

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS – PRIMARY INSTITUTION	3
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY INSTITUTION	5
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION	6
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS	8
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS	9
NOTES TO FINANCIAL STATEMENTS	10
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB) (UNAUDITED)	49
SCHEDULES OF PROPORTIONATE SHARE OF SERS NET PENSION LIABILITY AND CONTRIBUTIONS (UNAUDITED)	50
SCHEDULES OF PROPORTIONATE SHARE OF PSERS NET PENSION LIABILITY AND CONTRIBUTIONS (UNAUDITED)	51

INDEPENDENT AUDITORS' REPORT

Council of Trustees
Clarion University of Pennsylvania of the State System of Higher Education
Clarion, 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 Clarion University of Pennsylvania of the State System of Higher Education (the "University"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity 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 who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 49 and the Schedules of Proportionate Share of SERS/PSERS Net Pension Liability and Contributions on pages 50 and 51 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

Harrisburg, Pennsylvania
November 4, 2016

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

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 21,734,004	\$ 31,709,956
Accounts Receivable:		
Governmental Grants and Contracts	3,259,210	3,649,208
Students, Net of Allowance for Doubtful Accounts of \$3,433,315 in 2016 and \$3,970,457 in 2015	2,253,980	3,141,951
Other	445,514	537,808
Inventory	567,830	573,886
Prepaid Expenses	441,206	201,347
Conversion Pay Receivable	1,157	635
Loans Receivable, Net of Allowance for Doubtful Accounts of \$45,290 in 2016 and \$7,000 in 2015	337,660	374,277
Interest Income Receivable	22,376	29,740
Due from Component Units	794,913	980,898
Other Current Assets	185,254	46,376
Total Current Assets	30,043,104	41,246,082
NONCURRENT ASSETS		
Conversion Pay Receivable	2,880	5,219
Loans Receivable, Net of Allowance for Doubtful Accounts of \$-0- in 2016 and 2015	189,572	262,609
Capital Assets, Net	64,624,721	57,302,514
Total Noncurrent Assets	64,817,173	57,570,342
 Total Assets	 94,860,277	 98,816,424
DEFERRED OUTFLOWS OF RESOURCES	11,601,786	4,060,473
 Total Assets and Deferred Outflows of Resources	 \$ 106,462,063	 \$ 102,876,897

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2016 AND 2015**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2016	2015
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	\$ 1,908,499	\$ 2,156,784
Employees	5,698,166	5,521,528
Other	546,159	561,250
Unearned Revenue	2,885,596	2,823,385
Accrued Interest Payable	16,498	20,782
Students' Deposits	158,864	41,500
Current Portion of Workers' Compensation	182,618	168,805
Current Portion of Compensated Absences	148,614	223,375
Current Portion of Capital Lease Obligations	113,957	105,420
Current Portion of Bonds Payable, Net	1,690,363	1,731,874
Due to System, Academic Facilities Renovation Bond Program (AFRP)	311,023	274,238
Due to Component Units	2,664,737	712,825
Other Current Liabilities	418,063	338,840
Total Current Liabilities	16,743,157	14,680,606
NONCURRENT LIABILITIES		
Unearned Revenue	70,640	-
Workers' Compensation	343,974	94,663
Compensated Absences	6,431,007	6,669,176
Postretirement Benefits	68,630,006	65,428,312
SERS Net pension Liability	56,524,838	49,920,643
PSERS Net pension Liability	2,043,516	1,148,600
Capital Lease Obligations	256,232	370,189
Bonds Payable, Net	7,416,647	9,037,499
Due to System, AFRP	1,278,153	1,764,765
Other Noncurrent Liabilities	497,776	516,774
Total Noncurrent Liabilities	143,492,789	134,950,621
Total Liabilities	160,235,946	149,631,227
DEFERRED INFLOWS OF RESOURCES	1,895,548	702,530
NET POSITION		
Net Investment in Capital Assets	53,628,557	44,055,385
Restricted for:		
Nonexpendable:		
Other	58,551	-
Expendable:		
Scholarships and Fellowships	339,118	337,866
Research	(25,112)	(25,112)
Capital Projects	2,550,508	2,248,220
Other	3,927,451	3,409,597
Unrestricted	(116,148,504)	(97,482,816)
Total Net Position	(55,669,431)	(47,456,860)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 106,462,063	\$ 102,876,897

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Tuition and Fees	\$ 49,251,564	\$ 49,846,553
Less: Scholarship Discounts and Allowances	<u>12,430,066</u>	<u>12,110,768</u>
Net Tuition and Fees	36,821,498	37,735,785
Governmental Grants and Contracts:		
Federal	4,082,670	3,857,734
State	6,378,807	6,404,133
Local	-	58,274
Nongovernmental Grants and Contracts	250,221	191,431
Sales and Services of Educational Departments	5,277,345	4,233,140
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$407,784 in 2016 and \$451,154 in 2015	10,983,329	12,446,576
Other Revenues	<u>128,008</u>	<u>264,582</u>
Total Operating Revenues	<u>63,921,878</u>	<u>65,191,655</u>
OPERATING EXPENSES		
Instruction	37,577,372	36,815,454
Research	262,560	215,229
Public Service	7,692,398	6,994,298
Academic Support	8,823,673	9,524,438
Student Services	12,611,624	12,666,286
Institutional Support	13,096,158	13,842,273
Operations and Maintenance of Plant	7,421,983	7,973,687
Depreciation	4,982,603	4,606,869
Student Aid	4,637,162	4,428,118
Auxiliary Enterprises	<u>9,475,680</u>	<u>10,591,814</u>
Total Operating Expenses	<u>106,581,213</u>	<u>107,658,466</u>
NET OPERATING LOSS	(42,659,335)	(42,466,811)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	24,056,297	23,235,384
Commonwealth on-behalf contributions to PSERS	202,568	107,170
Pell Grants	7,500,991	8,265,141
Investment Income, Net of Related Investment Expense of \$5,688 in 2016 and \$9,951 in 2015	363,416	423,820
Gifts for Other than Capital Purposes	1,423,907	1,181,925
Interest Expense on Capital Asset-Related Debt	(321,448)	(561,824)
Gain (Loss) on Disposal of Assets	20,184	(5,457)
Other Nonoperating Revenue	<u>62,038</u>	<u>50,559</u>
Nonoperating Revenues, Net	<u>33,307,953</u>	<u>32,696,718</u>
INCOME (LOSS) BEFORE OTHER REVENUES	(9,351,382)	(9,770,093)
OTHER REVENUES		
State Appropriations, Capital	881,704	774,658
Capital Gifts and Grants	<u>257,107</u>	<u>257,440</u>
Total Other Revenues	<u>1,138,811</u>	<u>1,032,098</u>
CHANGE IN NET POSITION	(8,212,571)	(8,737,995)
Net Position - Beginning of Year	(47,456,860)	7,161,273
Restatement for July 1, 2014 Pension Liability and Related Expense	-	(45,880,138)
Net Position - Beginning of Year, As Restated	<u>(47,456,860)</u>	<u>(38,718,865)</u>
NET POSITION - END OF YEAR	<u>\$ (55,669,431)</u>	<u>\$ (47,456,860)</u>

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees, Net	\$ 37,796,036	\$ 37,708,002
Grants and Contracts	11,010,275	8,136,329
Payments to Suppliers for Goods and Services	(23,167,641)	(23,901,568)
Payments to Employees	(68,006,897)	(68,698,046)
Loans Issued to Students	(78,560)	(183,881)
Loans Collected from Students	188,214	138,359
Student Aid	(4,738,244)	(4,870,889)
Auxiliary Enterprise Charges	11,178,528	12,443,649
Sales and Services of Educational Departments	5,287,042	6,616,365
Other Receipts	863,794	75,401
Net Cash Used by Operating Activities	(29,667,453)	(32,536,279)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	24,056,297	23,235,384
Gifts for Other than Capital Purposes	1,423,907	1,181,925
Plus, Stafford, and Other Loans Receipts (Non-Perkins)	46,160,394	45,462,789
Plus, Stafford, and Other Loans Disbursements (Non-Perkins)	(46,160,394)	(45,462,789)
Pell Grants	7,500,991	8,265,141
Other	62,038	50,559
Net Cash Provided by Noncapital Financing Activities	33,043,233	32,733,009
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	1,994,527	-
Capital Appropriations	881,704	774,658
Capital Gifts and Grants Received	257,107	257,440
Proceeds from Sales of Capital Assets	20,184	-
Purchases of Capital Assets	(12,304,810)	(6,932,623)
Principal Paid on Capital Debt and Leases	(4,081,234)	(1,930,000)
Interest Paid on Capital Debt and Leases	(489,990)	(671,991)
Net Cash Used by Capital Financing Activities	(13,722,512)	(8,502,516)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	370,780	426,642
DECREASE IN CASH AND CASH EQUIVALENTS	(9,975,952)	(7,879,144)
Cash and Cash Equivalents - Beginning of Year	31,709,956	39,589,100
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 21,734,004	\$ 31,709,956

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	\$ (42,659,335)	\$ (42,466,811)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	4,982,603	4,606,869
Expenses Paid by Commonwealth or Donor	202,568	107,170
Changes in Assets and Liabilities:		
Receivables, Net	1,277,969	(85,432)
Inventories	6,056	(73)
Other Assets	(98,641)	(949,158)
Accounts Payable	1,364,096	894,950
Unearned Revenue	132,851	70,462
Students' Deposits	117,364	(16,264)
Compensated Absences	(312,930)	(145,390)
Loans to Students and Employees	109,654	(45,522)
Other Liabilities	5,210,292	5,492,920
Net Cash Used by Operating Activities	<u>\$ (29,667,453)</u>	<u>\$ (32,536,279)</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Commonwealth on-behalf contributions to PSERS	<u>\$ 202,568</u>	<u>\$ 107,170</u>

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2016 AND 2015**

ASSETS	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 3,792,080	\$ 5,679,943
Account Receivable	187,410	223,528
Contributions and Pledges Receivable	881,286	927,938
Due from University	2,574,712	622,354
Prepaid Expenses	229,231	104,734
Investments	46,655,141	62,555,015
Capital Assets, Net	104,314,970	88,379,259
Other Assets	<u>269,092</u>	<u>617,492</u>
Total Assets	<u><u>\$ 158,903,922</u></u>	<u><u>\$ 159,110,263</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,554,178	\$ 578,791
Deferred Revenue	544,515	273,418
Interest Payable	1,679,711	1,565,971
Annuity Liabilities	2,231,043	2,253,169
Due to University	792,670	970,416
Deposits Payable	438,970	445,641
Long-Term Debt	<u>105,363,730</u>	<u>106,431,177</u>
Total Liabilities	112,604,817	112,518,583
NET ASSETS		
Unrestricted	14,973,528	14,044,245
Temporarily Restricted	12,059,325	13,989,323
Permanently Restricted	<u>19,266,252</u>	<u>18,558,112</u>
Total Net Assets	<u>46,299,105</u>	<u>46,591,680</u>
Total Liabilities and Net Assets	<u><u>\$ 158,903,922</u></u>	<u><u>\$ 159,110,263</u></u>

See accompanying Notes to Financial Statements.

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

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 219,562	\$ 238,887
Sales and Service	244,976	283,222
Student Fees	1,769,594	1,827,243
Grants and Contracts	1,054,835	1,034,835
Rental Income	4,536,935	3,534,458
Investment Income	156,714	154,517
Gain on Sale of Equipment	19,128	-
Realized and Unrealized Gain (Loss) on Investments	(187,634)	62,381
Trustee Fees	247,524	213,832
Other Revenues and Gains	65,804	133,533
Net Assets Released from Restrictions	1,698,093	1,456,033
Total Revenues and Other Additions	9,825,531	8,938,941
EXPENSES AND OTHER DEDUCTIONS		
Program Services:		
Scholarships/Grants	1,227,160	923,581
Student Activities and Programs	2,215,794	2,298,648
University Stores	273,951	227,889
Housing	3,067,675	2,396,292
Other University Support	125,000	-
Management and General	1,226,579	1,131,872
Fundraising	648,746	696,142
Other Expenses and Losses	-	1,065,011
Total Expenses and Other Deductions	8,784,905	8,739,435
Increase in Unrestricted Net Assets before Reclassification	1,040,626	199,506
Reclassification	(111,343)	32,545
Increase in Unrestricted Net Assets	929,283	232,051
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	595,917	636,897
Sales and Services (Project Income)	180,036	102,201
Rental Income	(68,008)	(53,925)
Investment Income	592,790	639,312
Realized Gain on Investments	40,807	315,893
Unrealized Gain (Loss) on Investments	(964,632)	164,571
Trustee Fees	(247,524)	(213,832)
Adjustment of Actuarial Liability for Annuities Payable	(189,428)	(172,676)
Other Revenues and Gains	88,750	32,212
Net Assets Released from Restrictions	(1,698,093)	(1,456,033)
Decrease in Temporarily Restricted Net Assets before Reclassification	(1,669,385)	(5,380)
Reclassification	(260,613)	(185,032)
Decrease in Temporarily Restricted Net Assets	(1,929,998)	(190,412)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	351,061	417,738
Investment Income	19,092	20,374
Unrealized Gain (Loss) on Investments	(33,969)	3,316
Increase in Permanently Restricted Net Assets before Reclassification	336,184	441,428
Reclassification	371,956	152,487
Increase in Permanently Restricted Net Assets	708,140	593,915
CHANGE IN NET ASSETS	(292,575)	635,554
Net Assets - Beginning of Year	46,591,680	45,956,126
NET ASSETS - END OF YEAR	\$ 46,299,105	\$ 46,591,680

See accompanying Notes to Financial Statements.

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

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Clarion University of Pennsylvania of the State System of Higher Education (the "University"), a public four year institution located in Clarion, Pennsylvania, was founded in 1867. The University is one of fourteen universities of Pennsylvania's State System of Higher Education (State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P. L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

Reporting Entity

The University functions as a Business-Type Activity, as defined by the Governmental Accounting Standards Board (GASB).

The University has determined The Clarion Students' Association (the "Association") and The Clarion University Foundation (the "Foundation") 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 provides services and promotes and supports educational, cultural and recreational activities for the students of the University. 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 University received payments from the Association of \$1,062,446 during the thirteen months ended June 30, 2016 and \$993,393 during the fiscal year ended May 31, 2015. The 2016 financial activity of the Association is presented as of and for the thirteen months ended June 30, 2016 and the 2015 financial activity is presented as of and for the year ended May 31, 2015. During 2016, the Clarion Students' Association (the "Association") changed its fiscal year end to June 30 from May 31.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from the Foundation of \$1,985,420 and \$1,189,146 during the fiscal years ended June 30, 2016 and 2015, respectively. The financial activity of the Foundation is presented as of and for the years ended June 30, 2016 and 2015.

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

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

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

Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Codification Section 958-205, *Presentation of Financial Statements*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest, capital grants, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the University are reported as nonoperating revenue.

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.

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

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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

For defined benefit pension plans: 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: The portion of net position subject to externally imposed conditions requiring that the University maintain them in perpetuity.

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

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

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

Cash Equivalents

The University considers all demand and time deposits, money market funds and overnight repurchase agreements to be cash equivalents.

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

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

Accounts and Loans Receivable

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

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

Inventory

Inventory consists of maintenance supplies and is 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.

Buildings, equipment and furnishings 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, calculated using the straight-line method. 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. All library books are capitalized. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets under capital lease is included in depreciation. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Impairment of Capital Assets

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

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

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

Unearned Revenue

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

Compensated Absences

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

Pension Plans

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

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, which is a political subdivision of the Commonwealth, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code.

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.

Financial Statement Reclassifications

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

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

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

New Accounting Standards

In 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the University to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS). The July 1, 2014, balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources is reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2015 Net position—beginning of year. SERS and PSERS were not able to provide sufficient information to restate the June 30, 2014, financial statements.

	2015
Net Position - Beginning of Year, as Initially Restated	\$ 7,161,273
July 1, 2014 - Balance of Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(45,880,138)
Net Position - Beginning of Year, as Restated	\$ (38,718,865)

The University has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. In accordance with Statement No. 72, the State System has classified its investments as Level 1, Level 2, or Level 3, to indicate the degree of certainty around the assets' underlying values (Note 4).

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety: in its most recent actuarial valuation dated July 1, 2014 the University's accrued postretirement health care liability, as calculated by the actuaries, was \$74,749,421, but under current GASB requirements, the amount recorded on the balance sheet as a liability was \$68,630,006. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards.

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

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

New Accounting Standards (Continued)

Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the amount is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement No. 78 excludes certain pensions from the provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The University has determined that Statement No. 78 does not apply to its pension plans and has no effect on its financial statements.

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

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	Association	Foundation	Total
Due from University	\$ -	\$ 2,574,712	\$ 2,574,712
Capital Assets, Net	125,909	104,189,061	104,314,970
Investments	2,146,141	44,509,000	46,655,141
Other Assets	2,110,189	3,248,910	5,359,099
Total Assets	<u>\$ 4,382,239</u>	<u>\$ 154,521,683</u>	<u>\$ 158,903,922</u>
Due to University	\$ -	\$ 792,670	\$ 792,670
Long-Term Debt	-	105,363,730	105,363,730
Other Liabilities	838,621	5,609,796	6,448,417
Total Liabilities	<u>\$ 838,621</u>	<u>\$ 111,766,196</u>	<u>\$ 112,604,817</u>
Net Assets:			
Unrestricted	\$ 3,325,751	\$ 11,647,777	\$ 14,973,528
Temporarily Restricted	24,918	12,034,407	12,059,325
Permanently Restricted	192,949	19,073,303	19,266,252
Total Net Assets	<u>\$ 3,543,618</u>	<u>\$ 42,755,487</u>	<u>\$ 46,299,105</u>

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

	Association	Foundation	Total
Due from University	\$ -	\$ 622,354	\$ 622,354
Capital Assets, Net	185,759	88,193,500	88,379,259
Investments	2,208,781	60,346,234	62,555,015
Other Assets	2,118,977	5,434,658	7,553,635
Total Assets	<u>\$ 4,513,517</u>	<u>\$ 154,596,746</u>	<u>\$ 159,110,263</u>
Due to University	\$ -	\$ 970,416	\$ 970,416
Long-Term Debt	-	106,431,177	106,431,177
Other Liabilities	871,617	4,245,373	5,116,990
Total Liabilities	<u>\$ 871,617</u>	<u>\$ 111,646,966</u>	<u>\$ 112,518,583</u>
Net Assets:			
Unrestricted	\$ 3,389,128	\$ 10,655,117	\$ 14,044,245
Temporarily Restricted	25,854	13,963,469	13,989,323
Permanently Restricted	226,918	18,331,194	18,558,112
Total Net Assets	<u>\$ 3,641,900</u>	<u>\$ 42,949,780</u>	<u>\$ 46,591,680</u>

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	<u>Association</u>	<u>Foundation</u>	<u>2016 Total</u>
Changes in Unrestricted Net Assets			
Revenues and Other Additions:			
Contributions	\$ -	\$ 219,562	\$ 219,562
Sales and Service	244,976		244,976
Student Fees	1,769,594		1,769,594
Grants and Contracts	-	1,054,835	1,054,835
Rental Income (net of expenses)	-	4,536,935	4,536,935
Investment Income	81,331	75,383	156,714
Gain on Sale of Equipment	-	19,128	19,128
Realized Gain (Loss) on Investments	(16,166)	-	(16,166)
Unrealized Gain (Loss) on Investments	(97,648)	(73,820)	(171,468)
Trustee Fees	-	247,524	247,524
Other Revenues and Gains	12,690	53,114	65,804
Net Assets Released from Restrictions	-	1,698,093	1,698,093
Total Revenues and Other Additions	<u>1,994,777</u>	<u>7,830,754</u>	<u>9,825,531</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships/Grants	-	1,227,160	1,227,160
Student Activities and Programs	1,483,408	732,386	2,215,794
University Stores	273,951		273,951
Housing	-	3,067,675	3,067,675
Other Programs	-	125,000	125,000
Management and General	319,887	906,692	1,226,579
Fundraising	-	648,746	648,746
Total Expenses and Other Deductions	<u>2,077,246</u>	<u>6,707,659</u>	<u>8,784,905</u>
Increase (Decrease) in Unrestricted Net Assets before Reclassification	(82,469)	1,123,095	1,040,626
Reclassification	<u>19,092</u>	<u>(130,435)</u>	<u>(111,343)</u>
Increase (Decrease) in Unrestricted Net Assets	(63,377)	992,660	929,283

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	<u>Association</u>	<u>Foundation</u>	<u>2016 Total</u>
Changes in Temporarily Restricted Net Assets			
Contributions	-	595,917	595,917
Sales and Services	-	180,036	180,036
Rental Income (net of expenses)	-	(68,008)	(68,008)
Investment Income	1,115	591,675	592,790
Realized Gain on Investments	-	40,807	40,807
Unrealized Loss on Investments	(2,051)	(962,581)	(964,632)
Trustee Fees	-	(247,524)	(247,524)
Adjustment of Actuarial Liability	-	(189,428)	(189,428)
Other Revenues and Gains	-	88,750	88,750
Net Assets Released from Restrictions	-	(1,698,093)	(1,698,093)
Decrease in Temporarily Restricted Net Assets before Reclassification	(936)	(1,668,449)	(1,669,385)
Reclassification	-	(260,613)	(260,613)
Decrease in Temporarily Restricted Net Assets	(936)	(1,929,062)	(1,929,998)
Changes in Permanently Restricted Net Assets			
Contributions	-	351,061	351,061
Investment Income	19,092	-	19,092
Unrealized Loss on Investments	(33,939)	-	(33,939)
Increase (Decrease) in Permanently Restricted Net Assets before Reclassification	(14,847)	351,061	336,214
Reclassification	(19,092)	391,048	371,956
Increase (Decrease) in Permanently Restricted Net Assets	(33,939)	742,109	708,170
DECREASE IN NET ASSETS	(98,252)	(194,293)	(292,545)
Net Assets - Beginning of Year	3,641,900	42,949,780	46,591,680
NET ASSETS - END OF YEAR	<u>\$ 3,543,648</u>	<u>\$ 42,755,487</u>	<u>\$ 46,299,135</u>

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	<u>Association</u>	<u>Foundation</u>	<u>2015 Total</u>
Changes in Unrestricted Net Assets			
Revenues and Other Additions:			
Contributions	\$ -	\$ 238,887	\$ 238,887
Sales and Service	283,222	-	283,222
Student Fees	1,827,243	-	1,827,243
Grants and Contracts	-	1,034,835	1,034,835
Rental Income	-	3,534,458	3,534,458
Investment Income	79,853	74,664	154,517
Unrealized Gain (Loss) on Investments	(8,757)	71,138	62,381
Trustee Fees		213,832	213,832
Other Revenues and Gains	(19,046)	152,579	133,533
Net Assets Released from Restrictions	-	1,456,033	1,456,033
Total Revenues and Other Additions	<u>2,162,515</u>	<u>6,776,426</u>	<u>8,938,941</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships/Grants	-	923,581	923,581
Student Activities and Programs	1,537,752	760,896	2,298,648
University Stores	227,889	-	227,889
Housing	-	2,396,292	2,396,292
Other Programs	-	-	-
Management and General	287,305	844,567	1,131,872
Fundraising	-	696,142	696,142
Other Expenses and Losses	-	1,065,011	1,065,011
Total Expenses and Other Deductions	<u>2,052,946</u>	<u>6,686,489</u>	<u>8,739,435</u>
Increase in Unrestricted Net Assets before Reclassification	109,569	89,937	199,506
Reclassification	<u>20,374</u>	<u>12,171</u>	<u>32,545</u>
Increase in Unrestricted Net Assets	129,943	102,108	232,051

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	<u>Association</u>	<u>Foundation</u>	<u>2015 Total</u>
Changes in Temporarily Restricted Net Assets			
Contributions	-	636,897	636,897
Sales and Services	-	102,201	102,201
Rental Income	-	(53,925)	(53,925)
Investment Income	282	639,030	639,312
Realized Gain on Investments	-	315,893	315,893
Unrealized Gain on Investments	1,203	163,368	164,571
Trustee Fees	-	(213,832)	(213,832)
Adjustment of Actuarial Liability	-	(172,676)	(172,676)
Other Revenues and Gains	-	32,212	32,212
Net Assets Released from Restrictions	-	(1,456,033)	(1,456,033)
Increase (Decrease) in Temporarily Restricted Net Assets before Reclassification	1,485	(6,865)	(5,380)
Reclassification	-	(185,032)	(185,032)
Increase (Decrease) in Temporarily Restricted Net Assets	1,485	(191,897)	(190,412)
Changes in Permanently Restricted Net Assets			
Contributions	-	417,738	417,738
Investment Income	20,374	-	20,374
Unrealized Gain on Investments	3,316	-	3,316
Increase in Permanently Restricted Net Assets before Reclassification	23,690	417,738	441,428
Reclassification	(20,374)	172,861	152,487
Increase in Permanently Restricted Net Assets	3,316	590,599	593,915
INCREASE IN NET ASSETS	134,744	500,810	635,554
Net Assets - Beginning of Year	3,507,156	42,448,970	45,956,126
NET ASSETS - END OF YEAR	<u>\$ 3,641,900</u>	<u>\$ 42,949,780</u>	<u>\$ 46,591,680</u>

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

NOTE 3 DUE TO/FROM UNIVERSITY AND COMPONENT UNITS

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

	<u>2016</u>	<u>2015</u>
Component Units Due from University	\$ 2,574,712	\$ 622,354
Activity Fees Collected by the University that were Not Recorded by the Association	<u>90,025</u>	<u>90,471</u>
University Due to Component Units	<u>\$ 2,664,737</u>	<u>\$ 712,825</u>
Component Units Due to University	\$ 792,670	\$ 970,416
Reimbursement of Wages and Benefits Accrued by the University that were Not Recorded by the Association	<u>2,243</u>	<u>10,482</u>
University Due from Component Units	<u>\$ 794,913</u>	<u>\$ 980,898</u>

NOTE 4 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 The 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 \$20,996,298 and \$31,347,737 at June 30, 2016 and 2015, respectively.

Board *Policy 1986-02-A, Investment*, authorizes The State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable amounts and amounts designated by the Board or university trustees may be invested in the investments described above, as well as corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as cash deposits. 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.

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

Moody's Rating: The State System 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.

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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.

University Local Deposits and Investments: At June 30, 2016 and 2015, the carrying amount of the University's demand and time deposits were \$737,706 and \$362,219, respectively, as compared to bank balances of \$736,492 and \$360,514, respectively. These differences are primarily caused by items in transit and outstanding checks. All bank balances were covered by federal 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, 2016 and 2015, none of the University's demand and time deposits are exposed to foreign currency risk.

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

NOTE 5 INVESTMENTS – COMPONENT UNITS

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

	2016	2015
Certificates of Deposit and Money Market Funds	\$ 715,668	\$ 803,643
Money Market Funds (Funds Held By Trustee)	13,022,200	28,493,749
Mutual Funds - Equity	23,272,340	23,388,737
Equity Securities	2,110,594	2,633,001
Mutual Funds - Fixed Income	7,534,339	7,235,885
Total	<u>\$ 46,655,141</u>	<u>\$ 62,555,015</u>

NOTE 6 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditure of University funds or the incurrence of debt consist of the following:

	Life	2016				Ending Balance June 30, 2016
		Beginning Balance July 1, 2015	Additions	Retirements	Reclassifications	
Land		\$ 1,718,427	\$ -	\$ -	\$ -	\$ 1,718,427
Construction in Progress		6,876,395	455,782	(2,516,577)	-	4,815,600
Total Capital Assets Not Being Depreciated		8,594,822	455,782	(2,516,577)	-	6,534,027
Buildings, Including						
Improvements	40/20	88,782,430	10,405,426	2,516,577	-	101,704,433
Furnishings and Equipment	Varies	18,823,210	1,426,134	(170,898)	-	20,078,446
Library Books	10	8,177,403	17,468	(9,528)	-	8,185,343
Total Capital Assets Being Depreciated		115,783,043	11,849,028	2,336,151	-	129,968,222
Less: Accumulated Depreciation						-
Buildings, Including						
Improvements		(38,754,040)	(3,060,157)	-	-	(41,814,197)
Land Improvements		(7,263,593)	(587,166)	-	-	(7,850,759)
Furnishings and Equipment		(13,541,239)	(1,176,934)	170,898	-	(14,547,275)
Library Books		(7,516,479)	(158,346)	9,528	-	(7,665,297)
Total Accumulated Depreciation		(67,075,351)	(4,982,603)	180,426	-	(71,877,528)
Total Capital Assets Being Depreciated, Net		48,707,692	6,866,425	2,516,577	-	58,090,694
Capital Assets, Net		<u>\$ 57,302,514</u>	<u>\$ 7,322,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,624,721</u>

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

NOTE 6 CAPITAL ASSETS (CONTINUED)

	Life	2015				Ending Balance June 30, 2015
		Beginning Balance July 1, 2014	Additions	Retirements	Reclassifications	
Land		\$ 1,718,427	\$ -	\$ -	\$ -	\$ 1,718,427
Construction in Progress		2,099,796	5,666,211	-	(889,612)	6,876,395
Total Capital Assets Not Being Depreciated		3,818,223	5,666,211	-	(889,612)	8,594,822
Buildings, Including						
Improvements	40/20	87,171,019	721,799	-	889,612	88,782,430
Furnishings and Equipment	Varies	21,501,624	519,447	(3,197,861)	-	18,823,210
Library Books	10	8,170,349	25,166	(18,112)	-	8,177,403
Total Capital Assets Being Depreciated		116,842,992	1,266,412	(3,215,973)	889,612	115,783,043
Less: Accumulated Depreciation						-
Buildings, Including						
Improvements		(36,064,501)	(2,689,539)	-	-	(38,754,040)
Land Improvements		(6,684,993)	(578,600)	-	-	(7,263,593)
Furnishings and Equipment		(15,570,078)	(1,163,565)	3,192,404	-	(13,541,239)
Library Books		(7,359,426)	(175,165)	18,112	-	(7,516,479)
Total Accumulated Depreciation		(65,678,998)	(4,606,869)	3,210,516	-	(67,075,351)
Total Capital Assets Being Depreciated, Net		51,163,994	(3,340,457)	(5,457)	889,612	48,707,692
Capital Assets, Net		\$ 54,982,217	\$ 2,325,754	\$ (5,457)	\$ -	\$ 57,302,514

NOTE 7 LEASES

Total rent expense for operating leases for the years ended June 30, 2016 and 2015 was \$1,090,849 and \$1,126,860, respectively. Future minimum lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 702,619
2018	655,518
2019	297,014
2020	140,456
2021	20,571
Total	<u>\$ 1,816,178</u>

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

NOTE 8 CAPITAL LEASE

The University has entered into a capital lease agreement for certain of its buildings. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 139,739
2018	141,003
2019	<u>142,342</u>
Total Minimum Lease Payments	423,084
Less: Amount Representing Interest on Capital Leases	<u>52,895</u>
Present Value of Net Minimum Capital Lease Payments	370,189
Less: Current Portion	<u>113,957</u>
Long-Term Capital Lease Obligation	<u><u>\$ 256,232</u></u>

Capital lease activity for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 475,609	\$ 573,110
Retirements	(105,420)	(97,501)
Balance at June 30	<u><u>\$ 370,189</u></u>	<u><u>\$ 475,609</u></u>

Capital assets include holdings under capital lease with a cost basis of \$1,050,000 and accumulated depreciation of \$111,650 and \$94,250 at June 30, 2016 and 2015, respectively.

NOTE 9 BONDS PAYABLE

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

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

NOTE 9 BONDS PAYABLE (CONTINUED)

The various bond series allocated to the University for the years ended June 30, 2016 and 2015 are as follows:

2016					
	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF issued in 2007	5.00 %	\$ 2,008,198	\$ -	\$ (2,008,198)	\$ -
Series AG issued in 2008	4.81 %	1,241,611	-	(393,209)	848,402
Series AH issues in 2008	4.66 %	4,614,547	-	(351,746)	4,262,801
Series AI issued in 2008	4.21 %	491,554	-	-	491,554
Series AL issued in 2010	5.00 %	2,119,676	-	(772,834)	1,346,842
Series AS issued in 2016	3.72 %	-	1,709,157	-	1,709,157
Total Bonds Payable		\$ 10,475,586	\$ 1,709,157	\$ (3,525,987)	8,658,756
Plus: Unamortized Bond Premium Costs, Net					448,254
Outstanding at End of Year					\$ 9,107,010

2015					
	Weighted Average Interest Rate	Balance July 1, 2014	Bonds Issued	Bonds Redeemed	Balance June 30, 2015
Series AF issued in 2007	5.00 %	\$ 2,128,208	\$ -	\$ (120,010)	\$ 2,008,198
Series AG issued in 2008	4.85 %	1,617,387	-	(375,776)	1,241,611
Series AH issues in 2008	4.67 %	4,949,345	-	(334,798)	4,614,547
Series AI issued in 2008	4.19 %	491,554	-	-	491,554
Series AL issued in 2010	5.00 %	2,856,066	-	(736,390)	2,119,676
Total Bonds Payable		\$ 12,042,560	\$ -	\$ (1,566,974)	10,475,586
Plus: Unamortized Bond Premium Costs, Net					293,787
Outstanding at End of Year					\$ 10,769,373

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

NOTE 9 BONDS PAYABLE (CONTINUED)

In June 2016, the net proceeds from the Series AS revenue bonds were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to advance refund the Series AF revenue bonds. Although it resulted in an accounting loss of \$40,886, the refunding was performed to reduce debt service by approximately \$243,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$235,000. The accounting loss, or deferred loss on refunding, is reported as a deferred outflow of resources. As of June 30, 2016, \$49,800,000 of Series AF revenue bonds remained outstanding for the State System as a whole, and the fair market of the escrow account was \$51,934,000. The funds in escrow will be used to pay the December 15, 2016, interest payment and the June 15, 2017, principal and interest payment of Series AF. Neither the funds in escrow nor the outstanding balance of Series AF is reflected on the balance sheet.

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program will provide \$100,000,000 in funding over the next several years. The State System issued bonds to provide a pool for funding for AFRP \$21,918,513 and \$29,552,978 was outstanding as of June 30, 2016 and 2015). 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 AFRP pool of funding were as follows:

	<u>2016</u>	<u>2015</u>
Balance at July 1	\$ 2,039,003	\$ 2,304,528
Repayments	<u>(449,827)</u>	<u>(265,525)</u>
Balance at June 30	<u>\$ 1,589,176</u>	<u>\$ 2,039,003</u>

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

NOTE 9 BONDS PAYABLE (CONTINUED)

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

Series		<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>Total</u>
AG	Principal	\$ 414,516	\$ 433,886	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 848,402
	Interest	43,505	22,779	-	-	-	-	-	66,284
	Total	<u>458,021</u>	<u>456,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>914,686</u>
AH	Principal	369,213	387,200	285,706	299,731	312,198	1,773,973	834,780	4,262,801
	Interest	198,445	179,984	160,624	146,339	134,350	458,135	57,771	1,335,648
	Total	<u>567,658</u>	<u>567,184</u>	<u>446,330</u>	<u>446,070</u>	<u>446,548</u>	<u>2,232,108</u>	<u>892,551</u>	<u>5,598,449</u>
AI	Principal	-	-	-	-	-	491,554	-	491,554
	Interest	21,506	21,506	21,506	21,506	21,506	21,506	-	129,036
	Total	<u>21,506</u>	<u>21,506</u>	<u>21,506</u>	<u>21,506</u>	<u>21,506</u>	<u>513,060</u>	<u>-</u>	<u>620,590</u>
AL	Principal	811,344	123,910	130,625	137,124	-	143,839	-	1,346,842
	Interest	67,342	26,775	20,580	14,048	7,192	-	-	135,937
	Total	<u>878,686</u>	<u>150,685</u>	<u>151,205</u>	<u>151,172</u>	<u>7,192</u>	<u>143,839</u>	<u>-</u>	<u>1,482,779</u>
AS	Principal	-	71,809	159,357	162,308	165,260	934,503	215,920	1,709,157
	Interest	70,222	68,696	67,260	64,073	60,826	198,705	10,796	540,578
	Total	<u>70,222</u>	<u>140,505</u>	<u>226,617</u>	<u>226,381</u>	<u>226,086</u>	<u>1,133,208</u>	<u>226,716</u>	<u>2,249,735</u>
Total	Principal	1,595,073	1,016,805	575,688	599,163	477,458	3,343,869	1,050,700	8,658,756
	Interest	401,020	319,740	269,970	245,966	223,874	678,346	68,567	2,207,483
	Total	<u>\$ 1,996,093</u>	<u>\$ 1,336,545</u>	<u>\$ 845,658</u>	<u>\$ 845,129</u>	<u>\$ 701,332</u>	<u>\$ 4,022,215</u>	<u>\$ 1,119,267</u>	<u>\$ 10,866,239</u>

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

NOTE 10 COMPENSATED ABSENCES

Compensated absences activity for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Balance at July 1	\$ 6,892,551	\$ 7,037,941
Current Changes in Estimate	(164,316)	77,984
Payouts	(148,614)	(223,374)
Balance at June 30	\$ 6,579,621	\$ 6,892,551

NOTE 11 POSTRETIREMENT BENEFITS

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined health care benefit plans, referred 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 Professional of America, Pennsylvania Nurses Association, and management employees participate in a single-employer defined benefit healthcare plan administered by the State System (the System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the State System universities. Act 188 empowers the Board to establish and amend benefit provisions. Since the System Plan is unfunded, no financial report is prepared.

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of \$40,060,000 and \$36,869,000 for the fiscal years ended June 30, 2016 and 2015, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements.

Following are the contribution rates of plan members as of June 30, 2016:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions

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

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- Non-faculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- 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.
- Eligible annuitants who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA, OPEIU, and SCUPA, and non-represented employees, hired after January 15, 2016, receive no postretirement benefits.

Total contributions made by plan members were \$4,866,000 and \$4,272,000, or approximately 10.8% and 10.4% of the total premiums for the fiscal years ended June 30, 2016 and 2015, respectively.

Annual OPEB Cost and Net OPEB Obligations

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost plus the annual portions of the unfunded actuarial liability over thirty years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 6,147,987	\$ 6,147,987
Interest on Net OPEB Obligation	2,574,535	2,468,996
Adjustment to Annual Required Contribution	<u>(3,383,753)</u>	<u>(3,245,040)</u>
Annual OPEB Cost	5,338,769	5,371,943
Contributions Made	<u>(2,137,075)</u>	<u>(2,046,128)</u>
Increase in Net OPEB Obligation	3,201,694	3,325,815
Net OPEB Obligation - Beginning of Year	<u>65,428,312</u>	<u>62,102,497</u>
Net OPEB Obligation - End of Year	<u>\$ 68,630,006</u>	<u>\$ 65,428,312</u>

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

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligations (Continued)

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for June 30, 2016, and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 5,338,769	40.0%	\$ 68,630,006
June 30, 2015	5,371,943	38.1%	65,428,312
June 30, 2014	6,790,000	31.3%	62,102,497

Funded Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 74,749,421
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 74,749,421</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>0%</u>
Covered Payroll (Active Plan Members)	<u>\$ 30,821,394</u>
UAAL as a Percentage of Covered Payroll	<u>242.5%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year 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 benefit costs between the employer and plan members to that point.

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

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the projected unit credit method was used with a 4.25% investment rate of return, which is the rate expected to be earned on the State System's operating portfolio. The health care cost trend rate used was 6.5% in 2014, 6.0% in 2015, and 5.5% in 2016 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2014, was 21 years.

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of non-represented 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 members' enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2015/16 the State System contributed \$418 for each current active employee per biweekly pay period. The State System made contributions of \$37,026,000, \$30,765,000, and \$28,584,000 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively, 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.

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

NOTE 12 PENSION BENEFITS

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

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

	SERS		PSERS		Total	
	2016	2015	2016	2015	2016	2015
Net Pension Liabilities	<u>\$ 56,524,838</u>	<u>\$ 49,920,643</u>	<u>\$ 2,043,516</u>	<u>\$ 1,148,600</u>	<u>\$ 58,568,354</u>	<u>\$ 51,069,243</u>
Deferred Outflows of Resources:						
Difference Between Expected and Actual Experience	\$ 1,144,520	\$ 271,004	\$ -	\$ -	\$ 1,144,520	\$ 271,004
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	5,755,282	1,442,370	-	-	5,755,282	1,442,370
Changes in Assumptions	1,679,336	-	-	-	1,679,336	-
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	90,432	27,345	90,432	27,345
Changes in Proportion	-	-	12,416	4,795	12,416	4,795
Contributions After the Measurement Date	<u>2,704,298</u>	<u>2,145,011</u>	<u>144,987</u>	<u>132,788</u>	<u>2,849,285</u>	<u>2,277,799</u>
Total Deferred Outflows of Resources	<u>\$ 11,283,436</u>	<u>\$ 3,858,385</u>	<u>\$ 247,835</u>	<u>\$ 164,928</u>	<u>\$ 11,531,271</u>	<u>\$ 4,023,313</u>
Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	\$ -	\$ -	\$ 8,432	\$ -	\$ 8,432	\$ -
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	4,127	82,117	4,127	82,117
Difference Between Employer Contributions and Proportionate Share of Contributions	157,343	470,801	-	-	157,343	470,801
Changes in Proportion	<u>1,725,646</u>	<u>149,612</u>	<u>-</u>	<u>-</u>	<u>1,725,646</u>	<u>149,612</u>
Total Deferred Inflows of Resources	<u>\$ 1,882,989</u>	<u>\$ 620,413</u>	<u>\$ 12,559</u>	<u>\$ 82,117</u>	<u>\$ 1,895,548</u>	<u>\$ 702,530</u>
Contributions Recognized by Pension Plans	<u>\$ 4,422,353</u>	<u>\$ 3,747,731</u>	<u>\$ 144,987</u>	<u>\$ 133,387</u>	<u>\$ 4,567,340</u>	<u>\$ 3,881,118</u>
Pension Expense						
SERS and PSERS	<u>\$ 4,864,073</u>	<u>\$ 5,661,488</u>	<u>\$ 1,090,006</u>	<u>\$ 108,326</u>	\$ 5,954,079	\$ 5,769,814
ARP					2,111,959	2,184,595
Total Pension Expense					<u>\$ 8,066,038</u>	<u>\$ 7,954,409</u>

The University will recognize the \$2,704,298 reported as 2016 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$144,987 reported as 2016 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2017.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended</u>	<u>Amortization</u>	
	<u>SERS</u>	<u>PSERS</u>
June 30, 2017	\$ 1,735,520	\$ 16,673
June 30, 2018	1,735,520	16,673
June 30, 2019	1,735,520	16,673
June 30, 2020	1,431,925	40,270
June 30, 2021	57,664	-
	<u>\$ 6,696,149</u>	<u>\$ 90,289</u>

SERS

Plan Description

SERS is the administrator of a cost-sharing multiple-employer defined benefit plan established by the Commonwealth to provide retirement, death, and disability benefits to employees of Pennsylvania 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.

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions

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

The University contributed at actuarially determined rates of between 17.18% and 24.86% of active members' annual covered payroll at June 30, 2016. The University's contributions to SERS for the years ended June 30, 2016, 2015, and 2014, were \$4,422,353, \$3,768,704, and \$2,985,834, 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 a member was hired and what class of membership was elected.

Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2015 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.75%.
- Investment return of 7.50%, net of expenses and including inflation.
- Salary increases based on an average of 5.70%, with a range of 3.85% to 9.05%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

Some of the methods and assumptions mentioned above are based on the *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. Published in March 2016, it analyzed experience from 2011 through 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase 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' current and target asset allocation as of December 31, 2015, are summarized below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Alternative Investments	15.00%	8.50%
Global Public Equity	40.00%	5.40%
Real Assets	17.00%	4.95%
Diversifying Assets	10.00%	5.00%
Fixed Income	15.00%	1.50%
Liquidity Reserve	3.00%	0.00%
Total	<u>100.00%</u>	

The discount rate used to measure the total SERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

NOTE 12 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 7.50%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

Sensitivity of the University's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	\$ 70,214,504	\$ 56,524,838	\$ 44,786,711
2014	63,897,221	49,920,643	37,903,048

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. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the SERS financial statements.

Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

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

At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability was \$56,524,838. SERS measured the net pension liability as of December 31, 2015. At June 30, 2015, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2014, was \$49,920,643.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2016/17, from the December 31, 2015, funding valuation, to the expected funding payroll. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2015/16, from the December 31, 2014, funding valuation, to the expected funding payroll. At the December 31, 2015, measurement date, the State System's proportion was 4.721%, a decrease of .018% from its proportion calculated as of the December 31, 2014, measurement date.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania.

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (University), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the PSERS website at www.psers.state.pa.us.

Benefits Provided

Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service.

Act 120 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work until age 65 with a minimum of three years of service.

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2016, was 25% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 12.5% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2016, was \$144,987. The University's contributions to PSERS for the years ended June 30, 2015 and 2014 were \$133,387 and \$64,061, respectively, equal to the required contractual contribution.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2015, was determined by rolling forward PSERS' total pension liability as of the June 30, 2014, actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay. Inflation of 3%.
- Investment return of 7.50%, including inflation.
- Salary increases based on an effective average of 5.5%, which reflects an allowance for inflation, real wage growth of 1.0%, and merit or seniority increases of 1.05%.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its March 11, 2011, meeting and were effective beginning with the June 30, 2011, actuarial valuation.

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Markets Global Equity	22.50%	4.80%
Private Markets (Equity)	15.00%	6.60%
Private Real Estate	12.00%	4.50%
Global Fixed Income	7.50%	2.40%
U.S. Long Treasuries	3.00%	1.40%
TIPS	12.00%	1.10%
High-Yield Bonds	6.00%	3.30%
Cash	3.00%	0.70%
Absolute Return	10.00%	4.90%
Risk Parity	10.00%	3.70%
MLPs/Infrastructure	5.00%	5.20%
Commodities	8.00%	3.10%
Financing (LIBOR)	-14.00%	1.10%
Total	<u>100.00%</u>	

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

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

<u>Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate</u>			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	\$ 2,518,834	\$ 2,043,516	\$ 1,644,009
2014	1,432,751	1,148,600	906,053

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Fiduciary Net Position

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

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

At June 30, 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:

	<u>2016</u>	<u>2015</u>
Total PSERS Net Pension Liability Associated with the University	\$ 4,087,032	\$ 2,297,200
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>2,043,516</u>	<u>1,148,600</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 2,043,516</u>	<u>\$ 1,148,600</u>

PSERS measured the above net pension liabilities as of June 30, 2015 and 2014. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2014, to June 30, 2015. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2015, the System's proportion was .1852%, an increase of .0067% from its proportion calculated as of June 30, 2014.

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 University recognizes annual pension expenditures equal to its contractually required contributions to the plan.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

ARP (Continued)

The University's contribution rate on June 30, 2016 and 2015 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2016 and 2015, were \$2,111,959 and \$2,184,595, respectively, from the University; and \$1,136,684 and \$1,175,778, respectively, from active members. No liability is recognized for the ARP.

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured for workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all universities of the State System contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$13,839, \$46,088 and \$80,916 to the Reserve Fund during the years ended June 30, 2016, 2015 and 2014, respectively.

Changes in the University claims liability are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2016	\$ 263,468	\$ 375,666	\$ (112,542)	\$ 526,592
2015	564,652	65,199	(366,383)	263,468

NOTE 14 DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2016 and 2015 follow:

	<u>2016</u>	<u>2015</u>
Deferred Outflows of Resources:		
Unamortized Loss on Refunding of Debt	\$ 70,515	\$ 37,160
Net Pension Liability Related	<u>11,531,271</u>	<u>4,023,313</u>
Total Deferred Outflows of Resources	<u>\$ 11,601,786</u>	<u>\$ 4,060,473</u>
Deferred Inflows of Resources:		
Net Pension Liability Related	<u>\$ 1,895,548</u>	<u>\$ 702,350</u>
Total Deferred Inflows of Resources	<u>\$ 1,895,548</u>	<u>\$ 702,350</u>

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

NOTE 15 COMMITMENTS AND CONTINGENCIES

Authorized University expenditures for services, supplies, equipment and construction projects unexpended as of June 30, 2016 and 2015 were \$3,838,805 and \$1,991,175, respectively.

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

The University is participates in the State System's self-insured workers' compensation plan up to stated limits (see Note 13). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant.

The University has not reduced significantly any of its insurance coverage from the prior year. Settled claims have not exceeded significantly 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.

NOTE 16 GOING CONCERN CONSIDERATIONS

As shown in the accompanying financial statements, the University has suffered recurring net losses of \$8.2M and \$8.7M, respectively, and negative cash flow of \$10.0M and \$7.9M, respectively, during the years ended June 30, 2016 and 2015. The University also has a negative unrestricted net position of \$116.1M and a negative total net position of \$55.7M as of June 30, 2016.

The steep decline in cash, as well as the deficits in current year operations, can be attributed in part to the University's use of \$11.6 million of cash for capital expenditures in fiscal year 2016. As cash flow weaknesses can seriously threaten financial viability, the Office of the Chancellor has begun to work with Clarion University to closely monitor its cash flows.

Those factors, as well as steadily declining enrollment and the impact of the tentative contract terms described in Note 17 that could cause further financial erosion, create an

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

NOTE 16 GOING CONCERN CONSIDERATIONS (CONTINUED)

uncertainty about the University's ability to continue as a going concern. Currently, the ability of the University to continue as a going concern is dependent on the successful implementation of management's plans to reverse or slow the trends of declining enrollment, negative cash flow and annual deficits.

Management's Plans - Management has slowed the pace of student enrollment decline and the negative financial trends that it has experienced over the last several fiscal years. In stabilizing enrollment and expanding cost containment efforts, Educational and General unrestricted net losses improved significantly between fiscal years 2015 and 2016, decreasing by over 33%. In fiscal year 2017, these losses are expected to continue to recover by another 45% - 55%. Cash flows will improve as cash used for capital expenditures will decrease by \$8 million from fiscal year 2016 to fiscal year 2017.

Over the last four fiscal years, Clarion University has had an average annual 6.4% drop in student enrollment. Clarion University has reversed enrollment trends, as the 2017 fiscal year reduction is the lowest in six academic years, improving by 56.3% to 2.8%. We believe that the improved results are primarily due to:

- Expanded Academic Program Offerings: Clarion University continues to re-evaluate and enhance core curricula not only to stimulate enrollment growth and support student retention but also to align with the changing demands of current and future global job markets. This includes new program development as well as a review of existing academic offerings for program and fiscal sustainability and/or deletion.
- Investment in Capital Infrastructure: Within the last fiscal year, Clarion University has invested over \$11 million in campus infrastructure and renovations including: Ralston Hall, Becht Hall, a 188-seat movie theater and lecture hall, and The Den by Denny's and Starbucks restaurants.
- Targeted Marketing and Increased Commitment in Scholarship Funding: During fiscal 2016, Clarion University embarked on an intensive research and branding process. Our current marketing strategy follows the objectives aligned with the results of this research. In addition, Clarion University initiated a merit scholarship award program designed to increase the enrollment of academically-talented applicants.

NOTE 17 SUBSEQUENT EVENTS

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

**CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2016 AND 2015
(UNAUDITED)**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	\$ -	\$ 82,173	\$ 82,173	0%	\$ 32,589	252 %
July 1, 2013	-	85,247	85,247	0%	33,567	254 %
July 1, 2014	-	74,749	74,749	0%	30,821	243 %

The information below 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.

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

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

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

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

Fiscal Year	State System's Proportion	University's Proportionate Share of NPL	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%	\$ 49,921	\$ 20,361	245 %	64.8 %
2015/16	4.7210%	\$ 56,525	\$ 19,604	288 %	58.9 %

SERS Schedule of Contributions
Determined as of June 30,
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2014/15	Contribution Deficiency (Excess)	Covered - Employee Payroll	Contributions as a % of Covered- Employee Payroll
2014/15	\$ 3,748	\$ 3,748	\$ -	\$ 20,361	18.4%
2015/16	\$ 4,422	\$ 4,422	\$ -	\$ 18,588	23.8%

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

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

Fiscal Year	State System's Proportion	PSERS Net Pension Liability			University's Covered - Employee Payroll	University's Proportionate Share of NPL as a % of Covered - Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
		University's Proportionate Share	Commonwealth's Proportionate Share	Total			
2014/15	0.1785%	\$ 1,149	\$ 1,149	\$ 2,298	\$ 370	310 %	57.2 %
2015/16	0.1852%	\$ 2,044	\$ 2,044	\$ 4,088	\$ 1,214	200 %	54.4 %

PSERS Schedule of Contributions
Determined as of June 30,
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered - Employee Payroll
2014/15	\$ 133	\$ 133	\$ -	\$ 370	36.0 %
2015/16	\$ 145	\$ 145	\$ -	\$ 1,261	11.5 %