SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Slippery Rock University of Pennsylvania
of the State System of Higher Education
Slippery Rock, 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 Slippery Rock University of Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, Slippery Rock Student Government Association, Slippery Rock University Foundation and SRUF Campus Housing Inc. and Subsidiary which represent 100% of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports 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 reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2017

Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis for the financial activities of Slippery Rock University of Pennsylvania (the University) for the years ended June 30, 2017 and 2016. The University's financial performance is discussed and analyzed within the context of the financial statements and disclosures that follow.

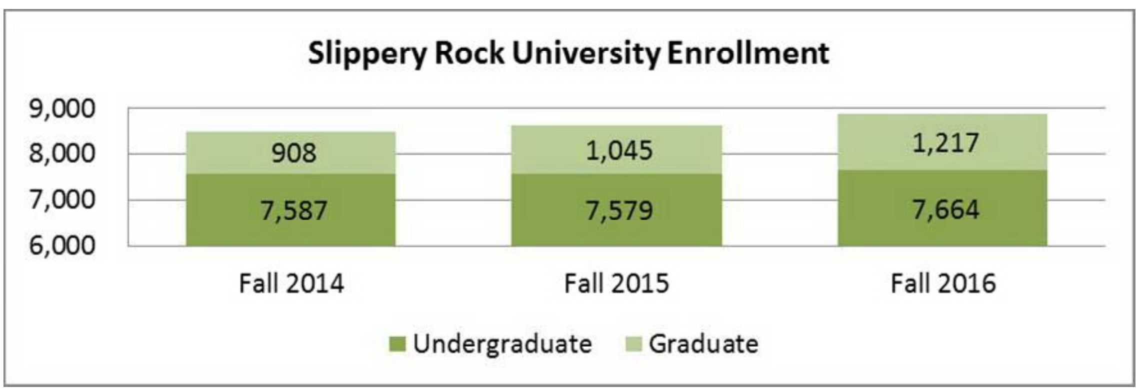
Slippery Rock University, founded in 1889, is a member of Pennsylvania's State System of Higher Education (State System). As a public university of the Commonwealth of Pennsylvania, the University is charged with providing high quality education at the lowest possible cost to its students. With 8,881 students enrolled for fall 2016, the University has the 4th largest enrollment of the State System's 14 universities.

The following is an overview of the University's financial activities for the year ended June 30, 2017, as compared to the year ended June 30, 2016 and 2015. Note that due to rounding, certain increases or decreases may vary slightly from audited financials.

Financial Highlights

- Enrollment for fall 2016 included 7,664 undergraduate and 1,217 graduate students, for a record-high total of 8,881 students. Fall 2016 total enrollment was comprised of 7,859 resident students, 918 nonresident students and 104 international students. Fall 2016 undergraduate student enrollment was 7,664 and graduate student enrollment was 1,217.

  The chart below summarizes a trend of undergraduate and graduate enrollment.



- The State System's Board (the Board) approved an annual full-time tuition rate increase of 2.5% for undergraduate resident students in fiscal year 2017. This compares to an increase of 3.5%, in fiscal year 2016.

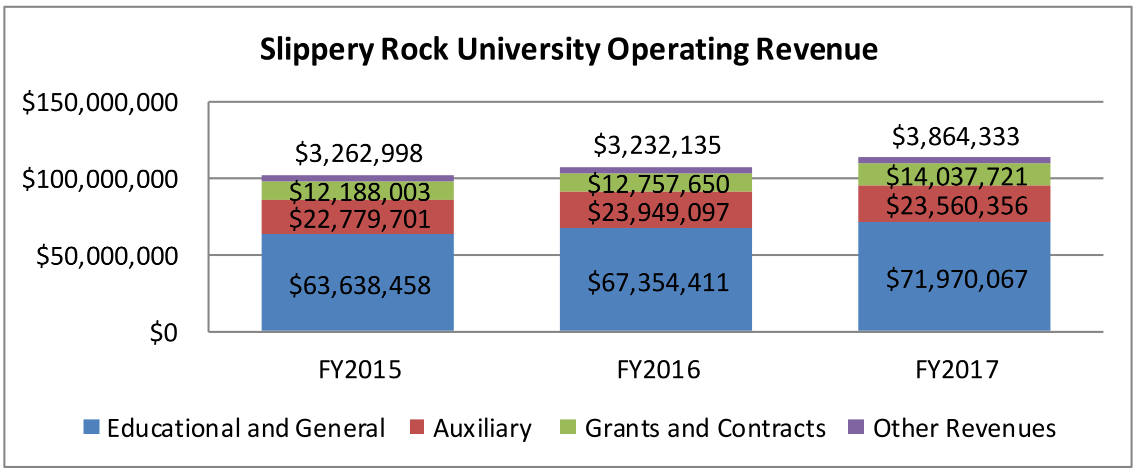
- The total Commonwealth appropriation to the State System for operations in fiscal year 2017 was $444.2 million, a 2.5% increase from the $433.4 million appropriated in fiscal year 2016. The University's share of the base appropriation, through the appropriation formula, increased by $1.4 million from $30.3 million to $31.7 million. This represents a 4.4% increase from fiscal year 2016.

- In fiscal year 2017, the University received $3.9 million in performance funding, which was $0.1 million higher than the prior fiscal year, where the University received $3.8 million.

- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth Key 93 funded construction, remained at prior year funding levels, or $1.2 million.

- Educational and General Fund tuition and fee revenue, net of discounts and allowances, was $72.0 million for fiscal year 2017. Auxiliary revenue, net of discounts and allowances, was $23.56 million fiscal year 2017.

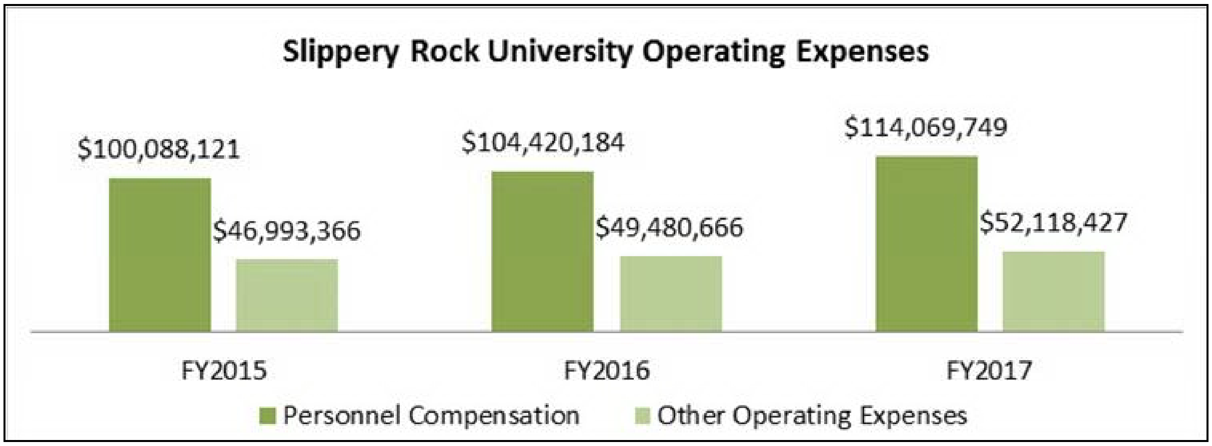
The chart below summarizes a trend of total University operating revenue, including Educational and General fund tuition and fees, Auxiliary fees and sales, government and nongovernment grants and contracts, and other miscellaneous operating revenue.



- Educational and General Fund personnel expenditures, including salary, incremental benefits and employer paid fixed rate benefits, were $98.2 million and $4.1 million or 4.4% higher in fiscal year 2017 as compared to 2016. During this time, all employee groups experienced collective bargaining/merit increases, with the faculty collective bargaining agreements driving the most impact from the prior fiscal year.

- Educational and General Fund nonpersonnel expenditures were $21.3 million fiscal year 2017 and $0.5 million or 2.5% lower than fiscal year 2016, with one-time investments in fiscal year 2016 for campus IT infrastructure projects and the renovation and the opening of the Harrisville location, for the newly founded Physician's Assistant program.

The following chart summarizes a trend of total University personnel compensation and other operating expenses, such as services, supplies, and utilities.



- Fiscal year 2017, the University obtained two new bonds for renovation of the Spotts World Culture building, and for technology infrastructure improvements, a total of $10.4 million financed. The timing of these projects required bridge financing of $7.2 million in fiscal year 2016. Approval was received in fiscal year 2017 for bridge financing of $13.5 million for three new projects, including ESCO, renovation of Bailey Library and a safety management laboratory. These three projects will be issued bonds September, 2017.

Financial Statements

Balance Sheet

The balance sheet reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University as of the end of the fiscal year. Assets include cash investments reported at fair value, the value of outstanding receivables due from students and from other parties, and land, buildings, and equipment reported at cost, less accumulated depreciation. Liabilities include payments due to vendors and students, the balance of bonds payable, and liabilities such as worker's compensation (the University is self/insured), compensated absences, (the value of sick and annual leave earned by employees), and postretirement benefits (benefits expected to be paid to certain current and future retirees). The difference between the assets, deferred outflows of resources and liabilities, deferred inflows of resources is reported as net position. Net position in fiscal year 2017 decreased by $3.9 million to ($6.2) million, from Fiscal year 2016 net position of ($2.3) million.

The following table shows Net Position, in millions, Net Investment in Capital Assets, Restricted and Unrestricted funds, for fiscal years ending June 30, 2017, 2016 and 2015.

Slippery Rock University Net Position

(in $Millions)

Fiscal Year	**2017**	**2016**	**2015**
Net Investment in Capital Assets	$75.7	$77.0	$75.3
Restricted	$3.2	$3.1	$2.4
Unrestricted	($85.1)	($82.4)	($79.8)
Total Net Deficit	**($6.2)**	**($2.3)**	**($2.1)**
Change in Net Deficit Increase/(Decrease)	**($3.9)**	**($0.2)**	

The chart shows a summary of the balance sheet for fiscal years 2017, 2016 and 2015, ending June 30.

Slippery Rock University
Balance Sheet Summary, Year Ended June 30
(in $Millions)

Fiscal Year	**2017**	**2016**	**2015**
ASSETS			
Cash & Cash Equivalents	$103.9	$86.2	$78.6
Other Current Assets	$7.3	$6.3	$8.4
Total Current Assets	$111.2	$92.5	$87.0
Capital Assets, net	$120.7	$120.7	$115.6
Other Noncurrent Assets	$4.4	$4.3	$4.2
Total Noncurrent Assets	$125.1	$125.0	$119.8
TOTAL ASSETS	$236.4	$217.5	$206.8
Total Deferred Outflows of Resources	$17.5	$12.9	$4.6
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$253.8	$230.4	$211.4
LIABILITIES			
Accounts Payable & Accrued Expenses	$13.9	$13.9	$11.3
Deferred Revenue	$5.9	$5.7	$5.4
Other Current Liabilities	$18.1	$12.3	$5.6
Total Current Liabilities	$37.9	$31.9	$22.3
Compensated Absences & Postretirement Benefit Obligations	$174.0	$160.5	$147.6
Bonds Payable	$35.6	$29.6	$32.9
Other noncurrent Liabilities	$9.0	$8.7	$9.7
Total Noncurrent Liabilities	$218.6	$198.8	$190.1
TOTAL LIABILITIES	$256.6	$230.7	$212.4
Total Deferred Inflows of Resources	$3.5	$2.1	$1.1
NET POSITION			
Invested in Capital Assets, net of Related Debt	$75.7	$77.0	$75.3
Restricted	$3.2	$3.1	$2.4
Unrestricted	($85.1)	($82.4)	($79.8)
Total Net Deficit	($6.2)	($2.3)	($2.1)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$253.8	$230.4	$211.4

Net Position

Net investment in capital assets is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation and less any associated debt such as bonds payable. This balance is not available for the University's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long/term obligations. The commonwealth prohibits the State System from selling university land and buildings without prior approval.

Restricted net position represents the balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. Nonexpendable restricted net position represents corpuses of endowments and similar arrangements in which only the associated investment income can be spent. Expendable restricted net position is available for expenditure as long as any external purpose and time restrictions are met.

Unrestricted net position includes all other funds not appropriately classified as restricted or invested in capital assets. Unrestricted net position has been reduced by three unfunded liabilities:

- The liability for *postretirement benefits* for employees who participate in the State System health care plan increased by $3.0 million to $88.2 million at June 30, 2017. Because the liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.

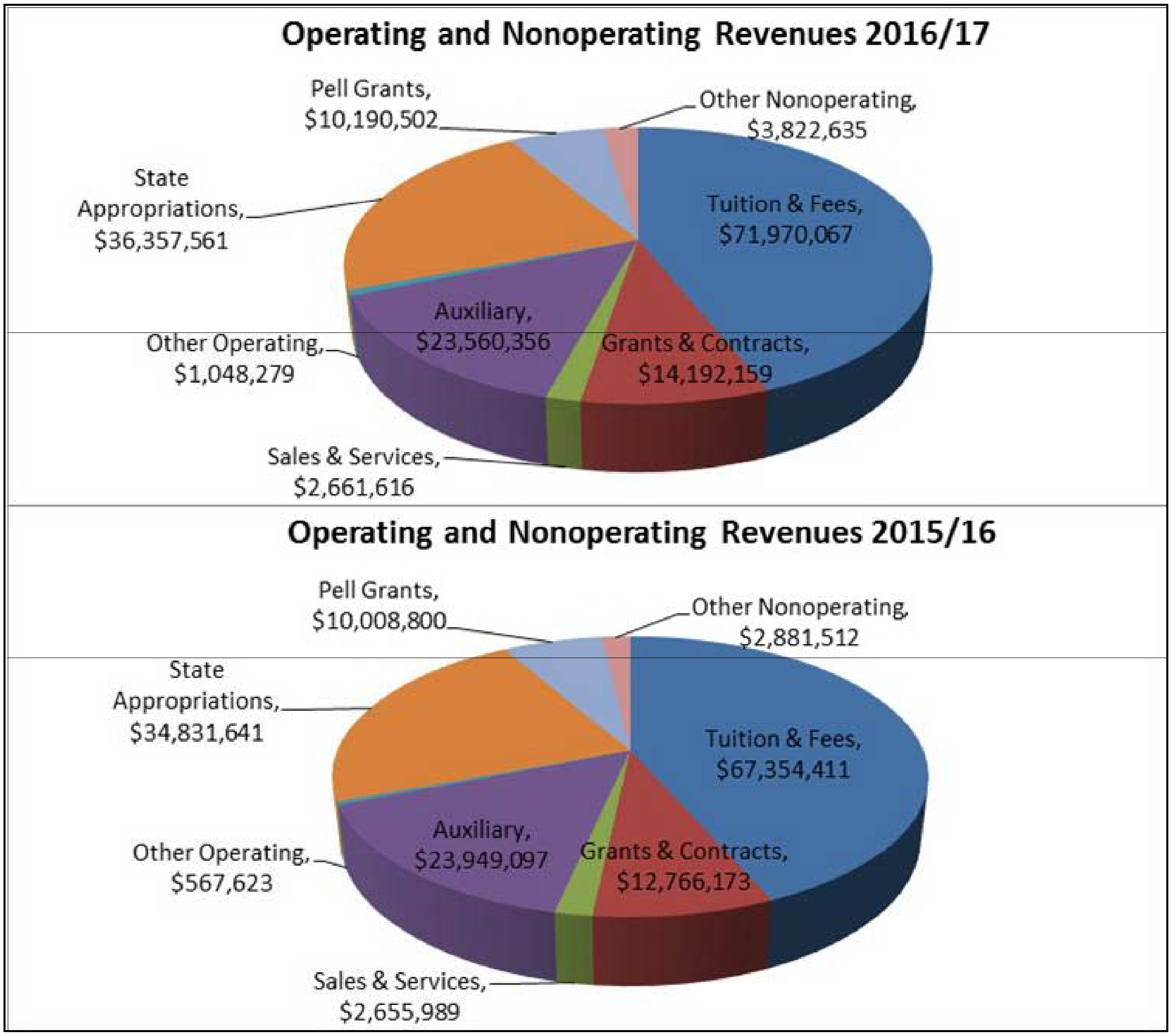
- The liability for *compensated absences* increased by $0.3 million to $8.5 million at June 30, 2017. Similar to the postretirement benefits liability, cash payouts to employees upon termination or retirement for annual and sick leave balance are realized gradually over time, and because of its size, the University funds it only as it becomes due.

- The *net pension liability* increased by $10.1 million to $77.0 million at June 30, 2017. This liability for pension obligations is due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68. The combined pension liability for fiscal year 2017 is comprised of $68.9 million for the State Employee Retirement System (SERS) and $8.1 million for the Public School Employees' Retirement System (PSERS).

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues earned and the expenses incurred during the fiscal year. In accordance with GASB requirements, the University has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public college and university state appropriations are nonoperating revenues. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investment, interest expense, and losses on disposals of assets, as nonoperating revenues. The University classifies all of its remaining activities as operating.

The following chart and table shows the University's total operating and nonoperating revenues, excluding interest expense on capital asset-related debt and the gain/loss on the disposal or acquisition of assets for fiscal year ending June 30, 2017 and 2016.


Operating and Nonoperating Revenues 2016/17
Pell Grants, $10,190,502
Other Nonoperating, $3,822,635
State Appropriations, $36,357,561
Tuition & Fees, $71,970,067
Auxiliary, $23,560,356
Other Operating, $1,048,279
Grants & Contracts, $14,192,159
Sales & Services, $2,661,616
Operating and Nonoperating Revenues 2015/16
Pell Grants, $10,008,800
Other Nonoperating, $2,881,512
State Appropriations, $34,831,641
Tuition & Fees, $67,354,411
Auxiliary, $23,949,097
Other Operating, $567,623
Grants & Contracts, $12,766,173
Sales & Services, $2,655,989

Slippery Rock University
Operating and Nonoperating Revenues
(in $Millions)

Fiscal Year	2017	Increase/(Decrease)		2016	Increase/(Decrease)		2015
Operating Revenues							
Tuition & Fees	$72.0	$4.6	6.9%	$67.4	$3.7	5.8%	$63.6
Grants & Contracts	$14.2	$1.4	11.2%	$12.8	$0.5	4.4%	$12.2
Sales & Services	$2.7	$0.0	0.2%	$2.7	($0.1)	-2.3%	$2.7
Auxiliary	$23.6	($0.4)	-1.6%	$23.9	$1.2	5.1%	$22.8
Other Operating	$1.0	$0.5	84.7%	$0.6	$0.1	12.2%	$0.5
Total Operating Revenues	**$113.4**	**$6.1**	**5.7%**	**$107.3**	**$5.4**	**5.3%**	**$101.9**
Nonoperating Revenues							
State Appropriations	$36.4	$1.5	4.4%	$34.8	$2.2	6.8%	$32.6
Pell Grants	$10.2	$0.2	1.8%	$10.0	($0.5)	-4.5%	$10.5
Other Nonoperating	$3.8	$0.9	32.7%	$2.9	$0.3	11.4%	$2.6
Total Nonoperating Revenues	**$50.4**	**$2.6**	**5.6%**	**$47.7**	**$2.0**	**4.4%**	**$45.7**
Total Revenue	**$163.8**	**$8.8**	**5.7%**	**$155.0**	**$7.5**	**5.1%**	**$147.6**

Tuition and fees operating revenue increased $4.6 million, or 6.9% from fiscal year 2016, relating to a 2.5% tuition and applicable fee rate increase, coupled with enrollment growth. Operating revenue for government grants and contracts increased $1.4 million or 11.2% from fiscal year 2016, with higher state and local grants. Other operating revenue, including miscellaneous revenues such as reimbursements received, increased $0.5 million, or over 84.7% of fiscal year 2016, relating to a reimbursement received for a Health Care Cost Settlement.

As a result of the funding allocation formula, the University's share of the state appropriations, including performance funding, increased $1.5 million from fiscal year 2016. Other nonoperating revenue items include contributions from the Commonwealth for the PSERS retirement fund, and grants. Total other nonoperating revenue increased $0.9 million, or 32.7% from fiscal year 2016. Other nonoperating revenue has continued to increase, as investment income has continued to grow, and contributions from the Commonwealth for PSERS have increased.

The following tables show the University's total percentages of operating expenditures by function and source for fiscal year 2017.

Slippery Rock University Expenses by Function ***(in $Millions)***

Source of Expense	Fiscal Year 2017							
	Salaries & Wages	Benefits	Student Aid	Utilities	Supplies & Other Services	Depreciation	Total	Functional Percentage
Functional Category								
Research	$0.1				$0.1		$0.2	0.1%
Public Service	$0.7	$0.5			$0.6		$1.9	1.1%
Student Aid			$7.1				$7.1	4.3%
Depreciation						$9.0	$9.0	5.4%
Academic Support	$5.0	$3.2			$4.8		$13.1	7.9%
Student Services	$8.0	$5.0			$2.5		$15.4	9.3%
Oper. & Maint. of Plant	$5.3	$5.5		$2.9	$3.4		$17.0	10.2%
Auxiliary Enterprises	$2.7	$1.4	$0.1	$1.0	$13.9		$19.1	11.5%
Institutional Support	$8.5	$7.3			$4.7		$20.5	12.3%
Instruction	$39.7	$21.2			$2.1		$63.0	37.9%
Total Expenses	**$70.0**	**$44.1**	**$7.2**	**$3.9**	**$32.0**	**$9.0**	**$166.2**	**100.0%**
Source of Expense as a Percentage of Total Expense	**42.1%**	**26.5%**	**4.4%**	**2.3%**	**19.3%**	**5.4%**	**100.0%**	
Fiscal Year Increase/(Decrease)	**$3.9**	**$5.8**	**$0.5**	**$0.3**	**$0.5**	**$1.4**	**$12.3**	
of Source Expense	**5.8%**	**15.1%**	**6.7%**	**8.4%**	**1.6%**	**18.3%**	**8.0%**	

Total operating expenditures were $166.2 million in fiscal year 2017, an increase of $12.3 or 8.0% from fiscal year 2016 operating expenditures of $153.9. The greatest percentages of operating expenses are dedicated to instruction. The University spent $63.0 million on instruction, or 37.9% of total operating expenses, in fiscal year 2017. This represents an increase of $7.3 million, or 13.1% from fiscal year 2016.

Operating expenditures include personnel compensation and other operating expenses. The University spent $70.0 million, or 42.1% of its total operating expenses, on salary and wages in fiscal year 2017, as compared to $66.1 million in fiscal year 2016. This represents an increase of $3.9 million, or 5.8%, with collective bargaining agreements for the faculty settled in fiscal year 2017.

Total personnel compensation includes salary and wages and benefits. Total benefits, including healthcare costs, health and welfare, and post-retirement were $44.1 million in fiscal year 2017, or 26.5% of total operating expenses. This represents an increase of $5.8 million, or 15.1% from the fiscal year 2016 benefits expense of $38.3 million.

- *Employer share of employee health care costs*, including the hospitalization, health and welfare fund, was $10.0 million in fiscal year 2017, a decrease of $0.2 million, or 1.7% from fiscal year 2016, relating to lower hospitalization costs in the faculty and nonrepresented employee groups.

- *Employer share of postretirement health care* was $3.0 million, a decrease of $0.6 million, or 16.4% compared to fiscal year 2016, relating to the redesign of the AFSCME employee group's Commonwealth PEBTF annuitant hospitalization plan.

- *Employer contributions to the SERS and PSERS defined benefit pension plans* have increased in order to fund net pension liabilities. The SERS plan expense increased $1.3 million from fiscal year 2016 to a total of $6.4 million in fiscal year 2017 and the PSERS plan increased $0.1 million from fiscal year 2016 to a total of $0.6 million in fiscal year 2017.

- *Employer contributions to the Alternative Retirement Plan* (ARP), a defined contribution plan, increased $0.2 million, or 4.8% from fiscal year 2016. The changes in annual contributions are mostly attributed to fluctuating employee participation and salary increases.

Other operating expenses, including student aid, services, supplies, travel, utilities, depreciation, and other miscellaneous expenses were $52.1 million in fiscal year 2017, an increase of $2.6 million, or 5.3% from fiscal year 2016. Operating expenses such as financial aid to students in the form of tuition waivers and scholarships was $7.2 million in fiscal year 2017, an increase of $0.5 million or 6.7% from fiscal year 2016. This represents the University's increased investment in student scholarships. Fiscal year 2017 depreciation increased $1.4 million, or 18.3% from fiscal year 2016. All other operating expenses, including travel, services, supplies and utilities, increased $0.8 million, or 2.3% from fiscal year 2016.

The following page shows the statement of operating revenues, operating and nonoperating expenses, and changes in net position.

Slippery Rock University
Statement of Revenues, Expenses, and Change in Net Position

Revenues	**FY2017**	**FY2016**	**FY2015**
Operating Revenues:			
Net tuition and fees	71,970,067	67,354,411	63,638,458
Governmental grants and contracts:			
Federal	1,157,855	1,087,795	891,252
State	8,135,190	7,283,452	7,338,638
Local	4,744,676	4,386,403	3,958,113
Sales and services	2,661,616	2,655,989	2,719,498
Auxiliary enterprises, net of discounts of	23,560,356	23,949,097	22,779,701
Other revenues, net	1,202,717	576,146	543,500
Total Operating Revenues	**113,432,477**	**107,293,293**	**101,869,160**
Expenses			
Personnel Compensation:			
Salaries & Wages	69,994,992	66,128,497	64,883,669
Benefits	44,074,757	38,291,687	35,204,452
Total Personnel Compensation	**114,069,749**	**104,420,184**	**100,088,121**
Other Operating Expenses:			
Other Services & Supplies	35,912,994	35,111,770	33,030,594
Depreciation	8,965,285	7,581,311	7,331,204
Student Aid Expense	7,240,148	6,787,585	6,631,568
Total Other Operating Expenses	**52,118,427**	**49,480,666**	**46,993,366**
Total Operating Expenses	**166,188,176**	**153,900,850**	**147,081,487**
Net Operating Revenues (Expenses)	**(52,755,699)**	**(46,607,557)**	**(45,212,327)**
Nonoperating Revenues (Expenses)			
State appropriations, general and restricted	36,357,561	34,831,641	32,623,254
Commonwealth on-behalf contributions to PSERS	890,986	681,671	
Pell grants	10,190,502	10,008,800	10,479,444
Investment income, net of related investment expense	1,239,189	916,359	844,630
Interest expense on capital asset-related debt	(1,474,978)	(1,316,831)	(1,697,855)
Gain (loss) on disposal of assets	(7,303)	(2,054)	(131,507)
Other nonoperating revenue	1,692,460	1,283,482	1,170,135
Net Nonoperating Revenues (Expenses)	**48,888,417**	**46,403,068**	**43,288,101**
Income (Loss) before other revenues, expenses, gains, or losses	**(3,867,282)**	**(204,489)**	**(1,924,226)**
Net Deficit			
Net deficit beginning of year	(2,322,431)	(2,117,940)	(193,714)
Net deficit-end of year	**(6,189,713)**	**(2,322,429)**	**(2,117,940)**

Statement of Cash Flows

This statement's primary purpose is to provide relevant information about the cash receipts and cash payments of the University. It may be used to determine the University's ability to generate future net cash flows and meet its obligations as they come due, as well as its possible need for external financing.

The table below shows the University's cash at the end of fiscal year 2017 as $103.9 million, an increase of $17.7 million from fiscal year 2016.

Slippery Rock University

Statement of Cash Flows Summary

	FY2017	FY2016	FY2015
Cash Flows from Operating Activities	($33,639,811)	($28,680,923)	($32,138,547)
Cash Flows from Noncapital Financing Activities	$46,653,891	$44,911,082	$43,202,670
Cash Flows from Capital Financing Activities	$3,524,274	($9,474,277)	($8,604,875)
Cash Flows from Investing Activities	$1,180,508	$888,816	$833,245
Net Increase (Decrease) in cash	$17,718,862	$7,644,698	$3,292,493
Cash—beginning of year	$86,202,119	$78,557,421	$75,264,928
Cash—end of year	$103,920,981	$86,202,119	$78,557,421

University Highlights and Future Considerations

Slippery Rock University of Pennsylvania has demonstrated that it is fiscally strong, with a growing enrollment and prudent management of financial resources. In the upcoming fiscal years of 2017/18 and beyond, there are several considerations to note with respect to the University's financial outlook.

Appropriation and Performance Funding – It is estimated that the Commonwealth will provide an appropriation for operations of $453.1 million to PASSHE for fiscal year 2017/18. This is an increase of $8.9 million, or 2.0% from last year's appropriation to PASSHE of $444.2 million. It is estimated that the University's share of the appropriation will increased to $37.6 million in fiscal year 2017/18. This compares to $36.4 million in fiscal year 2017 and represents a 3.5% increase to the University. Future year's appropriation levels will be determined on total state appropriation increases or decreases, as well as the method that the State System allocates these funds. The University's share of performance funding for fiscal year 2017/18 is unknown at this time.

Tuition & Fees – For fiscal year 2017/18, the State System's Board approved tuition rate and student technology fee increases of 3.5%. In conjunction with the tuition and technology fee, the mandatory academic enhancement student fee, set by the University, will increase 3.5% in fiscal year 2017/18.

Enrollment – While high school graduate demographic trends in Pennsylvania have been declining, enrollment at the University has maintained a strong base and has increased in recent prior years, in particular the graduate level, for new programs. Demand for fiscal year 2017/18 is showing to be strong as well, with census day enrollment as of September 18, 2017 currently at a record-high first time freshmen class of 1,597 and overall headcount of 8,895.

Compensation Costs – Fiscal year 2017 includes a full year of new collective bargaining unit agreements for all groups, as well as a merit agreement for nonrepresented employees. Significant cost increases for salaries and benefits mandated by collective bargaining agreements will affect fiscal year 2017 and beyond, the most significant of which could be the faculty union's contract, which expires June 2018.

Pension Costs and Healthcare – The pension cost of employer retirement contributions have increased year-over-year. SERS is the most common defined benefit plan offered by the University. Due to the current economic environment, retirement enhancements previously enacted by the state legislature, a decision by the SERS Board to defer funding obligations, and previous investment losses, the rate for the most common SERS plan increased 20.46% in fiscal year 2017 and is expected to increase by 14.98% in fiscal year 2017/18. Healthcare rates are expected to only increase slightly in fiscal year 2017/18. Beginning January 1, 2016, the State System implemented higher levels of employee healthcare cost-sharing for certain categories of employees.

Plans for facilities and energy savings – To help reduce energy costs and address deferred maintenance, the University contracted with an energy savings company to recommend and implement facilities improvements as part of a guaranteed energy savings agreement (GESA). Based on the recommended improvements, approximately $0.8 million per year in net savings/cost avoidance will be achieved. Those estimated savings will be used to offset the debt payment as part of the program. This energy savings program will also encompass deferred maintenance such as replacement of chillers and windows, which eliminates the need for the University to use its funds toward these requirements. In addition, two other bonds are already planned for a safety management laboratory and improvements to Bailey library. The University will also be conducting a comprehensive analysis of its physical campus and renewal needs through the University's master plan, starting in fiscal year 2017/18.

State System Financial Risk Dashboard - Annually, the State System conducts a financial analysis for each of the fourteen institutions within the State System. This assessment uses select Moody's ratios and is modeled after a typical analysis used in an external review of the financial strength of higher education institutions. Components of the assessment include market demand, operating efficiency, financial performance and management risk.

This comprehensive measure is a tool that can be used to gauge financial stability, to identify areas of improvement, and can be used to aid the University's mission and strategic direction, while monitoring financial risk. Overall, this System assessment tool has rated Slippery Rock University as "Green" or at an "Acceptable Risk – Performance is adequate or better; required little or no monitoring." The latest dashboard, issued in January 2017, showed that for the third consecutive year SRU had received a "green" or low risk, ranking and for the second year in a row, SRU had improved its risk profile to the rank of second among the 14 universities in the State System. The University, moreover, received "excellent" ratings in those metrics linked to enrollment, such as projected demand, brand strength, and matriculation. The University increased its rating more than any other university in the State System in the past year.

Requests for Information

Requests for information, including questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 103,920,981	$ 86,202,119
Accounts Receivable:		
Governmental Grants and Contracts	1,356,911	700,849
Students, Net of Allowance for Doubtful Accounts of $3,655,388 in 2017 and $3,058,698 in 2016	2,215,635	2,476,367
Other	626,070	466,200
Due from Component Unit	1,300,645	988,719
Inventories	526,001	523,959
Prepaid Expenses and Other Assets	349,714	389,841
Current Portion of Conversion Pay Receivable	5,263	5,263
Current Portion of Loans Receivable	756,610	594,632
Investment Income Receivable	184,211	125,530
Total Current Assets	111,242,041	92,473,479
NONCURRENT ASSETS		
Conversion Pay Receivable	1,026	2,010
Loans Receivable, Net	4,404,523	4,324,681
Capital Assets, Net	120,727,112	120,717,609
Total Noncurrent Assets	125,132,661	125,044,300
Total Assets	236,374,702	217,517,779
DEFERRED OUTFLOWS OF RESOURCES	17,472,807	12,914,180
Total Assets and Deferred Outflows of Resources	$ 253,847,509	$ 230,431,959

See accompanying Notes to Financial Statements.

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

	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 13,995,113	$ 13,958,034
Unearned Revenue	5,913,605	5,673,248
Students' Deposits	384,028	367,650
Other Current Liabilities	30,465	12,549
Workers' Compensation	338,216	316,699
Compensated Absences and Postretirement Benefit Obligations	359,543	498,972
Bond Premium (Unamortized)	356,349	232,857
Notes Payable	13,540,000	7,200,000
Bonds Payable	2,600,464	3,255,934
Capital Lease Obligations	27,570	21,259
Due to Component Units	21,202	-
Due to System, Academic Facilities Renovation Bond Program (AFRP)	366,746	374,945
Total Current Liabilities	37,933,301	31,912,147
NONCURRENT LIABILITIES		
Workers' Compensation	329,478	379,662
Compensated Absences and Postretirement Benefit Obligations	96,677,036	93,251,265
Net Pension Liability	76,984,735	66,847,004
Bond Premium (Unamortized)	2,314,719	1,359,727
Bonds Payable	35,587,489	29,596,082
Capital Lease Obligations	59,485	60,233
Unearned Revenue	728,882	1,050,597
Due to System, AFRP	1,174,095	1,540,841
Other Noncurrent Liabilities	4,768,956	4,682,752
Total Noncurrent Liabilities	218,624,875	198,768,163
Total Liabilities	256,558,176	230,680,310
DEFERRED INFLOWS OF RESOURCES	3,479,046	2,074,080
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	75,708,472	77,049,366
Restricted:		
Nonexpendable:		
Student Loans	766,848	751,291
Expendable:		
Scholarships and Fellowships	89,462	108,413
Capital Projects	2,261,939	2,166,383
Other	63,786	32,961
Unrestricted	(85,080,220)	(82,430,845)
Total Net Position (Deficit)	(6,189,713)	(2,322,431)
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	$ 253,847,509	$ 230,431,959

See accompanying Notes to Financial Statements.

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

	2017	2016
OPERATING REVENUES		
Tuition and Fees	$ 92,634,468	$ 86,898,755
Less: Scholarship Discounts and Allowances	(20,664,401)	(19,544,344)
Net Tuition and Fees	71,970,067	67,354,411
Governmental Grants and Contracts:		
Federal	1,157,855	1,087,795
State	8,135,190	7,283,452
Local	4,744,676	4,386,403
Sales and Services of Educational Departments	2,661,616	2,655,989
Nongovernmental Grants and Contracts	154,438	8,523
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of $322,185 in 2017 and $313,879 in 2016	23,560,356	23,949,097
Other Revenues	1,048,279	567,623
Total Operating Revenues	113,432,477	107,293,293
OPERATING EXPENSES		
Instruction	62,965,180	55,666,382
Research	167,847	149,135
Public Service	1,888,279	1,621,048
Academic Support	13,065,454	14,303,262
Student Services	15,427,773	14,608,864
Institutional Support	20,479,261	19,168,550
Operations and Maintenance of Plant	16,955,011	16,104,883
Depreciation	8,965,285	7,581,311
Student Aid	7,125,700	6,676,719
Auxiliary Enterprises	19,148,386	18,020,698
Total Operating Expenses	166,188,176	153,900,852
OPERATING LOSS	(52,755,699)	(46,607,559)

See accompanying Notes to Financial Statements.

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	$ 36,357,561	$ 34,831,641
Commonwealth On-Behalf Contributions to PSERS	890,986	681,671
Pell Grants	10,190,502	10,008,800
Investment Income, Net of Related Investment Expense of $16,861 in 2017 and $14,909 in 2016	1,239,189	916,359
Interest Expense on Capital Asset-Related Debt	(1,474,978)	(1,316,831)
Loss on Disposal of Assets	(7,303)	(2,054)
Other Nonoperating Revenue	104,862	70,759
Nonoperating Revenues, Net	47,300,819	45,190,345
LOSS BEFORE OTHER REVENUES	(5,454,880)	(1,417,214)
OTHER REVENUES		
State Appropriations, Capital	1,246,837	1,196,498
Other Gifts and Grants	340,761	16,225
Total Other Revenues	1,587,598	1,212,723
DECREASE IN NET POSITION (DEFICIT)	(3,867,282)	(204,491)
Net Position (Deficit) - Beginning of Year	(2,322,431)	(2,117,940)
NET POSITION (DEFICIT) - END OF YEAR	$ (6,189,713)	$ (2,322,431)

See accompanying Notes to Financial Statements.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 72,340,129	$ 67,618,787
Grants and Contracts	13,587,312	13,029,857
Payments to Suppliers for Goods and Services	(37,510,769)	(32,893,582)
Payments to Employees	(102,324,612)	(97,846,611)
Loans Issued to Students	(753,345)	(591,367)
Loans Collected from Students	511,525	562,195
Student Aid	(7,240,148)	(6,787,585)
Auxiliary Enterprise Charges	23,334,831	23,795,850
Sales and Services of Educational Departments	2,661,616	2,657,093
Other Operating Receipts	1,753,650	1,774,440
Net Cash Used by Operating Activities	(33,639,811)	(28,680,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	36,357,561	34,831,641
Gifts and Nonoperating Grants for Other than Capital Purposes	10,190,502	10,008,800
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	78,959,586	75,599,938
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(78,959,586)	(75,599,938)
Agency Transactions	966	(118)
Other	104,862	70,759
Net Cash Provided by Noncapital Financing Activities	46,653,891	44,911,082
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	24,019,231	7,200,000
Capital Appropriations	1,246,837	1,196,498
Capital Grants and Gifts Received	340,761	16,225
Purchases of Capital Assets	(8,950,536)	(12,701,732)
Principal Paid on Debt and Leases	(11,289,373)	(3,593,357)
Interest Paid on Debt and Leases	(1,842,646)	(1,591,911)
Net Cash Provided (Used) by Capital Financing Activities	3,524,274	(9,474,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	1,180,508	888,816
INCREASE IN CASH AND CASH EQUIVALENTS	17,718,862	7,644,698
Cash and Cash Equivalents - Beginning of Year	86,202,119	78,557,421
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 103,920,981	$ 86,202,119

See accompanying Notes to Financial Statements.

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

	2017	2016
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	$ (52,755,699)	$ (46,607,559)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	8,965,285	7,581,311
Expenses Paid by Commonwealth or Donor	890,986	681,671
Changes in Assets and Liabilities:		
Receivables	(395,330)	699,051
Inventory	(2,042)	(26,397)
Other Assets	(430,685)	1,392,302
Accounts Payable	27,366	2,612,452
Unearned Revenue	(81,358)	52,575
Students' Deposit	16,378	(363,994)
Compensated Absences	303,912	(122,366)
Loans to Students and Employees	(241,820)	(29,172)
Postretirement Benefits Liability (OPEB)	2,982,430	3,565,486
Defined Benefit Pensions	10,137,731	9,297,879
Other Liabilities	95,689	(107,882)
Deferred Outflows of Resources Related to Pension	(4,561,404)	(8,268,641)
Deferred Inflows of Resources Related to Pension	1,408,750	962,361
Net Cash Used by Operating Activities	$ (33,639,811)	$ (28,680,923)
NONCASH OPERATING AND CAPITAL FINANCING ACTIVITIES		
Capital Assets Acquired by New Capital Leases	$ 31,555	$ -
Commonwealth On-Behalf Contributions to PSERS	890,986	681,671

See accompanying Notes to Financial Statements.

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

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 18,060,309	$ 15,944,296
Investments	28,900,178	25,471,016
Accounts Receivable, Other	615,680	802,195
Pledges Receivable	969,200	832,524
Prepaid Expenses	20,998	12,610
Inventories	681,142	978,186
Total Current Assets	49,247,507	44,040,827
NONCURRENT ASSETS		
Capital Assets, Net	106,774,598	111,137,699
Other Assets	11,929,939	11,564,302
Total Noncurrent Assets	118,704,537	122,702,001
Total Assets	$ 167,952,044	$ 166,742,828
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 101,371	$ 224,304
Due to University	1,300,645	988,719
Annuity Liabilities	522,558	473,758
Other Liabilities	779,204	797,375
Total Current Liabilities	2,703,778	2,484,156
NONCURRENT LIABILITIES		
Notes Payable	113,317,569	116,652,145
Total Liabilities	116,021,347	119,136,301
NET ASSETS		
Unrestricted	23,292,381	21,424,131
Temporarily Restricted	11,308,964	9,552,069
Permanently Restricted	17,329,352	16,630,327
Total Net Assets	51,930,697	47,606,527
Total Liabilities and Net Assets	$ 167,952,044	$ 166,742,828

See accompanying Notes to Financial Statements.

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

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 1,226,883	$ 903,885
Investment Income	36,865	25,881
Rental Income	14,663,633	7,388,074
Sales and Service	4,175,494	4,386,502
Student Activity Fees	2,436,874	2,338,014
Other Revenues	2,158,464	2,243,778
Net Assets Released from Restriction	2,789,160	1,435,673
Total Revenues and Other Additions	27,487,373	18,721,807
EXPENSES AND OTHER DEDUCTIONS		
Program services:		
Scholarships and Grants	1,887,503	1,858,355
Student Activities	3,785,351	3,625,373
University Store	2,747,770	2,679,443
Housing	14,563,557	6,622,922
Other University Support	974,744	1,943,275
Management and General	897,744	790,359
Fundraising	704,901	759,911
Actuarial Losses on Annuities Payable	57,553	72,805
Total Expenses and Other Deductions	25,619,123	18,352,443
Change in Unrestricted Net Assets	1,868,250	369,364
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,343,763	970,075
Investment Income	3,299,584	197,676
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,886,452)	(1,566,037)
Change in Temporarily Restricted Net Assets	1,756,895	(398,286)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	699,025	752,278
DISCONTINUED OPERATIONS OF STUDENT HOUSING PROJECT	-	10,878,220
INCREASE IN NET ASSETS	4,324,170	11,601,576
Net Assets - Beginning of Year	47,606,527	36,004,951
NET ASSETS - END OF YEAR	$ 51,930,697	$ 47,606,527

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Slippery Rock University of Pennsylvania of the State System of Higher Education (the University), a public four year institution located in Slippery Rock, Pennsylvania, was founded in 1889. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

The Commonwealth determines the State appropriation allocated to the State System. The State System determines the allocation to each University from the state appropriated amount. Tuition rates are set by the Board of Governors of the State System, for all fourteen member universities. Labor agreements are negotiated at either the State System level or Commonwealth level.

Reporting Entity

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

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB 14, *The Financial Reporting Entity*, the University has determined that Slippery Rock Student Government Association (the Association), Slippery Rock University Foundation (the Foundation), and SRUF Campus Housing Inc. (SRUF) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

The Association is a legally separate, tax-exempt entity, which is responsible for the operations of the University Store and community activities. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of June 30, 2017 and 2016.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fund-raising organization and supplements 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

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

Reporting Entity (Continued)

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 $59,781 and $194,335 during the years ended June 30, 2017 and 2016, respectively. The financial activity of the Foundation is presented as of June 30, 2017 and 2016.

SRUF is a legally separate, tax-exempt entity created in 2016, which acts primarily to provide housing at the University as well as for making contributions to organizations that qualify as exempt under Section 501(c)(3) of the Internal Revenue Code. Although the University does not control the timing or amount of receipts from SRUF, the majority of resources or income thereon that SRUF holds are restricted to activities of the University by the donors. Because these restricted resources held by SRUF can only be used by, or for the benefit of the University, the SRUF is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from SRUF for rent, management fees and lease expense of $932,029 and $736,050 during the years ended June 30, 2017 and 2016, respectively. SRUF has a payable to the University for expenses associated with the student housing project of $1,300,645 and $988,720 as of June 30, 2017 and 2016, respectively. The financial activity of SRUF is presented as of June 30, 2017 and 2016.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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.

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

Operating Revenues and Expenses

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship discount and allowance.

Net Position

Net position is the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The University maintains the following classifications of net position:

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

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

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

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

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

Cash Equivalents

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

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

Accounts and Loans Receivable

Accounts and loans receivable consist of tuition and fees charged to current and former students and 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.

Inventories

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

Capital Assets

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

All assets with a purchase cost, or fair value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized and depreciated. Assets purchased under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets purchased under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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

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

Impairment of Capital Assets

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

Unearned Revenue

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

Compensated Absences

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

Pension Plans

Employees of the University enroll in one of three available retirement plans immediately upon employment. The Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and 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.

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). The University reports as deferred outflows of resources its deferred loss on bond defeasance, which results when the carrying value of a defeased bond is 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. And for defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the University's proportion of expenses and liabilities to the pension as a whole, differences between the University's pension contributions and its proportionate share of contributions, and University's pension contributions subsequent to the pension valuation measurement date.

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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. Scholarship and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

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

Use of Estimates

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

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

New Accounting Standards

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will require the University to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the University's accrued postretirement healthcare liability, as calculated by the actuaries, was $81,439,904, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $88,217,157. The University expects that the amount recorded on the balance sheet as a postretirement healthcare liability will increase when Statement No. 75 is implemented, but the amount will not be known until the calculation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, it is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

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

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Statement No. 81 provides recognition and measurement guidance for gifts received from donors who have transferred the gifts to an intermediary to hold and administer for the government (university) and at least one other beneficiary. An example of a split-interest agreement is a charitable remainder trust. The University has determined that Statement No. 81 applies to a small number of certain local university investments and will have an immaterial effect on its financial statements. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016.

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

New Accounting Standards (Continued)

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

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

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	Association	Foundation	Housing	Total
Capital Assets, Net	$ 4,519,350	$ 2,942,861	$ 99,312,387	$ 106,774,598
Other Assets	13,448,558	30,927,327	16,801,561	61,177,446
Total Assets	$ 17,967,908	$ 33,870,188	$ 116,113,948	$ 167,952,044
Due to University	$ -	$ -	$ 1,300,645	$ 1,300,645
Long-Term Debt	-	-	113,317,569	113,317,569
Other Liabilities	574,270	678,949	149,914	1,403,133
Total Liabilities	$ 574,270	$ 678,949	$ 114,768,128	$ 116,021,347
Net Assets:				
Unrestricted	$ 17,393,638	$ 4,552,923	$ 1,345,820	$ 23,292,381
Temporarily Restricted	-	11,308,964	-	11,308,964
Permanently Restricted	-	17,329,352	-	17,329,352
Total Net Assets	$ 17,393,638	$ 33,191,239	$ 1,345,820	$ 51,930,697

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

	Association	Foundation	Housing	Total
Capital Assets, Net	$ 4,621,236	$ 3,011,140	$ 103,505,323	$ 111,137,699
Other Assets	12,980,709	26,981,057	15,643,363	55,605,129
Total Assets	$ 17,601,945	$ 29,992,197	$ 119,148,686	$ 166,742,828
Due to University	$ -	$ -	$ 988,720	$ 988,720
Long-Term Debt	-	-	116,652,145	116,652,145
Other Liabilities	604,930	733,840	156,666	1,495,436
Total Liabilities	$ 604,930	$ 733,840	$ 117,797,531	$ 119,136,301
Net Assets:				
Unrestricted	$ 16,997,015	$ 3,075,961	$ 1,351,155	$ 21,424,131
Temporarily Restricted	-	9,552,069	-	9,552,069
Permanently Restricted	-	16,630,327	-	16,630,327
Total Net Assets	$ 16,997,015	$ 29,258,357	$ 1,351,155	$ 47,606,527

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	Association	Foundation	Housing	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	$ 4,422	$ 1,222,461	$ -	$ 1,226,883
Investment Income	36,865	-	-	36,865
Rental Income	-	105,411	14,558,222	14,663,633
Sales and Service	3,810,777	364,717	-	4,175,494
Student Activity Fees	2,436,874	-	-	2,436,874
Other Revenues	906,320	1,252,144		2,158,464
Net Assets Released from Restriction	-	2,789,160	-	2,789,160
Total Revenues and Other Additions	7,195,258	5,733,893	14,558,222	27,487,373
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	-	1,887,503	-	1,887,503
Student Activities	3,785,351	-	-	3,785,351
University Stores	2,747,770	-	-	2,747,770
Housing	-	-	14,563,557	14,563,557
Other University Support	-	974,744	-	974,744
Management and General	265,514	632,230		897,744
Fundraising	-	704,901	-	704,901
Actuarial Losses on Annuities Payable	-	57,553	-	57,553
Total Expenses and Other Deductions	6,798,635	4,256,931	14,563,557	25,619,123
Increase (Decrease) in Unrestricted Net Assets	396,623	1,476,962	(5,335)	1,868,250
Changes in Temporarily Restricted Net Assets				
Contributions	-	1,343,763	-	1,343,763
Investment Income	-	3,299,584	-	3,299,584
Net Assets Released from Restrictions	-	(2,886,452)	-	(2,886,452)
Increase in Temporarily Restricted Net Assets	-	1,756,895	-	1,756,895
Changes in Permanently Restricted Net Assets	-	699,025	-	699,025
CHANGES IN NET ASSETS	396,623	3,932,882	(5,335)	4,324,170
Net Assets - Beginning	16,997,015	29,258,357	1,351,155	47,606,527
NET ASSETS - ENDING	$ 17,393,638	$ 33,191,239	$ 1,345,820	$ 51,930,697

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	Association	Foundation	Housing	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	$ 330	$ 208,195	$ 695,360	$ 903,885
Investment Income	25,881	-	-	25,881
Rental Income	-	103,940	7,284,134	7,388,074
Sales and Service	3,931,567	454,935	-	4,386,502
Student Activity Fees	2,338,014	-	-	2,338,014
Other Revenues	915,235	1,325,539	3,004	2,243,778
Net Assets Released from Restriction	-	1,435,673	-	1,435,673
Total Revenues and Other Additions	7,211,027	3,528,282	7,982,498	18,721,807
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	-	1,858,355	-	1,858,355
Student Activities	3,625,373	-	-	3,625,373
University Stores	2,679,443	-	-	2,679,443
Housing	-	-	6,622,922	6,622,922
Other University Support	-	1,943,275	-	1,943,275
Management and General	260,755	521,183	8,421	790,359
Fundraising	-	759,911	-	759,911
Actuarial Losses on Annuities Payable	-	72,805	-	72,805
Total Expenses and Other Deductions	6,565,571	5,155,529	6,631,343	18,352,443
Increase (Decrease) in Unrestricted Net Assets	645,456	(1,627,247)	1,351,155	369,364
Changes in Temporarily Restricted Net Assets				
Contributions	-	970,075	-	970,075
Investment Income	-	197,676	-	197,676
Net Assets Released from Restrictions	-	(1,566,037)	-	(1,566,037)
Decrease in Temporarily Restricted Net Assets	-	(398,286)	-	(398,286)
Changes in Permanently Restricted Net Assets	-	752,278	-	752,278
Discontinued Operations of Student Housing Project	-	10,878,220	-	10,878,220
INCREASE IN NET ASSETS	645,456	9,604,965	1,351,155	11,601,576
Net Assets - Beginning	16,351,559	19,653,392	-	36,004,951
NET ASSETS - ENDING	$ 16,997,015	$ 29,258,357	$ 1,351,155	$ 47,606,527

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $102,552,603 and $83,112,247 at June 30, 2017 and 2016, respectively.

Board of Governors' 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 funds and amounts designated by the board or university trustees may be invested in the investments described above, as well as in 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 of cash. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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. The University had no local investments recorded at fair value as of June 30, 2017 and 2016.

On June 30, 2017 and 2016, the carrying amount of the University's demand and time deposits were $1,368,378 and $3,089,872, respectively, as compared to bank balances of $1,265,574 and $3,026,709, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2017 and 2016, $250,000 was covered by federal government depository insurance; and $1,015,574 and $2,776,709, respectively, was 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 requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2017 and 2016, none of the University's demand and time deposits are exposed to foreign currency risk.

NOTE 4 INVESTMENTS-COMPONENT UNITS

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

	2017	2016
Equity Securities - Level 1	$ 12,271,882	$ 10,810,592
Equity Securities - Level 2	10,619,569	8,744,604
Fixed Income - Level 1	2,022,784	2,052,567
Fixed Income - Level 2	3,797,543	3,674,853
Real Estate - Level 3	188,400	188,400
Total	$ 28,900,178	$ 25,471,016

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 CAPITAL ASSETS, NET

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

	2017					
	Life	Beginning Balance July 01, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Land		$ 11,701	$ -	$ -	$ -	$ 11,701
Construction in Progress		3,225,821	2,061,506		(2,856,663)	2,430,664
Total Capital Assets Assets Not being Depreciated		3,237,522	2,061,506	-	(2,856,663)	2,442,365
Buildings, including Improvements	40	161,490,264	5,860,219	-	2,856,663	170,207,146
Improvements Other than Buildings	20	14,324,868	-	-	-	14,324,868
Furnishings and Equipment, Including Capital Leases	Varies	24,368,657	992,216	(472,698)	-	24,888,175
Library Books	10	6,563,181	68,150	(17,021)	-	6,614,310
Total Capital Assets being Depreciated		206,746,970	6,920,585	(489,719)	2,856,663	216,034,499
Less: Accumulated Depreciation:						
Buildings, including Improvements		(57,657,129)	(6,079,655)	-	-	(63,736,784)
Improvements Other than Buildings		(8,769,511)	(580,697)	-	-	(9,350,208)
Furnishings and Equipment, Including Capital Leases		(16,809,251)	(2,202,270)	465,395	-	(18,546,126)
Library Books		(6,030,992)	(102,663)	17,021	-	(6,116,634)
Total Accumulated Depreciation		(89,266,883)	(8,965,285)	482,416	-	(97,749,752)
Total Capital Assets being Depreciated, Net		117,480,087	(2,044,700)	(7,303)	2,856,663	118,284,747
Capital Assets, Net		$ 120,717,609	$ 16,806	$ (7,303)	$ -	$ 120,727,112

NOTE 5 CAPITAL ASSETS, NET (CONTINUED)

	2016					
	Life	Beginning Balance July 01, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
Land		$ 11,701	$ -	$ -	$ -	$ 11,701
Construction in Progress		2,539,068	2,864,099	-	(2,177,346)	3,225,821
Total Capital Assets Not being Depreciated		2,550,769	2,864,099	-	(2,177,346)	3,237,522
Buildings, including Improvements	40	153,469,867	5,843,051	-	2,177,346	161,490,264
Improvements Other than Buildings	20	14,324,868	-	-	-	14,324,868
Furnishings and Equipment, including Capital Leases	Varies	20,733,831	3,909,380	(274,554)	-	24,368,657
Library Books	10	6,609,070	85,203	(131,092)	-	6,563,181
Total Capital Assets being Depreciated		195,137,636	9,837,634	(405,646)	2,177,346	206,746,970
Less: Accumulated Depreciation:						
Buildings, including Improvements		(52,017,414)	(5,639,715)	-	-	(57,657,129)
Improvements Other than Buildings		(8,163,854)	(605,657)	-	-	(8,769,511)
Furnishings and Equipment, including Capital Leases		(15,846,641)	(1,235,110)	272,500	-	(16,809,251)
Library Books		(6,061,257)	(100,829)	131,094	-	(6,030,992)
Total Accumulated Depreciation		(82,089,166)	(7,581,311)	403,594	-	(89,266,883)
Total Capital Assets being Depreciated, Net		113,048,470	2,256,323	(2,052)	2,177,346	117,480,087
Capital Assets, Net		$ 115,599,239	$ 5,120,422	$ (2,052)	$ -	$ 120,717,609

NOTE 6 LEASES

The University has entered into operating leases for certain office and classroom space on a year-to-year basis. Total rent expense for operating leases was $528,148 and $443,700 for the years ended June 30, 2017 and 2016, respectively. Future lease payments for operating leases are as follows:

Year Ending June 30,	Amount
2018	$ 238,892
2019	237,292
2020	72,841
Total	$ 549,025

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Employees	$ 9,172,920	$ 8,562,506
Supplies and Services	2,624,799	4,260,658
Other	2,122,591	1,069,780
Interest	74,803	65,090
Total	$ 13,995,113	$ 13,958,034

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2017	2016
Grants	$ 203,983	$ 152,768
Students	5,496,789	5,319,362
Auxiliary	930,000	1,240,000
Other	11,715	11,715
Total	$ 6,642,487	$ 6,723,845

During the year ended June 30, 2011, the University entered into a contract with their food service provider. This contract required the food service provider to make an investment in the University at the inception of the contract to be recognized over a 10-year period. The remaining unamortized amount as of June 30, 2017 and 2016 was $930,000 and $1,240,000, respectively, and is presented as unearned auxiliary revenue.

NOTE 9 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Education 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 Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2017 and 2016 are as follows:

	2017				
	Weighted Average Interest Rate	Balance July 01, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG issued in July 2007	4.75 %	$ 648,348	$ -	$ (648,348)	$ -
Series AH issues in July 2008	4.65 %	6,890,719	-	(569,801)	6,320,918
Series AI issued in August 2008	4.24 %	263,028	-	(24,714)	238,314
Series AJ issued in July 2009	4.87 %	8,479,808	-	(497,433)	7,982,375
Series AL issued in July 2010	5.00 %	11,528,970	-	(1,251,156)	10,277,814
Series AM issued in July 2011	4.62 %	4,015,362	-	(189,789)	3,825,573
Series AQ issued in July 2015	4.68 %	1,025,781	-	(74,694)	951,087
Series AT issued in September 2016	3.41 %	-	9,024,374	(432,502)	8,591,872
Total Bonds Payable		$ 32,852,016	$ 9,024,374	$ (3,688,437)	$ 38,187,953

	2016				
	Weighted Average Interest Rate	Balance July 01, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AG issued in July 2007	4.85 %	$ 1,264,597	$ -	$ (616,249)	$ 648,348
Series AH issues in July 2008	4.67 %	7,433,353	-	(542,634)	6,890,719
Series AI issued in August 2008	4.19 %	286,683	-	(23,655)	263,028
Series AJ issued in July 2009	4.88 %	8,954,472	-	(474,664)	8,479,808
Series AL issued in July 2010	5.00 %	12,720,527	-	(1,191,557)	11,528,970
Series AM issued in July 2011	4.65 %	4,195,979	-	(180,617)	4,015,362
Series AQ issued in July 2015	4.71 %	1,025,781	-	-	1,025,781
Total Bonds Payable		$ 35,881,392	$ -	$ (3,029,376)	$ 32,852,016

NOTE 9 BONDS PAYABLE (CONTINUED)

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

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 will issue bonds to provide a pool for funding for AFRP ($17,539,964 and $21,918,513 was outstanding as of June 30, 2017 and 2016, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. As of June 30, 2017 and 2016, the balance owed by the University to the State System's AFRP pool of funding was $1,540,841 and $1,915,786, respectively.

NOTE 9 BONDS PAYABLE (CONTINUED)

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

Series		2018	2019	2020	2021	2022	2023-2027	2028-2032	2033-2038	Total
AH	Principal	$ 598,361	$ 628,313	$ 658,876	$ 686,044	$ 713,212	$ 2,532,178	$ 503,934	$ -	$ 6,320,918
	Interest	289,183	259,265	227,849	201,494	174,053	459,617	22,047	-	1,633,508
	Total	887,544	887,578	886,725	887,538	887,265	2,991,795	525,981		7,954,426
AI	Principal	25,773	26,832	27,892	28,951	30,363	98,503	-	-	238,314
	Interest	10,207	9,176	8,103	6,952	5,722	8,953	-	-	49,113
	Total	35,980	36,008	35,995	35,903	36,085	107,456	-	-	287,427
AJ	Principal	522,647	548,916	576,240	605,673	635,106	3,503,176	1,590,617	-	7,982,375
	Interest	382,639	356,507	329,061	300,249	269,965	861,002	113,212	-	2,612,635
	Total	905,286	905,423	905,301	905,922	905,071	4,364,178	1,703,829	-	10,595,010
AL	Principal	580,493	609,938	639,384	671,633	705,285	4,091,495	2,979,586	-	10,277,814
	Interest	513,891	484,866	454,369	422,400	388,818	1,378,531	302,796	-	3,945,671
	Total	1,094,384	1,094,804	1,093,753	1,094,033	1,094,103	5,470,026	3,282,382	-	14,223,485
AM	Principal	199,314	207,427	217,658	228,594	239,882	1,388,494	1,344,204	-	3,825,573
	Interest	177,343	169,370	158,999	148,116	136,686	494,848	162,034	-	1,447,396
	Total	376,657	376,797	376,657	376,710	376,568	1,883,342	1,506,238	-	5,272,969
AQ	Principal	99,439	104,480	109,750	115,478	120,977	400,963	-	-	951,087
	Interest	47,554	42,582	37,358	31,871	26,097	40,749	-	-	226,211
	Total	146,993	147,062	147,108	147,349	147,074	441,712	-	-	1,177,298
AT	Principal	574,437	602,833	632,880	666,277	284,673	1,661,151	2,113,278	2,056,343	8,591,872
	Interest	404,375	375,653	345,511	313,867	280,554	1,173,522	715,366	209,653	3,818,501
	Total	978,812	978,486	978,391	980,144	565,227	2,834,673	2,828,644	2,265,996	12,410,373
Total	Principal	2,600,464	2,728,739	2,862,680	3,002,650	2,729,498	13,675,960	8,531,619	2,056,343	38,187,953
	Interest	1,825,192	1,697,419	1,561,250	1,424,949	1,281,895	4,417,222	1,315,455	209,653	13,733,035
	Total	$ 4,425,656	$ 4,426,158	$ 4,423,930	$ 4,427,599	$ 4,011,393	$ 18,093,182	$ 9,847,074	$ 2,265,996	$ 51,920,988

NOTE 10 OBLIGATIONS UNDER CAPITAL LEASES

The University has incurred obligations under the terms of capital lease. The obligations are collateralized by the related leased equipment.

The present value of future net minimum lease payments has been classified in the accompanying financial statements at June 30, 2017 and 2016 as follows:

	2017	2016
Current Maturities of Capital Lease Obligations	$ 29,836	$ 22,248
Long-Term Maturities of Capital Lease Obligations	60,944	63,036
Amounts representing interest	(3,725)	(3,792)
Total	$ 87,055	$ 81,492

The following is a schedule, by year, of minimum, lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2017:

Year Ending June 30,	Amount
2018	$ 29,836
2019	28,785
2020	25,077
2021	6,537
2022	545
Total Minimum Lease Payments	90,780
Amounts Representing Interest	(3,725)
Present Value of Net Minimum Lease Payments	$ 87,055

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

Compensated absences and postretirement benefits for the years ended June 30, 2017 and 2016 are as follows:

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 359,543	$ 8,459,879	$ 498,972	$ 8,016,538
Post-Retirement Benefit Obligations	-	88,217,157	-	85,234,727
Total	$ 359,543	$ 96,677,036	$ 498,972	$ 93,251,265

Changes in the compensated absence liability were as follows:

	2017	2016
Balance - July 1	$ 8,515,510	$ 8,637,875
Current Change in Estimate	1,172,266	644,278
Payouts	(868,354)	(766,643)
Balance - June 30	$ 8,819,422	$ 8,515,510

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefits plans. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

System Plan

Plan Description

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

Funding Policy

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

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

- Nonfaculty coaches who retired July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.

- Other eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay the same dollar amount they paid as active employees on the day of retirement. When these annuitants become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually and future adjustments will apply if contributions increase for active employees.

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- Other eligible annuitants who retire after on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.

- Employee members of SPFPA and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

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

Annual OPEB Cost and Net OPEB Obligation

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

	2017	2016
Annual Required Contribution	$ 7,272,588	$ 7,475,879
Interest on Net OPEB Obligation	3,337,651	3,197,839
Adjustment to Annual Required Contribution	(4,754,557)	(4,202,970)
Annual OPEB Cost	5,855,682	6,470,748
Contributions Made	(2,873,252)	(2,905,262)
Increase in Net OPEB Obligation	2,982,430	3,565,486
Net OPEB Obligation at July 1	85,234,727	81,669,241
Net OPEB Obligation at June 30	$ 88,217,157	$ 85,234,727

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 5,855,682	49.1 %	$ 88,217,157
June 30, 2016	6,470,748	44.9 %	85,234,727
June 30, 2015	6,517,855	42.2 %	81,669,241

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the most recent actuarial valuation date was as follows:

Actuarial Accrued Liability (AAL)	$ 81,439,904
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 81,439,904
Funded Ratio (Actuarial Value of Plan Assets/AAL)	- %
Covered Payroll (Active Plan Members)	$ 44,702,075
UAAL as a Percentage of Covered Payroll	182.2 %

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

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Methods and Assumptions

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

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

Retired Employees Health Program

Plan Description

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

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program (Continued)

Funding Policy

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

NOTE 12 PENSION BENEFITS

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

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

	SERS		PSERS		ARP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Pension Liabilities	$ 68,908,965	$ 59,970,289	$ 8,075,770	$ 6,876,715	$ -	$ -	$ 76,984,735	$ 66,847,004
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 994,688	$ 1,214,283	$ -	$ -	$ -	$ -	$ 994,688	$ 1,214,283
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	5,791,101	6,106,093	450,116	-	-	-	6,241,217	6,106,093
Changes in Assumptions	4,209,099	1,781,699	291,513	-	-	-	4,500,612	1,781,699
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	48,223	48,985	-	-	48,223	48,985
Changes in Proportion	1,070,915	-	229,014	304,317	-	-	1,299,929	304,317
Contributions after the Measurement Date	3,765,282	2,917,238	618,545	534,473	-	-	4,383,827	3,451,711
Total Deferred Outflows of Resources	$ 15,831,085	$ 12,019,313	$ 1,637,411	$ 887,775	$ -	$ -	$ 17,468,496	$ 12,907,088
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,541,766	$ -	$ 67,300	$ 28,375	$ -	$ -	$ 1,609,066	$ 28,375
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	-	13,887	-	-	-	13,887
Difference Between Employer Contributions and Proportionate Share of Contributions	319,740	166,933	-	-	-	-	319,740	166,933
Changes in Proportion	1,461,117	1,830,832	58,854	-	-	-	1,519,971	1,830,832
Total Deferred Inflows of Resources	$ 3,322,623	$ 1,997,765	$ 126,154	$ 42,262	$ -	$ -	$ 3,448,777	$ 2,040,027
Pension Expense	$ 12,863,744	$ 7,022,179	$ 2,042,845	$ 1,290,834	$ 3,473,174	$ 3,313,960	$ 18,379,763	$ 11,626,973
Contributions Recognized by Pension Plans	$ 6,411,981	$ 5,105,267	$ 618,545	$ 534,476	N/A	N/A	$ 7,030,526	$ 5,639,743

NOTE 12 PENSION BENEFITS (CONTINUED)

The University will recognize the $3,765,282 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $618,545 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2018	$ 2,734,345	$ 218,477
June 30, 2019	2,734,345	218,478
June 30, 2020	2,383,488	297,869
June 30, 2021	792,166	157,889
June 30, 2022	98,834	-

SERS

Plan Description

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

Benefits Provided

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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

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. The SERS funding policy, as set by the SERS board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2016 was 4.5% and will no longer be effective after July 1, 2017.

The University contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015 were $6,412,000, $5,105,000, and $3,998,000, respectively, equal to the required contractual contribution.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

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, are summarized below:

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

	December 31, 2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	15.00%	8.50%
Global Public Equity	40.00%	5.40%
Real Assets	17.00%	4.95%
Diversifying Assets	10.00%	5.00%
Fixed Income	15.00%	1.50%
Liquidity Reserve	3.00%	0.00%
Total	100.00%	

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.25% as of December 31, 2016 and 7.50% as of December 31, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statue. 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. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% as of December 31, 2016 and 7.50% as of December 31, 2015, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2016 and 6.5% in 2015) or one percentage point higher (8.25% in 2016 and 8.50% in 2015) than the current rate:

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

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2017	$ 85,278,049	$ 68,908,965	$ 54,891,203
	6.50%	7.50%	8.50%
2016	$ 74,494,404	$ 59,970,289	$ 47,516,669

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Fiduciary Net Position

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

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

At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016 was $68,908,965. At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015 was $59,970,289.

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (University), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the PSERS website at www.psers.state.pa.us.

Benefits Provided

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

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

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2016, was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 14.6% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2017, June 30, 2016 and June 30, 2015 was $618,545, $534,476, and $448,871, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

- 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.

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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

	2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute Return	10.0%	3.3%
Risk Parity	10.0%	3.9%
Infrastructure/MLSs	5.0%	4.8%
Real Estate	12.0%	4.0%
Alternative Investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
Total	100.00%	

	2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute Return	10.0%	3.3%
Risk Parity	10.0%	3.9%
Infrastructure/MLSs	5.0%	4.8%
Real Estate	12.0%	4.0%
Alternative Investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
Total	100.00%	

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

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as on June 30, 2016 and 7.50% as of June 30, 2015, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2016 and 6.5% in 2015) or one percentage point higher (8.25% in 2016 and 8.5% in 2015) than the current rate:

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

	1% Decrease	Current Rate	1% Increase
	6.25%	7.25%	8.25%
2017	$ 9,878,812	$ 8,075,770	$ 6,560,596
	6.50%	7.50%	8.50%
2016	$ 8,476,224	$ 6,876,715	$ 5,532,318

Fiduciary Net Position

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

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

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

	2017	2016
Total PSERS Net Pension Liability Associated with the University	$ 16,151,540	$ 13,753,430
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	8,075,770	6,876,715
University's Proportionate Share of the PSERS Net Pension Liability	$ 8,075,770	$ 6,876,715

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

ARP

Because 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 benefit provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The University contribution rate on June 30, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016 were approximately $3,473,000 and $3,314,000, respectively, from the University and $1,865,000 and $1,779,000, respectively, from active members.

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims 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 the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University received a refund of \$39,135 and contributed \$23,896 to the Reserve Fund for the years ended June 30, 2017 and 2016, respectively.

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

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2017	$ 696,361	$ -	$ (28,667)	$ 667,694
2016	733,159	-	(36,798)	696,361

NOTE 14 RELATED PARTY TRANSACTIONS

Alumni Association

Slippery Rock University Alumni Association (the Alumni Association) is a nonprofit association formed to promote the welfare of the University by initiating and/or participating in fund raising drives aimed at providing scholarship assistance, research fellowships and grants, and additional facilities to meet special cultural, research or athletic needs. Since the Alumni Association operates under an independent governing board and management, the financial activity of the Alumni Association is not included in the University's financial statements.

Based upon internal financial statements, the Alumni Association had net assets of \$2,893,018 at June 30, 2017 and \$2,657,988 at June 30, 2016.

NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)

Slippery Rock University Foundation (the Foundation)

The Foundation, which is a component unit of the University, was organized for the purpose of raising private support, and managing funds which are used solely for the benefit and support of the University. The Foundation does this by raising private support to provide the University with resources not available through normal system funding, in accordance with restrictions, if any, imposed by donors. The primary source of income to the Foundation is contributions from both individual and corporate donors, investment income, and camp fees. The Foundation also has oversight and management of campus student housing complexes. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources and income thereon is restricted for the activities of the University by donors. As of June 30, 2017 and 2016, the Foundation held $17,329,352 and $16,630,327 of permanently restricted net assets for the benefit of the University. Permanently restricted net assets are primarily comprised of scholarships.

The Foundation annually agrees with the University to manage the investment of monies received from various sources under the fiduciary agreement. During the 2017 and 2016 fiscal years, the Foundation provided the following support to the University:

	2017	2016
Scholarships	$ 1,887,503	$ 1,858,355
Support of University Programs	974,744	1,943,275

The Foundation entered into an agreement with the University to provide office space, management and accounting personnel, computer and office equipment, and supplies at no cost. The total in-kind services provided to the Foundation by the University amounted to $126,618 and $134,907 in 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, the University paid the Foundation $964,803 and $987,353, respectively, for the cost of employee’s salaries, benefits, and other expenses related to comprehensive fundraising services.

Slippery Rock Student Government Association (the Association)

The Association, which is a component unit of the University, was organized to provide student services and to promote and support educational cultural and recreational activities for the students of the University. The Association primarily conducts student activity fee supported organizations, bookstore operations, vending machine operations, child day care and Pre-K Counts operations. During the years ended June 30, 2017 and 2016, the Association received $2,436,874 and $2,338,014, respectively, in student activity fees from the University.

NOTE 15 CONTINGENCIES

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

The University is self-insured for workers' compensation up to stated limits (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 significantly reduced any of its insurance coverage from the prior year. 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.

Authorized expenditures for construction projects unexpended as of June 30, 2017 and 2016 were $6,289,827 and 5,524,011, respectively.

NOTE 16 RATINGS ACTIONS

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

NOTE 17 SUBSEQUENT EVENTS

Cheyney University Loan Forgiveness

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

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013/14. The loans have been shown only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation has been that Cheyney would repay the loans and the individual universities would not be affected. The 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 the 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 18 ADDITIONAL DEBT ISSUANCE

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. The University participated in the issuance of the AU-1 revenue bonds receiving net proceeds in the amount of $24,816,364 to finance capital renovations and improvements. In addition the University participated in the issuance of the AU-2 revenue bonds. The refunding was performed to reduce debt service by approximately $579,060 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $567,970. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ -	$ 110,631	$ 110,631	- %	$ 44,139	250.6%
July 1, 2014	-	85,944	85,944	- %	43,853	196.0%
July 1, 2016	-	81,440	81,440	- %	44,702	182.2%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ 82,060	$ 13,234,040	$ 13,151,980	0.62 %	$ 4,264,000	308%
January 1, 2015	144,744	16,134,419	15,989,675	0.90 %	4,289,099	373%
January 1, 2017	313,226	16,546,732	16,233,506	1.90 %	4,485,000	362%

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

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
SERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

Fiscal Year	State Systems Proportion	University's Proportionate Share	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.9010%	$ 51,413	$ 20,970	245.0%	64.8%
2015/16	4.7208%	59,970	20,798	288.3%	58.9%
2016/17	4.8370%	68,909	22,249	309.7%	57.8%

SERS Schedule of Contributions
Determined as of June 30, SERS Measurement Date
(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	$ 3,967	$ 3,967	$ -	$ 20,970	18.90%
2015/16	5,105	5,105	-	21,223	24.05%
2016/17	6,412	6,412	-	22,876	28.00%

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2017 AND 2016
(UNAUDITED)

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

	PSERS Net Pension Liability					University's Proportionate Share of NPL as a % of	PSERS Net Fiduciary as a % of
Fiscal Year	State Systems Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-Employee Payroll	Covered-Employee Payroll	Total Pension Liability
2014/15	0.1785%	$ 6,136	$ 6,136	$ 12,272	$ 1,978	310%	57.2%
2015/16	0.1852%	6,877	6,877	13,754	4,086	200%	54.4%
2016/17	0.1833%	8,076	8,076	16,152	4,222	200%	50.1%

PSERS Schedule of Contributions
Determined as of June 30 Fiscal Year End
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 448	$ 448	$ -	$ 1,978	23.0%
2015/16	534	534	-	4,080	13.0%
2016/17	619	619	-	4,242	14.6%

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