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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of East Stroudsburg University of Pennsylvania of the State System of Higher Education (University), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 51 and the Schedules of SERS/PSERS Contributions and Schedules of SERS/PSERS Proportionate Share of Net Pension Liability on pages 52 and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2017

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 84,598,226	$ 71,617,383
Short-Term Investments	14,323	14,319
Accounts Receivable:		
Governmental Grants and Contracts	1,483,967	1,275,563
Students, Net of Allowance for Doubtful Accounts of $3,136,392 in 2017 and $3,148,011 in 2016	2,007,000	2,380,777
Other	1,263,013	884,692
Inventories	186,601	168,063
Prepaid Expenses	793,640	494,980
Due from Component Units	1,554,067	6,294,790
Loans Receivable	417,046	446,082
Investment Income Receivable	159,769	109,643
Other Current Assets	100,520	275,185
Total Current Assets	92,578,172	83,961,477
NONCURRENT ASSETS		
Loans Receivable	1,642,423	1,758,571
Capital Assets, Net	88,983,119	90,322,337
Other Assets	2,308,016	2,430,259
Total Noncurrent Assets	92,933,558	94,511,167
Total Assets	185,511,730	178,472,644
DEFERRED OUTFLOWS OF RESOURCES	10,647,385	8,630,091
Total Assets and Deferred Outflows of Resources	$ 196,159,115	$ 187,102,735

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 9,585,819	$ 9,541,059
Unearned Revenue	4,087,966	3,622,485
Students' Deposits	5,750	5,100
Workers' Compensation	346,560	352,333
Compensated Absences	543,845	505,472
Bonds Payable	4,142,760	3,499,014
Due to System, AFRP	276,226	282,402
Due to Component Units	495,151	529,104
Other Current Liabilities	239,284	287,660
Total Current Liabilities	19,723,361	18,624,629
NONCURRENT LIABILITIES		
Unearned Revenue	516,234	82,377
Workers' Compensation	158,195	296,364
Compensated Absences	6,325,087	6,013,476
Postretirement Benefits	65,697,848	63,480,487
Bonds Payable, Net	37,330,656	41,473,415
Due to System, AFRP	884,305	1,160,531
Net Pension Liability	44,412,913	42,031,615
Other Noncurrent Liabilities	5,029,413	4,601,176
Total Noncurrent Liabilities	160,354,651	159,139,441
Total Liabilities	180,078,012	177,764,070
DEFERRED INFLOWS OF RESOURCES	2,010,475	1,311,646
NET POSITION		
Net Investment in Capital Assets	50,054,950	48,795,166
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	10,000	10,000
Student Loans	332,671	288,145
Expendable:		
Scholarships and Fellowships	711,099	493,721
Research	1,226	1,226
Capital Projects	3,068,117	2,345,230
Other	(372)	(374)
Unrestricted Net Position	(40,107,063)	(43,906,095)
Total Net Position	14,070,628	8,027,019
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 196,159,115	$ 187,102,735

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Tuition and Fees	$ 69,127,558	$ 72,269,150
Less: Scholarship Discounts and Allowances	15,761,248	15,127,130
Net Tuition and Fees	53,366,310	57,142,020
Governmental Grants and Contracts:		
Federal	1,318,383	1,369,522
State	6,539,577	6,508,330
Nongovernment Grants and Contracts	123,396	52,171
Sales and Services of Educational Departments	3,452,071	2,459,102
Auxiliary Enterprises (Net of Scholarship Discounts and Allowances of $717,429 in 2017 and $223,441 in 2016)	20,776,603	21,026,253
Other Revenues	997,199	290,466
Total Operating Revenues	86,573,539	88,847,864
OPERATING EXPENSES		
Instruction	40,465,316	38,159,966
Research	675,076	292,621
Public Service	2,090,097	2,087,424
Academic Support	14,300,164	14,863,616
Student Services	9,606,506	9,723,135
Institutional Support	18,283,127	18,811,263
Operations and Maintenance of Plant	7,279,611	8,240,874
Depreciation	5,968,163	5,815,872
Student Aid	3,693,320	4,141,957
Auxiliary Enterprises	16,561,360	15,727,711
Total Operating Expenses	118,922,740	117,864,439
NET OPERATING LOSS	(32,349,201)	(29,016,575)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	26,098,660	24,127,778
Commonwealth on-behalf Contributions to PSERS	510,530	406,249
Pell Grants	10,183,193	9,976,868
Investment Income, Net of Related Investment Expense of $13,655 in 2017 and $11,419 in 2016	1,064,292	728,114
Gifts for Other than Capital Purposes	552,098	649,203
Interest Expense on Capital Asset-Related Debt	(1,295,143)	(1,628,424)
Other Nonoperating Revenue	150,145	138,654
Net Nonoperating Revenues	37,263,775	34,398,442
INCOME BEFORE OTHER REVENUES	4,914,574	5,381,867
OTHER REVENUES		
State Appropriations, Capital	1,088,448	979,306
Capital Gifts and Grants	40,587	25,150
Total Other Revenues	1,129,035	1,004,456
INCREASE IN NET POSITION	6,043,609	6,386,323
Net Position - Beginning of Year	8,027,019	1,640,696
NET POSITION - END OF YEAR	$ 14,070,628	$ 8,027,019

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 53,743,757	$ 56,991,156
Grants and Contracts	7,792,404	8,018,047
Payments to Suppliers for Goods and Services	(28,057,521)	(28,116,330)
Payments to Employees	(77,266,998)	(75,624,385)
Loans Issued to Students	(131,800)	(257,704)
Loans Collected from Students	276,984	283,164
Student Aid	(3,740,074)	(4,192,721)
Auxiliary Enterprise Charges	20,887,944	21,145,392
Sales and Services of Educational Departments	3,448,191	2,539,462
Other Receipts	6,550,723	1,453,610
Net Cash Used by Operating Activities	(16,496,390)	(17,760,309)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	26,098,660	24,127,778
Gifts and Nonoperating Grants for Other than Capital Purposes	10,735,291	10,626,071
PLUS, Stafford, and Other Loan Receipts (Non-Perkins)	58,031,674	45,034,072
PLUS, Stafford, and Other Loan Disbursements (Non-Perkins)	(58,031,674)	(45,034,072)
Agency Transactions, Net	(12,548)	(846)
Other	150,145	138,653
Net Cash Provided by Noncapital Financing Activities	36,971,548	34,891,656
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	-	11,851,308
Capital Appropriations	1,088,448	979,306
Capital Grants and Gifts Received	40,587	25,150
Proceeds from Sales of Capital Assets	-	918
Purchases of Capital Assets	(4,628,945)	(2,217,682)
Principal Paid on Capital and Other Debt	(3,247,211)	(14,659,431)
Interest Paid on Capital Debt	(1,761,356)	(2,493,039)
Net Cash Used by Capital Financing Activities	(8,508,477)	(6,513,470)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Endowment Investments	(4)	(4)
Interest on Investments	1,014,166	696,953
Net Cash Provided by Investing Activities	1,014,162	696,949
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,980,843	11,314,826
Cash and Cash Equivalents - Beginning of Year	71,617,383	60,302,557
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 84,598,226	$ 71,617,383

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	$ (32,349,201)	$ (29,016,575)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	5,968,163	5,815,872
Expenses paid by Commonwealth or Donor	510,530	406,249
Changes in Assets and Liabilities:		
Accounts Receivable, Net	165,373	198,933
Inventories	(18,538)	13,099
Other Assets	4,360,650	227,535
Accounts Payable and Accrued Expenses	44,760	451,341
Unearned Revenue	899,338	545,438
Students' Deposits	650	(570,077)
Compensated Absences	349,984	(5,993)
Loans Receivable	145,184	25,460
Other Liabilities	3,426,717	4,148,409
Net Cash Used by Operating Activities	$ (16,496,390)	$ (17,760,309)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS		
Commonwealth on-behalf contributions to PSERS	$ 510,530	$ 406,249

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 33,133,518	$ 24,420,323
Accounts Receivable	122,198	166,234
Pledges Receivable	336	337
Due from University	515,360	537,089
Other Current Assets	43,554	42,600
Total Current Assets	33,814,966	25,166,583
NONCURRENT ASSETS		
Capital Assets, Net	105,845,126	76,346,027
Investments	29,335,467	25,987,472
Pledges Receivable	793,336	475,779
Other Assets	3,455,095	2,601,428
Total Noncurrent Assets	139,429,024	105,410,706
Total Assets	$ 173,243,990	$ 130,577,289
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 6,909,121	$ 5,345,635
Annuity Liabilities	276,977	216,987
Due to University	1,547,133	6,256,060
Deposit Liabilities	2,702	2,702
Current Portion of Long-Term Debt	41,184,996	1,680,000
Other Liabilities	58,580	99,565
Total Current Liabilities	49,979,509	13,600,949
LONG-TERM DEBT	94,155,552	91,808,510
Total Liabilities	144,135,061	105,409,459
NET ASSETS		
Unrestricted	8,316,651	7,479,817
Temporarily Restricted	7,208,713	5,529,302
Permanently Restricted	13,583,565	12,158,711
Total Net Assets	29,108,929	25,167,830
Total Liabilities and Net Assets	$ 173,243,990	$ 130,577,289

See accompanying Notes to Financial Statements.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 806,375	$ 372,839
Sales and Services	283,875	265,761
Student Fees	2,790,612	2,596,044
Grants and Contracts	30,861	52,365
Rental Income	12,373,175	11,855,403
Investment Income	963,309	50,755
Service Fee Income - University	1,125,000	925,000
Other Revenues and Gains	1,308,111	1,706,073
Net Assets Released from Restrictions	1,078,619	1,062,962
Total Revenues and Other Additions	20,759,937	18,887,202
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses:		
Scholarships and Grants	747,677	725,009
Student Activities and Programs	1,557,539	1,626,253
Housing	12,529,600	11,724,772
Other University Support	388,935	882,964
Other Programs	652,606	543,283
Management and General	3,582,824	3,037,852
Fundraising	463,922	221,920
Total Expenses and Other Deductions	19,923,103	18,762,053
Increase in Unrestricted Net Assets	836,834	125,149
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,460,291	992,943
Investment Income	1,470,977	382,523
Other Expenses and Losses	(173,238)	(382,603)
Net Assets Released from Restrictions	(1,078,619)	(1,062,962)
Increase (Decrease) in Temporarily Restricted Net Assets	1,679,411	(70,099)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,424,854	1,071,792
Increase in Permanently Restricted Net Assets	1,424,854	1,071,792
INCREASE IN NET ASSETS	3,941,099	1,126,842
Net Assets - Beginning of Year	25,167,830	24,040,988
NET ASSETS - END OF YEAR	$ 29,108,929	$ 25,167,830

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Reporting Entity

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

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

The Association is a legally separate, tax-exempt entity, which is responsible for the operations of the Student Activity Association, whose primary function is acting as a liaison between students, faculty and alumni, the University Store and Stony Acres, Inc., a recreation site and field campus for faculty and students. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of and for the years ended May 31, 2017 and 2016.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to activities of the University by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Foundation is presented as of and for the years ended June 30, 2017 and 2016.

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

Reporting Entity (Continued)

Mekeel is a legally separate, tax-exempt entity, which operates a childcare center for the children of students, faculty, and staff enrolled and/or employed at the University. It also assists various departments of the University with educational programs. Although the University does not control the resources of Mekeel, the activities of Mekeel are solely for the benefit of the University and its students. Mekeel is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of Mekeel is presented as of and for the years ended May 31, 2017 and 2016.

CFRED is a legally separate, tax-exempt entity, whose primary function is acting as the principal economic development and research extension of the University, through research and workforce training. CFRED and the University have entered into a memorandum of understanding, which recognizes CFRED as an affiliated organization of the University. CFRED is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of CFRED is presented as of and for the years ended June 30, 2017 and 2016.

UPI is a legally separate, tax-exempt entity, whose primary function is the operation and maintenance of certain housing for University students. Although the University does not control the resources of UPI, the activities of UPI are solely for the benefit of the University and its students. UPI is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of UPI is presented as of and for the years ended June 30, 2017 and 2016.

At June 30, 2017 and 2016, the University owed amounts to and was due amounts from its component units. Such balances are incurred as a normal part of doing business and are expected to be liquidated within the next fiscal year.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows, and balances that affect an entity's net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

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

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

Deferred Outflows of Resources, reported after *Total Assets*, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). *Deferred Inflows of Resources*, reported after *Total Liabilities*, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s).

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

The University is required to report the following as *Deferred Outflows of Resources* or *Deferred Inflows of Resources*.

- Deferred gain or loss on bond refunding, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

Net Position

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

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

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

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

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

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

Accounts and Loans Receivable (Continued)

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

Inventories

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

Capital Assets

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

All assets with a purchase cost, or fair value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. Equipment and furnishings are stated at cost less accumulated depreciation. All library books are capitalized and depreciated. Assets purchased under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write downs due to impairment are charged to operations at the time the impairment is identified. No write down of capital assets was required for the years ended June 30, 2017 and 2016.

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

Unearned Revenue

Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period.

Compensated Absences

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

Pension Plans

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

Scholarships and Waivers

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

Income Taxes

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

Use of Estimates

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

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

New Accounting Standards

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will require the University to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the University's accrued postretirement healthcare liability, as calculated by the actuaries, was $62,361,182, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $65,697,848. The University expects that the amount recorded on the balance sheet as a postretirement healthcare liability will increase when Statement No. 75 is implemented, but the amount will not be known until the calculation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the State System does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, it is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

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

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

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

New Accounting Standards (Continued)

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The University has determined that, based on current regulations, facts, and circumstances, Statement No. 83 will have no effect on its financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University has determined that Statement No. 84 will have no effect on its financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The University has determined that Statement No. 85 will have no effect on its financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The University has determined that Statement No. 86 will have no effect on its financial statements.

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

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	$ 6,862	$ 516,917	$ 105,321,347	$ -	$ -	$ 105,845,126
Investments	21,118,103	8,217,364	-	-	-	29,335,467
Due from University	-	10,229	505,131	-	-	515,360
Other Assets	1,520,365	5,676,480	29,998,047	188,705	164,440	37,548,037
Total Assets	$ 22,645,330	$ 14,420,990	$ 135,824,525	$ 188,705	$ 164,440	$ 173,243,990
Due to University	$ 553,627	$ -	$ 986,561	$ 6,945	$ -	$ 1,547,133
Long-Term Debt	-	-	135,340,548	-	-	135,340,548
Other Liabilities	364,443	674,327	6,195,079	282	13,249	7,247,380
Total Liabilities	918,070	674,327	142,522,188	7,227	13,249	144,135,061
Net Assets:						
Unrestricted	1,024,037	13,660,663	(6,697,663)	178,423	151,191	8,316,651
Temporarily Restricted	7,205,658	-	-	3,055	-	7,208,713
Permanently Restricted	13,497,565	86,000	-	-	-	13,583,565
Total Net Assets	21,727,260	13,746,663	(6,697,663)	181,478	151,191	29,108,929
Total Liabilities and Net Assets	$ 22,645,330	$ 14,420,990	$ 135,824,525	$ 188,705	$ 164,440	$ 173,243,990

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Capital Assets	$ 15,162	$ 573,025	$ 75,757,840	$ -	$ -	$ 76,346,027
Investments	18,209,686	7,659,433	-	-	118,353	25,987,472
Due from University	-	-	537,089	-	-	537,089
Other Assets	1,672,008	5,333,337	20,340,852	312,715	47,789	27,706,701
Total Assets	$ 19,896,856	$ 13,565,795	$ 96,635,781	$ 312,715	$ 166,142	$ 130,577,289
Due to University	$ 1,271,899	$ -	$ 4,984,079	$ 82	$ -	$ 6,256,060
Long-Term Debt	-	-	93,488,510	-	-	93,488,510
Other Liabilities	291,555	656,606	4,656,884	47,249	12,595	5,664,889
Total Liabilities	1,563,454	656,606	103,129,473	47,331	12,595	105,409,459
Net Assets:						
Unrestricted	731,389	12,823,189	(6,493,692)	265,384	153,547	7,479,817
Temporarily Restricted	5,529,302	-	-	-	-	5,529,302
Permanently Restricted	12,072,711	86,000	-	-	-	12,158,711
Total Net Assets	18,333,402	12,909,189	(6,493,692)	265,384	153,547	25,167,830
Total Liabilities and Net Assets	$ 19,896,856	$ 13,565,795	$ 96,635,781	$ 312,715	$ 166,142	$ 130,577,289

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Unrestricted Net Assets						
Revenues and Other Additions:						
Contributions	$ 732,725	$ -	$ -	$ 73,650	$ -	$ 806,375
Sales and Services	-	-	-	-	283,875	283,875
Student Fees	-	2,790,612	-	-	-	2,790,612
Grants and Contracts	-	-	-	6,945	23,916	30,861
Rental Income	-	-	12,373,175	-	-	12,373,175
Investment Income (Loss)	244,729	600,768	116,852	960	-	963,309
Service Fees Income	1,125,000	-	-	-	-	1,125,000
Other Revenues and Gains	196,540	1,081,742	29,726	103	-	1,308,111
Net Assets Released from Restrictions	1,078,619	-	-	-	-	1,078,619
Total Revenues and Other Additions	3,377,613	4,473,122	12,519,753	81,658	307,791	20,759,937
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	747,677	-	-	-	-	747,677
Student Activities and Programs	-	1,557,539	-	-	-	1,557,539
Housing	-	-	12,529,600	-	-	12,529,600
Other University Support	388,935	-	-	-	-	388,935
Other Programs	260,295	-	-	122,486	269,825	652,606
Management and General	1,225,525	2,078,109	194,124	46,133	38,933	3,582,824
Fundraising	462,533	-	-	-	1,389	463,922
Total Expenses and Other Deductions	3,084,965	3,635,648	12,723,724	168,619	310,147	19,923,103
Change in Unrestricted Net Assets	292,648	837,474	(203,971)	(86,961)	(2,356)	836,834
Changes in Temporarily Restricted Net Assets						
Contributions	1,457,236	-	-	3,055	-	1,460,291
Investment Income	1,470,977	-	-	-	-	1,470,977
Other Expenses and Losses	(173,238)	-	-	-	-	(173,238)
Net Assets Released from Restrictions	(1,078,619)	-	-	-	-	(1,078,619)
Change in Temporarily Restricted Net Assets	1,676,356	-	-	3,055	-	1,679,411
Changes in Permanently Restricted Net Assets						
Contributions	1,424,854	-	-	-	-	1,424,854
Change in Permanently Restricted Net Assets	1,424,854	-	-	-	-	1,424,854
CHANGE IN NET ASSETS	3,393,858	837,474	(203,971)	(83,906)	(2,356)	3,941,099
Net Assets - Beginning of Year	18,333,402	12,909,189	(6,493,692)	265,384	153,547	25,167,830
NET ASSETS - END OF YEAR	$ 21,727,260	$ 13,746,663	$ (6,697,663)	$ 181,478	$ 151,191	$ 29,108,929

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Association	UPI	CFRED	Mekeel	Total
Changes in Unrestricted Net Assets						
Revenues and Other Additions:						
Contributions	$ 311,046	$ -	$ -	$ 61,793	$ -	$ 372,839
Sales and Services	-	-	-	-	265,761	265,761
Student Fees	-	2,596,044	-	-	-	2,596,044
Grants and Contracts	-	-	-	25,000	27,365	52,365
Rental Income	-	-	11,855,403	-	-	11,855,403
Investment Income (Loss)	108,188	(81,681)	22,979	677	592	50,755
Service Fees Income	925,000	-	-	-	-	925,000
Other Revenues and Gains	426,702	1,200,854	78,345	172	-	1,706,073
Net Assets Released from Restrictions	1,062,962	-	-	-	-	1,062,962
Total Revenues and Other Additions	2,833,898	3,715,217	11,956,727	87,642	293,718	18,887,202
Expenses and Other Deductions:						
Program Expenses:						
Scholarships and Grants	725,009	-	-	-	-	725,009
Student Activities and Programs	-	1,626,253	-	-	-	1,626,253
Housing	-	-	11,724,772	-	-	11,724,772
Other University Support	882,964	-	-	-	-	882,964
Other Programs	167,314	-	-	99,066	276,903	543,283
Management and General	814,781	1,908,677	188,460	92,826	33,108	3,037,852
Fundraising	220,492	-	-	-	1,428	221,920
Total Expenses and Other Deductions	2,810,560	3,534,930	11,913,232	191,892	311,439	18,762,053
Change in Unrestricted Net Assets	23,338	180,287	43,495	(104,250)	(17,721)	125,149
Changes in Temporarily Restricted Net Assets						
Contributions	992,943	-	-	-	-	992,943
Investment Income	382,523	-	-	-	-	382,523
Other Expenses and Losses	(382,603)	-	-	-	-	(382,603)
Net Assets Released from Restrictions	(1,062,962)	-	-	-	-	(1,062,962)
Change in Temporarily Restricted Net Assets	(70,099)	-	-	-	-	(70,099)
Changes in Permanently Restricted Net Assets						
Contributions	1,071,792	-	-	-	-	1,071,792
Change in Permanently Restricted Net Assets	1,071,792	-	-	-	-	1,071,792
CHANGE IN NET ASSETS	1,025,031	180,287	43,495	(104,250)	(17,721)	1,126,842
Net Assets - Beginning of Year	17,308,371	12,728,902	(6,537,187)	369,634	171,268	24,040,988
NET ASSETS - END OF YEAR	$ 18,333,402	$ 12,909,189	$ (6,493,692)	$ 265,384	$ 153,547	$ 25,167,830

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $81,431,210 and $67,991,225 at June 30, 2017 and 2016, respectively.

The State System invests its funds in accordance with *Board of Governors' Policy 1986-02-A, Investment,* which authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, bankers' acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board may be invested in the investments described above, as well as in corporate equities and approved pooled common funds. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at www.passhe.edu.

At June 30, 2017 and 2016, the carrying amount of the University's demand and time deposits were $3,167,019 and $3,626,158, respectively, as compared to bank balances of $3,166,713 and $3,469,824, respectively. The differences are primarily caused by items in-transit and outstanding checks. All bank balances were covered by federal government depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2017 and 2016, none of the University's demand and time deposits is exposed to foreign currency risk.

Short-term investments at June 30, 2017 and 2016 consist of certificates of deposit carried at cost, which approximates fair value.

NOTE 4 CAPITAL ASSETS

Capital assets and the changes therein are summarized as follows:

	Estimated Lives (in Years)	Beginning Balance July 01, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Capital Assets Not Being Depreciated:						
Land		$ 6,259,241	$ -	$ -	$ -	$ 6,259,241
Construction in Progress		1,383,520	1,240,382	-	(638,140)	1,985,762
Total Capital Assets Not Being Depreciated		7,642,761	1,240,382	-	(638,140)	8,245,003
Capital Assets Being Depreciated:						
Buildings, Including Improvements	10-40	120,791,087	1,776,559	-	529,375	123,097,021
Improvements Other Than Buildings	20	24,379,763	430,715	-	66,791	24,877,269
Furnishings and Equipment	Varies	22,576,183	1,167,498	-	41,974	23,785,655
Library Books	10	6,202,505	13,791	(8,416)	-	6,207,880
Total Capital Assets Being Depreciated		173,949,538	3,388,563	(8,416)	638,140	177,967,825
Less Accumulated Depreciation:						
Buildings, Including Improvements		(68,068,222)	(4,375,384)	-	-	(72,443,606)
Furnishings and Equipment		(17,396,501)	(1,504,109)	-	-	(18,900,610)
Library Books		(5,805,239)	(88,670)	8,416	-	(5,885,493)
Total Accumulated Depreciation		(91,269,962)	(5,968,163)	8,416	-	(97,229,709)
Total Capital Assets Being Depreciated, Net		82,679,576	(2,579,600)	-	638,140	80,738,116
Capital Assets, Net		$ 90,322,337	$ (1,339,218)	$ -	$ -	$ 88,983,119

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Estimated Lives (in Years)	Beginning Balance July 01, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
Capital Assets Not Being Depreciated:						
Land		$ 6,259,241	$ -	$ -	$ -	$ 6,259,241
Construction in Progress		766,045	502,095	(918)	116,298	1,383,520
Total Capital Assets Not Being Depreciated		7,025,286	502,095	(918)	116,298	7,642,761
Capital Assets Being Depreciated:						
Buildings, Including Improvements	10-40	120,604,972	303,939	-	(117,824)	120,791,087
Improvements Other Than Buildings	20	23,823,443	554,794	-	1,526	24,379,763
Furnishings and Equipment	Varies	24,055,758	815,010	(2,294,585)	-	22,576,183
Library Books	10	6,202,409	41,844	(41,748)	-	6,202,505
Total Capital Assets Being Depreciated		174,686,582	1,715,587	(2,336,333)	(116,298)	173,949,538
Less Accumulated Depreciation:						
Buildings, Including Improvements		(63,782,413)	(4,285,809)	-	-	(68,068,222)
Furnishings and Equipment		(18,259,054)	(1,432,032)	2,294,585	-	(17,396,501)
Library Books		(5,748,956)	(98,031)	41,748	-	(5,805,239)
Total Accumulated Depreciation		(87,790,423)	(5,815,872)	2,336,333	-	(91,269,962)
Total Capital Assets Being Depreciated, Net		86,896,159	(4,100,285)	-	(116,298)	82,679,576
Capital Assets, Net		$ 93,921,445	$ (3,598,190)	$ (918)	$ -	$ 90,322,337

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Employees	$ 6,815,930	$ 6,620,779
Suppliers and Services	1,562,334	1,473,051
Other	1,207,555	1,447,229
Total	$ 9,585,819	$ 9,541,059

NOTE 6 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2017 and 2016 are as follows:

	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AH	4.67%	$ 9,488,902	$ -	$ (501,301)	$ 8,987,601
Series AI	4.19%	1,867,648	-	(211,069)	1,656,579
Series AJ	4.88%	2,916,881	-	(135,998)	2,780,883
Series AK	4.00%	61,107	-	(14,407)	46,700
Series AL	5.00%	2,810,285	-	(452,107)	2,358,178
Series AM	4.65%	7,062,952	-	(464,839)	6,598,113
Series AN	5.00%	1,851,191	-	(264,168)	1,587,023
Series AP	4.34%	138,785	-	(15,211)	123,574
Series AQ	4.71%	5,145,433	-	(407,403)	4,738,030
Series AS	3.72%	10,611,895	-	(498,305)	10,113,590
Total Bonds Payable		$ 41,955,079	$ -	$ (2,964,808)	38,990,271
Plus: Unamortized Bond Premium					2,483,145
Outstanding at End of Year					$ 41,473,416

NOTE 6 BONDS PAYABLE (CONTINUED)

	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF	5.00%	$ 12,271,488	$ -	$ (12,271,488)	$ -
Series AH	4.67%	9,967,130	-	(478,228)	9,488,902
Series AI	4.19%	2,070,080	-	(202,432)	1,867,648
Series AJ	4.88%	3,048,944	-	(132,063)	2,916,881
Series AK	4.00%	74,943	-	(13,836)	61,107
Series AL	5.00%	3,235,895	-	(425,610)	2,810,285
Series AM	4.65%	7,502,335	-	(439,383)	7,062,952
Series AN	5.00%	2,103,547	-	(252,356)	1,851,191
Series AP	4.34%	153,736	-	(14,951)	138,785
Series AQ	4.71%	5,164,183	-	(18,750)	5,145,433
Series AS	3.72%	-	10,611,895	-	10,611,895
Total Bonds Payable		$ 45,592,281	$ 10,611,895	$ (14,249,097)	41,955,079
Plus: Unamortized Bond Premium					3,017,350
Outstanding at End of Year					$ 44,972,429

NOTE 6 BONDS PAYABLE (CONTINUED)

Principal and interest maturities for each of the next five years as of June 30, 2017 and in subsequent five-year periods ending June 30 are as follows:

Series		2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2037	Total
AH	Principal	$ 527,524	$ 551,895	$ 579,416	$ 604,989	$ 628,062	$ 3,591,670	$ 2,136,545	$ 367,500	$ 8,987,601
	Interest	417,827	391,450	363,856	340,679	316,479	1,129,711	353,186	18,375	3,331,563
	Total	945,351	943,345	943,272	945,668	944,541	4,721,381	2,489,731	385,875	12,319,164
AI	Principal	219,703	228,338	237,097	247,199	256,840	467,402	-	-	1,656,579
	Interest	70,231	61,443	52,310	42,529	32,023	36,793	-	-	295,329
	Total	289,934	289,781	289,407	289,728	288,863	504,195	-	-	1,951,908
AJ	Principal	145,328	149,854	159,577	164,694	174,811	1,004,855	761,764	220,000	2,780,883
	Interest	134,157	126,891	119,398	111,419	103,184	380,246	146,853	16,750	1,138,898
	Total	279,485	276,745	278,975	276,113	277,995	1,385,101	908,617	236,750	3,919,781
AK	Principal	14,929	15,600	16,171	-	-	-	-	-	46,700
	Interest	1,868	1,271	647	-	-	-	-	-	3,786
	Total	16,797	16,871	16,818	-	-	-	-	-	50,486
AL	Principal	470,420	495,102	518,987	543,669	15,000	100,000	125,000	90,000	2,358,178
	Interest	117,909	94,388	69,633	43,683	16,500	68,750	41,250	9,000	461,113
	Total	588,329	589,490	588,620	587,352	31,500	168,750	166,250	99,000	2,819,291
AM	Principal	485,891	349,565	366,805	385,235	404,260	2,339,944	2,266,413	-	6,598,113
	Interest	304,865	285,429	267,951	249,610	230,349	833,937	273,066	-	2,445,207
	Total	790,756	634,994	634,756	634,845	634,609	3,173,881	2,539,479	-	9,043,320
AN	Principal	272,894	284,952	297,174	313,835	328,051	90,117	-	-	1,587,023
	Interest	68,167	53,816	38,533	22,320	4,853	343	-	-	188,032
	Total	341,061	338,768	335,707	336,155	332,904	90,460	-	-	1,775,055
AP	Principal	15,731	16,186	16,836	17,486	18,202	39,133	-	-	123,574
	Interest	5,359	4,887	4,240	3,566	2,867	2,958	-	-	23,877
	Total	21,090	21,073	21,076	21,052	21,069	42,091	-	-	147,451
AQ	Principal	433,119	454,491	477,261	501,486	526,322	2,345,351	-	-	4,738,030
	Interest	236,902	215,246	192,521	168,658	143,584	297,648	-	-	1,254,559
	Total	670,021	669,737	669,782	670,144	669,906	2,642,999	-	-	5,992,589
AS	Principal	1,068,043	1,386,497	1,411,196	1,438,826	1,469,804	3,339,224	-	-	10,113,590
	Interest	346,543	325,182	297,452	269,228	240,451	517,203	-	-	1,996,059
	Total	1,414,586	1,711,679	1,708,648	1,708,054	1,710,255	3,856,427	-	-	12,109,649
	Principal	3,653,582	3,932,480	4,080,520	4,217,419	3,821,352	13,317,696	5,289,722	677,500	38,990,271
	Interest	1,703,828	1,560,003	1,406,541	1,251,692	1,090,290	3,267,589	814,355	44,125	11,138,423
	Total	$ 5,357,410	$ 5,492,483	$ 5,487,061	$ 5,469,111	$ 4,911,642	$ 16,585,285	$ 6,104,077	$ 721,625	$ 50,128,694

NOTE 6 BONDS PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. The State System will issue bonds to provide a pool for funding for AFRP ($17,539,964 and $21,918,513 was outstanding at June 30, 2017 and 2016, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	2017	2016
Balance at July 1	$ 1,442,933	$ 1,853,267
Repayments	(282,402)	(410,334)
Balance at June 30	$ 1,160,531	$ 1,442,933

NOTE 7 LEASES

The University has entered into noncancelable lease agreements which have been reported as operating leases in the accompanying financial statements. Future minimum payments at June 30, 2017 for leases with initial or remaining terms of one year or more are as follows:

Year Ending June 30,	Amount
2018	$ 751,494
2019	766,743
2020	792,495
2021	808,428
2022	836,537
Thereafter	34,311,355
Total	$ 38,267,052

Total rent expense for operating leases in 2017 and 2016 was $1,340,970 and $1,407,984, respectively.

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2017	2016
Student Tuition and Fees	$ 3,048,174	$ 2,933,813
Grants	329,006	309,554
Sales and Services and Other	1,227,020	461,495
Total	$ 4,604,200	$ 3,704,862

NOTE 9 COMPENSATED ABSENCES

Changes in the compensated absences liability were as follows during 2017 and 2016:

	2017	2016
Balance at July 1	$ 6,518,948	$ 6,524,941
Current Changes in Estimate	753,450	370,478
Payouts	(403,466)	(376,471)
Balance at June 30	$ 6,868,932	$ 6,518,948

NOTE 10 POSTRETIREMENT BENEFITS

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

System Plan

Plan Description

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

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis, i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. The State System paid premiums of $39,241,000 and $40,060,000 for the fiscal years ended June 30, 2017 and 2016, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the date of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2017:

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay the same dollar amount they paid as active employees on the day of retirement. When these annuitants become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually and future adjustments will apply if contributions increase for active employees.
- Other eligible annuitants who retire on or after July 1, 2008, pay 18% of the plan premium in effect on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA, OPEIU, and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

Total contributions made by plan members were $5,558,000 and $4,866,000, or approximately 12.4% and 10.8% of the total premiums, for the fiscal years ended June 30, 2017 and 2016, respectively.

Annual OPEB Cost and Net OPEB Obligation

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

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

	2017	2016
Annual Required Contribution	$ 5,540,247	$ 5,937,907
Interest on Net OPEB Obligation	2,436,779	2,331,294
Adjustment to Annual Required Contribution	(3,471,245)	(3,064,058)
Annual OPEB Cost	4,505,781	5,205,143
Contributions Made	(2,288,420)	(2,350,152)
Increase in Net OPEB Obligation	2,217,361	2,854,991
Net OPEB Obligation - Beginning of Year	63,480,487	60,625,496
Net OPEB Obligation - End of Year	$ 65,697,848	$ 63,480,487

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2017 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 4,505,781	50.8 %	$ 65,697,848
June 30, 2016	5,205,143	45.2 %	63,480,487
June 30, 2015	5,240,945	42.7 %	60,625,496

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 62,361,182
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 62,361,182
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$ 34,031,960
UAAL as a Percentage of Covered Payroll	183.2%

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the projected unit credit method was used with a 4.25% investment rate of return, which is the rate expected to be earned on the State System's operating portfolio. The healthcare cost trend rate used was 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2016, was 19 years.

Retired Employees Health Program

Plan Description

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

NOTE 10 POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program (Continued)

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2016/17, the State System contributed $362 for each current active employee per biweekly pay period. The State System made contributions of $31,875,000, $37,026,000, and $30,765,000 for the fiscal years ending June 30, 2017, 2016, and 2015, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, deferred outflows and deferred inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2017 and 2016.

NOTE 11 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Pension Liabilities	$ 39,785,537	$ 37,933,365	$ 4,627,376	$ 4,098,250	$ -	$ -	$ 44,412,913	$ 42,031,615
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	574,297	768,078	-	-	-	-	574,297	768,078
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	3,343,572	3,862,323	257,914	-	-	-	3,601,486	3,862,323
Changes in Assumptions	2,430,181	1,126,989	167,035	-	-	-	2,597,216	1,126,989
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	28,452	29,205	-	-	28,452	29,205
Changes in Proportion	618,307	-	131,224	181,361	-	-	749,531	181,361
Contributions After the Measurement Date	2,245,410	1,761,465	333,567	306,252	-	-	2,578,977	2,067,717
Total Deferred Outflows of Resources	$ 9,211,767	$ 7,518,855	$ 918,192	$ 516,818	$ -	$ -	$ 10,129,959	$ 8,035,673
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ -	$ -	$ 38,563	$ 16,910	$ -	$ -	$ 38,563	$ 16,910
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	890,160	-	-	8,276	-	-	890,160	8,276
Difference Between Employer Contributions and Proportionate Share of Contributions	184,606	105,591	-	-	-	-	184,606	105,591
Changes in Proportion	843,596	1,158,067	33,723	-	-	-	877,319	1,158,067
Total Deferred Inflows of Resources	$ 1,918,362	$ 1,263,658	$ 72,286	$ 25,186	$ -	$ -	$ 1,990,648	$ 1,288,844
Pension Expense	$ 4,427,634	$ 3,747,479	$ 1,018,945	$ 765,385	$ 3,152,582	$ 3,008,458	$ 8,599,161	$ 7,521,322
Contributions Recognized by Pension Plans	$ 3,614,873	$ 2,947,596	$ 333,567	$ 306,252	N/A	N/A	$ 3,948,440	$ 3,253,848

NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the $2,245,410 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $333,566 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2018	$ 1,578,712	$ 125,502
June 30, 2019	1,578,712	125,502
June 30, 2020	1,376,140	170,867
June 30, 2021	457,368	90,469
June 30, 2022	57,063	-
	$ 5,047,995	$ 512,340

SERS

Plan Description

SERS is the administrator of a cost-sharing multiple-employer defined benefit plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

Benefits Provided

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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

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

Contributions

The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2015/16 was 4.5% and will no longer apply effective July 1, 2017.

The University contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were $3,614,873, $2,947,596, and $2,529,147, respectively, equal to the required contractual contribution.

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

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

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2016 and 2015 are summarized below:

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The following depicts asset allocation as of December 31, 2016:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	8.00%
Global Public Equity	43.0%	5.30%
Real Assets	12.0%	5.44%
Hedge Funds	12.0%	4.75%
Fixed Income	14.0%	1.63%
Cash	3.0%	(0.25)%
Total	100.0%	

The following depicts asset allocation as of December 31, 2015:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	15.0%	8.50%
Global Public Equity	40.0%	5.40%
Real Assets	17.0%	4.95%
Diversifying Assets	10.0%	5.00%
Fixed Income	15.0%	1.50%
Liquidity Reserve	3.0%	0.00%
Total	100.0%	

The discount rate used to measure the total SERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% and 7.50%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) and (6.50%) or one percentage point higher (8.25%) and (8.50%) than the current rate for 2016 and 2015, respectively:

Sensitivity of the University's Proportionate Share of the
SERS Net Pension Liability to Changes in the Discount Rate

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 49,236,453	$ 39,785,537	$ 31,692,190
	6.50%	7.50%	8.50%
2015	47,120,390	37,933,365	30,056,002

Fiduciary Net Position

The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at www.sers.state.pa.us. The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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

At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016 was $39,785,537. At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015 was $37,933,365.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2017/18, from the December 31, 2016, funding valuation, to the expected funding payroll. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2016/17, from the December 31, 2015, funding valuation, to the expected funding payroll. At the December 31, 2016, measurement date, the State System's proportion was 4.837%, an increase of 0.12% from its proportion calculated as of the December 31, 2015, measurement date.

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (State System), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that may be obtained at www.psers.state.pa.us.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided

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

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

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

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

Member Contributions

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2017 was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 14.6% of covered payroll. The University's contributions to PSERS for the year ending June 30, 2017, June 30, 2016, and June 30, 2015 was $333,567, $306,252 and $267,505, respectively, equal to the required contractual contribution.

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2016, was determined by rolling forward PSERS' total pension liability as of the June 30, 2015, actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2016, valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its June 10, 2016, meeting and were effective beginning with the June 30, 2016, actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015:

The following depicts asset allocation as of June 30, 2016:

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

The following depicts asset allocation as of June 30, 2015:

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the total PSERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% and 7.50%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) and (6.50%) or one percentage point higher (8.25%) and (8.50%) than the current rate for 2016 and 2015, respectively:

Sensitivity of the University's Proportionate Share of the
PSERS Net Pension Liability to Changes in the Discount Rate

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 5,660,508	$ 4,627,375	$ 3,759,188
	6.50%	7.50%	8.50%
2015	5,051,496	4,098,251	3,297,044

Fiduciary Net Position

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

At June 30, 2017 and 2016, the amount recognized as the University’s proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	2017	2016
Total PSERS Net Pension Liability Associated With the University	$ 9,254,750	$ 8,196,502
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated With the University	4,627,375	4,098,251
University's Proportionate Share of the PSERS Net Pension Liability	$ 4,627,375	$ 4,098,251

PSERS measured the net pension liability as of June 30, 2016. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2015, to June 30, 2016. PSERS calculated the employer’s proportion of the net pension liability using the employer’s one-year reported covered payroll in relation to all participating employers’ one-year reported covered payroll. At June 30, 2016, the State System’s proportion was .1833%, a decrease of .0019% from its proportion calculated as of June 30, 2015.

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees’ Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System’s contribution rate on June 30, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016, were $3,152,582 and $3,008,458, respectively, from the University; and $1,602,230 and $1,170,878, respectively, from active members. No liability is recognized for the ARP.

NOTE 12 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims less than $100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University was given a refund of $44,671 from the Reserve Fund during the year ended June 30, 2017, and the University contributed $28,080, and $118,275 to the Reserve Fund in 2016, and 2015, respectively.

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

	2017	2016	2015
Balance at July 1	$ 648,697	$ 744,330	$ 701,121
Current Year Claims and Changes in Estimates	284,630	315,254	512,659
Payments	(428,572)	(410,887)	(469,450)
Balance at June 30	$ 504,755	$ 648,697	$ 744,330

NOTE 13 COMMITMENTS AND CONTINGENCIES

Contingencies

The nature of the education industry is such that, from time to time, the University is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

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

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

Construction Commitments

Authorized expenditures for construction projects unexpended were approximately $386,458 and $180,835 as of June 30, 2017 and 2016, respectively.

NOTE 14 RATINGS ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. and an AA- rating from Fitch Ratings. In August 2017, both Moody's and Fitch revised their outlooks for the ratings from *stable* to *negative*.

NOTE 15 SUBSEQUENT EVENTS

Cheyney University Loan Forgiveness

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

NOTE 15 SUBSEQUENT EVENTS (CONTINUED)

Cheyney University Loan Forgiveness (Continued)

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

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

Bond Issuance

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. East Stroudsburg University participated in the issuance of the AU-2 revenue bonds. The refunding was performed to reduce debt service by approximately $568,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $553,000. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ -	$ 87,331	$ 87,331	0%	$ 35,061	249.1%
July 1, 2014	-	70,075	70,075	0%	33,257	210.7%
July 1, 2016	-	62,361	62,361	0%	34,032	183.2%

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ 82,060	$ 13,234,040	$ 13,151,980	0.62%	$ 4,264,000	308%
January 1, 2015	144,744	16,134,419	15,989,675	0.90%	4,289,099	373%
January 1, 2017	313,226	16,546,732	16,233,506	1.89%	4,485,000	362%

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

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF SERS/PSERS CONTRIBUTIONS
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 2,529	$ 2,529	$ -	$ 13,464	18.8%
2015/16	$ 2,948	$ 2,948	$ -	$ 12,677	23.3%
2016/17	$ 3,614	$ 3,614	$ -	$ 13,162	27.5%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 267	$ 267	$ -	$ 2,360	11.3%
2015/16	$ 306	$ 306	$ -	$ 2,526	12.1%
2016/17	$ 334	$ 334	$ -	$ 2,321	14.4%

EAST STROUDSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SCHEDULES OF PROPORTIONATE SHARE OF SERS/PSERS NET PENSION LIABILITY
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.9010%	$ 33,009	$ 13,464	245%	64.8%
2015/16	4.7208%	$ 37,933	$ 13,156	288%	58.9%
2016/17	4.8370%	$ 39,786	$ 12,846	310%	57.8%

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)
Determined as of PSERS June 30 Measurement Date
(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	State System's Proportion	University's Proportion Share	Proportion Share	Total	Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.1785%	$ 3,661	$ 3,661	$ 7,322	$ 1,180	310%	57.2%
2015/16	0.1852%	$ 4,098	$ 4,098	$ 8,196	$ 2,435	200%	54.4%
2016/17	0.1833%	$ 4,627	$ 4,627	$ 9,255	$ 2,419	200%	50.1%

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