared to the previous year. In general, current assets are those assets that are available to satisfy current liabilities (i.e., those that will be paid within one year). Current assets at June 30, 2018 and 2017 consist primarily of cash and cash equivalents of $2.42 billion and $2.04 billion and receivables of $1.14 billion and $1.21 billion, respectively. The increase in current assets during 2018 is primarily due to an increase of $382 million in cash and cash equivalents and an increase of $135 million in short-term investments.

Current Liabilities

Current liabilities increased $124 million compared to the previous year. Current liabilities at June 30, 2018 and 2017 consist principally of accounts payable and accrued expenses of $1.79 billion and $1.67 billion, the current portion of long-term debt and long-term liabilities of $717 million and $782 million, and unearned revenue of $576 million and $540 million, respectively. The increase in current liabilities during 2018 is primarily due to an increase in payables related to retroactive contractual salary raises approved but not yet paid.

Capital Assets, net

The State University's capital assets are substantially comprised of State-operated campus educational, residence, and hospital facilities. Personal Income Tax (PIT) revenue bonds support the majority of the funding for construction and critical maintenance projects on State University facilities.

During the 2018 and 2017 fiscal years, capital assets (net of depreciation) increased $390 million and $355 million, respectively. The majority of the increase occurred at the State University campuses due to the completion of new building construction, renovations, and rehabilitation totaling $1.30 billion and $809 million for the 2018 and 2017 fiscal years, respectively. Equipment additions during 2018 and 2017 of $198 million and $170 million, respectively, also contributed to the increase.

A summary of capital assets, by major classification, and related accumulated depreciation for the 2018, 2017, and 2016 fiscal years is as follows (in thousands):

	2018	2017	2016
Land	$ 741,844	689,587	667,416
Infrastructure and land improvements	1,329,006	1,245,684	1,184,886
Buildings	14,182,163	12,969,695	12,223,238
Equipment, library books and other	3,199,238	3,121,639	3,207,151
Construction in progress	1,539,148	2,163,764	2,183,139
Total capital assets	20,991,399	20,190,369	19,465,830
Less accumulated depreciation:			
Infrastructure and land improvements	620,032	582,994	538,748
Buildings	4,969,421	4,642,879	4,332,221
Equipment, library books and other	2,553,611	2,506,363	2,491,602
Total accumulated depreciation	8,143,064	7,732,236	7,362,571
Capital assets, net	$ 12,848,335	12,458,133	12,103,259

Significant projects completed and capitalized during the 2018 fiscal year included construction of the Jacobs School of Medicine and Biomedical Sciences at the University at Buffalo, a cancer center building at Upstate Medical University, a new science building at the College of New Paltz and a new academic building at Downstate Medical Center. Other significant projects included renovations to the Rockefeller Arts Center at the College at Fredonia, renovation to Wooster Hall and Bevier Hall at the College at New Paltz, renovations to a heating and power plant building at Stony Brook University, expansion of Campus Center at the University at Albany and improvements to the electrical distribution infrastructure at the College at Cortland.

Other Noncurrent Assets

Other noncurrent assets increased $869 million compared to the previous year. Noncurrent assets at June 30, 2018 and 2017 include long-term investments of $1.03 billion and $927 million, noncurrent portion of receivables of $825 million and $780 million, deposits with trustees of $1.05 billion and $349 million, and other noncurrent assets of $159 million and $145 million, respectively.

Noncurrent Liabilities

Noncurrent liabilities at June 30, 2018 and 2017 of $26.05 billion and $25.52 billion, respectively, are largely comprised of debt on State University facilities, other long-term liabilities accrued for postemployment and post-retirement benefits, and litigation reserves. The State University capital funding levels and bonding authority are subject to operating and capital appropriations of the State. Funding for capital construction and rehabilitation of educational and residence hall facilities of the State University is provided principally through the issuance of bonds by the Dormitory Authority of the State of New York (DASNY). The debt service for the educational facilities is paid by, or provided through a direct appropriation from, the State. The debt service on residence hall bonds is funded primarily from room rents.

A summary of noncurrent liabilities at June 30, 2018, 2017, and 2016 is as follows (in thousands):

	2018	2017	2016
Educational facilities	$ 8,854,257	7,774,668	8,133,041
Unamortized bond premium - educational facilities	805,522	618,048	653,313
Residence hall facilities	367,930	619,945	649,780
Unamortized bond premium - residence hall facilities	37,040	55,634	58,033
Postemployment and post-retirement	12,518,211	13,056,346	13,714,019
Litigation	710,035	656,836	663,251
Collateralized borrowings	1,372,250	1,019,399	1,061,257
Pension	303,426	709,440	1,054,885
Other obligations	1,081,991	1,014,072	1,113,438
Total noncurrent liabilities	$ 26,050,662	25,524,388	27,101,017

During the year, PIT and Sales Tax Revenue Bonds were issued with a par amount of $1.37 billion at a premium of $176 million for the purpose of financing capital construction and major rehabilitation for educational facilities. PIT bonds were also issued with a par amount of $410 million at a premium of $74 million in order to refund $450 million of the State Universities existing educational facilities obligations.There was no new debt issued during the year for the residence hall facilities programs.

The State University's credit ratings for PIT, educational and residence hall bonds were unchanged in the 2018 and 2017 fiscal years. The credit ratings at June 30, 2018 are as follows:

	PIT Bonds	Educational Facilities	Residence Halls
Moody's Investors Service	Aa1	Aa2	Aa2
Standard & Poor's	AAA	AA	AA-
Fitch	AA+	AA	AA-

During fiscal years 2018 and 2017, the long-term portion of postemployment and post-retirement benefit obligations as reported under GASB Statement No. 75 decreased $538 million and $658 million, respectively. The State, on behalf of the State University, provides health insurance coverage for eligible retired State University employees and their qualifying dependents as part of the New York State Health Insurance Program (NYSHIP). The State University, as a participant in the plan, recognizes these other postemployment benefits (OPEB) on an accrual basis. The State University's OPEB plan is financed annually on a pay-as-you-go basis. There are no assets set aside to fund the plan.

The Research Foundation sponsors a separate defined benefit OPEB plan and has established a Voluntary Employee Benefit Association (VEBA) trust. Legal title to all the assets in the trust is vested for the benefit of the participants. Contributions are made by the Research Foundation pursuant to a funding policy established by its board of directors.

The long-term portion of pension liabilities decreased $406 million and $345 million at June 30, 2018 and 2017, respectively, mainly due to better than expected earnings on pension plan investments and other actuarial changes.

The State University has recorded a long-term litigation liability and a corresponding appropriation receivable of $710 million and $657 million at June 30, 2018 and 2017, respectively (almost entirely related to hospitals and clinics) for unfavorable judgments, both anticipated and awarded but not yet paid.

In March 2013, the State enacted legislation to authorize the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The legislation authorized DASNY to issue State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University. These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY. The outstanding obligations under these bonds is reported as collateralized borrowing in the State University's financial statements. The credit ratings assigned to these bonds in 2018 were as follows: Moody's (Aa3), S&P (A+), and Fitch (A+). These ratings were unchanged in 2018 and 2017.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the State University's results of operations, as well as nonoperating activities. The reported amounts for 2016 were not adjusted for the adoption of the new GASB pronouncements. Revenues, expenses, and the changes in net position for the 2018, 2017 and 2016 fiscal years are summarized as follows (in thousands):

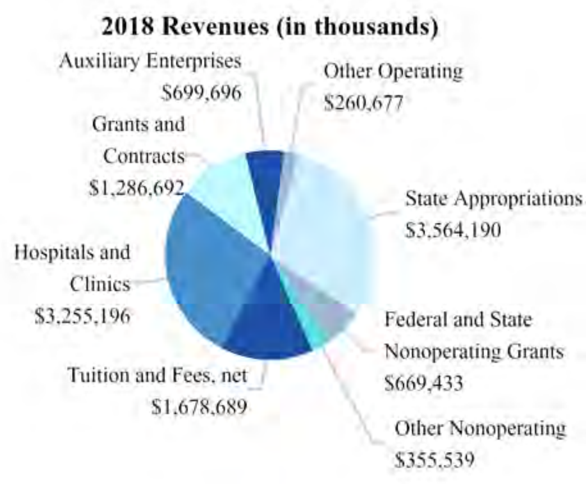
	2018	2017	2016
Operating revenues	$ 7,180,950	6,516,170	6,448,951
Nonoperating revenues	4,500,523	4,314,963	4,111,656
Other revenues	88,639	145,309	89,219
Total revenues	11,770,112	10,976,442	10,649,826
Operating expenses	11,132,115	10,657,806	10,613,807
Nonoperating expenses	712,730	474,884	572,718
Total expenses	11,844,845	11,132,690	11,186,525
Change in net position	$ (74,733)	(156,248)	(536,699)

Total operating revenues of the State University increased $665 million in 2018 and $67 million in 2017. Nonoperating and other revenues, which include State appropriations, increased $129 million in 2018 and $259 million in 2017. Total expenses for 2018 and 2017 increased $712 million and decreased $54 million, respectively.

Revenue Overview

Revenues (in thousands):

	2018	2017	2016
Tuition and fees, net	$ 1,678,689	1,671,367	1,645,552
Hospitals and clinics	3,255,196	2,722,639	2,777,827
Grants and contracts	1,286,692	1,202,469	1,167,871
Auxiliary enterprises	699,696	694,007	669,585
Other operating	260,677	225,688	188,116
Operating revenues	7,180,950	6,516,170	6,448,951
State appropriations	3,564,190	3,288,473	3,265,314
Federal and State nonoperating grants	669,433	574,947	573,155
Other nonoperating	355,539	596,852	362,406
Nonoperating and other revenues	4,589,162	4,460,272	4,200,875
Total revenues	$ 11,770,112	10,976,442	10,649,826



Tuition and Fees, Net

Tuition and fee revenue, net of scholarship allowances, increased $7 million and $26 million in 2018 and 2017, respectively. Gross tuition and fees increased $73 million in 2018. This increase was offset by an increase in scholarship allowances of $66 million. These increases were mainly driven by a tuition rate increase for professional and nonresident tuition rates in 2018 and 2017 and also a $200 tuition rate increase for resident undergraduates in 2018. Annual average full-time equivalent students, including undergraduate and graduate, were approximately 198,400, 196,600, and 196,500 for the fiscal years ended June 30, 2018, 2017, and 2016, respectively.

Hospitals and Clinics

The State University has three hospitals (each with academic medical centers) – the State University Hospitals at Brooklyn (UHB), Stony Brook, and Upstate Medical.

Hospital and clinic revenue increased $533 million in 2018 mainly due to an increase in net patient revenues of $381 million due to volume and rate increases, including a $168 million increase due to the affiliation agreement with Southampton Hospital. Medicaid Disproportionate Share Hospital (DSH) program revenue also increased $152 million. Hospital and clinic revenue decreased $55 million in 2017 mainly due to a decrease of $158 million in DSH revenue offset by an increase in net patient revenues.

Grants and Contracts

Grants and contracts revenue increased $84 million in 2018 driven by increases in federal grants of $47 million, private grants and contracts of $30 million and state and local grants of $7 million.

Auxiliary Enterprises

The State University's auxiliary enterprise activity is comprised of sales and services for residence halls, food services, intercollegiate athletics, student health services, parking, and other activities. The residence halls are operated and managed by the State University and its campuses.

Auxiliary enterprise sales and services revenue increased $6 million and $24 million for fiscal years 2018 and 2017, respectively. These increases were largely due to modest increases in room and board rates.

The residence hall operations and capital programs are financially self-sufficient. Each campus is responsible for the operation of its residence halls program including setting room rates and covering operating, maintenance, capital and debt service costs. Any excess funds generated by residence halls operating activities are separately maintained for improvements and maintenance of the residence halls. Revenue producing occupancy at the residence halls was 69,211 for the fall of 2017, an increase of 771 students compared to the previous year. The overall utilization rate for the fall of 2017 was reported at 96 percent.

State Appropriations

The State University's single largest source of revenues are State appropriations, which for financial reporting purposes are classified as nonoperating revenues. State appropriations totaled $3.56 billion and $3.29 billion and represented approximately 30 percent of total revenues for both fiscal years 2018 and 2017. State support (both direct support for operations and indirect support for fringe benefits, debt service, and litigation) for State University campus operations, statutory colleges, and hospitals and clinics increased $276 million in 2018 and $23 million in 2017, compared to the prior year. In 2018, indirect State support for debt service, fringe benefits, and litigation increased $149 million, $78 million and $50 million, respectively, compared to the previous year. State support for operating expenses decreased $1 million.

Federal and State Nonoperating Grants

Major scholarships and grants revenue includes the State Tuition Assistance Program of $209 million and $195 million during fiscal years 2018 and 2017, respectively, and federal Pell Program revenue of $320 million and $290 million during fiscal years 2018 and 2017, respectively. In addition to the increases in TAP and Pell program funding during fiscal year 2018 the State University received funding from the new Excelsior Scholarship Program, which provides tuition-free college to families making up to $125,000 a year phased in over three years.

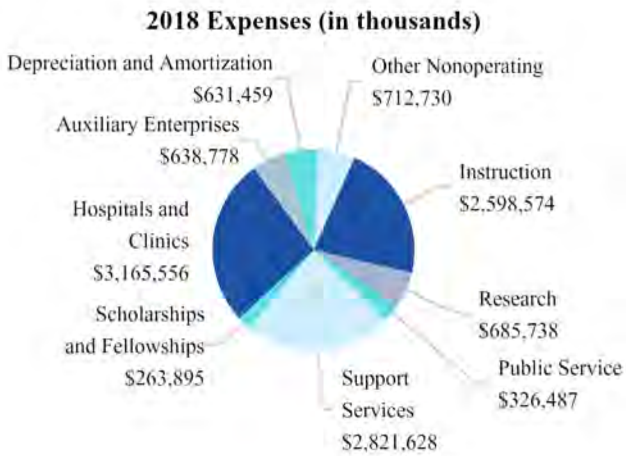
Other Nonoperating Revenues

Other nonoperating revenues decreased $241 million in 2018 and increased $234 million in 2017. The fluctuation in nonoperating revenues between the fiscal years was primarily due to a $184 million gain related to the Research Foundation OPEB plan in 2017. The Research Foundation amended their OPEB plan which lowered their OPEB liability and resulted in a gain in 2017.

Expense Overview

Expenses (in thousands):

	2018	2017	2016
Instruction	$ 2,598,574	2,599,491	2,564,186
Research	685,738	660,346	724,805
Public service	326,487	310,312	311,337
Support services	2,821,628	2,727,104	2,695,892
Scholarships and fellowships	263,895	236,728	234,458
Hospitals and clinics	3,165,556	2,859,555	2,876,470
Auxiliary enterprises	638,778	656,066	626,360
Depreciation and amortization	631,459	608,204	580,299
Other nonoperating	712,730	474,884	572,718
Total expenses	$ 11,844,845	11,132,690	11,186,525



During the 2018 fiscal year, instruction expenses decreased $1 million predominately from decreases of $52 million and $24 million in OPEB and pension actuarially determined accrued expenses. These decreases were offset by increases of $58 million in retroactive contractual salary accruals. Fringe benefit expenses also increased $21 million mainly due to an increase in the State fringe benefit rate from 58.71 percent in 2017 to 61.48 percent in 2018.

Support services, which include expenses for academic support, student services, institutional support, operation and maintenance of plant and other operating expenses, increased $95 million between fiscal years 2018 and 2017. This increase was mainly due to increases of $36 million in fringe benefit expenses and $21 million in retroactive contractual salary accruals. There was also an increase of $24 million for costs associated with issuing new debt.

In the State University's financial statements, scholarships used to satisfy student tuition and fees (residence hall, food service, etc.) are reported as an allowance (offset) to the respective revenue classification up to the amount of the student charges. The amount reported as expense represents amounts provided to the student in excess of State University charges.

Expenses at the State University's hospitals and clinics increased $306 million in 2018 and decreased $17 million during 2017. The increase during 2018 is mainly due to increases of $162 million due to the affiliation with Southampton Hospital, $52 million in litigation accruals, $51 million in personal service costs, $43 million in fringe benefit expenses, $33 million in contract salary accruals and $57 million in supplies and equipment expenses. These increases were offset by decreases of $59 million and $33 million in pension and OPEB actuarially determined accrued expenses.

Depreciation and amortization expense recognized in fiscal years 2018 and 2017 totaled $631 million and $608 million, respectively. Other nonoperating expenses were $713 million and $475 million for the years ended June 30, 2018 and 2017, respectively. The increase in nonoperating expenses in 2018 was driven by the $166 million transfer to the State for DSH and an increase in interest expense on capital debt of $46 million.

Economic Factors That Will Affect the Future

The State University is one of the largest public universities in the nation, with headcount enrollment of approximately 224,300 for fall 2018, on twenty nine State-operated campuses and five statutory colleges. Full-time equivalent (FTE) enrollment, excluding community colleges, for the fiscal year ended June 30, 2018 is approximately 198,400, an increase compared to June 30, 2017.

The State University's student population is directly influenced by State demographics, as the majority of students attending the State University are New York residents. During the 2018 fiscal year, legislation was passed enacting the Excelsior Scholarship Program to provide tuition-free college at New York's public colleges and universities to families making up to $125,000 a year phased in over three years. The State University is expecting to see an increase in enrollment due to this new program.

New York State appropriations remain the largest single source of revenues. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support. For the most recent fiscal year, State appropriations totaled $3.56 billion which represented 30 percent of the total revenues of the State University. State appropriations consisted of direct support ($1.12 billion), fringe benefits for State University employees ($1.70 billion), debt service on educational facilities ($676 million), and litigation support ($67 million). Debt service on educational facilities is paid by the State in an amount sufficient to cover annual debt service requirements; pursuant to annual statutory provisions, each of the State University's three teaching hospitals must reimburse the State for their share of debt service costs to finance their capital projects.

The State University depends on the State to provide appropriations in support of its capital program. While the increased level of support planned for the Educational Facilities Program ($550 million planned annually) will provide much needed funding to address the significant needs of over 1,800 aging academic buildings and the State

University's vast infrastructure, the $550 million planned for each of the next four years will be subject to annual appropriation by the Executive and the Legislature. In addition, the planned level of new support, as well as prior year unspent appropriations totaling $2.10 billion, must be accommodated within significantly reduced annual spending limits established in the 2018-19 Enacted State Five-Year Capital Program and Financing Plan. Managing the disbursements associated with this level of appropriation will require careful monitoring and accurate predicting of project disbursements to ensure minimal disruption to the capital program.

The State University hospitals, which are all part of larger State University Academic Health Centers at Brooklyn, Stony Brook and Upstate Medical, serve large numbers of patients who are uninsured, under-insured or covered by Medicare and Medicaid programs. As a result, the Hospital's continued viability is directly linked to appropriate levels of funding from Medicare, Medicaid and the Medicaid DSH Programs.

The New York State Department of Health has proposed limits on funds it will contribute towards DSH funding for the State's public hospitals. The cuts being discussed are material in nature and would adversely impact the Hospital's revenue stream and income if enacted. The Affordable Care Act and renewed health care reform efforts at the Federal level also pose threats to future DSH funding. At this time however, the outcome of these deliberations are uncertain.

With the pressure to reduce the federal budget deficit, it is also anticipated that both the federal and state governments will be under pressure to reduce their overall spending in future years. These spending reductions could result in significant cuts to the hospitals' Medicare and Medicaid rates and the State's support for costs of State sponsorship, having a negative impact on overall revenue.

Balance Sheets

June 30, 2018 and 2017
In thousands

Assets and Deferred Outflows of Resources	**2018**	**Restated 2017**
Current Assets:		
Cash and cash equivalents	$ 2,422,419	2,040,114
Deposits with bond trustees	322,371	209,975
Short-term investments	388,252	252,918
Accounts, notes, and loans receivable, net	723,296	806,741
Appropriations receivable	167,240	165,020
Grants receivable	247,430	236,933
Other assets	90,217	78,294
Total current assets	4,361,225	3,789,995
Noncurrent Assets:		
Restricted cash and cash equivalents	137,295	136,789
Deposits with bond trustees	1,052,209	349,483
Accounts, notes, and loans receivable, net	113,172	121,270
Appropriations receivable	711,620	658,368
Long-term investments	1,034,380	927,058
Other noncurrent assets	158,704	145,269
Capital assets, net	12,848,335	12,458,133
Total noncurrent assets	16,055,715	14,796,370
Total assets	**20,416,940**	**18,586,365**
Deferred outflows of resources	484,563	567,291
Total assets and deferred outflows of resources	**$ 20,901,503**	**19,153,656**
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	1,785,817	1,669,202
Unearned revenue	575,561	540,379
Long-term debt - current portion	415,594	488,890
Long-term liabilities - current portion	301,205	293,007
Other liabilities	255,752	218,802
Total current liabilities	3,333,929	3,210,280
Noncurrent Liabilities:		
Long-term debt	10,570,470	9,503,459
Long-term liabilities	15,202,865	15,727,752
Refundable government loan funds	137,767	138,916
Other noncurrent liabilities	139,560	154,261
Total noncurrent liabilities	26,050,662	25,524,388
Total liabilities	**29,384,591**	**28,734,668**
Deferred inflows of resources	2,373,562	1,200,905
Total liabilities and deferred inflows of resources	**31,758,153**	**29,935,573**
Net Position:		
Net investment in capital assets	1,013,312	1,126,096
Restricted - nonexpendable:		
Instruction and departmental research	256,614	236,770
Scholarships and fellowships	121,871	112,917
General operations and other	119,863	117,052
Restricted - expendable:		
Instruction and departmental research	149,491	120,295
Scholarships and fellowships	72,564	63,751
General operations and other	211,457	204,837
Unrestricted	(12,801,822)	(12,763,635)
Total net position	**(10,856,650)**	**(10,781,917)**
Total liabilities, deferred inflows of resources and net position	**$ 20,901,503**	**19,153,656**

See accompanying notes to the financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2018 and 2017

In thousands

	2018	Restated 2017
Operating revenues:		
Tuition and fees	$ 2,352,266	2,279,625
Less: scholarship allowances	(673,577)	(608,258)
Net tuition and fees	1,678,689	1,671,367
Federal grants and contracts	682,721	636,096
State and local grants and contracts	180,354	172,727
Private grants and contracts	423,617	393,646
Hospitals and clinics	3,255,196	2,722,639
Sales and services of auxiliary enterprises:		
Residence halls, net	469,796	461,907
Food service and other, net	229,900	232,100
Other sources	260,677	225,688
Total operating revenues	**7,180,950**	**6,516,170**
Operating expenses:		
Instruction	2,598,574	2,599,491
Research	685,738	660,346
Public service	326,487	310,312
Academic support	574,418	573,082
Student services	393,564	376,992
Institutional support	1,091,684	1,071,828
Operation and maintenance of plant	715,509	692,572
Scholarships and fellowships	263,895	236,728
Hospitals and clinics	3,165,556	2,859,555
Auxiliary enterprises:		
Residence halls	368,539	385,777
Food service and other	270,239	270,289
Depreciation and amortization expense	631,459	608,204
Other operating expenses	46,453	12,630
Total operating expenses	**11,132,115**	**10,657,806**
Operating loss	**(3,951,165)**	**(4,141,636)**
Nonoperating revenues (expenses):		
State appropriations	3,564,190	3,288,473
Federal and State nonoperating grants	669,433	574,947
Investment income, net	91,030	67,910
Net realized and unrealized gains	54,817	66,471
Gifts	121,053	99,758
Interest expense on capital related debt	(510,336)	(463,946)
Loss on disposal of plant assets	(14,752)	(10,938)
Other nonoperating (expenses) revenues, net	(21,810)	217,404
Net nonoperating revenues	**3,953,625**	**3,840,079**
Income (loss) before other revenues, gains and transfers	**2,460**	**(301,557)**
Capital appropriations	26,170	57,723
Capital gifts and grants	36,995	61,130
Additions to permanent endowments	25,474	26,456
Transfers to State	(165,832)	—
Decrease in net position	**(74,733)**	**(156,248)**
Net position at the beginning of year, as restated	**(10,781,917)**	**(10,625,669)**
Net position at the end of year	**$ (10,856,650)**	**(10,781,917)**

See accompanying notes to the financial statements.

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017
In thousands

	2018	Restated 2017
Cash flows from operating activities:		
Tuition and fees	$ 1,679,314	1,678,006
Grants and contracts:		
Federal	679,819	649,157
State and local	302,887	207,026
Private	454,139	471,400
Hospitals and clinics	3,250,540	2,650,912
Personal service payments	(4,477,636)	(4,330,457)
Other than personal service payments	(2,758,164)	(2,575,248)
Payments for fringe benefits	(622,301)	(556,865)
Payments for scholarships and fellowships	(260,237)	(257,139)
Loans issued to students	(21,975)	(27,611)
Collection of loans to students	26,340	25,071
Auxiliary enterprise charges:		
Residence halls	457,705	457,100
Food service and other	221,486	227,561
Other receipts	181,629	206,115
Net cash used by operating activities	**(886,454)**	**(1,174,972)**
Cash flows from noncapital financing activities:		
State appropriations:		
Operations	1,117,508	1,120,468
Debt service	590,314	631,353
Federal and State nonoperating grants	663,874	574,905
Private gifts and grants	119,393	101,655
Proceeds from short-term loans	106,597	110,964
Repayment of short-term loans	(103,522)	(99,644)
Direct loan receipts	1,154,171	1,156,323
Direct loan disbursements	(1,154,171)	(1,156,323)
Other (payments) receipts	(151,619)	52,737
Net cash provided by noncapital financing activities	**2,342,545**	**2,492,438**
Cash flows from capital and related financing activities:		
Proceeds from capital debt	2,552,220	57,890
Capital appropriations	23,371	53,702
Capital grants and gifts received	35,134	63,058
Proceeds from sale of capital assets	10,426	1,295
Purchases of capital assets	(186,782)	(242,306)
Payments to contractors	(882,225)	(876,407)
Principal paid on capital debt and leases	(1,162,491)	(355,454)
Interest paid on capital debt and leases	(515,477)	(525,082)
Capital funds (owed) advanced from State	(39,402)	559,143
Deposits with bond trustees	(815,340)	154,362
Net cash used by capital and related financing activities	**(980,566)**	**(1,109,799)**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	332,953	221,094
Interest, dividends, and realized gains on investments	100,402	66,928
Purchases of investments	(526,069)	(269,731)
Net cash (used) provided by investing activities	**(92,714)**	**18,291**
Net change in cash	**382,811**	**225,958**
Cash - beginning of year	**2,176,903**	**1,950,945**
Cash - end of year	**$ 2,559,714**	**2,176,903**
End of year cash comprised of:		
Cash and cash equivalents	**2,422,419**	**2,040,114**
Restricted cash and cash equivalents	**137,295**	**136,789**
Total cash and cash equivalents	**$ 2,559,714**	**2,176,903**

Statements of Cash Flows (continued)

For the Years Ended June 30, 2018 and 2017
In thousands

		2018	Restated 2017
Reconciliation of net operating loss to net cash used by operating activities:			
Operating loss	$	(3,951,165)	(4,141,636)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation and amortization expense		631,459	608,204
State appropriations for fringe benefits and litigation		1,709,906	1,634,464
Change in assets and liabilities:			
Receivables, net		(79,709)	16,817
Other assets		89,938	434,973
Accounts payable and accrued liabilities		287,764	22,386
Unearned revenue		17,045	(158,942)
Other liabilities		408,308	408,762
Net cash used by operating activities	**$**	**(886,454)**	**(1,174,972)**
Supplemental disclosures for noncash transactions:			
Noncash gifts	$	2,462	4,298
Unrealized gains on investments	$	39,899	65,083
Assets from Southampton Hospital affiliation	$	83,975	—
Liabilities from Southampton Hospital affiliation	$	80,135	—

See accompanying notes to the financial statements.

State University of New York Component Units
Balance Sheet

June 30, 2018 (with comparative financial information as of June 30, 2017)
In thousands

Assets	**2018**	**2017**
Cash and cash equivalents	$ 253,581	237,196
Accounts and notes receivable, net	46,579	38,441
Pledges receivable, net	190,595	183,121
Investments	2,546,692	2,321,273
Assets held for others	38,772	30,979
Other assets	95,215	63,275
Capital assets, net	528,488	552,447
Total assets	**$ 3,699,922**	**3,426,732**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	64,578	59,973
Deferred revenue	23,873	18,625
Deposits held in custody for others	180,731	171,910
Other liabilities	82,803	80,875
Long-term debt, net	366,029	346,844
Total liabilities	**718,014**	**678,227**
Net Assets:		
Unrestricted:		
Board designated for:		
Fixed assets	199,174	226,009
Campus programs	117,138	113,381
Investments	255,815	215,140
General operations and other	100,554	89,988
Undesignated	201,720	171,682
Total unrestricted net assets	874,401	816,200
Temporarily restricted:		
Scholarships and fellowships	241,680	215,651
Campus programs	561,210	510,587
Research, general operations and other	386,641	345,325
Total temporarily restricted net assets	1,189,531	1,071,563
Permanently restricted:		
Scholarships and fellowships	418,807	387,831
Campus programs	415,439	389,212
Research, general operations and other	83,730	83,699
Total permanently restricted net assets	917,976	860,742
Total net assets	**2,981,908**	**2,748,505**
Total liabilities and net assets	**$ 3,699,922**	**3,426,732**

See accompanying notes to the financial statements.

State University of New York Component Units
Statement of Activities

For the Year Ended June 30, 2018 (with summarized financial information for the year ended June 30, 2017)
In thousands

		Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenues:						
Contributions, gifts and grants	$	36,405	120,151	54,833	211,389	208,641
Food service		321,471	—	—	321,471	305,843
Other auxiliary services		75,990	—	—	75,990	80,296
Rental income		72,307	288	—	72,595	69,688
Sales and services		11,847	1,349	—	13,196	16,117
Program income and special events		42,420	2,096	17	44,533	43,665
Investment income, net		13,103	24,792	504	38,399	31,864
Net realized and unrealized gains		51,038	123,577	213	174,828	195,701
Change in value of split interest agreements		16	331	3,396	3,743	4,815
Other sources		10,326	2,100	109	12,535	14,162
Endowment earnings transferred		—	37	(37)	—	—
Net assets released from restrictions		163,241	(163,241)	—	—	—
Total revenues		**798,164**	**111,480**	**59,035**	**968,679**	**970,792**
Expenses:						
Food service		270,427	—	—	270,427	259,107
Other auxiliary services		63,734	—	—	63,734	66,869
Program expenses		121,917	—	—	121,917	121,863
Health care services		5,295	—	—	5,295	6,956
Payments to the State University:						
Scholarships and fellowships		62,173	—	—	62,173	60,463
Other		59,084	—	—	59,084	68,904
Real estate expenses		45,586	—	—	45,586	45,906
Management and general		63,943	—	—	63,943	55,585
Fundraising		25,854	—	—	25,854	25,651
Other expenses		17,263	—	—	17,263	18,162
Total expenses		**735,276**	**—**	**—**	**735,276**	**729,466**
Change in net assets		**62,888**	**111,480**	**59,035**	**233,403**	**241,326**
Net asset reclassification		**(4,687)**	**6,488**	**(1,801)**	**—**	**—**
Total change in net assets		**58,201**	**117,968**	**57,234**	**233,403**	**241,326**
Net assets at the beginning of year		**816,200**	**1,071,563**	**860,742**	**2,748,505**	**2,507,179**
Net assets at the end of year	**$**	**874,401**	**1,189,531**	**917,976**	**2,981,908**	**2,748,505**

See accompanying notes to the financial statements.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation

Reporting Entity

For financial reporting purposes, the State University of New York (State University) consists of all sectors of the State University including the university centers, health science centers (including hospitals), colleges of arts and sciences, colleges of technology and agriculture, specialized colleges, statutory colleges (located at the campuses of Cornell and Alfred Universities), central services and other affiliated entities determined to be includable in the State University's financial reporting entity.

Inclusion in the reporting entity is based primarily on the notion of financial accountability, defined in terms of a primary government (State University) that is financially accountable for the organizations that make up its legal entity. Separate legal entities meeting the criteria for inclusion in the blended totals of the State University reporting entity are described below. The State University is included in the financial statements of the State of New York (State) as an enterprise fund, as the State is the primary government of the State University.

The Research Foundation for The State University of New York (Research Foundation) is a separate, private, nonprofit educational corporation that administers the majority of the State University's sponsored programs. These programs are for the exclusive benefit of the State University and include research, training, and public service activities of the State-operated campuses supported by sponsored funds other than State appropriations. The Research Foundation provides sponsored programs administration and innovation support services to State University faculty performing research in life sciences and medicine; engineering and technology; physical sciences and energy; social sciences; and computer and information services. The activity of the Research Foundation has been included in these financial statements using GASB measurements and recognition standards. The financial activity was primarily derived from audited financial statements of the Research Foundation for the years ended June 30, 2018 and 2017.

The State University Construction Fund (Construction Fund) is a public benefit corporation that designs, constructs, reconstructs and rehabilitates facilities of the State University pursuant to an approved master plan. Although the Construction Fund is a separate legal entity, it carries out operations which are integrally related to and for the exclusive benefit of the State University and, therefore, the financial activity related to the Construction Fund is included in the State University's financial statements as of and for each of the Construction Fund's fiscal years ended March 31, 2018 and 2017.

The State statutory colleges at Cornell University and Alfred University are an integral part of, and are administered by, those universities. The statutory colleges are fiscally dependent on State appropriations through the State University. The financial statement information of the statutory colleges of Cornell University and Alfred University has been included in the accompanying financial statements.

Most of the State University's campuses maintain auxiliary services corporations and some campuses maintain student housing corporations. These corporations are legally separate, nonprofit organizations which, as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. Almost all of the State University campuses also maintain foundations, which are legally separate, nonprofit, affiliated organizations that receive and hold economic resources that are significant to, and that are entirely for the benefit of the State University, and are required to be included in the reporting entity using discrete presentation requirements. As a result, the combined totals of the campus-related auxiliary service corporations, student housing corporations and foundations are separately presented as an aggregate component unit on pages 20 and 21 of these financial statements in accordance with display requirements prescribed by the Financial Accounting Standards Board (FASB). All of the financial data for these organizations was derived from each entity's individual audited financial statements, the majority of which have a May 31 or June 30 fiscal year end. The combined totals are also included in the financial statements of the State's discretely presented component unit combining statements.

On June 26, 2017, the New York State Supreme Court in Suffolk County approved the Integration and Affiliation Agreement (IAA) with Southampton Hospital Association (SHA). The final closing date of the transaction was August 1, 2017 (the Closing Date). In accordance with the IAA, the State University acquired certain assets of SHA and assumed certain liabilities pursuant to a capital lease agreement. In accordance with the IAA and the capital lease agreement, all operations of Southampton Hospital, a 125 bed hospital, were transferred to and are being operated by the State University. The lease terminates after fifty years, but may be terminated earlier by the State University. In conjunction with the IAA, the State University acquired control of Meeting

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

House Lane Medical Practice (the Practice). The financial activity of the Practice is not significant, but is included within these financial statements with all intercompany activity eliminated.

As part of the transaction, SHA entered into an Asset Purchase Agreement (APA) with Staffco of Brooklyn, LLC (Staffco), a registered professional employer organization. As part of the APA, on the Closing Date Staffco assumed certain liabilities related to the management of SHA's employees and offered employment to substantially all of the SHA employees. In accordance with the IAA, the State University entered into a professional employer agreement with Staffco under which the State University assumed the cost of the former SHA employees.

During 2018, the State University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45 and establishes accounting and financial reporting for other postemployment benefit (OPEB) plans including the immediate recognition of the full actuarial accrued liability upon adoption. This Statement establishes standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. The State University participates in the New York State Health Insurance Program as a single employer defined benefit plan. GASB Statement No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of adopting this pronouncement, the State University has restated the beginning net position as of July 1, 2016, and the related amounts on the statements of revenues, expenses, and changes in net position for the year ended June 30, 2017.

The State University also adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. When resources are received pursuant to an irrevocable split-interest agreement, the State University will recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires the State University to recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if it controls the present service capacity of the beneficial interests. This Statement also requires the State University to recognize revenue when the resources become applicable to the reporting period. As a result of adopting this pronouncement, the State University has restated the beginning net position as of July 1, 2016, and the related amounts on the statements of revenues, expenses, and changes in net position for the year ended June 30, 2017.

Further, the State University adopted GASB Statement No. 89, A*ccounting for Interest Cost Incurred before the End of a Construction Period.* This Statement 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. As a result, these interest costs will not be included in the historical cost of a capital asset. The State University has adopted this Statement for the fiscal year ended June 30, 2018. As such, interest costs incurred after July 1, 2017 will be expensed in accordance with this Statement.

The operations of certain related but independent organizations, i.e., clinical practice management plans, alumni associations and student associations, do not meet the criteria for inclusion, and are not included in the accompanying financial statements.

The State University administers State financial assistance to the community colleges in connection with its general oversight responsibilities pursuant to New York State Education Law. However, since these community colleges are sponsored by local governmental entities and are included in their financial statements, the community colleges are not considered part of the State University's financial reporting entity and, therefore, are not included in the accompanying financial statements.

The accompanying financial statements of the State University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. The State University reports its financial statements as a special purpose government engaged in business-type activities, as defined by the GASB. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the State University consist of classified balance sheets, which separately classify deferred outflows of resources and deferred inflows of resources; statements of revenues, expenses, and changes in net position, which distinguish between operating and nonoperating revenues and expenses; and statements of cash flows, using the direct method of presenting cash flows from operations and other sources.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

The State University's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions, i.e., the payments received for services and payments made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities and include the State University's operating and capital appropriations from the State, federal and State financial aid grants (e.g., Pell and TAP), investment income gains and losses, gifts, and interest expense.

Net Position

Resources are classified for accounting and financial reporting purposes into the following four net position categories:

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

Restricted – nonexpendable
Net position component subject to externally imposed conditions that the State University is required to retain in perpetuity.

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

Unrestricted component of net position
The unrestricted component of net position includes amounts provided for specific use by the State University's colleges and universities, hospitals and clinics, and separate legal entities included in the State University's reporting entity that are designated for those entities and, therefore, not available for other purposes.

The State University has adopted a policy of generally utilizing restricted – expendable funds, when available, prior to unrestricted funds.

Revenues

Revenues are recognized in the period earned. State appropriations are recognized when they are made legally available for expenditure. Revenues and expenses arising from nonexchange transactions are recognized when all eligibility requirements, including time requirements, are met. Promises of private donations are recognized at fair value. Net patient service revenue for the hospitals is reported at the estimated net realizable amounts from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors.

Tuition and fees and auxiliary sales and service revenues are reported net of scholarship discounts and allowances. Auxiliary sales and service revenue classifications for 2018 and 2017 were reported net of scholarship discount and allowance amounts of $118.5 million and $106.2 million for residence halls and $46.3 million and $42.3 million for food service and other auxiliary services, respectively.

Cash and Cash Equivalents

Cash and cash equivalents are defined as current operating assets and include investments with original maturities of less than 90 days, except for cash and cash equivalents held in investment pools, which are included in short-term and long-term investments on the accompanying balance sheets.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent unspent funds under various capital financing arrangements, cash held for others, and cash restricted for loan and residence hall programs.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

Investments

Investments in marketable securities are stated at fair value based upon quoted market prices. Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade date basis. Any net earnings not expended are included as increases in restricted – nonexpendable net position if the terms of the gift require that such earnings be added to the principal of a permanent endowment fund, or as increases in restricted – expendable net position as provided for under the terms of the gift, or as unrestricted. At June 30, 2018 and 2017, the State University had $295 million and $251 million available for authorization for expenditure, including $195 million and $163 million from restricted funds and $99 million and $88 million from unrestricted funds, respectively.

The Investment Committee of the Cornell Board of Trustees establishes the investment policy for Cornell University as a whole, including investments that support the statutory colleges. Distributions from the pool are approved by the Cornell Board of Trustees and are provided for program support independent of the cash yield and appreciation of investments in that year. The Board applies the "prudent person" standard when making its decision whether to appropriate or accumulate endowment funds in compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA). Investments in the pool are stated at fair value and include limited use of derivative instruments including futures, forward, options and swap contracts designed to manage market exposure and to enhance the total return.

Alternative investments are valued using current estimates of fair value obtained from the investment managers in the absence of readily determinable fair values. The estimated fair value of these investments is based on the most recent valuations provided by the external investment managers. Because of the inherent uncertainty of valuation for these investments, the investment managers' estimates may differ from the values that would have been used had a ready market existed.

Capital Assets

Capital assets are stated at cost, or in the case of gifts, fair value at the date of receipt. Building renovations and additions costing over $100,000 and equipment items with a unit cost of $5,000 or more are capitalized. The net interest cost on debt during the construction period related to capital projects was capitalized in fiscal year 2017 and totaled $20 million. Due to the adoption of GASB Statement No. 89 there was no interest capitalized during fiscal year 2018. Intangible assets, including internally generated computer software with costs of $1 million or more are capitalized. Library materials are capitalized and amortized over a ten-year period. Works of art or historical treasures that are held for public exhibition, education, or research in furtherance of public service are capitalized. Capital assets, with the exception of land, construction in progress, and inexhaustible works of art or intangible assets, are depreciated on a straight-line basis over their estimated useful lives, using historical and industry experience, ranging from 2 to 50 years.

Compensated Absences

Employees accrue annual leave based primarily on the number of years employed up to a maximum rate of 21 days per year up to a maximum total of 40 days.

Fringe Benefits

Employee fringe benefit costs (e.g., health insurance, workers' compensation, and post-retirement benefits) for State University and statutory employees are paid by the State on behalf of the State University (except for the State University hospitals and Research Foundation, which pay their own fringe benefit costs) at a fringe benefit rate determined by the State. The State University records an expense and corresponding State appropriation revenue for fringe benefit costs based on the fringe benefit rate applied to total eligible personal service costs incurred.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by a college or university that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the college or university that is applicable to a future reporting period. Deferred inflows and deferred outflows of resources include amounts related to changes in the net pension and OPEB liabilities of the State University's cost sharing pension plans and the OPEB plans due to changes between expected and actual claims experience and changes in actuarial assumptions such as the discount rate used to determine the respective liability. Deferred outflows of resources also include losses resulting from refinancing of debt which represents the difference between the reacquisition price and the net carrying amount of the old debt and is amortized over the life of the related debt. The composition of deferred outflows and deferred inflows of resources at June 30, 2018 and 2017 is as follows (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB activities	$ 103,965	1,952,089	101,538	1,038,639
Pension activities	303,620	385,714	413,312	127,805
Deferred loss on refunding	76,978	—	52,441	—
Other	—	35,759	—	34,461
Total	$ 484,563	2,373,562	567,291	1,200,905

Pensions

For the cost-sharing multiple employer pension plans the State University participates in, a portion of the Plan's net pension liability (asset), as well as deferred inflows and outflows from pension activities are reflected in the reported amounts on the balance sheet. The State University is considered a participating employer of the New York State and Local Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), and New York State Teachers' Retirement System (TRS) pension plans. As a result, the State University has recorded a participating proportion of the net pension liability (asset) and related deferrals of the ERS, PFRS, and TRS plans. Also, the State University administers a single-employer defined benefit plan for which the State University reports the entire net pension liability and related deferred inflows and deferred outflows. This plan is frozen and is further described in note 8 to the financial statements. For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to and deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by those plans.

Postemployment and Post-retirement Benefits

In addition to providing pension benefits, the State University provides health insurance coverage and survivor benefits for retired employees and their survivors. Postemployment benefits other than pensions are recognized on an actuarially determined basis as employees earn benefits that are expected to be used in the future. Substantially all of the State University employees may become eligible for these benefits if they reach normal retirement age while working for the State University. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is shared between the State University and the retired employee. The amounts earned include employee sick leave credits expected to be used to pay for a share of post-retirement health insurance.

Tax Status

The State University and the Construction Fund are political subdivisions of the State and are, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations. The Research Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally tax-exempt on related income, pursuant to Section 501(a) of the Code.

Notes to Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies and Basis of Presentation (continued)

Reclassifications

Certain amounts displayed in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. The most significant estimates relate to the actuarial valuations and assumptions that affect the postemployment benefit liabilities, pension obligations and medical malpractice claims. Other significant estimates include the allowance for uncollectable receivables and the valuation of certain investments measured at net asset value. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Cash and cash equivalents and restricted cash represent State University funds held in the State treasury, in the short-term investment pool (STIP), in State bank accounts, unexpended escrow funds for equipment financing, and cash held by affiliated organizations. Cash held in the State treasury beyond immediate need is pooled with other State funds for short-term investment purposes. The pooled balances are limited to legally-stipulated investments which include obligations of, or are guaranteed by, the United States; obligations of the State and its political subdivisions; commercial paper; and repurchase agreements. These investments are reported at cost (which approximates fair value) and are held by the State's agent in its name on behalf of the State University.

The custodial credit risk is the risk that, in event of the failure of a depository financial institution, the State University will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

For campus State bank accounts the State requires that its depository banks pledge collateral or provide a surety bond based on actual and average daily available bank balances. All securities pledged as collateral are held by the State's fiscal agent in its name on behalf of the State University and are valued on a monthly basis.

The New York State Comprehensive Annual Financial Report contains the GASB Statement No. 40 risk disclosures for deposits held in the State treasury. Deposits not held in the State treasury that are not covered by depository insurance and are (a) uncollateralized; (b) collateralized with securities held by a pledging financial institution; or (c) collateralized with securities held by a pledging financial institution's trust department or agency, but not in the State University or affiliates' name at June 30, 2018 and 2017, are as follows (in thousands):

	Category (a)	Category (b)	Category (c)
2018	$ 65,019	95,327	2,725
2017	$ 59,442	90,209	2,490

3. Deposits with Bond Trustees

Deposits with bond trustees primarily represent DASNY bond proceeds needed to finance capital projects and to establish required building and equipment replacement and debt service reserves. Pursuant to financing agreements with DASNY, bond proceeds, including interest income, are restricted for capital projects or debt service. Also included are non-bond proceeds that have been designated for capital projects and equipment.

The State University's deposits with bond trustees, which include cash and investments, are registered in the State University's name and held by an agent or in trust accounts in the State University's name. Cash and short-term investments held in the State treasury and money market accounts were approximately $150 million and $149 million at June 30, 2018 and 2017, respectively.

3. Deposits with Bond Trustees (continued)

The market value of investments held and maturity period are displayed in the following table (in thousands):

Fiscal Year 2018

Type of Investments	Fair Value	Level 1	Level 2	Less than 1 year	1-5 years
U.S. Treasuries	$ 1,177,471	6,185	1,171,286	1,172,344	5,127
Federal Agencies*	47,195	—	47,195	17,623	29,572
Total	$ 1,224,666	6,185	1,218,481	1,189,967	34,699

Fiscal Year 2017

Type of Investments	Fair Value	Level 1	Level 2	Less than 1 year	1-5 years
U.S. Treasuries	$ 333,484	402	333,082	333,390	94
Federal Agencies*	77,034	—	77,034	77,034	—
Total	$ 410,518	402	410,116	410,424	94

**Rating on investments are AA / Aaa / AAA*

4. Investments

Investments of the State University are recorded at fair value. Investments include those held by the statutory colleges at Cornell University and Alfred University (Alfred Ceramics), the Research Foundation, the Construction Fund, and State University campuses.

For financial reporting purposes, assets attributable to the statutory colleges at Cornell University and Alfred University are held in Cornell University's and Alfred University's entire portfolio of investments and are invested in external investment pools. The assets are not managed by, or attributable to, any individual college and the statutory colleges do not have the authority to manage investment assets independently. The fair value of the statutory colleges' investments is primarily based on the unit value of the pools and the number of shares owned in the various investment pools. The table below presents the unit value of each external investment pool, in addition to the fair value (in thousands) of assets attributable to the statutory colleges at June 30.

	2018		2017	
	Unit Value	Fair Value	Unit Value	Fair Value
Cornell Statutory Colleges:				
Endowments:				
Long-term investment pool	$ 58.27	927,877	55.51	849,338
Charitable gift annuities master trust units	1.81	9,809	1.68	9,849
Charitable trusts:				
Endowment strategy	56.82	25,844	55.00	24,814
Common trust fund - growth	41.96	6,402	38.00	6,306
Common trust fund - income	12.29	2,431	12.76	2,326
Common trust fund - premier	8.20	591	8.52	593
Pooled life income funds:				
PLIF A	1.34	407	1.36	652
PLIF B	2.56	685	2.54	742
Alfred Ceramics:				
Endowment long-term investment pool	7.24	22,237	6.74	21,549
Total external investment pools		$ 996,283		916,169

4. Investments (continued)

The Research Foundation maintains a diverse investment portfolio and follows an investment policy and asset guidelines approved and monitored by its board of directors. The portfolio is mainly comprised of mutual funds, exchange-traded funds and alternative investments of high quality and liquidity. Investments are held with the investment custodian in the Research Foundation's name.

Investments of the Construction Fund are made in accordance with the applicable provisions of the laws of the State and the Construction Fund's investment policy and consist primarily of obligations of the United States government and its agencies. These investments are held by the State's agent in the Construction Fund's name.

Except for investments reported at net asset value (NAV) or its equivalent as a practical expedient to estimate fair value, fair value is measured using three levels:

> Level 1: Investments include cash and money market funds, equity and fixed income securities with observable market prices. Fair value is readily determinable based on quoted market prices in active markets for those securities.
>
> Level 2: Investments whose inputs are other than quoted prices in active markets that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.
>
> Level 3: Investments have significant unobservable inputs. The inputs into the determination of fair value are based on the best information available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for investments measured at fair value:

Mutual funds and exchange traded funds are reported at current quoted fair values as of the balance sheet date.

Investments in limited liability partnerships and corporations represent investments measured at NAV or its equivalent and consist of hedge funds of funds, real estate, domestic and foreign equity funds, fixed income securities and private equity funds in various investment vehicles. These investments, which are not exchange traded, do not have readily determinable fair values. These investments are typically redeemable at NAV under the terms of the investment agreements. Estimates of fair value are made using NAV per share or its equivalent as a practical expedient and are not required to be categorized in the fair value hierarchy.

External investment pools represents ownership in Cornell University's and Alfred University's long-term investment pools (LTIP) or other split interest agreement pools. The objective of the LTIP investment policy is to maximize total return within a reasonable risk parameter - specifically, to achieve a total return, net of investment expenses, of at least 5% in excess of inflation as measured by a rolling average of the Consumer Price Index.

Private equity fund investments include non-controlling shares or interests in funds where the controlling general partner serves as the investment's manager. Such investments are generally not eligible for redemption from the fund or general partner, but can potentially be sold to third-party buyers in private transactions. It is the intent to hold these investments until the fund has fully distributed all proceeds to the investors. The State University has unfunded commitments to private equity investments as of June 30, 2018 and 2017 of approximately $10.5 million and $7.5 million, respectively.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the State University believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different fair value measurement at the reporting dates.

Investment income is reported net of investment fees of approximately $6 million for both the June 30, 2018 and 2017 fiscal years. The State University did not have any exposure to foreign currency risk for investments held at June 30, 2018 and 2017.

4. Investments (continued)

The composition of investments at June 30, 2018 and 2017 is as follows (in thousands):

Investments at June 30, 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and money market funds	$ 147,767	147,767	—	—
U.S. Treasury bills	30,541	30,541	—	—
U.S. Treasury notes and bonds	165	165	—	—
Municipal bonds	106	—	106	—
U.S. fixed income	759	756	3	—
Mutual funds - non-equities	44,730	43,839	891	—
U.S. equities	25,077	25,077	—	—
Global equities	15,377	15,377	—	—
Hedged equities	3,374	3,374	—	—
Real estate	13,144	12,922	—	222
Multi-strategy funds	1,105	1,105	—	—
Other	1,343	8	1	1,334
Total investments by fair value level	283,488	280,931	1,001	1,556
Investments measured at NAV:				
External investment pools	996,283			
Global equities	30,116			
Private equity	16,772			
Hedged equities	41,412			
Multi-strategy funds	27,651			
Credit securities	14,761			
Other	12,149			
Total investments measured at NAV	1,139,144			
Total investments	$ 1,422,632			

2018 redemption disclosures for investments measured at NAV (in thousands):

	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
External investment pools	$ 996,283	Monthly	Two months
Global equities	30,116	Monthly, quarterly, annually	30 to 90
Private equity	16,772	N/A - see above	N/A
Hedged equities	41,412	Monthly, Quarterly	30 to 90
Multi-strategy funds	27,651	Monthly, Quarterly	45 to 95
Credit securities	14,761	Monthly, Quarterly	30 to 45
Other	12,149	N/A	N/A
Total investments measured at NAV	$ 1,139,144		

Notes to Financial Statements

June 30, 2018 and 2017

4. Investments (continued)

Investments at June 30, 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Cash and money market funds	$ 56,206	55,689	517	—
U.S. Treasury bills	30,035	30,035	—	—
U.S. Treasury notes and bonds	138	138	—	—
Municipal bonds	110	—	110	—
U.S. fixed income	720	680	40	—
Mutual funds - non-equities	25,587	24,386	1,201	—
U.S. equities	10,742	10,742	—	—
Global equities	9,513	9,513	—	—
Real estate	6,435	6,435	—	—
Multi-strategy funds	1,959	1,959	—	—
Other	1,490	10	13	1,467
Total investments by fair value level	142,935	139,587	1,881	1,467
Investments measured at NAV:				
External investment pools	916,169			
Global equities	36,109			
Private equity	15,160			
Hedged equities	31,615			
Multi-strategy funds	18,932			
Credit securities	11,418			
Other	7,638			
Total investments measured at NAV	1,037,041			
Total investments	$ 1,179,976			

2017 redemption disclosures for investments measured at NAV (in thousands):

	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
External investment pools	$ 916,169	Monthly	Two months
Global equities	36,109	Monthly, quarterly, annually	15 to 90
Private equity	15,160	N/A - see above	N/A
Hedged equities	31,615	Quarterly	90
Multi-strategy funds	18,932	Monthly, Quarterly	45 to 95
Credit securities	11,418	Monthly, Quarterly	30 to 45
Other	7,638	N/A	N/A
Total investments measured at NAV	$ 1,037,041		

Notes to Financial Statements

June 30, 2018 and 2017

4. Investments (continued)

At June 30, 2018 and 2017, the State University had non-equity investments and maturities as summarized in Table A.

***Table A** (in thousands)*

	Fiscal Year 2018					Fiscal Year 2017				
Investment Type	**Market Value**	**Less than 1 yr**	**1-5 yrs**	**6-10 yrs**	**More than 10 yrs**	**Market Value**	**Less than 1 yr**	**1-5 yrs**	**6-10 yrs**	**More than 10 yrs**
U.S. Treasury bills	$ 30,541	30,541	—	—	—	30,035	30,035	—	—	—
U.S. Treasury notes/bonds	165	4	54	72	35	138	138	—	—	—
Municipal bonds	106	—	106	—	—	110	—	110	—	—
Fixed income	888	41	373	316	158	720	—	720	—	—
Mutual funds - non-equities	44,730	—	—	43,839	891	25,587	—	1,027	23,431	1,129
Total investments	$ 76,430	30,586	533	44,227	1,084	56,590	30,173	1,857	23,431	1,129

Credit quality ratings of the State University's investments in debt securities, as described by Moody's, S&P, and Fitch as of June 30, 2018 and 2017, are summarized in Table B.

***Table B** (in thousands)*

Credit Rating	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Not Rated**
Investment Type - 2018							
Municipal bonds	$ —	—	—	—	—	—	106
Fixed income	580	38	108	140	2	—	20
Mutual funds - non-equities*	43,909	—	662	159	—	—	—
Total	$ 44,489	38	770	299	2	—	126
Investment Type - 2017							
Municipal bonds	$ —	—	—	—	—	—	110
Fixed income	—	—	—	—	—	—	720
Mutual funds - non-equities*	24,458	—	905	224	—	—	—
Total	$ 24,458	—	905	224	—	—	830

**based on average credit quality of holdings*

5. Accounts, Notes, and Loans Receivable

At June 30, accounts, notes, and loans receivable are summarized for years 2018 and 2017, as follows (in thousands):

	2018	2017
Tuition and fees	$ 57,162	48,425
Allowance for uncollectible	(13,153)	(11,117)
Net tuition and fees	44,009	37,308
Room rent	23,986	13,066
Allowance for uncollectible	(4,703)	(3,199)
Net room rent	19,283	9,867
Patient fees, net of contractual allowances	1,047,278	1,105,877
Allowance for uncollectible	(474,695)	(455,796)
Net patient fees	572,583	650,081
Other	83,471	113,136
Allowance for uncollectible	(19,340)	(22,580)
Net other	64,131	90,556
Total accounts and notes receivable	700,006	787,812
Student loans	163,094	165,416
Allowance for uncollectible	(26,632)	(25,217)
Total student loans receivable	136,462	140,199
Total, net	$ 836,468	928,011

Notes to Financial Statements

June 30, 2018 and 2017

6. Capital Assets

Capital assets, net of accumulated depreciation, totaled $12.85 billion and $12.46 billion at fiscal year ends 2018 and 2017, respectively. Capital asset activity for fiscal years 2018 and 2017 is reflected in Table C. In the table, closed projects and retirements represent capital assets retired and assets transferred from construction in progress for projects completed and added to the related capital assets category.

***Table C** (in thousands)*

	June 30, 2016	Additions	Closed Projects & Retirements	June 30, 2017	Additions	Closed Projects & Retirements	June 30, 2018
Capital assets:							
Land	$ 667,416	22,595	424	689,587	52,570	313	741,844
Infrastructure and land improvements	1,184,886	72,152	11,354	1,245,684	108,116	24,794	1,329,006
Buildings	12,223,238	808,766	62,309	12,969,695	1,297,018	84,550	14,182,163
Equipment, library books and other	3,207,151	190,947	276,459	3,121,639	206,538	128,939	3,199,238
Construction in progress	2,183,139	929,992	949,367	2,163,764	869,693	1,494,309	1,539,148
Total capital assets	19,465,830	2,024,452	1,299,913	20,190,369	2,533,935	1,732,905	20,991,399
Less: accumulated depreciation:							
Infrastructure and land improvements	538,748	53,369	9,123	582,994	56,988	19,950	620,032
Buildings	4,332,221	366,792	56,134	4,642,879	395,772	69,230	4,969,421
Equipment, library books and other	2,491,602	188,043	173,282	2,506,363	178,699	131,451	2,553,611
Total accumulated depreciation	7,362,571	608,204	238,539	7,732,236	631,459	220,631	8,143,064
Capital assets, net	$12,103,259	1,416,248	1,061,374	12,458,133	1,902,476	1,512,274	12,848,335

7. Long-term Liabilities

The State University has entered into capital leases and other financing agreements with DASNY to finance most of its capital facilities. The State University has also entered into financing arrangements with the New York Power Authority under the statewide energy services program. Equipment purchases are also made through DASNY's Tax-exempt Equipment Leasing Program (TELP), various State sponsored equipment leasing programs, and private financing arrangements. The State University is responsible for lease debt service payments sufficient to cover the interest and principal amounts due under these arrangements.

Notes to Financial Statements

June 30, 2018 and 2017

7. Long-term Liabilities (continued)

Total obligations as of June 30, 2018 and 2017, other than facilities obligations, which are included as of March 31, 2018 and 2017, are summarized in Table D.

Table D *(in thousands)*

For the 2018 Fiscal Year	July 1, 2017	Additions	Reductions	June 30, 2018	Current Portion
Long-term debt:					
Educational facilities	$ 8,133,040	1,782,612	789,813	9,125,839	271,582
Unamortized bond premium - educational facilities	653,313	249,261	52,321	850,253	44,731
Residence hall facilities	649,780	—	256,040	393,740	25,810
Unamortized bond premium - residence hall facilities	58,033	—	19,043	38,990	1,950
Capital lease arrangements	419,836	48,108	65,760	402,184	58,906
Other long-term debt	78,347	107,505	10,794	175,058	12,615
Total long-term debt	9,992,349	2,187,486	1,193,771	10,986,064	415,594
Other long-term liabilities:					
Postemployment and post-retirement	13,056,346	737,660	1,275,795	12,518,211	—
Collateralized borrowing	1,061,257	408,695	44,066	1,425,886	53,636
Litigation	690,853	63,121	13,391	740,583	30,548
Pension	734,364	225,698	634,328	325,734	22,308
Other long-term liabilities	477,939	177,377	161,660	493,656	194,713
Total other long-term liabilities	16,020,759	1,612,551	2,129,240	15,504,070	301,205
Total long-term liabilities	$26,013,108	3,800,037	3,323,011	26,490,134	716,799

For the 2017 Fiscal Year	Restated July 1, 2016	Additions	Reductions	June 30, 2017	Current Portion
Long-term debt:					
Educational facilities	$ 8,359,832	—	226,792	8,133,040	358,372
Unamortized bond premium - educational facilities	688,578	—	35,265	653,313	35,265
Residence hall facilities	682,175	—	32,395	649,780	29,835
Unamortized bond premium - residence hall facilities	60,432	—	2,399	58,033	2,399
Capital lease arrangements	418,388	57,890	56,442	419,836	56,719
Other long-term debt	89,053	6	10,712	78,347	6,300
Total long-term debt	10,298,458	57,896	364,005	9,992,349	488,890
Other long-term liabilities:					
Postemployment and post-retirement	13,714,019	936,330	1,594,003	13,056,346	—
Collateralized borrowing	1,095,300	—	34,043	1,061,257	41,858
Litigation	697,996	2,207	9,350	690,853	34,017
Pension	1,080,636	337,026	683,298	734,364	24,924
Other long-term liabilities	472,511	163,291	157,863	477,939	192,208
Total other long-term liabilities	17,060,462	1,438,854	2,478,557	16,020,759	293,007
Total long-term liabilities	$27,358,920	1,496,750	2,842,562	26,013,108	781,897

7. Long-term Liabilities (continued)

Educational Facilities

The State University, through DASNY, has entered into financing agreements to finance various educational facilities which have a maximum 30-year life. Athletic facility debt is aggregated with educational facility debt. Debt service is paid by, or from specific appropriations of, the State.

During 2018, Personal Income Tax (PIT) and Sales Tax Revenue Bonds were issued with a par amount of $1.37 billion at a premium of $175.5 million for the purpose of financing capital construction and major rehabilitation for educational facilities. PIT bonds were also issued with a par amount of $410.0 million at a premium of $73.8 million in order to refund $449.5 million of the State University's existing educational facilities obligations. The result will produce an estimated savings of $75.8 million in future cash flow, with an estimated present value gain of $71.8 million.

Residence Hall Facilities

The State University has entered into capital lease agreements for residence hall facilities. DASNY bonds for most of the residence hall facilities, and these bonds have a maximum 30-year life and are repaid from room rentals and other residence hall revenues. Upon repayment of the bonds, including interest thereon, and the satisfaction of all other obligations under the lease agreements, DASNY shall convey to the State University all rights, title, and interest in the assets financed by the capital lease agreements. Residence hall facilities revenue realized during the year from facilities for which there are bonds outstanding is pledged as a security for debt service and is assigned to DASNY to the extent required for debt service purposes. Any excess funds pledged to DASNY are available for residence hall capital and operating purposes.

In prior years, the State University defeased various obligations, whereby proceeds of new obligations were placed in an irrevocable trust to provide for all future debt service payments on the defeased obligations. Accordingly, the trust account assets and liabilities for the defeased obligations are not included in the State University’s financial statements. As of March 31, 2018, $519.5 million of outstanding educational facilities obligations and $328.3 million of residence hall obligations were considered defeased.

Requirements of the long-term debt obligations as of June 30, 2018 are as follows (in thousands):

Fiscal Year(s)	Educational Facilities		Residential Facilities		Other		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 271,582	447,343	25,810	18,614	118,202	29,166	415,594	495,123
2020	241,751	437,066	21,935	17,517	107,675	26,907	371,361	481,490
2021	264,100	427,121	19,095	16,572	100,684	24,454	383,879	468,147
2022	360,159	414,746	15,885	15,718	92,960	21,999	469,004	452,463
2023	467,344	397,656	7,050	15,146	87,078	19,647	561,472	432,449
2024-28	2,060,216	1,647,188	7,150	74,046	391,194	61,558	2,458,560	1,782,792
2029-33	1,599,237	1,184,100	52,110	69,096	218,969	17,249	1,870,316	1,270,445
2034-38	1,621,830	795,696	120,020	46,577	153,755	14,502	1,895,605	856,775
2039-43	1,511,665	380,946	124,685	13,869	106,700	12,270	1,743,050	407,085
2044-48	727,955	—	—	—	89,268	7,836	817,223	7,836
Total	$ 9,125,839	6,131,862	393,740	287,155	1,466,485	235,588	10,986,064	6,654,605
	Interest rates range from 1.39% to 5.88%		Interest rates range from 3.0% to 5.0%		Interest rates range from 1.06% to 8.28%			

7. Long-term Liabilities (continued)

Collateralized Borrowing

In March 2013, the State enacted legislation amending the Public Authorities Law and Education Law of the State. The amendments, among other things, authorized the State University to assign to DASNY all of the State University's rights, title and interest in dormitory facilities revenues derived from payments made by students and others for use and occupancy of certain dormitory facilities. The amendments further authorize DASNY to issue State University of New York Dormitory Facilities Revenue Bonds payable from and secured by the dormitory facilities revenues assigned to it by the State University. The enacted legislation also created a special fund to be held by the State's Commissioner of Taxation and Finance on behalf of DASNY. All dormitory facilities revenues collected by the State University are required to be deposited in this special fund.

The outstanding obligations under these bonds are reported as collateralized borrowing in the State University's financial statements since these bonds are not payable from any money of the State University or the State and neither the State University nor the State has any obligation to make any payments with respect to the debt service on the bonds. The pledged revenues recognized during the fiscal years ended June 30, 2018 and 2017 amounted to $564.4 million and $554.3 million, respectively. There were principal payments of $37.4 million and $29.6 million and interest payments of $57.2 million and $47.7 million during fiscal years 2018 and 2017, respectively. Total principal and interest outstanding on the bonds at June 30, 2018 were $1.26 billion and $651.9 million, respectively, payable through July 1, 2046.

These bonds are special obligations of DASNY payable solely from the dormitory facilities revenues collected by the State University as agent for DASNY.

8. Retirement Plans

Retirement Benefits

The three major defined benefit retirement plans State University employees participate in are ERS, PFRS and TRS. ERS and PFRS are cost-sharing, multiple-employer, defined benefit public plans administered by the State Comptroller. TRS is a cost-sharing, multiple-employer, defined benefit public plan separately administered by a ten-member board. The State University reported amounts include the net pension liability (asset) for employees of the State University that participate in ERS, PFRS and TRS pension plans.

Obligations of employers and employees to contribute, and related benefits, are governed by the New York State Retirement and Social Security Law (NYSRSSL) and Education Law and may only be amended by the Legislature with the Governor's approval. These plans offer a wide range of programs and benefits. ERS, PFRS and TRS benefits vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. Each plan provides a permanent annual cost-of-living increase to both current and future retired members meeting certain eligibility requirements. Participating employers are required under law to contribute to these plans on an actuarially determined rate. For ERS and PFRS this rate is determined annually by the State Comptroller. The average contribution rate for the fiscal year ended March 31, 2018 for ERS and PFRS was approximately 15.3 percent and 24.4 percent of payroll, respectively. For TRS, this rate is determined by the TRS Board on an annual basis and was 11.7 percent of payroll for the year ended June 30, 2017.

ERS, PFRS and TRS provide retirement benefits as well as death and disability benefits through a range of programs. For those members joining prior to January 1, 2010 benefits generally vest after five years of credited service. For those joining after January 1, 2010 (ERS and TRS) and January 9, 2010 (PFRS) benefits generally vest after 10 years of credited service. The NYSRSSL provides that all participating employers in ERS, PFRS and TRS are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Employees who joined ERS and TRS after July 27, 1976 and before January 1, 2010 (January 9, 2010 PFRS), and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after January 1, 2010 (January 9, 2010 PFRS) and before April 1, 2012 are required to contribute 3.5 percent of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employee contributions are deducted from their salaries and remitted on a current basis to ERS, PFRS and TRS.

8. Retirement Plans (continued)

The State University administers a single-employer defined benefit plan, “the Upstate Medical University Retirement Plan for Former Employees of Community General Hospital (CGH)” (Upstate Plan). This plan provides for retirement benefits for former employees of CGH, and can be amended subject to applicable collective bargaining and employment agreements. For those who opted out of this plan, benefit accruals were frozen. No new participants can enter this plan. The State University established a Pension Oversight Committee (Committee) which has the primary fiduciary responsibility and oversight of the Upstate Plan. The Committee is permitted to invest plan assets pursuant to various provisions of State law, including the NYSRSSL.

The Upstate Plan provides retirement, disability, termination and death benefits to plan participants and their beneficiaries. Pension benefits are generally based on the highest five-year average compensation of the final ten years of employment, and years of credited service as outlined in the plan. Covered employees with five or more years of service are entitled to a pension benefit beginning at normal retirement age (65). Participants with less than five years of service are not vested. Participants become fully vested after five years of service. The funding policy is to contribute enough to the plan to satisfy the annual required contributions (ARC) and the employer contributions. Employees do not contribute to the Plan.

For ERS, PFRS, TRS and the Upstate Plan, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to the expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. In addition, for each plan, the projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from participating employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the fiduciary net position for each plan 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for each plan. ERS and PFRS used a discount rate of 7.0 percent for both years. TRS used a discount rate of 7.25 percent and 7.5 percent for fiscal years 2018 and 2017, respectively. The Upstate Plan used a discount rate of 6.5 percent for both years. The total contributions made to the ERS, PFRS, TRS and Upstate Plan during 2018 and 2017 were $200.3 million and $197.9 million, $8.0 million and $2.5 million, $15.0 million and $16.7 million, and $2.0 million and $2.8 million, respectively. At June 30, 2018 and 2017, the total net pension liability, included in long-term liabilities, for these plans was $188.4 million and $551.4 million, respectively. Additionally, at June 30, 2018 and 2017, there is deferred outflows of resources of $303.6 million and $413.3 million, and deferred inflows of resources of $385.7 million and $127.8 million, respectively. There was also a pension asset, included in other noncurrent assets, of $6.1 million at June 30, 2018. For the fiscal years ended June 30, 2018 and 2017, the State University recognized pension expense of $225.7 million and $312.1 million, respectively.

ERS and PFRS – The State University recognized a net pension liability of $175.8 million and $510.4 million for its proportionate share of the ERS net pension liability at June 30, 2018 and 2017, respectively. The State University also recognized a net pension liability of $11.2 million and $21.8 million for its proportionate share of the PFRS net pension liability at June 30, 2018 and 2017, respectively. The State University’s proportionate share of the net pension liability was determined consistent with the manner in which contributions to the pension plan are determined and was based on the ratio of the State University’s total projected long-term contribution effort to the total ERS and PFRS projected long-term contribution effort from all employers. The net pension liability at June 30, 2018 was measured as of March 31, 2018, and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The net pension liability at June 30, 2017 was measured as of March 31, 2017, and was determined by an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The proportionate share of the net pension liability for ERS was 5.45 percent measured at March 31, 2018 compared to 5.43 percent measured at March 31, 2017. The proportionate share of the net pension liability for PFRS was 1.10 percent measured as of March 31, 2018 compared to 1.05 percent measured as of March 31, 2017.

Notes to Financial Statements

June 30, 2018 and 2017

8. Retirement Plans (continued)

For the fiscal years ended June 30, 2018 and 2017, the State University recognized pension expense related to ERS of $200.0 million and $282.6 million, respectively. At June 30, 2018 and 2017, the State University reported deferred outflows and deferred inflows of resources related to ERS from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 62,715	51,825	12,791	77,510
Changes of assumptions	116,594	—	174,377	—
Net difference between projected and actual earnings on pension plan investments	—	248,723	101,951	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,682	40,416	6,359	34,659
Total	$ 189,991	340,964	295,478	112,169

Amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	$ 25,100
2020	19,279
2021	(133,391)
2022	(61,961)

For the fiscal years ended June 30, 2018 and 2017, the State University recognized pension expense related to PFRS of $10.2 million and $12.5 million, respectively. At June 30, 2018 and 2017, the State University reported deferred outflows and deferred inflows of resources related to PFRS from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,590	2,963	2,859	3,765
Changes of assumptions	8,449	—	10,736	—
Net difference between projected and actual earnings on pension plan investments	—	9,152	3,255	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	431	2,398	508	1,789
Total	$ 13,470	14,513	17,358	5,554

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PFRS pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	$ 1,851
2020	1,596
2021	(2,783)
2022	(1,967)
2023	260

8. Retirement Plans (continued)

The actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018, and the actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017, included the following actuarial assumptions.

Assumptions	2018	2017
Actuarial cost method	Entry age normal	Entry age normal
Inflation	2.5 percent	2.5 percent
Salary scale	3.8 percent (ERS), 4.5 percent (PFRS)	3.8 percent (ERS), 4.5 percent (PFRS)
Investment rate of return, including inflation	7 percent compounded annually, net of investment expenses	7 percent compounded annually, net of investment expenses
Cost of living adjustments	1.3 percent annually	1.3 percent annually
Decrements	Developed from each Plan's 2015 experience study for period Apri1 1, 2010 through March 31, 2015	Developed from each Plan's 2015 experience study for period Apri1 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014
Discount rate	7.0 percent	7.0 percent

Best estimates of arithmetic real rates of return for each major asset class included in the ERS and PFRS target asset allocation as of March 31, 2018 and 2017 are as follows:

	2018		2017	
Asset Class	Target Allocation	Long-term expected real rate of return *	Target Allocation	Long-term expected real rate of return *
Domestic equities	36%	4.55%	36%	4.55%
International equities	14	6.35	14	6.35
Private equities	10	7.50	10	7.75
Real estate	10	5.55	10	5.80
Absolute return strategies	2	3.75	2	4.00
Opportunistic portfolio	3	5.68	3	5.89
Real assets	3	5.29	3	5.54
Bonds and mortgages	17	1.31	17	1.31
Cash	1	(0.25)	1	(0.25)
Inflation-indexed bonds	4	1.25	4	1.50
Total	100%		100%	

*Real rates of return are net of a long-term inflation assumption of 2.5%.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the State University, calculated using the discount rate of 7.0 percent as well as what the State University's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) and 1 percentage point higher (8.0%) than the current year rate (in thousands):

	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
ERS Net Pension Liability (Asset)	$ 1,330,424	175,836	(800,899)
PFRS Net Pension Liability (Asset)	$ 54,625	11,152	(25,312)

8. Retirement Plans (continued)

The ERS and PFRS retirement systems issue a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at http://www.osc.state.ny.us/retire/about_us/financial_ statements_index.php.

The ERS plan allows participating employers to amortize a portion of their annual pension costs. The amounts amortized will be paid back with interest over 10 years. The State University participates in this program and the total pension payable included in long-term liabilities at June 30, 2018 and 2017 is $137.3 million and $182.9 million, respectively.

TRS – The State University recognized a net pension (asset) of $(6.1) million at June 30, 2018 and a net pension liability of $8.7 million at June 30, 2017 for its proportionate share of the TRS net pension (asset) liability. The State University's proportionate share of the net pension liability (asset) was based on the ratio of the State University's actuarially determined employer contribution to the total TRS actuarially determined employer contribution. The net pension liability (asset) reported at June 30, 2018 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability (asset) to June 30, 2017. The net pension liability (asset) reported at June 30, 2017 was measured as of June 30, 2016, and was determined by an actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability (asset) to June 30, 2016. The proportionate share of the net pension liability (asset) was 0.81% measured at June 30, 2017 compared to 0.82% at June 30, 2016.

For fiscal years ended June 30, 2018 and 2017, the State University recognized pension expense related to TRS of $14.7 million and $13.6, respectively. At June 30, 2018 and 2017, the State University reported deferred outflows and deferred inflows of resources related to TRS from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,058	2,397	—	2,841
Changes in assumptions	62,553	—	49,818	—
Net difference between projected and actual earnings on pension plan investments	—	14,479	19,664	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	470	4,396	—	5,215
Employer contributions subsequent to measurement date	27,430	—	24,697	—
Total	$ 95,511	21,272	94,179	8,056

At June 30, 2018 and 2017, $27.4 million and $24.7 million were reported as deferred outflows of resources related to pensions resulting from the State University contributions subsequent to the measurement date that will be recognized as an (increase) reduction of the net pension (asset) liability in the year ended June 30, 2019 and 2018, respectively. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	$ 713
2020	15,840
2021	11,133
2022	2,230
2023	11,098
Thereafter	5,795

8. Retirement Plans (continued)

The actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension asset to June 30, 2017, and the actuarial valuation as of June 30, 2015, with update procedures used to roll forward the total pension liability to June 30, 2016, included the following actuarial assumptions.

Assumptions	2018	2017
Inflation	2.5 percent	2.5 percent
Projected salary increase	Rates differ based on service. They have been calculated based upon recent TRS member experience and range from 1.9 percent to 4.72 percent	Rates differ based on service. They have been calculated based upon recent TRS member experience and range from 1.9 percent to 4.72 percent
Investment rate of return, including inflation	7.25 percent compounded annually, net of expenses, including inflation	7.5 percent compounded annually, net of expenses, including inflation
Cost of living adjustments	1.5 percent compounded annually	1.5 percent compounded annually
Actuarial assumptions	Based on results of an actuarial experience study for the period July 1, 2009 to June 30, 2014	Based on results of an actuarial experience study for the period July 1, 2009 to June 30, 2014
Mortality improvement	Society of Actuaries' Scale MP-2014	Society of Actuaries' Scale MP-2014
Discount rate	7.25 percent	7.5 percent

Best estimates of arithmetic real rates of return for each major asset class included in TRS target asset allocation as of the valuation date of June 30, 2017 and June 30, 2016 for reporting at June 30, 2018 and 2017 were as follows:

	2018		2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equities	35%	5.9%	37%	6.1%
International equities	18	7.4	18	7.3
Real estate	11	4.3	10	5.4
Private equities	8	9.0	7	9.2
Domestic fixed income securities	16	1.6	17	1.0
Global fixed income securities	2	1.3	2	0.8
High-yield fixed income securities	1	3.9	—	—
Mortgages	8	2.8	8	3.1
Short-term	1	0.6	1	0.1
Total	100%		100%	

*Real rates of return are net of a long-term inflation assumption of 2.2% for 2018 and 2.1% for 2017.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the State University, calculated using the discount rate of 7.25% as well as what the State University's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) and 1-percentage point higher (8.25%) than the current year rate (in thousands):

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Net Pension Liability (Asset)	$ 105,905	(6,148)	(99,986)

Notes to Financial Statements

June 30, 2018 and 2017

8. Retirement Plans (continued)

The TRS retirement system issues a publicly available financial report that includes financial statements and supplementary information and provides detailed information about the pension plan's fiduciary net position. The report may be obtained at: https://www.nystrs.org/Library/Publications/Annual-Report.

Upstate Plan – At June 30, 2018 and 2017, the State University recognized a net pension liability of $1.5 million and $10.5 million, respectively, based on the net pension liability as reported by the plan as follows (in thousands):

	2018	2017
Total pension liability	$ 105,135	105,954
Plan fiduciary net position	103,681	95,459
Net pension liability	$ 1,454	10,495
Ratio of plan fiduciary net position to total pension liability	98.6%	90.1%

The total pension liability at June 30, 2018 and 2017 was measured as of January 1, 2018 and 2017 and was determined by using an actuarial valuation as of January 1, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the State University recognized pension expense of $0.7 million and $3.4 million related to the Upstate Plan.

At June 30, 2018, the State University reported deferred outflows and deferred inflows of resources related to the Upstate Plan from the following sources (in thousands):

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 786	—	200	—
Net difference between projected and actual earnings on pension plan investments	2,732	8,677	4,098	1,331
Changes in assumptions	—	288	—	695
Employer contributions subsequent to measurement date	1,130	—	2,017	—
Total	$ 4,648	8,965	6,315	2,026

At June 30, 2018 and 2017, $1.1 million and $2.0 million were reported as deferred outflows of resources related to pensions resulting from the State University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	$ (397)
2020	(881)
2021	(2,247)
2022	(1,922)

Membership of the Upstate Plan at January 1, 2018 totaled 1,413 members, comprised of 378 active members, 272 inactive vested members, and 763 retirees and beneficiaries currently receiving benefits. Membership of the Upstate Plan at January 1, 2017 totaled 1,564 members, comprised of 421 active members, 408 inactive vested members, and 735 retirees and beneficiaries currently receiving benefits. The actuarial assumptions included in the January 1, 2018 and 2017 measurements included an inflation factor of 3.0 percent, projected salary increases of 3.5 percent and investment rate of return of 6.5 percent. Mortality rates were based on the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted back to 2006 using Scale MP-2014, and then projected with mortality improvements using Scale MP-2017 on a fully generational basis.

8. Retirement Plans (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the Upstate Plan's target asset allocation as of December 31, 2017 and 2016 for reporting at June 30, 2018 and 2017 were as follows:

	2018		2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equities	50%	4.60%	50%	4.60%
Non-U.S. Equities	15	4.50	15	4.50
Fixed Income	30	0.75	30	0.75
Alternatives (Real Assets)	5	3.50	5	3.50
	100%		100%	

Sensitivity of the net pension liability (asset) to changes in the discount rate: The following presents the net pension liability (asset) calculated using the discount rate of 6.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (5.5%) or 1 percentage point higher (7.5%) than the current rate (in thousands):

	1% Decrease (5.5%)	Current Discount (6.5%)	1% Increase (7.5%)
Net Pension Liability (Asset)	$ 12,814	1,454	(8,191)

The Upstate Plan issues a stand-alone financial report on a calendar year basis (i.e., December 31) that includes disclosure about the elements of the pension plan's basic financial statements. These financial statements are prepared on the accrual basis of accounting in accordance with GAAP, with investments reported at fair value and benefits recognized when due and payable in accordance with the terms of the Upstate Plan. The pension plan fiduciary net position has been determined on the same basis used by the pension plan. The schedule of changes in the net pension liability for the Upstate Plan are reflected in the Required Supplementary Information on page 63. The pension plan financial statements may be requested at FOIL@upstate.edu.

ORP – State University employees may also participate in an Optional Retirement Program (ORP) under IRS Section 401(a), which is a multiple-employer, defined contribution plan administered by separate vendors – TIAA, Fidelity, VALIC, and VOYA. ORP employer and employee contributions are dictated by State law. The ORP provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in an ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. Employer contributions are not remitted to an ORP plan until an employee is fully vested. As such there are no forfeitures reported by these plans if an employee is terminated prior to vesting. Employees who joined an ORP after July 27, 1976, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Those joining on or after April 1, 2012 are required to contribute between 3 percent and 6 percent, dependent upon their salary, for their entire working career. Employer contributions range from 8 percent to 15 percent depending upon when the employee was hired. Employee contributions are deducted from their salaries and remitted on a current basis to the respective ORP. State University employer contributions of $207.6 million and $232.7 million and employee contributions of $27.4 and $27.5 million were made during fiscal years 2018 and 2017, respectively.

Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The ORP financial reports can be obtained by requesting them from their respective corporate offices.

The Research Foundation maintains a separate non-contributory plan through TIAA for substantially all nonstudent employees. Contributions are based on a percentage of earnings and range from 7 percent to 15 percent, depending on date of hire. Employees become fully vested after completing one year of service. Contributions are allocated to individual employee accounts. The payroll for Research Foundation employees covered by TIAA for its fiscal years ended June 30, 2018 and 2017 was $363.5 million and

8. Retirement Plans (continued)

$368.3 million, respectively. The Research Foundation contributions were $31.3 million and $31.4 million for 2018 and 2017, respectively. These contributions are equal to 100 percent of the required contributions for each year.

Postemployment and Post-retirement Benefits

State University - The State University provides health insurance coverage for eligible retired State University employees and their survivors through the New York State Health Insurance Program (NYSHIP). The State University, through NYSHIP, offers comprehensive benefits through various providers consisting of hospital, medical, mental health, substance abuse and prescription drug programs. The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. NYSHIP is considered a single employer defined benefit plan offered by the State University to its participants. The State University, as a participant in the plan, recognizes these other postemployment benefit (OPEB) expenses on an accrual basis.

Employee and retiree contribution rates for NYSHIP are established by the State and are generally 12 percent for enrollee coverage and 27 percent for dependent coverage. NYSHIP is not a separate trust and no assets are accumulated to satisfy premiums. The number of employees and participants covered by the benefit terms were:

Health care participants	**2018**	**2017**
Active employees	48,880	48,008
Inactive participants entitled to but not yet receiving benefits	104	109
Retirees and surviving spouses receiving benefit payments	26,567	25,868
Total participants	75,551	73,985

The State University recognized a net OPEB liability of $12.50 billion and $12.99 billion for the fiscal years ended June 30, 2018 and 2017, respectively. The net OPEB liability at June 30, 2018 was measured as of March 31, 2018, and was determined by an actuarial valuation as of April 1, 2017, with update procedures used to roll-forward the net OPEB liability to March 31, 2018. The net OPEB liability at June 30, 2017 was measured as of March 31, 2017, and was determined by an actuarial valuation as of April 1, 2016, with update procedures used to roll-forward the net OPEB liability to March 31, 2017. The net OPEB liability was calculated using the Entry Age Normal cost method. The actuarial valuations included the following actuarial assumptions.

Assumptions	**2018**	**2017**
Inflation	2.5%	2.5%
Mortality improvement	Society of Actuaries’ Scale MP-2014	Society of Actuaries’ Scale MP-2014
Discount rate	3.89%	3.86%

The discount rate is based on the Bond Buyer 20-year general obligation municipal bond index rate at March 31, 2018 and 2017.

The salary increase rate varies by system. The salary increase rates for ERS varies by years of service, starting at 8% and decreasing to 3% after 18 years of service. The salary increase rates for PFRS varies by years of service, starting at 27% and decreasing to 3.3% after 18 years of service. The salary increase rates for TRS varies by duration, starting at 10% and decreasing to 1.76% after 38 years.

Health care trend rates were split to reflect separate trends for pre-65 and post-65 claims. The pre-65 trend assumption begins at 6.25 percent and decreases to a 4.50 percent long-term trend rate for all health care benefits after eight years. The trend assumption for post-65 begins at 5.20 percent and decreases to a 4.50 percent long-term trend rate after eight years. The drug assumption begins at 9.50 percent and decreases to a 4.50 percent long-term trend rate after eight years. Additionally, a trend starting at 9.50 percent per year and decreasing to 4.50 percent after eight years has been assumed for the employer group waiver plan benefits.

8. Retirement Plans (continued)

The State University's changes in the total OPEB liability at June 30, 2018 and 2017 were as follows (in thousands):

	2018	2017
Total OPEB Liability Beginning Balance	$ 12,993,892	13,432,399
Service cost	531,047	589,670
Interest	515,756	468,879
Differences between expected and actual experience	(1,150,860)	—
Changes in assumptions	(55,236)	(1,194,754)
Benefit payments	(329,882)	(302,302)
Net Changes	(489,175)	(438,507)
Total OPEB Liability Ending Balance	$ 12,504,717	12,993,892

Changes of assumptions and other inputs include a change in the discount rate from 2.64 percent under GASB Statement No. 45 to 3.86 percent in fiscal year 2017 and 3.89 percent in fiscal year 2018. The increase in the discount rate resulted in a $1.2 billion decrease in 2017 as shown in the change in assumptions. The medical trend and excise tax assumptions were updated based on current anticipation of future costs and projected claim costs were updated based on the recent claims experience for the Preferred Provider Organization (PPO) plans and premium rates for the Health Maintenance Organization (HMO) plans. The updated projected claim costs and medical trends drove the decrease in the liability calculation for 2018. There were no significant changes between the March 31, 2018 measurement and June 30, 2018 that will have a significant effect on the total OPEB liability at June 30, 2018.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the State University at June 30, 2018 and 2017, as well as what the State University's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current year rate (in thousands):

	1% Decrease (2.89%)	Current Rate (3.89%)	1% Increase (4.89%)
Total OPEB Liability at June 30, 2018	$ 15,020,861	12,504,717	10,557,013

	1% Decrease (2.86%)	Current Rate (3.86%)	1% Increase (4.86%)
Total OPEB Liability at June 30, 2017	$ 15,666,526	12,993,892	10,930,258

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the State University at June 30, 2018 and 2017, as well as what the State University's net OPEB liability would be if calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current year rate (in thousands):

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability at June 30, 2018	$ 10,305,527	12,504,717	15,433,193
Total OPEB Liability at June 30, 2017	$ 10,666,965	12,993,892	16,099,646

The State University recognized expense related to OPEB of $715.6 million and $894.0 million at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the State University reported deferred outflows and deferred inflows of resources related to OPEB from the following sources (in thousands):

8. Retirement Plans (continued)

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ —	991,863	—	—
Changes of assumptions	—	913,240	—	1,030,196
Employer contributions subsequent to measurement date	87,435	—	79,761	—
Total	$ 87,435	1,905,103	79,761	1,030,196

At June 30, 2018 and 2017, $87.4 million and $79.8 million were reported as deferred outflows of resources related to OPEB resulting from the State University contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019 and 2018, respectively. The remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows (in thousands):

Year Ended June 30:		
2019	$	(331,190)
2020		(331,190)
2021		(331,121)
2022		(330,446)
2023		(329,611)
Thereafter		(251,545)

Research Foundation - The Research Foundation sponsors a separate single employer defined benefit post-retirement plan that covers substantially all nonstudent employees. The plan provides post-retirement medical benefits and is contributory for employees hired after 1985.

In fiscal years 2011 and 2013, the Research Foundation amended the plan to increase the participant contribution rates for those hired after 1985 with the specific rates to be determined based on an employee's years of service.

Contributions by the Research Foundation are made pursuant to a funding policy established by its Board of Directors. Assets are held in a Voluntary Employee Benefit Association (VEBA) trust and are considered plan assets in determining the funded status or funding progress of the plan under GASB reporting and measurement standards. The plan issued stand-alone financial statements for the 2017 calendar year.

Participants covered by benefit terms	July 1, 2017	July 1, 2016
Actives	4,716	5,087
Retirees	1,556	1,398
Surviving spouses	10	22
Disableds	15	30
Covered spouses	458	583
Total participants	6,755	7,120

The Research Foundation's net OPEB liability was $13.5 million and $62.5 million for the fiscal years ended June 30, 2018 and 2017, respectively. The Research Foundation's net OPEB liability at June 30, 2018 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017, with update procedures used to roll-forward the net OPEB liability to June 30, 2018. The net OPEB liability at June 30, 2017 was measured as of June 30, 2017, and was determined by an actuarial valuation as of July 1, 2016, with update procedures used to roll-forward the net OPEB liability to June 30, 2017. The net OPEB liability was calculated using the Entry Age Normal cost method. The actuarial valuations included the following actuarial assumptions.

8. Retirement Plans (continued)

Assumptions	2018	2017
Salary scale	3.0%	3.0%
Mortality rates	Aggregate base rates from RP-2014 mortality study with a fully generational projection from 2006 using scale MP-2017 as of June 30, 2018	Aggregate base rates from RP-2014 mortality study with a fully generational projection from 2006 using scale MP-2016 as of June 30, 2017
Discount rate	6.75%	5.77%

Discount rate. At June 30, 2018, the Research Foundation's OPEB plan fiduciary net position was projected to be sufficient to cover all projected future benefit payments. Therefore, the long-term expected rate of return on OPEB plan investments of 6.75% was applied to all periods of projected benefit payments to determine the total OPEB liability. At June 30, 2017, the plan's fiduciary net position was projected to be fully depleted at the end of 2050. Therefore, the discount rate used at June 30, 2017 of 5.77% was developed by applying the long-term expected rate of return on plan investments of 6.75% through 2050 and the Bond Buyer GO 20-Bond Municipal Bond Index of 3.58% thereafter.

Health care trend rates range from an initial health care cost trend rate of 7.0 percent grading down to 4.50 percent in 2026 and later. The drug assumption begins at 9.50 percent and decreases to 4.50 percent after eight years. The Research Foundation's changes in the total OPEB Liability at June 30, 2018 and 2017 were as follows (in thousands):

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2017	$ 279,879	217,425	62,454
Service cost	5,790	—	5,790
Interest	16,257	—	16,257
Differences between expected and actual experience	(17,651)	—	(17,651)
Changes in assumptions	(27,955)	—	(27,955)
Benefit payments	(7,948)	(7,948)	—
Contributions from the employer	—	5,493	(5,493)
Net investment income	—	19,908	(19,908)
Net Changes	(31,507)	17,453	(48,960)
Balance at June 30, 2018	$ 248,372	234,878	13,494

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2016	$ 457,967	176,347	281,620
Service cost	9,968	—	9,968
Interest	32,369	—	32,369
Changes in benefit terms	(234,855)	—	(234,855)
Differences between expected and actual experience	(1,378)	—	(1,378)
Changes in assumptions	27,025	—	27,025
Benefit payments	(11,217)	(11,217)	—
Contributions from the employer	—	30,135	(30,135)
Net investment income	—	22,160	(22,160)
Net Changes	(178,088)	41,078	(219,166)
Balance at June 30, 2017	$ 279,879	217,425	62,454

8. Retirement Plans (continued)

The long-term expected rate of return on the Research Foundation's OPEB plan investments was determined using a building block approach in which risk premium is calculated for each asset class and adjusted for current market conditions, including, but not limited to, current market valuations, yield, inflation, and various economic indicators. Best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	2018 and 2017	
Asset Class	Target Allocation	Long-term expected real rate of return
Global equities	35.0%	6.7%
Hedged equities	19.0	5.1
Absolute return	11.5	4.3
Private equity	6.0	10.5
Private equity real estate	5.6	9.0
Fixed income	5.0	2.7
Real estate - core commercial	4.4	5.0
Liquid credit	4.0	4.8
Inflation linked bonds	3.0	2.7
Commodities	3.0	3.0
Private debt	2.5	7.8
Cash	1.0	1.5
Total	100%	

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the Research Foundation at June 30, 2018 and 2017, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current year rate (in thousands):

June 30, 2018	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Total OPEB liability	$ 279,433	248,372	220,764
Plan fiduciary net position	(234,878)	(234,878)	(234,878)
Net OPEB liability (asset)	$ 44,555	13,494	(14,114)

June 30, 2017	1% Decrease (4.77%)	Current Rate (5.77%)	1% Increase (6.77%)
Total OPEB liability	$ 309,836	279,879	252,818
Plan fiduciary net position	(217,425)	(217,425)	(217,425)
Net OPEB liability (asset)	$ 92,411	62,454	35,393

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Research Foundation at June 30, 2018 and 2017, as well as what the Research Foundation's net OPEB liability would be if calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current year rate (in thousands):

June 30, 2018	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	$ 215,745	248,372	288,809
Plan fiduciary net position	(234,878)	(234,878)	(234,878)
Net OPEB liability (asset)	$ (19,133)	13,494	53,931

8. Retirement Plans (continued)

June 30, 2017	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	$ 242,325	279,879	326,425
Plan fiduciary net position	(217,425)	(217,425)	(217,425)
Net OPEB liability (asset)	$ 24,900	62,454	109,000

The Research Foundation recognized pension expense related to OPEB of $0.3 million and $(202.4) million at June 30, 2018 and 2017, respectively. The negative pension expense in 2017 was due to OPEB Plan amendments, which lowered the OPEB liability, to utilize the individual Medicare health care exchange market to provide benefits to Medicare-eligible participants.

At June 30, 2018 and 2017, the Research Foundation reported deferred outflows and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2018		**2017**	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ —	14,928	—	1,111
Net difference between expected and actual earnings on OPEB plan investments	—	9,750	—	7,332
Changes of assumptions	16,530	22,308	21,777	—
Total	$ 16,530	46,986	21,777	8,443

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	$ (7,129)
2020	(7,129)
2021	(7,129)
2022	(9,069)

Notes to Financial Statements

June 30, 2018 and 2017

9. Commitments

The State University has entered into contracts for the construction and improvement of various projects. At June 30, 2018 and 2017, these outstanding contract commitments totaled approximately $690 million and $800 million, respectively.

The State University is also committed under numerous operating leases covering real property and equipment. The Research Foundation also contracts with various entities to lease space as part of its mission to support the State University research and university-industry-government partnerships. Rental expenditures reported for the years ended June 30, 2018 and 2017 under such operating leases were $60.9 million and $55.4 million, respectively. The following is a summary of the future minimum rental commitments under real property and equipment leases with terms exceeding one year (in thousands):

Year(s) Ending June 30:		
2019	$	62,326
2020		58,325
2021		49,614
2022		39,267
2023		30,873
2024-28		85,290
2029-33		36,153
2034-38		16,544
2039-43		5,058
Total	$	383,450

10. Contingencies

The State is contingently liable in connection with claims and other legal actions involving the State University, including those currently in litigation, arising in the normal course of State University activities. The State University does not carry malpractice insurance and, instead, administers these types of cases in the same manner as all other claims against the State involving State University activities in that any settlements of judgments and claims are paid by the State from an account established for this purpose. With respect to pending and threatened litigation, the medical malpractice liability includes incurred but not reported (IBNR) loss estimates. The estimate of IBNR losses is actuarially determined based on historical experience using a discount rate of 3.4 percent to calculate the present value of estimated future cash payments. The State University has recorded a liability and a corresponding appropriation receivable of approximately $741 million and $691 million at June 30, 2018 and 2017, respectively (almost entirely related to hospitals and clinics).

The State University is exposed to various risks of loss related to damage and destruction of assets, injuries to employees, damage to the environment or noncompliance with environmental requirements, and natural and other unforeseen disasters. The State University has insurance coverage for its residence hall facilities. However, in general, the State University does not insure its educational buildings, contents or related risks and does not insure its vehicles and equipment for claims and assessments arising from bodily injury, property damages, and other perils. Unfavorable judgments, claims, or losses incurred by the State University are covered by the State on a self-insured basis. The State does have fidelity insurance on State employees.

In 2011 a separate entity, StaffCo of Brooklyn, LLC (StaffCo), was created as a single member Limited Liability Company of the Health Science Center at Brooklyn Foundation, Inc. to provide non-physician staffing to the State University. As of August 1, 2017, StaffCo became the employer of the former staff of Southampton Hospital in support of Stony Brook's expansion of its hospital operations to Southampton Hospital. The State University is responsible for reimbursing StaffCo for its direct and indirect costs relating to the non-physician staffing. StaffCo contributes to a multiemployer defined benefit pension plan (multiemployer plan) under the terms of a collective-bargaining agreement that covers union-represented employees. Under this multiemployer plan, assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If StaffCo were to stop participating in the multiemployer plan, StaffCo may be required to pay this multiemployer plan an amount based on the underfunded status of the multiemployer plan, referred to as a withdrawal liability. In this case, the State University may be required to pay StaffCo the amount of the withdrawal liability. Due to the recent restructure of StaffCo operations, the exposure to withdrawal liability is no longer an imminent or immediate possibility.

11. Related Parties

The State University's single largest source of revenue is State appropriations. State appropriations take the form of direct assistance, debt service on educational facilities, fringe benefits for State University employees, and litigation expenses for which the State is responsible. State appropriations totaled $3.56 billion and $3.29 billion and represented approximately 30 percent of total revenues for both the 2018 and 2017 fiscal years. The State University's continued operational viability is substantially dependent upon a consistent and proportionate level of ongoing State support.

12. Federal Grants and Contracts and Third-Party Reimbursement

Substantially all federal grants and contracts are subject to financial and compliance audits by the grantor agencies of the federal government. Disallowances, if any, as a result of these audits may become liabilities of the State University. State University management believes that no material disallowances will result from audits by the grantor agencies.

The State University hospitals have agreements with third-party payors, which provide for reimbursement to the hospitals at amounts different from the hospitals' established charges. Contractual service allowances and discounts (reflected through State University hospitals and clinics sales and services) represent the difference between the hospitals' established rates and amounts reimbursed by third-party payors. The State University has made provision in the accompanying financial statements for estimated retroactive adjustments relating to third-party payor cost reimbursement items.

Notes to Financial Statements

June 30, 2018 and 2017

13. Condensed financial statement information of the Research Foundation

The condensed financial statement information of the Research Foundation, contained in the combined totals of the State University reporting entity in accordance with GASB accounting and reporting requirements, is shown below (in thousands):

Condensed Balance Sheets

	2018	2017
Assets and Deferred Outflows of Resources:		
Current assets	$ 577,636	447,149
Capital assets	372,272	395,256
Other assets	33,990	6,808
Deferred outflows of resources	16,530	21,777
Total assets and deferred outflows of resources	$ 1,000,428	870,990
Liabilities and Deferred Inflows:		
Total current liabilities	485,255	370,976
Total noncurrent liabilities	354,297	432,633
Deferred inflows of resources	46,986	8,443
Total liabilities and deferred inflows of resources	886,538	812,052
Net Position:		
Invested in capital assets, net	(21,571)	(3,654)
Restricted nonexpendable	7,979	3,905
Unrestricted	127,482	58,687
Total net position	113,890	58,938
Total liabilities, deferred inflows and net position	$ 1,000,428	870,990

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	2017
Operating revenues:		
Federal grants and contracts	$ 544,131	522,585
State grants and contracts	125,334	112,510
Private grants and contracts	218,830	215,323
Other operating revenues	108,594	63,778
Total operating revenues	996,889	914,196
Operating expenses:		
Instruction	98,797	90,373
Research	473,505	484,861
Public service	113,932	108,220
Institutional support	144,531	126,001
Other operating expenses	34,915	40,327
Depreciation and amortization expense	60,978	68,696
Total operating expenses	926,658	918,478
Operating income (loss)	70,231	(4,282)
Net nonoperating (expenses) revenues	(15,279)	195,827
Change in net position	54,952	191,545
Net position at the beginning of the year, restated	58,938	(132,607)
Net position at the end of the year	$ 113,890	58,938

13. Condensed financial statement information of the Research Foundation (continued)

Condensed Statements of Cash Flows

	2018	2017
Cash flows from operating activities	$ 226,295	97,213
Cash flows from noncapital financing activities	3,075	11,321
Cash flows from capital and related financing activities	(90,431)	(93,062)
Cash flows from investing activities	(138,657)	(16,062)
Net change in cash	282	(590)
Cash - beginning of year	151	741
Cash - end of year	$ 433	151

14. Subsequent Events

In July 2018, Sales Tax Revenue Bonds were issued with a par amount totaling $369.3 million for the purpose of financing capital construction and major rehabilitation for educational facilities.

In October 2018, Revenue Bonds were issued with a par amount of $134.1 million for the purpose of financing capital construction and major rehabilitation for residence hall facilities.

In 2016, the State University received Board approval to enter into an agreement with Eastern Long Island Hospital Association to affiliate with Eastern Long Island Hospital, a 90 bed acute care facility that provides inpatient and outpatient services on the northern fork of Suffolk County. The envisioned arrangement would have the State University leasing the Eastern Long Island Hospital building and current employees and transfer of beds, operations and non-fixed operating assets to the State University with Eastern Long Island Hospital operating under the State University's operating license. As of November 26, 2018, the affiliation is pending approval by the State of New York.

The State University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements covering the year ended June 30, 2018 were available to be issued on November 26, 2018 and subsequent events have been evaluated through that date.

15. Restatement

The provisions of GASB No. 75 and GASB No. 81 have been applied to the 2017 fiscal year beginning net position. The following is a reconciliation of the total net position as previously reported at July 1, 2016 to the total restated net position (in thousands):

Total net position as previously reported at July 1, 2016	$ (2,421,475)
Change due to adoption of GASB Statement No. 75	(8,186,516)
Change due to adoption of GASB Statement No. 81	(17,678)
Total net position at July 1, 2016 (restated)	$ (10,625,669)

As discussed in note 8, the State University has changed from the accounting and reporting requirements previously required under GASB Statement No. 45 to the accounting and reporting required under GASB Statement No. 75, which established accounting and financial reporting for OPEB plans including the immediate recognition of the full actuarial accrued liability upon adoption. It also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As discussed in note 1, the State University adopted GASB No. 81, which changed accounting and financial reporting for irrevocable split-interest agreements by providing improved recognition and measurement guidance.

Notes to Financial Statements

June 30, 2018 and 2017

16. Component Units

The reported totals of the discretely presented component units include campus-related foundations, auxiliary services corporations, and student housing corporations. These related entities are campus-based, legally separate, nonprofit organizations. The campus-related foundations are responsible for the fiscal administration of revenues and support received for the promotion, development and advancement of the welfare of campuses, the State University and its students, faculty, staff and alumni. The foundations receive the majority of their support and revenues through contributions, gifts and grants and provide benefits to their campus, students, faculty, staff and alumni. The auxiliary services corporations act as independent contractors, operate, manage, and promote educationally related services for the benefit of the campus community. In addition, the reported amounts include student housing corporations, nonprofit organizations that operate and administer certain housing and related services for students.

All these organizations are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. All of the financial data for these organizations was derived from each entity's individual audited financial statements, reported in accordance with generally accepted accounting principles promulgated by FASB, the majority of which have a May 31 or June 30 fiscal year end. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards.

Separately issued financial statements of the component unit entities may be obtained by writing to:

The State University of New York
Office of the University Controller
State University Plaza, N-514
Albany, New York 12246

Net Asset Classifications

Unrestricted net assets represent resources whose uses are not restricted by donor-imposed stipulations and are generally available for the support of the State University campus and affiliated entity programs and activities. Temporarily restricted net assets represent resources whose use is limited by donor-imposed stipulations that either expire by the passage of time or are removed by specific actions. Permanently restricted net assets represent resources that donors have stipulated must be maintained permanently. The income derived from the permanently restricted net assets is permitted to be spent in part or in whole, restricted only by the donors' wishes.

Investments

All investments with readily determinable fair values have been reported in the financial statements at fair value. Realized and unrealized gains and losses are recognized in the statement of activities. Gains or losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investments of the State University discretely presented component units were $2.55 billion and $2.32 billion as of June 30, 2018 and 2017, respectively.

The composition of investments is as follows (in thousands):

	2018	2017
Equities - domestic	$ 687,483	678,027
Equities - international	476,544	416,988
Non-equities	608,722	528,648
Equity partnerships	256,482	195,619
Multi-strategy funds	198,007	204,892
Hedge funds	161,439	157,918
Real assets/real estate	134,869	119,837
Other investments	23,146	19,344
Total investments	$ 2,546,692	2,321,273

16. Component Units (continued)

Capital Assets

Capital assets are stated at cost, if purchased, or fair value at date of receipt, if acquired by gift. Land improvements, buildings, and equipment are depreciated over their estimated useful lives using the straight-line method. Capital assets, net of accumulated depreciation, totaled $528.5 million and $552.4 million at fiscal year end 2018 and 2017, respectively. Capital asset classifications are summarized as follows (in thousands):

	2018	2017
Land and land improvements	$ 31,139	36,035
Buildings	684,793	675,141
Equipment	133,603	126,738
Artwork and library books	28,935	29,686
Construction in progress	22,292	26,676
Total capital assets	900,762	894,276
Less accumulated depreciation	372,274	341,829
Capital assets, net	$ 528,488	552,447

Long-term Debt

The component units have entered into various financing arrangements, principally through the issuance of Industrial Development Agency, Local Development Corporation, and Housing Authority bonds, for the construction of student residence hall facilities. The following is a summary of the future minimum annual debt service requirements for the next five years and thereafter (in thousands):

Year ending June 30:	
2019	$ 14,165
2020	14,399
2021	14,238
2022	14,432
2023	14,660
Thereafter	305,127
	377,021
Less: unamortized debt issuance costs	10,992
	$ 366,029

Notes to Financial Statements

June 30, 2018 and 2017

16. Component Units (continued)

Condensed financial statement information

The table below displays the combined totals of the foundations (including student housing corporations) and auxiliary services corporations (ASCs) (in thousands):

Combined Balance Sheets

	2018			2017		
	Foundations	ASC	Total	Foundations	ASC	Total
Assets:						
Investments	$ 2,463,163	83,529	2,546,692	2,244,724	76,549	2,321,273
Capital assets, net	411,916	116,572	528,488	435,676	116,771	552,447
Other assets	418,224	206,518	624,742	373,166	179,846	553,012
Total assets	$ 3,293,303	406,619	3,699,922	3,053,566	373,166	3,426,732
Liabilities:						
Other liabilities	234,066	117,919	351,985	227,134	104,249	331,383
Long-term debt, net	347,957	18,072	366,029	322,953	23,891	346,844
Total liabilities	582,023	135,991	718,014	550,087	128,140	678,227
Net Assets:						
Unrestricted	604,117	270,284	874,401	571,520	244,680	816,200
Temporarily restricted	1,189,319	212	1,189,531	1,071,349	214	1,071,563
Permanently restricted	917,844	132	917,976	860,610	132	860,742
Total net assets	2,711,280	270,628	2,981,908	2,503,479	245,026	2,748,505
Total liabilities and net assets	$ 3,293,303	406,619	3,699,922	3,053,566	373,166	3,426,732

Combined Statements of Activities

	2018			2017		
	Foundations	ASC	Total	Foundations	ASC	Total
Revenues:						
Contributions, gifts and grants	$ 211,389	—	211,389	208,641	—	208,641
Food and auxiliary services	—	397,461	397,461	—	386,139	386,139
Other revenue	348,812	11,017	359,829	363,837	12,175	376,012
Total revenues	560,201	408,478	968,679	572,478	398,314	970,792
Expenses:						
Food and auxiliary services	—	334,161	334,161	—	325,976	325,976
Program expenses	121,917	—	121,917	121,863	—	121,863
Other expenses	230,483	48,715	279,198	225,783	55,844	281,627
Total expenses	352,400	382,876	735,276	347,646	381,820	729,466
Total change in net assets	207,801	25,602	233,403	224,832	16,494	241,326
Net asset reclassification	—	—	—	(8,342)	8,342	—
Total change in net assets	207,801	25,602	233,403	216,490	24,836	241,326
Net assets at the beginning of year	2,503,479	245,026	2,748,505	2,286,989	220,190	2,507,179
Net assets at the end of year	$ 2,711,280	270,628	2,981,908	2,503,479	245,026	2,748,505

Required Supplementary Information

(Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios for the State University Plan

(Amounts in millions)

	2018	2017
Total OPEB liability:		
Service cost	$ 531.0	589.7
Interest	515.8	468.9
Difference between expected and actual experience	(1,150.9)	—
Changes in assumptions	(55.2)	(1,194.8)
Benefit payments	(329.9)	(302.3)
Net change in total OPEB liability	(489.2)	(438.5)
Total OPEB liability, beginning	12,993.9	13,432.4
Total OPEB liability, ending	$ 12,504.7	12,993.9
Net position as a percentage of OPEB liability	—%	—%
Covered-employee payroll	$ 3,329.4	3,200.2
Net OPEB liability as a percentage of covered-employee payroll	375.6%	406.0%

Changes in benefit terms. There were no significant legislative changes in benefits for the June 30, 2018 and 2017 actuarial valuations.

Changes in assumptions. The discount rate was updated from 3.86% in 2017 to 3.89% in 2018. The medical trend and excise tax assumptions were updated based on current anticipation of future costs and projected claim costs were updated based on the recent claims experience for the PPO plans and premium rates for the HMO plans.

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of Changes in the Net OPEB Liability and Related Ratios for the Research Foundation Plan

(Amounts in millions)

	2018	2017
Total OPEB liability:		
Service cost	$ 5.8	10.0
Interest	16.3	32.4
Changes of benefit terms	—	(234.9)
Difference between expected and actual experience	(17.7)	(1.4)
Changes in assumptions	(28.0)	27.0
Benefit payments	(7.9)	(11.2)
Net change in total OPEB liability	(31.5)	(178.1)
Total OPEB liability, beginning	279.9	458.0
Total OPEB liability, ending	248.4	279.9
Plan fiduciary net position:		
Contributions - employer	5.5	30.1
Net investment income	19.9	22.2
Benefit payments	(7.9)	(11.2)
Net change in fiduciary net position	17.5	41.1
Fiduciary net position, beginning	217.4	176.3
Fiduciary net position, ending	234.9	217.4
Net OPEB liability, ending	$ 13.5	62.5
Net position as a percentage of OPEB liability	94.6%	77.7%
Covered-employee payroll	$ 236.2	238.0
Net OPEB liability as a percentage of covered-employee payroll	5.7%	26.3%

Changes in benefit terms. Effective January 1, 2017, amendments were made to the Research Foundation OPEB plan to utilize the individual Medicare health care exchange market to provide benefits to Medicare-eligible participants.

Changes in assumptions. The discount rate was updated from 5.77% in 2017 to 6.75% in 2018. At June 30, 2018, the Research Foundation's OPEB plan fiduciary net position was projected to be sufficient to cover all projected future benefit payments. Therefore, the long-term expected rate of return on OPEB plan investments of 6.75% was applied to all periods of projected benefit payments to determine the total OPEB liability. In addition, the healthcare trend rates and mortality table was updated.

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of Employer Contributions for the Research Foundation OPEB Plan

(Amounts in millions)

	2018	2017
Actuarially determined contribution	$ 6.3	8.4
Contributions made in relation to the actuarial determined contribution	$ 5.5	30.1
Contribution (deficiency) excess	$ (0.8)	21.7
Covered-employee payroll	$ 236.2	238.0
Contribution as a percentage of covered-employee payroll	2.3%	12.6%

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Annual contributions to fund the plan are made by the Research Foundation pursuant to a funding policy established by the Research Foundation's board of directors. Effective for fiscal years 2018 - 2025, the annual funding contribution amount will equal the contribution level negotiated between the Research Foundation and its cognizant federal agency for setting the fringe benefit rates.

Methods and assumptions used to determine contribution rates:

Actuarial cost method - Projected Unit Credit with 30-year closed amortization period for initial unfunded and subsequent actuarial gains/losses.

Investment Rate of Return - 6.75%

Salary increases - 3.00%

Health care trend rates - range from an initial health care cost trend rate of 7.0 percent grading down to 4.50 percent in 2026 and later. The drug assumption begins at 9.50 percent and decreases to a 4.50 percent after eight years.

Mortality - in the June 30, 2018 valuation, aggregate base rates from RP-2014 mortality study with a fully generational projection from 2006 using scale MP-2017.

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of the State University's Proportionate Share of the ERS and PFRS Net Pension Liability

(Amounts in millions)

	2018		2017		2016	2015
	ERS	PFRS	ERS	PFRS	ERS	ERS
Proportion of the net pension liability	5.45%	1.10%	5.43%	1.05%	5.35%	5.32%
Proportionate share of the net pension liability	$ 175.8	11.2	510.4	21.8	859.3	179.8
Covered-employee payroll plan year	$ 1,487.3	38.0	1,413.7	35.6	1,405.6	1,262.1
Proportionate share of the net pension liability as a % of its covered payroll	11.8%	29.5%	36.1%	61.2%	61.1%	14.2%
Pension plan's fiduciary net position as a % of the total pension liability	98.2%	96.9%	94.7%	93.5%	90.7%	97.9%

Changes in benefit terms. There were no significant legislative changes in benefits for the April 1, 2017 and 2016 actuarial valuations.

Changes in assumptions. There were no significant changes in actuarial assumptions for the April 1, 2017 and 2016 actuarial valuations.

Methods and assumptions used in calculations of actuarially determined contributions. The April 1, 2015 and 2016 actuarial valuation determines the employer rates for contributions payable in fiscal year 2017 and 2018, respectively.

Schedule of Employer Contributions for the ERS Plan

(Amounts in millions)

	2018	2017	2016	2015
Actuarially determined contribution	$ 200.3	197.9	214.8	242.2
Contributions in relation to the actuarial determined contribution	$ 200.3	197.9	214.8	242.2
Contribution deficiency	$ —	—	—	—
Covered-employee payroll for fiscal year ended June 30th	$ 1,506.0	1,432.7	1,418.8	1,384.2
Contribution as a percentage of covered-employee payroll	13.3%	13.8%	15.1%	17.5%

Schedule of Employer Contributions for the PFRS Plan

(Amounts in millions)

	2018	2017	2016	2015
Actuarially determined contribution	$ 8.0	2.5	—	—
Contributions in relation to the actuarial determined contribution	$ 8.0	2.5	—	—
Contribution deficiency	$ —	—	—	—
Covered-employee payroll for fiscal year ended June 30th	$ 38.4	36.4	—	—
Contribution as a percentage of covered-employee payroll	20.8%	6.9%	—%	—%

Schedules are intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of the State University's Proportionate Share of the TRS Net Pension Liability (Asset)

(Amounts in millions)

	2018	2017	2016	2015
Proportion of the net pension liability (asset)	0.81 %	0.82%	0.74 %	0.71 %
Proportionate share of the net pension liability (asset)	$ (6.1)	8.7	(77.2)	(79.6)
Covered-employee payroll	$ 144.6	141.9	145.2	140.7
Proportionate share of the net pension liability (asset) as a % of its covered payroll	(4.2)%	6.1%	(53.2)%	(56.6)%
Pension plan's fiduciary net position as a % of the total pension liability	100.7 %	99.0%	110.5 %	111.5 %

Change in benefit terms. There were no significant legislative changes in benefits for the June 30, 2016 and 2015 actuarial valuations.

Changes of assumptions. Significant changes include a change in the discount rate from 7.5% to 7.25%.

Schedule of Employer Contributions for the TRS Plan

(Amounts in millions)

	2018	2017	2016	2015
Actuarially determined contribution	$ 15.0	16.7	19.6	17.2
Contributions in relation to the actuarial determined contribution	$ 15.0	16.7	19.6	17.2
Contribution deficiency	$ —	—	—	—
Covered-employee payroll for fiscal year ended June 30th	$ 146.0	144.6	141.9	145.2
Contribution as a percentage of covered-employee payroll	10.3%	11.5%	13.8%	11.8%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of Changes in the Net Pension Liability and Related Ratios for the Upstate Plan

(Amounts in millions)

	2018	2017	2016	2015
Total pension liability:				
Service cost	$ 0.6	0.7	0.8	0.9
Interest	6.6	6.6	6.5	6.0
Changes of assumptions	—	—	—	5.8
Difference between expected and actual experience	1.8	0.3	1.0	0.4
Changes in assumptions	(0.6)	(1.4)	—	
Benefit payments	(9.2)	(4.9)	(7.0)	(3.8)
Net change in total pension liability	(0.8)	1.3	1.3	9.3
Total pension liability, beginning	105.9	104.6	103.3	94.0
Total pension liability, ending (a)	105.1	105.9	104.6	103.3
Plan fiduciary net position:				
Employer contributions	2.0	2.8	2.0	3.5
Net investment income (loss)	15.6	7.4	(0.7)	5.9
Benefit payments	(9.2)	(4.9)	(7.0)	(3.8)
Administrative expenses	(0.2)	(0.1)	(0.2)	(0.1)
Net change in fiduciary net position	8.2	5.2	(5.9)	5.5
Fiduciary net position, beginning	95.4	90.2	96.1	90.6
Fiduciary net position, ending (b)	103.6	95.4	90.2	96.1
Net pension liability, ending (a) - (b)	$ 1.5	10.5	14.4	7.2
Ratio of fiduciary net position to total pension liability	98.6%	90.1%	86.3%	93.0%
Covered-employee payroll	$ 25.5	27.3	29.9	33.6
Net pension liability as a percentage of covered-employee payroll	5.7%	38.4%	48.0%	21.3%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Required Supplementary Information

(Unaudited)

Schedule of Employer Contributions for the Upstate Plan

(Amounts in millions)

	2017	2016	2015	2014	2013	2012		2011	
Actuarially determined contribution (1)	$ 2.0	2.6	1.9	1.5	2.6	3.0		1.2	
Contributions in relation to the actuarial determined contribution (2)	$ 2.0	2.8	2.0	3.5	2.6	3.0		1.2	
Contribution excess	$ —	0.2	0.1	2.0	—	—		—	
Covered-employee payroll (3)	$ 25.5	27.3	29.9	33.6	36.0	16.0	**	21.9	*
Contribution as a percentage of covered-employee payroll	7.9%	10.2%	6.8%	9.0%	7.1%	18.6%		5.4%	

* Period from January 1, 2011 through July 6, 2011.

** Period from July 7, 2011 through December 31, 2011.

(1) The actuarially determined contribution includes normal costs, adjustments made to record the reconciliation of projected salary to actual salary and miscellaneous accounting adjustments.

(2) The contributions in relation to the actuarially determined contribution reflects actual payments.

(3) Covered-employee payroll represents pensionable payroll at the end of each Plan year. It is not practicable to obtain covered employee payroll amounts at the end of each fiscal year.

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Notes for the Plan

Changes in benefit terms. There was no significant legislative changes in benefits for the January 1, 2018 actuarial valuation.

Changes in assumptions. The actuarial assumptions for the mortality basis used for the January 1, 2018 actuarial valuation where not changed from the January 1, 2017 valuation other than the projected mortality improvements using Scale MP-2017 on a fully generational basis.

Methods and assumptions used in calculations of actuarially determined contributions. The January 1, 2018 actuarial valuation determines the employer rates for contributions payable in 2018. The following actuarial methods and assumptions were used:

Investment rate of return - 6.5%

Amortization method - Level dollar, 20 year closed

Remaining amortization period - 14.5 years

Asset valuation method - Market value

Inflation - 3.0%

Compensation - 3.5% increases, limited to a maximum of $270,000

Termination - 1992 Vaughn Select and Ultimate Table

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
State University of New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the State University of New York (the University) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 26, 2018. Our report includes a reference to other auditors who audited the financial statements of certain discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 26, 2018

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2018 **ANNUAL** FINANCIAL REPORT
The State University of New York
State University Plaza, Albany, NY 12246
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