

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**CLARION UNIVERSITY OF PENNSYLVANIA  
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, 2018 and 2017, 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, 2018 and 2017, 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.

**Emphasis of Matter**


As discussed in Note 1 to the financial statements, the University implemented the provision of Governmental Accounting Standards Board (GASB) Statements No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and No. 81 – *Irrevocable Split-Interest Agreements*, for the year ended June 30, 2018, which represent changes in accounting principle. As of July 1, 2017, the University’s net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the various schedules of OPEB Liability, Proportionate Share of Net OPEB Liability and Contributions, and Proportionate Share of Net Pension Liability and Contributions on pages 59-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

Harrisburg, Pennsylvania  
November 2, 2018

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION  
JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 20,361,149	\$ 19,634,119
Accounts Receivable:		
Governmental Grants and Contracts	2,140,775	3,199,109
Students, Net of Allowance for Doubtful Accounts of \$2,870,040 in 2018 and \$2,618,867 in 2017	2,721,578	2,424,681
Other	850,193	606,424
Inventory	540,243	567,479
Prepaid Expenses	296,343	389,853
Conversion Pay Receivable	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts of \$28,727 in 2018 and \$38,701 in 2017	334,545	355,214
Interest Income Receivable	35,360	23,332
Due from Component Units	885,147	1,055,469
Other Current Assets	249,621	81,415
Total Current Assets	28,414,954	28,337,095
<b>NONCURRENT ASSETS</b>		
Conversion Pay Receivable	2,880	2,880
Beneficial Interests	431,233	-
Loans Receivable, Net of Allowance for Doubtful Accounts of \$-0- in 2018 and 2017	157,035	152,673
Capital Assets, Net	59,314,724	62,613,690
Total Noncurrent Assets	59,905,872	62,769,243
 Total Assets	 88,320,826	 91,106,338
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows of Resources	12,012,051	14,289,783
 Total Assets and Deferred Outflows of Resources	 \$ 100,332,877	 \$ 105,396,121

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)  
JUNE 30, 2018 AND 2017**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses:		
Supplies and Services	\$ 1,076,605	\$ 1,451,683
Employees	5,880,193	5,857,893
Other	740,150	558,413
Unearned Revenue	3,281,039	3,549,985
Accrued Interest Payable	7,980	13,104
Students' Deposits	127,281	179,868
Other Deposits	54,385	-
Current Portion of Workers' Compensation	169,875	174,659
Current Portion of Compensated Absences	131,059	168,405
Current Portion of Postemployment Benefits	3,179,840	-
Current Portion of Capital Lease Obligations	133,074	123,158
Current Portion of Bonds Payable, Net	690,679	1,085,444
Due to System, Academic Facilities Renovation Bond Program (AFRP)	296,626	304,222
Due to Component Units	429,380	619,307
Other Current Liabilities	485,654	400,665
Total Current Liabilities	16,683,820	14,486,806
<b>NONCURRENT LIABILITIES</b>		
Unearned Revenue	52,980	61,810
Workers' Compensation	267,319	282,771
Compensated Absences	7,000,758	6,588,764
Postemployment Benefits	120,216,112	71,262,589
Net Pension Liability	55,827,100	61,881,960
Capital Lease Obligations	-	133,074
Bonds Payable, Net	5,950,534	6,331,203
Due to System, AFRP	672,471	973,931
Other Noncurrent Liabilities	368,842	451,052
Total Noncurrent Liabilities	190,356,116	147,967,154
Total Liabilities	207,039,936	162,453,960
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Total Deferred Inflows of Resources	14,871,352	2,912,389
<b>NET POSITION</b>		
Net Investment in Capital Assets	51,680,446	53,721,956
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	431,233	-
Student Loans	48,342	53,274
Expendable:		
Scholarships and Fellowships	358,820	350,967
Capital Projects	2,043,297	2,236,327
Other	3,928,042	4,061,157
Unrestricted	(180,068,591)	(120,393,909)
Total Net Position	(121,578,411)	(59,970,228)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 100,332,877	\$ 105,396,121

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, 2018 AND 2017**

	2018	2017
<b>OPERATING REVENUES</b>		
Tuition and Fees	\$ 50,914,446	\$ 50,504,004
Less: Scholarship Discounts and Allowances	14,235,139	12,348,025
Net Tuition and Fees	36,679,307	38,155,979
Governmental Grants and Contracts:		
Federal	4,991,307	4,799,538
State	5,508,089	6,040,157
Nongovernmental Grants and Contracts	408,665	517,256
Sales and Services of Educational Departments	6,180,952	5,652,942
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$183,497 in 2018 and \$175,244 in 2017	10,906,203	10,844,129
Other Revenues	571,165	573,103
Total Operating Revenues	65,245,688	66,583,104
<b>OPERATING EXPENSES</b>		
Instruction	34,570,699	37,178,027
Research	84,780	84,319
Public Service	9,211,893	8,221,509
Academic Support	8,111,794	8,697,899
Student Services	12,442,107	12,805,474
Institutional Support	11,839,008	12,383,338
Operations and Maintenance of Plant	6,856,141	8,111,744
Depreciation	5,409,366	5,346,690
Student Aid	4,314,552	4,733,596
Auxiliary Enterprises	11,272,188	8,896,911
Total Operating Expenses	104,112,528	106,459,507
<b>OPERATING LOSS</b>	(38,866,840)	(39,876,403)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations, General and Restricted	24,950,026	24,982,987
Commonwealth On-Behalf Contributions to PSERS	285,924	241,697
Pell Grants	7,536,756	7,437,203
Investment Income, Net of Related Investment Expense of \$5,490 in 2018 and \$5,261 in 2017	534,033	403,916
Unrealized Increase in Fair Value	5,455	-
Gifts for Other than Capital Purposes	1,469,063	1,462,371
Interest Expense on Capital Asset-Related Debt	(226,060)	(354,282)
Gain on Disposal of Assets	3,050	1,850
Other Nonoperating Revenue	50,730	224,915
Nonoperating Revenues, Net	34,608,977	34,400,657
<b>LOSS BEFORE OTHER REVENUES</b>	(4,257,863)	(5,475,746)
<b>OTHER REVENUES</b>		
State Appropriations, Capital	1,020,198	917,998
Capital Gifts and Grants	256,793	256,951
Total Other Revenues	1,276,991	1,174,949
<b>DECREASE IN NET POSITION</b>	(2,980,872)	(4,300,797)
Net Position - Beginning of Year	(59,970,228)	(55,669,431)
Restatement for July 1, 2017 - GASB 75 OPEB Liability	(59,053,089)	-
Restatement for GASB 81 - Beneficial Interests	425,778	-
Net Position - Beginning of Year, Restated	(118,597,539)	(55,669,431)
<b>NET POSITION - END OF YEAR</b>	\$ (121,578,411)	\$ (59,970,228)

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, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees, Net	\$ 36,280,789	\$ 38,175,856
Grants and Contracts	11,884,949	11,827,079
Payments to Suppliers for Goods and Services	(24,297,886)	(24,996,120)
Payments to Employees	(68,293,947)	(68,373,711)
Loans Issued to Students	(32,605)	(81,862)
Loans Collected from Students	48,912	101,207
Student Aid	(4,391,655)	(4,823,845)
Auxiliary Enterprise Charges	10,831,469	10,843,885
Sales and Services of Educational Departments	6,086,223	5,737,974
Other Receipts	346,268	(399,818)
Net Cash Used by Operating Activities	(31,537,483)	(31,989,355)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	24,950,026	24,982,987
Gifts for Other than Capital Purposes	9,005,819	1,462,371
Plus, Stafford, and Other Loans Receipts (Non-Perkins)	45,683,053	46,974,416
Plus, Stafford, and Other Loans Disbursements (Non-Perkins)	(45,683,053)	(46,974,416)
Pell Grants	-	7,437,203
Other	105,115	224,915
Net Cash Provided by Noncapital Financing Activities	34,060,960	34,107,476
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt and Leases	3,943,781	-
Capital Appropriations	1,020,198	917,998
Capital Gifts and Grants Received	256,793	256,951
Proceeds from Sales of Capital Assets	3,050	1,850
Purchases of Capital Assets	(2,110,400)	(3,335,659)
Principal Paid on Capital Debt and Leases	(5,022,588)	(2,020,053)
Interest Paid on Capital Debt and Leases	(409,286)	(442,053)
Net Cash Used by Capital Financing Activities	(2,318,452)	(4,620,966)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	522,005	402,960
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	727,030	(2,099,885)
Cash and Cash Equivalents - Beginning of Year	19,634,119	21,734,004
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 20,361,149	\$ 19,634,119

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, 2018 AND 2017**

	2018	2017
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (38,866,840)	\$ (39,876,403)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	5,409,366	5,346,690
Expenses Paid by Commonwealth or Donor	285,924	241,697
Changes in Assets, Liabilities, Deferred Inflows and Outflows:		
Receivables, Net	761,437	(110,600)
Inventories	27,236	351
Other Assets	(148,143)	(265,117)
Accounts Payable	(171,041)	(1,735,669)
Unearned Revenue	(277,776)	655,559
Students' Deposits	(52,587)	21,004
Compensated Absences	374,648	177,548
Loans to Students and Employees	16,307	19,345
Postretirement Benefits Liability (OPEB)	(6,919,726)	2,632,583
Defined Benefit Pensions	(6,054,860)	3,313,606
Other Liabilities	(207,384)	(727,880)
Deferred Outflows of Resources Related to Pensions	5,513,617	(2,698,910)
Deferred Inflows of Resources Related to Pensions	1,412,374	1,016,841
Deferred Outflows of Resources Related to OPEB	(3,186,624)	-
Deferred Inflows of Resources Related to OPEB	10,546,589	-
Net Cash Used by Operating Activities	\$ (31,537,483)	\$ (31,989,355)
 <b>SUPPLEMENTAL DISCLOSURE OF NONCASH NONCAPITAL FINANCING ACTIVITIES</b>		
Commonwealth On-Behalf Contributions to PSERS	\$ 285,924	\$ 241,697

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, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 5,402,747	\$ 4,222,267
Account Receivable	170,972	647,729
Contributions and Pledges Receivable	835,813	835,898
Due from University	215,431	531,932
Prepaid Expenses	262,002	282,583
Investments	52,568,140	50,048,694
Capital Assets, Net	98,620,538	102,033,510
Other Assets	215,836	135,199
Total Assets	\$ 158,291,479	\$ 158,737,812
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 326,680	\$ 486,050
Deferred Revenue	143,511	168,742
Interest Payable	1,410,862	1,440,237
Annuity Liabilities	2,085,621	2,164,509
Due to University	885,006	1,055,131
Deposits Payable	426,438	400,441
Long-Term Debt	101,491,618	103,758,014
Total Liabilities	106,769,736	109,473,124
<b>NET ASSETS</b>		
Unrestricted	14,079,557	14,883,698
Temporarily Restricted	15,548,590	14,245,835
Permanently Restricted	21,893,596	20,135,155
Total Net Assets	51,521,743	49,264,688
Total Liabilities and Net Assets	\$ 158,291,479	\$ 158,737,812

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, 2018 AND 2017**

	2018	2017
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES AND OTHER ADDITIONS</b>		
Contributions	\$ 156,909	\$ 197,041
Sales and Service	217,707	234,881
Student Fees	1,885,578	1,835,016
Grants and Contracts	250,000	250,000
Rental Income	4,853,896	4,465,474
Investment Income	195,498	151,676
Realized and Unrealized Gain (Loss) on Investments	334,438	592,410
Trustee Fees	276,084	263,359
Other Revenues and Gains	79,216	100,165
Net Assets Released from Restrictions	2,360,392	1,565,958
Total Revenues and Other Additions	10,609,718	9,655,980
<b>EXPENSES AND OTHER DEDUCTIONS</b>		
Program Services:		
Scholarships/Grants	1,324,795	1,099,018
Student Activities and Programs	2,169,106	2,268,607
University Stores	229,065	259,802
Interest Expense	4,171,668	4,247,257
Other University Support	125,000	125,000
Management and General	1,100,339	1,210,960
Fundraising	1,119,358	861,717
Total Expenses and Other Deductions	10,239,331	10,072,361
Increase (Decrease) in Unrestricted Net Assets before Reclassification	370,387	(416,381)
Reclassification	(160,548)	326,551
Increase (Decrease) in Unrestricted Net Assets	209,839	(89,830)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	831,946	520,239
Sales and Services (Project Income)	144,128	153,520
Rental Income	(49,343)	(28,380)
Investment Income	657,126	468,692
Realized Gain on Investments	1,193,902	89,650
Unrealized Gain (Loss) on Investments	325,784	3,431,219
Trustee Fees	(276,084)	(263,359)
Adjustment of Actuarial Liability for Annuities Payable	(205,149)	(203,872)
Net Assets Released from Restrictions	(2,360,392)	(1,565,958)
Increase in Temporarily Restricted Net Assets before Reclassification	261,918	2,601,751
Reclassification	(42,924)	(415,241)
Increase in Temporarily Restricted Net Assets	218,994	2,186,510
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	1,571,506	706,029
Investment Income	17,860	18,075
Realized Gain on Investment	51,919	-
Unrealized Gain (Loss) on Investments	(16,535)	56,109
Increase in Permanently Restricted Net Assets before Reclassification	1,624,750	780,213
Reclassification	203,472	88,690
Increase in Permanently Restricted Net Assets	1,828,222	868,903
<b>INCREASE IN NET ASSETS</b>	2,257,055	2,965,583
Net Assets - Beginning of Year	49,264,688	46,299,105
<b>NET ASSETS - END OF YEAR</b>	\$ 51,521,743	\$ 49,264,688

See accompanying Notes to Financial Statements.

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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 14 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 \$889,816 and \$1,020,742 during the fiscal years ended June 30, 2018 and 2017, respectively.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, 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 \$1,630,722 and \$1,405,520 during the fiscal years ended June 30, 2018 and 2017, respectively. The financial activity of the Foundation is presented as of and for the years ended June 30, 2018 and 2017.

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

**CLARION UNIVERSITY OF PENNSYLVANIA  
OF THE STATE SYSTEM OF HIGHER EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Measurement Focus, Basis of Accounting, and Basis of Presentation**

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

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

**Operating Revenues and Expenses**

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

**Deferred Outflows and Deferred Inflows of Resources**

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

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

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

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**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 and other postemployment benefit (OPEB) plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the University's proportion of expenses and liabilities to the pension and OPEB plans as a whole, differences between the University's pension and OPEB contributions and its proportionate share of contributions, and University pension and OPEB contributions subsequent to the pension or OPEB plan valuation measurement dates.

**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.

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**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 acquisition value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets under capital lease is included in depreciation. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

**Impairment of Capital Assets**

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2018 and 2017.

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**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.



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

**New Accounting Standards**

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the University to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Retired Employees Health Program and the Public School Employees' Retirement System Health Insurance Premium Assistance Program, both of which are defined benefit retiree healthcare plans administered by the Commonwealth of Pennsylvania. Statement No. 75 also has significantly increased the liability that the University records for the defined benefit retiree healthcare and tuition benefits plan that the State System administers, and requires the recording of deferred outflows of resources and deferred inflows of resources associated with the plan. The July 1, 2017, balances of these other postemployment benefit liabilities (with "other" meaning "other than pensions"), known as OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources, are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2017 Net position—beginning of year*. The plans did not provide sufficient information to restate the June 30, 2017, financial statements.

In addition, the University has implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. Under Statement No. 81, the University is reporting as beneficial interests, along with the associated deferred inflows of resources, the value of irrevocable split-interest agreements held by a third party of which the university is the beneficiary. The University also is reporting as beneficial interests the value of funds held in perpetual trusts by third parties of which the University is the beneficiary. The July 1, 2017, balances of these beneficial interests and related deferred inflows of resources are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the *2017 Net position—beginning of year*.

	2018
Net Position - Beginning of Year	\$ (59,970,228)
Restatement for July 1, 2017, GASB 75 OPEB Liability	(59,053,089)
Restatement for GASB 81 Beneficial Interests	425,778
Net Position - Beginning of Year, Restated	\$(118,597,539)

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.

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

**New Accounting Standards (Continued)**

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.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 is intended to improve the information that is disclosed in notes to government financial statements related to debt. The University has determined that Statement No. 88 will have no effect on its financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred, and should no longer be capitalized as part of the cost of an asset. The University has determined that the effect of Statement No. 89 on its financial statements will vary from year to year, depending upon the amount of new debt incurred for capital assets. The provisions of Statement No. 89 are effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. Statement No. 90 is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The University has determined that Statement No. 90 will have no effect on its financial statements.

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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION**

The following represents combining condensed statement of financial position information for the component units as of June 30, 2018:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Due from University	\$ -	\$ 215,431	\$ 215,431
Capital Assets, Net	189,944	98,430,594	98,620,538
Investments	2,652,925	49,915,215	52,568,140
Other Assets	1,972,967	4,914,403	6,887,370
Total Assets	<u>\$ 4,815,836</u>	<u>\$ 153,475,643</u>	<u>\$ 158,291,479</u>
Due to University	\$ -	\$ 885,006	\$ 885,006
Long-Term Debt	-	101,491,618	101,491,618
Other Liabilities	687,099	3,706,013	4,393,112
Total Liabilities	<u>\$ 687,099</u>	<u>\$ 106,082,637</u>	<u>\$ 106,769,736</u>
Net Assets:			
Unrestricted	\$ 3,862,980	\$ 10,216,577	\$ 14,079,557
Temporarily Restricted	33,236	15,515,354	15,548,590
Permanently Restricted	232,521	21,661,075	21,893,596
Total Net Assets	<u>\$ 4,128,737</u>	<u>\$ 47,393,006</u>	<u>\$ 51,521,743</u>

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

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
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	<u>\$ 4,634,271</u>	<u>\$ 154,103,541</u>	<u>\$ 158,737,812</u>
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	<u>\$ 773,539</u>	<u>\$ 108,699,585</u>	<u>\$ 109,473,124</u>
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	<u>\$ 3,860,732</u>	<u>\$ 45,403,956</u>	<u>\$ 49,264,688</u>

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

The following represents combining statement of activities for the component units for the year ended June 30, 2018:

	<u>Association</u>	<u>Foundation</u>	<u>2018 Total</u>
<b>Changes in Unrestricted Net Assets</b>			
Revenues and Other Additions:			
Contributions	\$ -	\$ 156,909	\$ 156,909
Sales and Service	217,707	-	217,707
Student Fees	1,885,578	-	1,885,578
Grants and Contracts	-	250,000	250,000
Rental Income (Net of Expenses)	-	4,853,896	4,853,896
Investment Income	75,982	119,516	195,498
Realized Gain on Investments	56,930	-	56,930
Unrealized Gain on Investments	8,139	269,369	277,508
Trustee Fees	-	276,084	276,084
Other Revenues and Gains	-	79,216	79,216
Net Assets Released from Restrictions	-	2,360,392	2,360,392
Total Revenues and Other Additions	<u>2,244,336</u>	<u>8,365,382</u>	<u>10,609,718</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships/Grants	-	1,324,795	1,324,795
Student Activities and Programs	1,519,180	649,926	2,169,106
Interest Expense - Housing	-	4,171,668	4,171,668
University Stores	229,065	-	229,065
Other Programs	-	125,000	125,000
Management and General Fundraising	284,992	815,347	1,100,339
Total Expenses and Other Deductions	<u>2,033,237</u>	<u>8,206,094</u>	<u>10,239,331</u>
Increase (Decrease) in Unrestricted Net Assets before Reclassification	211,099	159,288	370,387
Reclassification	<u>69,781</u>	<u>(230,329)</u>	<u>(160,548)</u>
Increase (Decrease) in Unrestricted Net Assets	280,880	(71,041)	209,839

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JUNE 30, 2018 AND 2017**

**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

	<u>Association</u>	<u>Foundation</u>	<u>2018 Total</u>
<b>Changes in Temporarily Restricted</b>			
<b>Net Assets</b>			
Contributions	\$ -	\$ 831,946	\$ 831,946
Sales and Services	-	144,128	144,128
Rental Income (Net of Expenses)	-	(49,343)	(49,343)
Investment Income	1,404	655,722	657,126
Realized Gain on Investments	3,245	1,190,657	1,193,902
Unrealized Gain (Loss) on Investments	(987)	326,771	325,784
Trustee Fees	-	(276,084)	(276,084)
Adjustment of Actuarial Liability	-	(205,149)	(205,149)
Net Assets Released from Restrictions	-	<u>(2,360,392)</u>	<u>(2,360,392)</u>
Increase in Temporarily Restricted Net Assets before Reclassification	3,662	258,256	261,918
Reclassification	<u>(69,781)</u>	<u>26,857</u>	<u>(42,924)</u>
Increase in Temporarily Restricted Net Assets	(66,119)	285,113	218,994
<b>Changes in Permanently Restricted</b>			
<b>Net Assets</b>			
Contributions	-	1,571,506	1,571,506
Investment Income	17,860	-	17,860
Realized Gain on Investments	51,919	-	51,919
Unrealized Gain on Investments	<u>(16,535)</u>	<u>-</u>	<u>(16,535)</u>
Increase in Permanently Restricted Net Assets before Reclassification	53,244	1,571,506	1,624,750
Reclassification	<u>-</u>	<u>203,472</u>	<u>203,472</u>
Increase in Permanently Restricted Net Assets	<u>53,244</u>	<u>1,774,978</u>	<u>1,828,222</u>
<b>INCREASE IN NET ASSETS</b>	268,005	1,989,050	2,257,055
Net Assets - Beginning of Year	<u>3,860,732</u>	<u>45,403,956</u>	<u>49,264,688</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 4,128,737</u>	<u>\$ 47,393,006</u>	<u>\$ 51,521,743</u>

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**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:

	<u>Association</u>	<u>Foundation</u>	<u>2017 Total</u>
<b>Changes in Unrestricted Net Assets</b>			
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 Loss 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	<u>2,354,950</u>	<u>7,301,030</u>	<u>9,655,980</u>
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
Interest Expense - 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	<u>2,116,676</u>	<u>7,955,685</u>	<u>10,072,361</u>
Increase (Decrease) in			
Unrestricted Net Assets			
before Reclassification	238,274	(654,655)	(416,381)
Reclassification	<u>18,075</u>	<u>308,476</u>	<u>326,551</u>
Increase (Decrease) in			
Unrestricted Net Assets	256,349	(346,179)	(89,830)

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)**

	<u>Association</u>	<u>Foundation</u>	<u>2017 Total</u>
<b>Changes in Temporarily Restricted Net Assets</b>			
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	<u>-</u>	<u>(1,565,958)</u>	<u>(1,565,958)</u>
Increase in Temporarily Restricted Net Assets before Reclassification	4,656	2,597,095	2,601,751
Reclassification	<u>-</u>	<u>(415,241)</u>	<u>(415,241)</u>
Increase in Temporarily Restricted Net Assets	4,656	2,181,854	2,186,510
<b>Changes in Permanently Restricted Net Assets</b>			
Contributions	-	706,029	706,029
Investment Income	18,075	-	18,075
Unrealized Loss on Investments	<u>56,109</u>	<u>-</u>	<u>56,109</u>
Increase (Decrease) in Permanently Restricted Net Assets before Reclassification	74,184	706,029	780,213
Reclassification	<u>(18,075)</u>	<u>106,765</u>	<u>88,690</u>
Increase (Decrease) in Permanently Restricted Net Assets	<u>56,109</u>	<u>812,794</u>	<u>868,903</u>
<b>INCREASE IN NET ASSETS</b>	317,114	2,648,469	2,965,583
Net Assets - Beginning of Year	<u>3,543,618</u>	<u>42,755,487</u>	<u>46,591,680</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,860,732</u>	<u>\$ 45,403,956</u>	<u>\$ 49,264,688</u>

**CLARION UNIVERSITY OF PENNSYLVANIA  
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**NOTE 3 DUE TO/FROM UNIVERSITY AND COMPONENT UNITS**

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

	<u>2018</u>	<u>2017</u>
Component Units Due from University	\$ 215,431	\$ 531,932
Estimated Allowance Recorded by Foundation that was not Recorded by the University	176,630	-
Activity Fees Collected by the University that were Not Recorded by the Association	<u>37,319</u>	<u>87,375</u>
University Due to Component Units	<u>\$ 429,380</u>	<u>\$ 619,307</u>
Component Units Due to University	\$ 885,006	\$ 1,055,131
Copy Charges paid by the University that were Not Recorded by the Association	<u>141</u>	<u>338</u>
University Due from Component Units	<u>\$ 885,147</u>	<u>\$ 1,055,469</u>

**NOTE 4 DEPOSITS AND INVESTMENTS**

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual The State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$19,599,862, and \$18,723,173 at June 30, 2018 and 2017, respectively.

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



**CLARION UNIVERSITY OF PENNSYLVANIA  
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**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 five years.

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**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.

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**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](http://www.passhe.edu)

***University Local Deposits and Investments:*** At June 30, 2018 and 2017, the carrying amounts of the University's demand and time deposits were \$761,289 and \$910,946, respectively, as compared to bank balances of \$760,112 and \$909,673, 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, 2018 and 2017, none of the University's demand and time deposits are exposed to foreign currency risk.

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**NOTE 5 INVESTMENTS – COMPONENT UNITS**

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

	2018	2017
Certificates of Deposit and Money Market Funds	\$ 339,610	\$ 548,013
Money Market Funds (Funds Held By Trustee)	12,273,943	11,984,406
Mutual Funds - Equity	28,638,576	27,259,436
Equity Securities	8,921,189	2,516,339
Mutual Funds - Fixed Income	2,394,822	7,740,500
Total	<u>\$ 52,568,140</u>	<u>\$ 50,048,694</u>

**NOTE 6 CAPITAL ASSETS**

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

	Life	2018				Ending Balance June 30, 2018
		Beginning Balance July 1, 2017	Additions	Retirements	Reclassifications	
Land		\$ 1,718,427	\$ -	\$ -	\$ -	\$ 1,718,427
Construction in Progress		5,138,620	1,515,136	-	(2,114,508)	4,539,248
Total Capital Assets Not Being Depreciated		6,857,047	1,515,136	-	(2,114,508)	6,257,675
Buildings, Including						
Improvements	40/20	103,804,527	38,365	-	904,678	104,747,570
Furnishings and Equipment	Varies	20,935,767	541,025	(56,058)	1,209,830	22,630,564
Library Books	10	8,192,340	15,874	(61,427)	-	8,146,787
Total Capital Assets Being Depreciated		132,932,634	595,264	(117,485)	2,114,508	135,524,921
Less: Accumulated Depreciation						
Buildings, Including						
Improvements		(45,033,707)	(3,224,788)	-	-	(48,258,495)
Land Improvements		(8,579,761)	(693,258)	-	-	(9,273,019)
Furnishings and Equipment		(15,761,414)	(1,371,076)	56,058	-	(17,076,432)
Library Books		(7,801,109)	(120,244)	61,427	-	(7,859,926)
Total Accumulated Depreciation		(77,175,991)	(5,409,366)	117,485	-	(82,467,872)
Total Capital Assets Being Depreciated, Net		55,756,643	(4,814,102)	-	2,114,508	53,057,049
Capital Assets, Net		<u>\$ 62,613,690</u>	<u>\$ (3,298,966)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,314,724</u>

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**NOTE 6 CAPITAL ASSETS (CONTINUED)**

	2017					Ending Balance June 30, 2017
	Life	Beginning Balance July 1, 2016	Additions	Retirements	Reclassifications	
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		<u>\$ 64,624,721</u>	<u>\$ (2,011,031)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,613,690</u>

**NOTE 7 LEASES**

Total rent expense for operating leases for the years ended June 30, 2018 and 2017 was \$1,658,107 and \$1,224,544, respectively. Future minimum lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 635,417
2020	487,319
2021	376,106
2022	364,423
2023	373,534
Thereafter	<u>10,729,251</u>
Total	<u>\$ 12,966,050</u>

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**NOTE 8 CAPITAL LEASE**

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 142,342
Less: Amount Representing Interest	9,268
Present Value of Net Minimum Lease Payments	<u>133,074</u>
Less: Current Portion	<u>133,074</u>
Long-Term Capital Lease Obligation	<u><u>\$ -</u></u>

Capital lease activity for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance at July 1	\$ 256,232	\$ 370,189
Retirements	<u>(123,158)</u>	<u>(113,957)</u>
Balance at June 30	<u><u>\$ 133,074</u></u>	<u><u>\$ 256,232</u></u>

Capital assets include holdings under capital lease with a cost basis of \$1,050,000 and accumulated depreciation of \$146,450 and \$129,050 at June 30, 2018 and 2017, 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.

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**NOTE 9 BONDS PAYABLE (CONTINUED)**

The various bond series allocated to the University for the years ended June 30, 2018 and 2017 are as follows:

2018					
	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AG issued in 2008	4.52 %	\$ 433,886	\$ -	\$ (433,886)	\$ -
Series AH issues in 2008	4.68 %	3,893,588	-	(3,893,588)	-
Series AI issued in 2008	4.27 %	491,554	-	-	491,554
Series AL issued in 2010	5.00 %	535,498	-	(123,910)	411,588
Series AS issued in 2016	3.83 %	1,709,157	-	(71,809)	1,637,348
Series AU issued in 2017	3.51 %	-	3,990,007	(67,181)	3,922,826
Total Bonds Payable		\$ 7,063,683	\$ 3,990,007	\$ (4,590,374)	6,463,316
Plus: Unamortized Bond Premium Costs, Net					177,897
Outstanding at End of Year					\$ 6,641,213

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

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**NOTE 9 BONDS PAYABLE (CONTINUED)**

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

Series		<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024-2028</u>	<u>2029-2033</u>	<u>Total</u>
AI	Principal	\$ -	\$ -	\$ -	\$ 491,554	\$ -	\$ -	\$ -	\$ 491,554
	Interest	21,506	21,506	21,506	21,506	-	-	-	86,022
	Total	<u>21,506</u>	<u>21,506</u>	<u>21,506</u>	<u>513,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,576</u>
AL	Principal	130,625	137,124	143,839	-	-	-	-	411,588
	Interest	20,579	14,048	7,192	-	-	-	-	41,819
	Total	<u>151,204</u>	<u>151,172</u>	<u>151,031</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453,407</u>
AS	Principal	159,357	162,308	165,260	169,194	177,556	803,673	-	1,637,348
	Interest	67,260	64,073	60,826	57,521	49,061	102,918	-	401,658
	Total	<u>226,617</u>	<u>226,381</u>	<u>226,086</u>	<u>226,715</u>	<u>226,617</u>	<u>906,591</u>	<u>-</u>	<u>2,039,006</u>
AU	Principal	360,932	364,883	371,470	378,056	384,642	2,062,843	-	3,922,826
	Interest	85,372	79,958	74,485	67,984	60,423	165,982	-	534,204
	Total	<u>446,304</u>	<u>444,841</u>	<u>445,955</u>	<u>446,040</u>	<u>445,065</u>	<u>2,228,825</u>	<u>-</u>	<u>4,457,030</u>
Total	Principal	<u>650,914</u>	<u>664,315</u>	<u>680,569</u>	<u>1,038,804</u>	<u>562,198</u>	<u>2,866,516</u>	<u>-</u>	<u>6,463,316</u>
	Interest	<u>194,717</u>	<u>179,585</u>	<u>164,009</u>	<u>147,011</u>	<u>109,484</u>	<u>268,900</u>	<u>-</u>	<u>1,063,704</u>
	Total	<u>\$ 845,631</u>	<u>\$ 843,900</u>	<u>\$ 844,578</u>	<u>\$ 1,185,815</u>	<u>\$ 671,682</u>	<u>\$ 3,135,416</u>	<u>\$ -</u>	<u>\$ 7,527,022</u>



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**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, \$13,298,828 and \$17,539,964 was outstanding as of June 30, 2018 and 2017. Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program.

Changes in the AFRP pool of funding were as follows:

	<u>2018</u>	<u>2017</u>
Balance at July 1	\$ 1,278,153	\$ 1,589,176
Repayments	(309,056)	(311,023)
Balance at June 30	<u>\$ 969,097</u>	<u>\$ 1,278,153</u>

**NOTE 10 COMPENSATED ABSENCES**

Compensated absences activity for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance at July 1	\$ 6,757,169	\$ 6,579,621
Current Changes in Estimate	853,878	662,775
Payouts	(479,230)	(485,227)
Balance at June 30	<u>\$ 7,131,817</u>	<u>\$ 6,757,169</u>

**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS**

Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

University employees who retire after meeting specified service and age requirements are eligible to receive healthcare and tuition benefits in retirement. Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a defined benefit healthcare plan administered by the State System (System Plan). Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is a defined benefit healthcare plan sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). In addition to the above, any employee who participates in the Public School Employees' Retirement System (PSERS) pension plan is eligible to receive benefits from the PSERS Health Insurance Premium Assistance Program (Premium Assistance), a defined benefit plan, and all eligible retirees and their eligible dependents receive tuition waivers at any of the 14 State System universities.

Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2018, and 2017.

	SSHE Plan		REHP		PSERS		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	\$77,909,566	\$71,262,589	\$45,380,471	*	\$105,915	*	\$123,395,952	\$71,262,589
Deferred outflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan	N/A	N/A	-	*	115	*	115	*
Contributions after the measurement date	1,973,903	*	1,205,937	*	6,669	*	3,186,509	*
Total deferred outflows of resources	1,973,903	-	1,205,937	-	6,784	-	3,186,624	-
Deferred inflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan	N/A	N/A	37,901	*	-	*	37,901	*
Changes in assumptions	6,367,794	*	4,134,780	*	4,937	*	10,507,511	*
Changes in proportion	N/A	N/A	-	*	1,177	*	1,177	*
Total deferred inflows of resources	\$ 6,367,794	\$ -	\$ 4,172,681	\$ -	\$ 6,114	\$ -	\$ 10,546,589	\$ -
OPEB expense	\$ 3,132,758	\$ 4,685,195	\$ 2,106,686	\$ 1,680,283	\$ 8,720	\$ 5,792	\$ 5,248,164	\$ 6,371,270
Contributions recognized by OPEB plans	N/A	N/A	\$ 1,205,937	\$ 1,680,283	\$ 6,669	\$ 5,792	\$ 1,212,606	\$ 1,686,075

\*Information is not reported because GASB 75 actuarial valuations were not performed for prior years and fiscal year 2016/17 was not restated.

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling \$1,973,903 for the System Plan, \$1,205,937 for the REHP plan, and \$6,669 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Fiscal Year Ended	Amortization		
	SSHE	REHP	PSERS
June 30, 2019	\$ (1,273,559)	\$ (887,440)	\$ (1,061)
June 30, 2020	(1,273,559)	(887,440)	(976)
June 30, 2021	(1,273,559)	(887,440)	(976)
June 30, 2022	(1,273,559)	(887,440)	(976)
June 30, 2023	(1,273,558)	(623,290)	(1,005)
Thereafter	-	369	(1,005)
	<u>\$ (6,367,794)</u>	<u>\$ (4,172,681)</u>	<u>\$ (5,999)</u>

**System Plan**

Plan Description

The System Plan is a single-employer defined benefit healthcare plan administered by the Office of the Chancellor. Act 188 empowers the Board to establish and amend benefit provisions and to require the Office of the Chancellor to pay OPEB as the benefits come due. The Office of the Chancellor discretely accounts for and accumulates all employer and employee System Plan contributions that have been collected from the universities, employees, and retirees, but not yet been paid to the provider; however, the System Plan has no assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors.

The System Plan provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the benefits in effect when they retired, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 19 or until age 25 if a certified full-time student. SCUPA, SPFPA, OPEIU, and nonrepresented employees whose retirement date is on or after January 1, 2016, and APSCUF employees whose retirement date is on or after July 1, 2017, receive the same pre-Medicare benefits as active employees, with benefits changing as active employee benefits change. All other retirees continue to receive the same benefits to which they were entitled at retirement.

A total of 12,511 employees are covered by the benefit terms, including 7,762 inactive employees currently receiving benefit payments, 52 inactive employees entitled to but not yet receiving benefits, and 4,697 active employees. Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

Plan Description (Continued)

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 or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, 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 plan members 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.
- Plan members, with the exception of nonfaculty coaches, 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.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 2.75% of their final annual gross salary at the time of retirement.

Actuarial Assumptions and Other Inputs

The actuarial valuation on which the total OPEB liability is based is dated July 1, 2016. Update procedures were used to roll forward the total OPEB liability to the measurement date of July 1, 2017. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Inflation of 2.2%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.5% in 2018 through 2023, with rates gradually decreasing from 5.4% in 2024 to 3.9% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model. The healthcare cost trend rate was updated based on the Society of Actuaries Getzen Model.
- Annual salary increase of 4%, updated from 3%.
- 90% of employees are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2020 is 40% of the projected premiums in excess of the annual limits.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Healthcare Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2017 to reflect mortality improvement, updated from Scale MP-2016.
- The discount rate increased from 2.49% to 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index.
- Participant data is based on census information as of July 1, 2016.
- Experience was last reviewed in 2012 for withdrawal and retirement. Experience for election percentages were reviewed in 2017. Neither of these reviews were published in a formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all retirees, regardless of employee bargaining unit when active and including those not represented when active, who meet years of service and/or age criteria.

The following presents the System Plan's net OPEB liability, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Health Care Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 64,507,889	\$ 77,909,566	\$ 95,401,024

The following presents the University's net OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%).

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 91,825,437	\$ 77,909,566	\$ 66,924,426

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**System Plan (Continued)**

OPEB Liability

The System Plan's total OPEB liability of \$77,909,566 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

**State System Plan OPEB Liability**

Determined as of the June 30 measurement dates

<b>Changes in the System Plan Total OPEB Liability</b>	<b>Fiscal Year Ending June 30, 2018</b>
Total OPEB Liability - Beginning Balance	\$ 84,203,648
Service Cost	3,089,252
Interest	2,505,167
Changes in Assumptions	(9,095,782)
Benefit Payments	(2,792,719)
Net Changes	(6,294,082)
Total OPEB Liability - Ending Balance	\$ 77,909,566
Covered Employee Payroll	31,602,879
OPEB Liability as a Percent of Covered Payroll	246.53%

*Note to Schedule: The System plan has no plan assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors.*

**REHP**

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board. 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, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Plan Description (Continued)

The REHP provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the plan they choose, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 26.

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members who retired on or after July 1, 2005, and prior to July 1, 2007, pay 1% of their final annual salary.
- Plan members who retired on or after July 1, 2007, and prior to July 1, 2011, pay 3% of either final gross annual base salary or final average salary, whichever is less. Members eligible for Medicare pay 1.5% of either final gross annual base salary or final average salary, whichever is less.
- Plan members who retire on or after July 1, 2011, pay 3% of final average salary. Members eligible for Medicare pay 1.5% of final gross annual base salary.

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of \$300 for each current REHP eligible active employee during the period July 1, 2017, through January 18, 2018, and \$188 from January 19, 2018, through June 30, 2018. The rate was \$362 per biweekly pay period during the fiscal year ended June 30, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2016 and July 1, 2017 actuarial valuations was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.9% in 2018, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2016\_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2016.
- Projected benefits based on estimates of future years of service and projected health benefit costs.

The Commonwealth's State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the SERS Board in March 2016. The approved recommendations from that study were used to determine the assumptions in the REHP valuation, where applicable.

The following assumptions were made with regard to the discount rate:

- Discount rate of 3.58% as of June 30, 2017, and 2.85% as of June 30, 2016.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.
- The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	47.0 %	7.5%
International Equity	20.0	8.5%
Fixed Income	25.0	3.0%
Real Estate	8.0	3.0%
Cash	0.0	1.0%
Total	<u>100.0 %</u>	



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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**REHP (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

The actuarial valuation on which the total REHP OPEB liability is based was dated July 1, 2017. The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of July 1, 2017.

The following presents the University's share of the REHP net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 2.9%) or one percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates (6.0% decreasing to 3.9%).

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	\$ 39,383,201	\$ 45,380,471	\$ 54,358,190

The following presents the University's share of the REHP net OPEB liability at June 30, 2017, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current healthcare cost trend rates (3.58%).

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	\$ 53,171,177	\$ 45,380,471	\$ 40,213,235

**Fiduciary Net Position**

The REHP is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

The assets of the REHP are managed by the Commonwealth's Treasury in an investment pool. The REHP investments are made based upon an interagency agreement, dated June 17, 2008, and the prudent investor standard set forth in the Commonwealth of Pennsylvania's amendment to fiscal code 72 P.S. §30.1, the principles of Prudent Investors Standards.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Premium Assistance**

Plan Description

The Health Insurance Premium Assistance Program (Premium Assistance) is a governmental cost sharing, multiple-employer OPEB plan administered by the administrative staff of PSERS. The members eligible to participate in the program 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 control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (PSERS Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of PSERS by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2018 and 2017. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 0.415% of covered payroll.

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2016, to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year and assume a trend rate of between 5% and 8%.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Premium Assistance (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015, determined the employer contribution rate for fiscal year 2016/17.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set-back 3 for both males and females for healthy annuitants and for dependent beneficiaries, with adjustments made for disabled annuitants.

The following assumptions were made with regard to the discount rate:

- The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017, and 2.71% at June 30, 2016.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.
- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017.

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Premium Assistance (Continued)**

Actuarial Assumptions and Other Inputs (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4 %	0.6%
Fixed Income	23.6	1.5%
Total	100.0 %	

The actuarial valuation on which the total Premium Assistance OPEB liability is based was dated June 30, 2016. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.18% for the measurement date of June 30, 2017.

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2018, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 7%) or one percentage point higher (between 6% and 9%) than the current healthcare cost trend rates (between 5% and 8%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (between 4% and 7%)	Healthcare Cost Trend Rates Between 5% and 8%	1% Increase (between 6% and 9%)
2018	\$ 105,887	\$ 105,915	\$ 105,944

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2017, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current healthcare cost trend rates (3.13%).

Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	\$ 120,382	\$ 105,915	\$ 93,889

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**NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Premium Assistance (Continued)**

Fiduciary Net Position

For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS, and additions to and deductions from PSERS' fiduciary net position, have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Additional plan information can be found in the PSERS Comprehensive Annual Financial Report at [www.psers.pa.gov](http://www.psers.pa.gov).

**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, 2018 and June 30, 2017.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

	SERS		PSERS		Total	
	2018	2017	2018	2017	2018	2017
Net Pension Liabilities	<u>\$ 53,268,593</u>	<u>\$ 59,691,250</u>	<u>\$ 2,558,507</u>	<u>\$ 2,190,710</u>	<u>\$ 55,827,100</u>	<u>\$ 61,881,960</u>
Deferred Outflows of Resources:						
Difference Between Expected and Actual Experience	\$ 900,662	\$ 861,632	\$ 26,689	\$ -	\$ 927,351	\$ 861,632
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	5,016,444	59,299	122,103	59,299	5,138,547
Changes in Assumptions	2,666,939	3,646,062	69,512	79,079	2,736,451	3,725,141
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	14,483	12,537	14,483	12,537
Changes in Proportion	1,273,504	927,662	45,826	62,125	1,319,330	989,787
Contributions After the Measurement Date	3,404,686	3,299,226	254,964	203,311	3,659,650	3,502,537
Total Deferred Outflows of Resources	<u>\$ 8,245,791</u>	<u>\$ 13,751,026</u>	<u>\$ 470,773</u>	<u>\$ 479,155</u>	<u>\$ 8,716,564</u>	<u>\$ 14,230,181</u>
Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	\$ 1,011,440	\$ 1,335,529	\$ 15,447	\$ 18,257	\$ 1,026,887	\$ 1,353,786
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	2,117,931	-	-	-	2,117,931	-
Difference Between Employer Contributions and Proportionate Share of Contributions	307,643	276,970	-	-	307,643	276,970
Changes in Proportion	835,201	1,265,668	37,101	15,965	872,302	1,281,633
Total Deferred Inflows of Resources	<u>\$ 4,272,215</u>	<u>\$ 2,878,167</u>	<u>\$ 52,548</u>	<u>\$ 34,222</u>	<u>\$ 4,324,763</u>	<u>\$ 2,912,389</u>
Contributions Recognized by Pension Plans	<u>\$ 5,941,757</u>	<u>\$ 5,259,284</u>	<u>\$ 254,964</u>	<u>\$ 144,987</u>	<u>\$ 6,196,721</u>	<u>\$ 5,404,271</u>
Pension Expense						
SERS and PSERS	<u>\$ 6,418,384</u>	<u>\$ 6,953,283</u>	<u>\$ 931,059</u>	<u>\$ 382,545</u>	\$ 7,349,443	\$ 7,335,828
ARP					2,056,901	2,125,462
Total Pension Expense					<u>\$ 9,406,344</u>	<u>\$ 9,461,290</u>

The University will recognize the \$3,404,686 reported as 2018 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the \$254,964 reported as 2018 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.

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**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:

Fiscal Year Ended	Amortization	
	SERS	PSERS
June 30, 2019	\$ 1,196,364	\$ 56,961
June 30, 2020	893,560	82,036
June 30, 2021	(481,347)	37,217
June 30, 2022	(1,077,219)	(12,955)
June 30, 2023	37,532	-
	\$ 568,890	\$ 163,259

**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](http://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.

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**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 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016, were \$5,941,757, \$5,259,284, and \$4,422,353, respectively, equal to the required contractual contribution.

Contribution rate 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.

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.

Assumptions

- 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).



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**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 2017, it analyzed experience from 2012 through 2017. 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, 2017 and 2016, respectively, are summarized below.

December 31, 2017		
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 %
Multi-Strategy	12.0	5.10 %
Fixed Income	14.0	1.63 %
Cash	3.0	(0.25)%
Total	100.0 %	
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 %
Multi-Strategy	12.0	4.75 %
Fixed Income	14.0	1.63 %
Cash	3.0	(0.25)%
Total	100.0 %	

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**SERS (Continued)**

Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.50% as of December 31, 2017 and 7.50% as of December 31, 2016. 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 7.50% as of December 31, 2017 and 7.50% as of December 31, 2016, 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 2018 and 2017.

Sensitivity of the University's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate			
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2017	\$ 67,614,458	\$ 53,268,593	\$ 40,979,698
2016	\$ 73,870,698	\$ 59,691,250	\$ 47,548,596

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](http://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.

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**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, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability was \$53,268,593 SERS measured the net pension liability as of December 31, 2017. At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016, was \$59,691,250.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/19 from the December 31, 2017 funding valuation to the expected funding payroll. 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. At December 31, 2017, the State System's proportion was 4.906% an increase of 0.07% from its proportion calculated as of December 31, 2016, 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](http://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.

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**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.

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**NOTE 12 PENSION BENEFITS (CONTINUED)**

**PSERS (Continued)**

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2018, was 31.74% 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 14.01% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2018, was \$254,964. The University's contributions to PSERS for the years ended June 30, 2017 and 2016 were \$203,311 and \$144,987, 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, 2017, 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.

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**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, 2017 and 2016:

<u>Asset Class</u>	<u>2017</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	20.0 %	5.1 %
Fixed Income	36.0	2.6 %
Commodities	8.0	3.0 %
Absolute Return	10.0	3.4 %
Risk Parity	10.0	3.8 %
Infrastructure/MLPS	8.0	4.8 %
Real Estate	10.0	3.6 %
Alternative Investments	15.0	6.2 %
Cash	3.0	0.6 %
Financing (LIBOR)	(20.0)	1.1 %
Total	<u>100.0 %</u>	

<u>Asset Class</u>	<u>2016</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.0 %</u>	

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**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, 2017 and 2016. 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, 2017 and 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 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	\$ 3,149,319	\$ 2,558,507	\$ 2,059,718
2016	\$ 2,679,820	\$ 2,190,710	\$ 1,779,689

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](http://www.psers.state.pa.us).

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**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, 2018 the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	<u>2018</u>	<u>2017</u>
Total PSERS Net Pension Liability Associated with the University	\$ 5,117,014	\$ 4,381,420
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	<u>2,558,507</u>	<u>2,190,710</u>
University's Proportionate Share of the PSERS Net Pension Liability	<u>\$ 2,558,507</u>	<u>\$ 2,190,710</u>

PSERS measured the above net pension liabilities as of June 30, 2017. 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, 2016, to June 30, 2017. 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, 2017, the System's proportion was 1833%, a decrease of .0019% from its proportion calculated as of June 30, 2016.

**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, 2018 and 2017 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017, were \$2,056,901 and \$2,125,462, respectively, from the University; and \$1,107,051 and \$1,143,952, respectively, from active members. No liability is recognized for the ARP.



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**NOTE 13 WORKERS' COMPENSATION**

The University participates in the State System's self-insured for workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all universities of the State System contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$60,214 to the Reserve Fund during the year ended June 30, 2018, received a refund of \$18,754 from the Reserve Fund during the year ended June 30, 2017 and contributed \$13,839 to the Reserve Fund during the year ended June 30, 2016.

Changes in the University claims liability are as follows:

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2018	\$ 457,430	\$ 90,052	\$ (110,288)	\$ 437,194
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, 2018 and 2017 follow:

	<u>2018</u>	<u>2017</u>
Deferred Outflows of Resources:		
Unamortized Loss on Refunding of Debt	\$ 108,863	\$ 59,602
OPEB Liability Related	3,186,624	-
Net Pension Liability Related	8,716,564	14,230,181
Total Deferred Outflows of Resources	<u>\$ 12,012,051</u>	<u>\$ 14,289,783</u>
Deferred Inflows of Resources:		
OPEB Liability Related	\$ 10,546,589	\$ -
Net Pension Liability Related	4,324,763	2,912,389
Total Deferred Inflows of Resources	<u>\$ 14,871,352</u>	<u>\$ 2,912,389</u>

**NOTE 15 BENEFICIAL INTERESTS**

At June 30, 2018, the fair value of beneficial interest totaled \$431,233. The entire amount represents gifts that donors placed in trust in perpetuity with third parties, with the University receiving a restricted revenue stream in accordance with the donors' wishes.

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**NOTE 16 COMMITMENTS AND CONTINGENCIES**

Authorized University expenditures for services, supplies, equipment and construction projects unexpended as of June 30, 2018 and 2017 were \$2,401,518 and \$3,128,311, respectively.

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

The University 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.

**Cheyney University Loan Forgiveness**

On August 22, 2017, the Board of Governors (Board) approved a motion to forgive \$34.4 million in loans made to Cheyney University of Pennsylvania (Cheyney University or Cheyney) from the other 13 State System universities and the Office of the Chancellor, provided that Cheyney meets certain conditions that hold Cheyney accountable for operating within 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 has advised the Board that it has successfully met the first criteria of cutting \$7.5 million from its fiscal year 2017/18 budget when the expenditure cuts are viewed on an annualized basis.

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**NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Cheyney University Loan Forgiveness (Continued)**

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013/14. The loans have been shown only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation has been that Cheyney would repay the loans and the individual universities would not be affected. 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.

**NOTE 17 GOING CONCERN CONSIDERATIONS**

As shown in the accompanying financial statements, the University has suffered recurring net losses of \$3.0 million, \$4.3 million, and \$8.2 million, respectively, during the years ended June 30, 2018, 2017, and 2016. The University also has a negative unrestricted net position of \$180.0M and a negative total net position of \$121.6M as of June 30, 2018.

Although the University's combined Educational & General (E&G) and Auxiliary cash and investments increased 4% or 0.6 million, in fiscal year 2017/18 over fiscal year 2016/17. Clarion combined Educational & General (E&G) and Auxiliary cash and investments have significantly decreased over the last five years. Since June 30, 2014, Clarion's combined E&G and Auxiliary cash and investments have decreased by 60.7%, or \$21.8 million, from \$35.9 million at June 30, 2014, to \$14.1 million at June 30, 2018. The Office of the Chancellor continues to work with Clarion University to closely monitor its cash flows.

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.

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**NOTE 17 GOING CONCERN CONSIDERATIONS (CONTINUED)**

*Management's Plans* – The University has made substantial progress in its financial results, in Fiscal Year 2017 the University's Educational and General Unrestricted Fund (E&G) had a surplus of approximately \$700,000 and in Fiscal Year 2018 the E&G fund was almost breakeven with a deficit of approximately \$300,000. In addition, the University had positive cash flow in Fiscal Year 2018 for the first time since Fiscal Year 2012. These developments are 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. 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 and Fitness, as well as growing credentials in Nursing, have resulted in increasing enrollments in the Health Sciences).
3. 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.
4. Improving debt collection efforts at the university by moving housing debt to the university foundation for more flexibility in debt collection operations.
5. 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 budget surplus and positive cash flow does not reflect a trend. However, these are the first steps in achieving financial sustainability.

**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, 2018 AND 2017  
(UNAUDITED)**

**State System Plan OPEB Liability**

Determined as of the June 30 measurement dates

<b>Changes in the System Plan Total OPEB Liability</b>	<u>Fiscal Year Ending June 30, 2018</u>
Total OPEB Liability - Beginning Balance	\$ 84,203,648
Service Cost	3,089,252
Interest	2,505,167
Changes in Assumptions	(9,095,782)
Benefit Payments	(2,792,719)
Net Changes	<u>(6,294,082)</u>
Total OPEB Liability - Ending Balance	<u>\$ 77,909,566</u>
Covered Employee Payroll	31,602,879
OPEB Liability as a Percent of Covered Payroll	246.53%

*Note to Schedule: The System plan has no plan assets accumulated in a trust in which the employer contributions are irrevocable, are dedicated to providing OPEB to plan members, or are legally protected from creditors.*

Schedule of Proportionate Share of REHP's Net OPEB Liability  
Determined as of REHP's June 30 Measurement Dates

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered- Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374%	\$ 45,380,471	\$ 6,186,830	733.5%	1.4%

REHP Schedule of Contributions  
Determined as of the University's June 30 Fiscal Year End Dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 1,205,937	\$ 1,205,937	\$ -	\$ 8,191,410	14.72%

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)  
(CONTINUED)  
JUNE 30, 2018 AND 2017  
(UNAUDITED)**

Schedule of Proportionate Share of PSERS Net OPEB Liability  
Determined as of June 30, PSERS Measurement Date

Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered- Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2017/18	0.1811%	\$ 105,915	\$ 105,915	\$211,830	\$ 1,382,712	7.66%	5.73%

PSERS Schedule of Contributions  
Determined as of the University's June 30 Fiscal Year End Dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered- Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	\$ 6,669	\$ 6,669	-	\$ 1,820,353	0.37%

**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, 2018 AND 2017  
(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 %
2017/18	4.9059%	\$ 53,269	\$ 19,408	275 %	63.0 %

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered - Employee Payroll	Contributions as a % of Covered- Employee Payroll
2014/15	\$ 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%
2017/18	\$ 5,942	\$ 5,942	\$ -	\$ 19,044	31.2%

**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, 2018 AND 2017  
(UNAUDITED)**

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

Fiscal Year	State System's Proportion	PSERS Net Pension Liability			University's Covered - Employee Payroll	University's Proportionate Share of NPL as a % of Covered - Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
		University's Proportionate Share	Commonwealth's Proportionate Share	Total			
2014/15	0.1785%	\$ 1,149	\$ 1,149	\$ 2,298	\$ 370	310 %	57.2 %
2015/16	0.1852%	\$ 2,044	\$ 2,044	\$ 4,088	\$ 1,214	200 %	54.4 %
2016/17	0.1833%	\$ 2,191	\$ 2,191	\$ 4,381	\$ 1,145	200 %	50.1 %
2017/18	0.1811%	\$ 2,559	\$ 2,559	\$ 5,117	\$ 1,380	200 %	51.8 %

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 %
2017/18	\$ 255	\$ 255	\$ -	\$ 1,820	0.1 %





Investment advisory services are offered through CliftonLarsonAllen  
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