CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

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OF THE STATE SYSTEM OF HIGHER EDUCATION
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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, 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, 2017 and 2016, 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 51 and the Schedules of Proportionate Share of SERS/PSERS Net Pension Liability and Contributions on pages 52 and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
November 6, 2017

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

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 19,634,119	$ 21,734,004
Accounts Receivable:		
Governmental Grants and Contracts	3,199,109	3,259,210
Students, Net of Allowance for Doubtful Accounts of $2,618,867 in 2017 and $3,433,315 in 2016	2,424,681	2,253,980
Other	606,424	445,514
Inventory	567,479	567,830
Prepaid Expenses	389,853	441,206
Conversion Pay Receivable	-	1,157
Loans Receivable, Net of Allowance for Doubtful Accounts of $38,701 in 2017 and $45,290 in 2016	355,214	337,660
Interest Income Receivable	23,332	22,376
Due from Component Units	1,055,469	794,913
Other Current Assets	81,415	185,254
Total Current Assets	28,337,095	30,043,104
NONCURRENT ASSETS		
Conversion Pay Receivable	2,880	2,880
Loans Receivable, Net of Allowance for Doubtful Accounts of $-0- in 2017 and 2016	152,673	189,572
Capital Assets, Net	62,613,690	64,624,721
Total Noncurrent Assets	62,769,243	64,817,173
Total Assets	91,106,338	94,860,277
DEFERRED OUTFLOWS OF RESOURCES	14,289,783	11,601,786
Total Assets and Deferred Outflows of Resources	$ 105,396,121	$ 106,462,063

See accompanying Notes to Financial Statements.

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	$ 1,451,683	$ 1,908,499
Employees	5,857,893	5,698,166
Other	558,413	546,159
Unearned Revenue	3,549,985	2,885,596
Accrued Interest Payable	13,104	16,498
Students' Deposits	179,868	158,864
Current Portion of Workers' Compensation	174,659	182,618
Current Portion of Compensated Absences	168,405	148,614
Current Portion of Capital Lease Obligations	123,158	113,957
Current Portion of Bonds Payable, Net	1,085,444	1,690,363
Due to System, Academic Facilities Renovation Bond Program (AFRP)	304,222	311,023
Due to Component Units	619,307	2,664,737
Other Current Liabilities	400,665	418,063
Total Current Liabilities	14,486,806	16,743,157
NONCURRENT LIABILITIES		
Unearned Revenue	61,810	70,640
Workers' Compensation	282,771	343,974
Compensated Absences	6,588,764	6,431,007
Postretirement Benefits	71,262,589	68,630,006
SERS Net Pension Liability	59,691,250	56,524,838
PSERS Net Pension Liability	2,190,710	2,043,516
Capital Lease Obligations	133,074	256,232
Bonds Payable, Net	6,331,203	7,416,647
Due to System, AFRP	973,931	1,278,153
Other Noncurrent Liabilities	451,052	497,776
Total Noncurrent Liabilities	147,967,154	143,492,789
Total Liabilities	162,453,960	160,235,946
DEFERRED INFLOWS OF RESOURCES	2,912,389	1,895,548
NET POSITION		
Net Investment in Capital Assets	53,721,956	53,628,557
Restricted for:		
Nonexpendable:		
Other	53,274	58,551
Expendable:		
Scholarships and Fellowships	350,967	339,118
Capital Projects	2,236,327	2,550,508
Other	4,061,157	3,902,339
Unrestricted	(120,393,909)	(116,148,504)
Total Net Position	(59,970,228)	(55,669,431)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 105,396,121	$ 106,462,063

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, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Tuition and Fees	$ 50,504,004	$ 49,251,564
Less: Scholarship Discounts and Allowances	12,348,025	12,430,066
Net Tuition and Fees	38,155,979	36,821,498
Governmental Grants and Contracts:		
Federal	4,799,538	4,082,670
State	6,040,157	6,378,807
Nongovernmental Grants and Contracts	517,256	250,221
Sales and Services of Educational Departments	5,652,942	5,277,345
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of $175,244 in 2017 and $407,784 in 2016	10,844,129	10,983,329
Other Revenues	573,103	128,008
Total Operating Revenues	66,583,104	63,921,878
OPERATING EXPENSES		
Instruction	37,178,027	37,577,372
Research	84,319	262,560
Public Service	8,221,509	7,692,398
Academic Support	8,697,899	8,823,673
Student Services	12,805,474	12,611,624
Institutional Support	12,383,338	13,096,158
Operations and Maintenance of Plant	8,111,744	7,421,983
Depreciation	5,346,690	4,982,603
Student Aid	4,733,596	4,637,162
Auxiliary Enterprises	8,896,911	9,475,680
Total Operating Expenses	106,459,507	106,581,213
OPERATING LOSS	(39,876,403)	(42,659,335)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	24,982,987	24,056,297
Commonwealth On-Behalf Contributions to PSERS	241,697	202,568
Pell Grants	7,437,203	7,500,991
Investment Income, Net of Related Investment Expense of $5,261 in 2017 and $5,688 in 2016	403,916	363,416
Gifts for Other than Capital Purposes	1,462,371	1,423,907
Interest Expense on Capital Asset-Related Debt	(354,282)	(321,448)
Gain on Disposal of Assets	1,850	20,184
Other Nonoperating Revenue	224,915	62,038
Nonoperating Revenues, Net	34,400,657	33,307,953
LOSS BEFORE OTHER REVENUES	(5,475,746)	(9,351,382)
OTHER REVENUES		
State Appropriations, Capital	917,998	881,704
Capital Gifts and Grants	256,951	257,107
Total Other Revenues	1,174,949	1,138,811
DECREASE IN NET POSITION	(4,300,797)	(8,212,571)
Net Position - Beginning of Year	(55,669,431)	(47,456,860)
NET POSITION - END OF YEAR	$ (59,970,228)	$ (55,669,431)

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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees, Net	$ 38,175,856	$ 37,796,036
Grants and Contracts	11,827,079	11,010,275
Payments to Suppliers for Goods and Services	(24,996,120)	(23,167,641)
Payments to Employees	(68,373,711)	(68,006,897)
Loans Issued to Students	(81,862)	(78,560)
Loans Collected from Students	101,207	188,214
Student Aid	(4,823,845)	(4,738,244)
Auxiliary Enterprise Charges	10,843,885	11,178,528
Sales and Services of Educational Departments	5,737,974	5,287,042
Other Receipts	(399,818)	863,794
Net Cash Used by Operating Activities	(31,989,355)	(29,667,453)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	24,982,987	24,056,297
Gifts for Other than Capital Purposes	1,462,371	1,423,907
Plus, Stafford, and Other Loans Receipts (Non-Perkins)	46,974,416	46,160,394
Plus, Stafford, and Other Loans Disbursements (Non-Perkins)	(46,974,416)	(46,160,394)
Pell Grants	7,437,203	7,500,991
Other	224,915	62,038
Net Cash Provided by Noncapital Financing Activities	34,107,476	33,043,233
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	-	1,994,527
Capital Appropriations	917,998	881,704
Capital Gifts and Grants Received	256,951	257,107
Proceeds from Sales of Capital Assets	1,850	20,184
Purchases of Capital Assets	(3,335,659)	(12,304,810)
Principal Paid on Capital Debt and Leases	(2,020,053)	(4,081,234)
Interest Paid on Capital Debt and Leases	(442,053)	(489,990)
Net Cash Used by Capital Financing Activities	(4,620,966)	(13,722,512)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	402,960	370,780
DECREASE IN CASH AND CASH EQUIVALENTS	(2,099,885)	(9,975,952)
Cash and Cash Equivalents - Beginning of Year	21,734,004	31,709,956
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 19,634,119	$ 21,734,004

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, 2017 AND 2016

	2017	2016
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (39,876,403)	$ (42,659,335)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	5,346,690	4,982,603
Expenses Paid by Commonwealth or Donor	241,697	202,568
Changes in Assets and Liabilities:		
Receivables, Net	(110,600)	1,277,969
Inventories	351	6,056
Other Assets	(265,117)	(98,641)
Accounts Payable	(1,735,669)	1,364,096
Unearned Revenue	655,559	132,851
Students' Deposits	21,004	117,364
Compensated Absences	177,548	(312,930)
Loans to Students and Employees	19,345	109,654
Postretirement Benefits Liability (OPEB)	2,632,583	3,201,694
Defined Benefit Pensions	3,313,606	7,499,111
Other Liabilities	(727,880)	824,427
Deferred Outflows of Resources Related to Pensions	(2,698,910)	(7,507,958)
Deferred Inflows of Resources Related to Pensions	1,016,841	1,193,018
Net Cash Used by Operating Activities	$ (31,989,355)	$ (29,667,453)
NONCASH CAPITAL FINANCING ACTIVITIES		
Commonwealth On-Behalf Contributions to PSERS	$ 241,697	$ 202,568

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, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	$ 4,222,267	$ 3,792,080
Account Receivable	647,729	187,410
Contributions and Pledges Receivable	835,898	881,286
Due from University	531,932	2,574,712
Prepaid Expenses	282,583	229,231
Investments	50,048,694	46,655,141
Capital Assets, Net	102,033,510	104,314,970
Other Assets	135,199	269,092
Total Assets	$ 158,737,812	$ 158,903,922
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 486,050	$ 1,554,178
Deferred Revenue	168,742	544,515
Interest Payable	1,440,237	1,679,711
Annuity Liabilities	2,164,509	2,231,043
Due to University	1,055,131	792,670
Deposits Payable	400,441	438,970
Long-Term Debt	103,758,014	105,363,730
Total Liabilities	109,473,124	112,604,817
NET ASSETS		
Unrestricted	14,883,698	14,973,528
Temporarily Restricted	14,245,835	12,059,325
Permanently Restricted	20,135,155	19,266,252
Total Net Assets	49,264,688	46,299,105
Total Liabilities and Net Assets	$ 158,737,812	$ 158,903,922

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, 2017 AND 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 197,041	$ 219,562
Sales and Service	234,881	244,976
Student Fees	1,835,016	1,769,594
Grants and Contracts	250,000	1,054,835
Rental Income	4,465,474	4,536,935
Investment Income	151,676	156,714
Gain on Sale of Equipment	-	19,128
Realized and Unrealized Gain (Loss) on Investments	592,410	(187,634)
Trustee Fees	263,359	247,524
Other Revenues and Gains	100,165	65,804
Net Assets Released from Restrictions	1,565,958	1,698,093
Total Revenues and Other Additions	9,655,980	9,825,531
EXPENSES AND OTHER DEDUCTIONS		
Program Services:		
Scholarships/Grants	1,099,018	1,227,160
Student Activities and Programs	2,268,607	2,215,794
University Stores	259,802	273,951
Housing	4,247,257	3,067,675
Other University Support	125,000	125,000
Management and General	1,210,960	1,226,579
Fundraising	861,717	648,746
Total Expenses and Other Deductions	10,072,361	8,784,905
Increase (Decrease) in Unrestricted Net Assets before Reclassification	(416,381)	1,040,626
Reclassification	326,551	(111,343)
Increase (Decrease) in Unrestricted Net Assets	(89,830)	929,283
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	520,239	595,917
Sales and Services (Project Income)	153,520	180,036
Rental Income	(28,380)	(68,008)
Investment Income	468,692	592,790
Realized Gain on Investments	89,650	40,807
Unrealized Gain (Loss) on Investments	3,431,219	(964,632)
Trustee Fees	(263,359)	(247,524)
Adjustment of Actuarial Liability for Annuities Payable	(203,872)	(189,428)
Other Revenues and Gains	-	88,750
Net Assets Released from Restrictions	(1,565,958)	(1,698,093)
Increase (Decrease) in Temporarily Restricted Net Assets before Reclassification	2,601,751	(1,669,385)
Reclassification	(415,241)	(260,613)
Increase (Decrease) in Temporarily Restricted Net Assets	2,186,510	(1,929,998)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	706,029	351,061
Investment Income	18,075	19,092
Unrealized Gain (Loss) on Investments	56,109	(33,969)
Increase in Permanently Restricted Net Assets before Reclassification	780,213	336,184
Reclassification	88,690	371,956
Increase in Permanently Restricted Net Assets	868,903	708,140
INCREASE (DECREASE) IN NET ASSETS	2,965,583	(292,575)
Net Assets - Beginning of Year	46,299,105	46,591,680
NET ASSETS - END OF YEAR	$ 49,264,688	$ 46,299,105

See accompanying Notes to Financial Statements.

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 $1,020,742 during the fiscal year ended June 30, 2017, and $1,062,446 during the thirteen months ended June 30, 2016. During 2016, 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 $1,405,520 and $1,985,420 during the fiscal years ended June 30, 2017 and 2016, respectively. The financial activity of the Foundation is presented as of and for the years ended June 30, 2017 and 2016.

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

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.

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.

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 we 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 deprecation. 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, 2017 and 2016.

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.

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

New Accounting Standards

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will require the University to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the University's accrued postretirement healthcare liability, as calculated by the actuaries, was $68,577,939, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $71,262,589. The University expects that the amount recorded on the balance sheet as a postretirement healthcare liability will increase when Statement No. 75 is implemented, but the amount will not be known until the calculation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the 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, it is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In June 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. Statement No. 80 requires blending of a component unit incorporated as a 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 University has determined that Statement No. 81 applies to a small number of certain local university investments and will have an immaterial effect on its financial statements. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016.

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

New Accounting Standards (Continued)

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

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

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	Association	Foundation	Total
Due from University	$ -	$ 531,932	$ 531,932
Capital Assets, Net	181,159	101,852,351	102,033,510
Investments	2,490,330	47,558,364	50,048,694
Other Assets	1,962,782	4,160,894	6,123,676
Total Assets	$ 4,634,271	$ 154,103,541	$ 158,737,812
Due to University	$ -	$ 1,055,131	$ 1,055,131
Long-Term Debt	-	103,758,014	103,758,014
Other Liabilities	773,539	3,886,440	4,659,979
Total Liabilities	$ 773,539	$ 108,699,585	$ 109,473,124
Net Assets:			
Unrestricted	$ 3,582,100	$ 11,301,598	$ 14,883,698
Temporarily Restricted	29,574	14,216,261	14,245,835
Permanently Restricted	249,058	19,886,097	20,135,155
Total Net Assets	$ 3,860,732	$ 45,403,956	$ 49,264,688

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	$ 4,382,239	$ 154,521,683	$ 158,903,922
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	$ 838,621	$ 111,766,196	$ 112,604,817
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	$ 3,543,618	$ 42,755,487	$ 46,299,105

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	Association	Foundation	2017 Total
Changes in Unrestricted Net Assets			
Revenues and Other Additions:			
Contributions	$ -	$ 197,041	$ 197,041
Sales and Service	234,881	-	234,881
Student Fees	1,835,016	-	1,835,016
Grants and Contracts	-	250,000	250,000
Rental Income (Net of Expenses)	-	4,465,474	4,465,474
Investment Income	77,671	74,005	151,676
Realized Gain on Investments	3,644	-	3,644
Unrealized Gain on Investments	189,003	399,763	588,766
Trustee Fees	-	263,359	263,359
Other Revenues and Gains	14,735	85,430	100,165
Net Assets Released from Restrictions	-	1,565,958	1,565,958
Total Revenues and Other Additions	2,354,950	7,301,030	9,655,980
Expenses and Other Deductions:			
Program Services:			
Scholarships/Grants	-	1,099,018	1,099,018
Student Activities and Programs	1,533,572	735,035	2,268,607
University Stores	259,802	-	259,802
Housing	-	4,247,257	4,247,257
Other Programs	-	125,000	125,000
Management and General	323,302	887,658	1,210,960
Fundraising	-	861,717	861,717
Total Expenses and Other Deductions	2,116,676	7,955,685	10,072,361
Increase (Decrease) in Unrestricted Net Assets before Reclassification	238,274	(654,655)	(416,381)
Reclassification	18,075	308,476	326,551
Increase (Decrease) in Unrestricted Net Assets	256,349	(346,179)	(89,830)

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	Association	Foundation	2017 Total
Changes in Temporarily Restricted Net Assets			
Contributions	$ -	$ 520,239	$ 520,239
Sales and Services	-	153,520	153,520
Rental Income (Net of Expenses)	-	(28,380)	(28,380)
Investment Income	1,167	467,525	468,692
Realized Gain on Investments	-	89,650	89,650
Unrealized Gain on Investments	3,489	3,427,730	3,431,219
Trustee Fees	-	(263,359)	(263,359)
Adjustment of Actuarial Liability	-	(203,872)	(203,872)
Net Assets Released from Restrictions	-	(1,565,958)	(1,565,958)
Increase in Temporarily Restricted Net Assets before Reclassification	4,656	2,597,095	2,601,751
Reclassification	-	(415,241)	(415,241)
Increase in Temporarily Restricted Net Assets	4,656	2,181,854	2,186,510
Changes in Permanently Restricted Net Assets			
Contributions	-	706,029	706,029
Investment Income	18,075	-	18,075
Unrealized Gain on Investments	56,109	-	56,109
Increase in Permanently Restricted Net Assets before Reclassification	74,184	706,029	780,213
Reclassification	(18,075)	106,765	88,690
Increase in Permanently Restricted Net Assets	56,109	812,794	868,903
INCREASE IN NET ASSETS	317,114	2,648,469	2,965,583
Net Assets - Beginning of Year	3,543,618	42,755,487	46,299,105
NET ASSETS - END OF YEAR	$ 3,860,732	$ 45,403,956	$ 49,264,688

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:

	Association	Foundation	2016 Total
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 Loss on Investments	(16,166)	-	(16,166)
Unrealized 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	1,994,777	7,830,754	9,825,531
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	2,077,246	6,707,659	8,784,905
Increase (Decrease) in Unrestricted Net Assets before Reclassification	(82,469)	1,123,095	1,040,626
Reclassification	19,092	(130,435)	(111,343)
Increase (Decrease) in Unrestricted Net Assets	(63,377)	992,660	929,283

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	Association	Foundation	2016 Total
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	(33,969)	-	(33,969)
Increase (Decrease) in Permanently Restricted Net Assets before Reclassification	(14,877)	351,061	336,184
Reclassification	(19,092)	391,048	371,956
Increase (Decrease) in Permanently Restricted Net Assets	(33,969)	742,109	708,140
DECREASE IN NET ASSETS	(98,282)	(194,293)	(292,575)
Net Assets - Beginning of Year	3,641,900	42,949,780	46,591,680
NET ASSETS - END OF YEAR	$ 3,543,618	$ 42,755,487	$ 46,299,105

NOTE 3 DUE TO/FROM UNIVERSITY AND COMPONENT UNITS

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

	2017	2016
Component Units Due from University	$ 531,932	$ 2,574,712
Activity Fees Collected by the University that were Not Recorded by the Association	87,375	90,025
University Due to Component Units	$ 619,307	$ 2,664,737
Component Units Due to University	$ 1,055,131	$ 792,670
Reimbursement of Wages and Benefits Accrued by the University that were Not Recorded by the Association	-	668
Copy Charges paid by the University that were Not Recorded by the Association	338	1,575
University Due from Component Units	$ 1,055,469	$ 794,913

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 $18,723,173, and $20,996,298 at June 30, 2017 and 2016, 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.

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.

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.

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, 2017 and 2016, the carrying amount of the University's demand and time deposits were $910,946 and $737,706, respectively, as compared to bank balances of $909,673 and $736,492, respectively. These differences are primary 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, 2017 and 2016, none of the University's demand and time deposits are exposed to foreign currency risk.

NOTE 5 INVESTMENTS – COMPONENT UNITS

The fair value of investments held by the component units at June 30 is as follows:

	2017	2016
Certificates of Deposit and Money Market Funds	$ 548,013	$ 715,668
Money Market Funds (Funds Held By Trustee)	11,984,406	13,022,200
Mutual Funds - Equity	27,259,436	23,272,340
Equity Securities	2,516,339	2,110,594
Mutual Funds - Fixed Income	7,740,500	7,534,339
Total	$ 50,048,694	$ 46,655,141

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:

	2017					
	Life	Beginning Balance July 1, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Land		$ 1,718,427	$ -	$ -	$ -	$ 1,718,427
Construction in Progress		4,815,600	2,161,069		(1,838,049)	5,138,620
Total Capital Assets Not Being Depreciated		6,534,027	2,161,069	-	(1,838,049)	6,857,047
Buildings, Including Improvements	40/20	101,704,433	262,045	-	1,838,049	103,804,527
Furnishings and Equipment	Varies	20,078,446	897,841	(40,520)	-	20,935,767
Library Books	10	8,185,343	14,704	(7,707)	-	8,192,340
Total Capital Assets Being Depreciated		129,968,222	1,174,590	(48,227)	1,838,049	132,932,634
Less: Accumulated Depreciation		-	-	-	-	-
Buildings, Including Improvements		(41,814,197)	(3,219,510)	-	-	(45,033,707)
Land Improvements		(7,850,759)	(729,002)	-	-	(8,579,761)
Furnishings and Equipment		(14,547,275)	(1,254,659)	40,520	-	(15,761,414)
Library Books		(7,665,297)	(143,519)	7,707	-	(7,801,109)
Total Accumulated Depreciation		(71,877,528)	(5,346,690)	48,227	-	(77,175,991)
Total Capital Assets Being Depreciated, Net		58,090,694	(4,172,100)	-	1,838,049	55,756,643
Capital Assets, Net		$ 64,624,721	$ (2,011,031)	$ -	$ -	$ 62,613,690

NOTE 6 CAPITAL ASSETS (CONTINUED)

	2016					
	Life	Beginning Balance July 1, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
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		$ 57,302,514	$ 7,322,207	$ -	$ -	$ 64,624,721

NOTE 7 LEASES

Total rent expense for operating leases for the years ended June 30, 2017 and 2016 was $1,224,544 and $1,090,849, respectively. Future minimum lease payments for operating leases are as follows:

Year Ending June 30,	Amount
2018	$ 985,667
2019	635,417
2020	487,319
2021	376,106
2022	364,423
Thereafter	11,102,784
Total	$ 13,951,717

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:

Year Ending June 30,	Amount
2018	$ 141,003
2019	142,342
Total Minimum Lease Payments	283,345
Less: Amount Representing Interest on Capital Leases	27,113
Present Value of Net Minimum Capital Lease Payments	256,232
Less: Current Portion	123,158
Long-Term Capital Lease Obligation	$ 133,074

Capital lease activity for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Balance at July 1	$ 370,189	$ 475,609
Retirements	(113,957)	(105,420)
Balance at June 30	$ 256,232	$ 370,189

Capital assets include holdings under capital lease with a cost basis of $1,050,000 and accumulated depreciation of $129,050 and $111,650 at June 30, 2017 and 2016, 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.

NOTE 9 BONDS PAYABLE (CONTINUED)

The various bond series allocated to the University for the years ended June 30, 2017 and 2016 are as follows:

	2017				
	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG issued in 2008	4.75 %	$ 848,402	$ -	$ (414,516)	$ 433,886
Series AH issues in 2008	4.65 %	4,262,801	-	(369,213)	3,893,588
Series AI issued in 2008	4.24 %	491,554	-	-	491,554
Series AL issued in 2010	5.00 %	1,346,842	-	(811,344)	535,498
Series AS issued in 2016	3.75 %	1,709,157	-	-	1,709,157
Total Bonds Payable		$ 8,658,756	$ -	$ (1,595,073)	7,063,683
Plus: Unamortized Bond Premium Costs, Net					352,964
Outstanding at End of Year					$ 7,416,647

	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

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		2018	2019	2020	2021	2022	2023-2027	2028-2032	Total
AG	Principal	$ 433,886	$ -	$ -	$ -	$ -	$ -	$ -	$ 433,886
	Interest	22,779	-	-	-	-	-	-	22,779
	Total	456,665	-	-	-	-	-	-	456,665
AH	Principal	387,200	285,706	299,731	312,198	324,666	1,856,567	427,520	3,893,588
	Interest	179,984	160,624	146,339	134,350	121,862	375,340	18,704	1,137,204
	Total	567,184	446,330	446,070	446,548	446,528	2,231,907	446,224	5,030,792
AI	Principal	-	-	-	-	491,554	-	-	491,554
	Interest	21,506	21,506	21,506	21,506	21,506	-	-	107,528
	Total	21,506	21,506	21,506	21,506	513,060	-	-	599,082
AL	Principal	123,910	130,625	137,124	143,839	-	-	-	535,498
	Interest	26,775	20,579	14,048	7,192	-	-	-	68,594
	Total	150,685	151,204	151,172	151,031	-	-	-	604,092
AS	Principal	71,809	159,357	162,308	165,260	169,194	981,229	-	1,709,157
	Interest	68,696	67,260	64,073	60,826	57,521	151,980	-	470,355
	Total	140,505	226,617	226,381	226,086	226,715	1,133,209	-	2,179,512
Total	Principal	1,016,805	575,688	599,163	621,297	985,414	2,837,796	427,520	7,063,683
	Interest	319,740	269,969	245,966	223,874	200,889	527,320	18,704	1,806,460
	Total	$ 1,336,545	$ 845,657	$ 845,129	$ 845,171	$ 1,186,303	$ 3,365,116	$ 446,224	$ 8,870,145

NOTE 9 BONDS PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. 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, $17,539,964 and $21,918,513 was outstanding as of June 30, 2017 and 2016. 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:

	2017	2016
Balance at July 1	$ 1,589,176	$ 2,039,003
Repayments	(311,023)	(449,827)
Balance at June 30	$ 1,278,153	$ 1,589,176

NOTE 10 COMPENSATED ABSENCES

Compensated absences activity for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Balance at July 1	$ 6,579,621	$ 6,892,551
Current Changes in Estimate	662,775	(164,316)
Payouts	(485,227)	(148,614)
Balance at June 30	$ 6,757,169	$ 6,579,621

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.

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

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 $39,241,000 and $40,060,000 and for the fiscal years ended June 30, 2017 and 2016, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the 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, 2017:

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

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

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

Annual OPEB Cost and Net OPEB 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:

	2017	2016
Annual Required Contribution	$ 5,819,046	$ 6,147,987
Interest on Net OPEB Obligation	2,670,891	2,574,535
Adjustment to Annual Required Contribution	(3,804,742)	(3,383,753)
Annual OPEB Cost	4,685,195	5,338,769
Contributions Made	(2,052,612)	(2,137,075)
Increase in Net OPEB Obligation	2,632,583	3,201,694
Net OPEB Obligation - Beginning of Year	68,630,006	65,428,312
Net OPEB Obligation - End of Year	$ 71,262,589	$ 68,630,006

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 4,685,195	43.8%	$ 71,262,589
June 30, 2016	5,338,769	40.0%	68,630,006
June 30, 2015	5,371,943	38.1%	65,428,312

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

Actuarial Accrued Liability (AAL)	$ 68,577,939
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 68,577,939
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$ 30,348,636
UAAL as a Percentage of Covered Payroll	226.0%

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.

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

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

NOTE 11 POSTRETIREMENT BENEFITS (CONTINUED)

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

NOTE 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, 2017 and June 30, 2016.

NOTE 12 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		Total	
	2017	2016	2017	2016	2017	2016
Net Pension Liabilities	$ 59,691,250	$ 56,524,838	$ 2,190,710	$ 2,043,516	$ 61,881,960	$ 58,568,354
Deferred Outflows of Resources:						
Difference Between Expected and Actual Experience	$ 861,632	$ 1,144,520	$ -	$ -	$ 861,632	$ 1,144,520
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	5,016,444	5,755,282	122,103	-	5,138,547	5,755,282
Changes in Assumptions	3,646,062	1,679,336	79,079	-	3,725,141	1,679,336
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	12,537	90,432	12,537	90,432
Changes in Proportion	927,662	-	62,125	12,416	989,787	12,416
Contributions After the Measurement Date	3,299,226	2,704,298	203,311	144,987	3,502,537	2,849,285
Total Deferred Outflows of Resources	$ 13,751,026	$ 11,283,436	$ 479,155	$ 247,835	$ 14,230,181	$ 11,531,271
Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	$ 1,335,529	$ -	$ 18,257	$ 8,432	$ 1,353,786	$ 8,432
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	-	4,127	-	4,127
Difference Between Employer Contributions and Proportionate Share of Contributions	276,970	157,343	-	-	276,970	157,343
Changes in Proportion	1,265,668	1,725,646	15,965	-	1,281,633	1,725,646
Total Deferred Inflows of Resources	$ 2,878,167	$ 1,882,989	$ 34,222	$ 12,559	$ 2,912,389	$ 1,895,548
Contributions Recognized by Pension Plans	$ 5,259,284	$ 4,422,353	$ 203,311	$ 144,987	$ 5,462,595	$ 4,567,340
Pension Expense						
SERS and PSERS	$ 6,953,283	$ 4,864,073	$ 382,545	$ 1,090,006	$ 7,335,828	$ 5,954,079
ARP					2,125,462	2,111,959
Total Pension Expense					$ 9,461,290	$ 8,066,038

The University will recognize the $3,299,226 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $203,311 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018.

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:

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2018	$ 2,368,581	$ 58,939
June 30, 2019	2,368,581	58,939
June 30, 2020	2,064,657	80,914
June 30, 2021	686,201	42,830
June 30, 2022	85,614	-
	$ 7,573,634	$ 241,622

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.

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 2015/16 was 4.5% and will no longer apply effective July 1, 2017.

The University contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were $5,259,284, $4,422,353, and $3,768,704, 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, 2016 using the following actuarial assumptions, applied to all periods included in the measurement.

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

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 allocations as of December 31, 2016 and 2015, respectively, are summarized below.

	December 31, 2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	8.00%
Global Public Equity	43.0%	5.30%
Real Assets	12.0%	5.44%
Hedge Funds	12.0%	4.75%
Fixed Income	14.0%	1.63%
Cash	3.0%	(0.25)%
Total	100.00%	

	December 31, 2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.00%	

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.25% as of December 31, 2016 and 7.50% as of December 31, 2015. 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.

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% as of December 31, 2016 and 7.50% as of December 31, 2015, 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 or one percentage point higher than the rate used 2017 and 2016.

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

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 73,870,698	$ 59,691,250	$ 47,548,596
	6.50%	7.50%	8.50%
2015	$ 70,214,504	$ 56,524,838	$ 44,786,711

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.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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

At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability was $59,691,250. SERS measured the net pension liability as of December 31, 2016. At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015, was $56,524,838.

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

PSERS

Plan Description

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

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

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

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

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

Member Contributions

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2017, was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 14.6% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2017, was $203,311. The University's contributions to PSERS for the years ended June 30, 2016 and 2015 were $144,987 and $133,387, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015:

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

	2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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)	(14.0%)	1.10%
Total	100.0%	

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the total PSERS pension liability was 7.25% as of June 30, 2016 and 7.50% as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as of June 30, 2016 and 7.50% as of June 30, 2016, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

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

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2016	$ 2,679,820	$ 2,190,710	$ 1,779,689
	6.50%	7.50%	8.50%
2015	$ 2,518,834	$ 2,043,516	$ 1,644,009

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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

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

	2017	2016
Total PSERS Net Pension Liability Associated with the University	$ 4,381,420	$ 4,087,032
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	2,190,710	2,043,516
University's Proportionate Share of the PSERS Net Pension Liability	$ 2,190,710	$ 2,043,516

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

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University recognizes annual pension expenditures equal to its contractually required contributions to the plan.

The University's contribution rate on June 30, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016, were $2,125,462 and $2,111,959, respectively, from the University; and $1,143,952 and $1,136,684, 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 received a refund of $18,754, and contributed $13,839 and $46,088 to the Reserve Fund during the years ended June 30, 2017, 2016, and 2015, 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
2017	$ 526,592	$ -	$ (69,162)	$ 457,430
2016	$ 263,468	$ 375,666	$ (112,542)	$ 526,592

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, 2017 and 2016 follow:

	2017	2016
Deferred Outflows of Resources:		
Unamortized Loss on Refunding of Debt	$ 59,602	$ 70,515
Net Pension Liability Related	14,230,181	11,531,271
Total Deferred Outflows of Resources	$ 14,289,783	$ 11,601,786
Deferred Inflows of Resources:		
Net Pension Liability Related	$ 2,912,389	$ 1,895,548
Total Deferred Inflows of Resources	$ 2,912,389	$ 1,895,548

NOTE 15 COMMITMENTS AND CONTINGENCIES

Authorized University expenditures for services, supplies, equipment and construction projects unexpended as of June 30, 2017 and 2016 were $3,128,311 and $3,838,805, respectively.

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 $4.3M, $8.2M and $8.7M, respectively, during the years ended June 30, 2017, 2016 and 2015. The University also has a negative unrestricted net position of $120.4M and a negative total net position of $60.0M as of June 30, 2017.

The University's cash continues to decrease, although not quite as significantly as over the last four years. Clarion's combined Educational & General (E&G) and Auxiliary cash and investments decreased by 16.1%, or $2.6 million, in fiscal year 2016/17 over fiscal year 2015/16. Since June 30, 2014, Clarion's combined E&G and Auxiliary cash and investments have decreased by 62.8%, or $22.5 million, from $35.9 million at June 30, 2014, to $13.4 million at June 30, 2017. The Office of the Chancellor continues to work with Clarion University to closely monitor its cash flows.

NOTE 16 GOING CONCERN CONSIDERATIONS (CONTINUED)

Those factors, as well as steadily declining enrollment and the impact of the new contract terms for faculty that could cause further financial erosion, create an 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. The financial statements do not include any adjustments that might be necessary if the University is unable to continue as a going concern.

Management's Plans - The University has made substantial progress in both enrollment and in its financial results. As of the first day of the Fall 2017 semester, the University has posted an enrollment increase in both overall headcount and FTE for the first time in eight years. This headcount enrollment is supported by two consecutive years of growth in new student enrollment at the university (Fall 2017 posted an increase of 95 new students joining the university over the previous year's new student numbers). These positive enrollment trends are a direct result of our development and marketing of new professional preparation degree programs in the health sciences, business, and education.

In Fiscal Year 2017 the University's Educational and General Unrestricted Fund had a surplus of approximately $700,000. This is the first surplus since Fiscal Year 2012 and is the result of actions taken over the past two fiscal years including:

(1). Holding unfilled positions vacant as we align our workforce to our current student FTE, as benchmarked to other State System institutions.
(2). Engaging in discussions with academic leaders and faculty to determine the sustainability of exceedingly low enrolled programs. These discussions will result in several programs being placed into moratorium this fall, with a corresponding alignment of our faculty workforce to our current student FTE.
(3). Identifying new academic program development to meet new student demand and employer needs. New programs over the past year (including the B.S. in Nutrition & Fitness, as well as growing credentials in Nursing, have resulted in increasing enrollments in the Health Sciences).
(4). Improving the process by which student financial aid funds are drawn down in a more timely fashion to ensure a more stable cash flow for the institution. This process has been implemented over the past 12 months.
(5). Improving debt collection efforts at the university by moving housing debt to the university foundation for more flexibility in debt collection operations.
(6). Establishing university-wide budget expectation that all anticipated expenses must be budgeted prior to commencing a fiscal year, including any carry-forward funds to be aligned to actual budgeted expenses.

The University recognizes that one year of positive enrollment growth, as well as one year of budget surplus do not reflect a trend. However, these are the first steps in sustained enrollment growth and fiscal strength upon which we continue to build.

NOTE 17 SUBSEQUENT EVENTS

Cheyney University Loan Forgiveness

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

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

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

Additional Debt Issuance

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. Clarion University participated in the issuance of the AU-3 revenue bonds. The refunding was performed to reduce debt service by approximately $321,790 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $318,002. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

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, 2017 AND 2016
(UNAUDITED)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ -	$ 85,247	$ 85,247	0%	$ 33,567	254 %
July 1, 2014	$ -	$ 74,749	$ 74,749	0%	$ 30,821	243 %
July 1, 2016	$ -	$ 68,578	$ 68,578	0%	$ 30,349	226 %

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, 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 %
January 1, 2017	$ 313,226	$ 16,546,732	$ 16,233,506	1.90 %	$ 4,485,000	362 %

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, 2017 AND 2016
(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 %
2016/17	4.8370%	$ 59,691	$ 19,273	310 %	57.8 %

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

Fiscal Year	Contractually Required Contributions	Contributions Contributions Recognized by SERS	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%
2016/17	$ 5,259	$ 5,259	$ -	$ 18,819	27.9%

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, 2017 AND 2016
(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 Proportionate Share	PSERS Net Pension Liability: Commonwealth's Proportionate Share	PSERS Net Pension Liability: Total	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
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 %
2016/17	0.1833%	$ 2,191	$ 2,191	$ 4,381	$ 1,145	200 %	50.1 %

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 %
2016/17	$ 203	$ 203	$ -	$ 1,554	13.1 %