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

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, 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.

Council of Trustees
Slippery Rock University of Pennsylvania
of the State System of Higher Education

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, 2018 and 2017, 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.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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, 2018

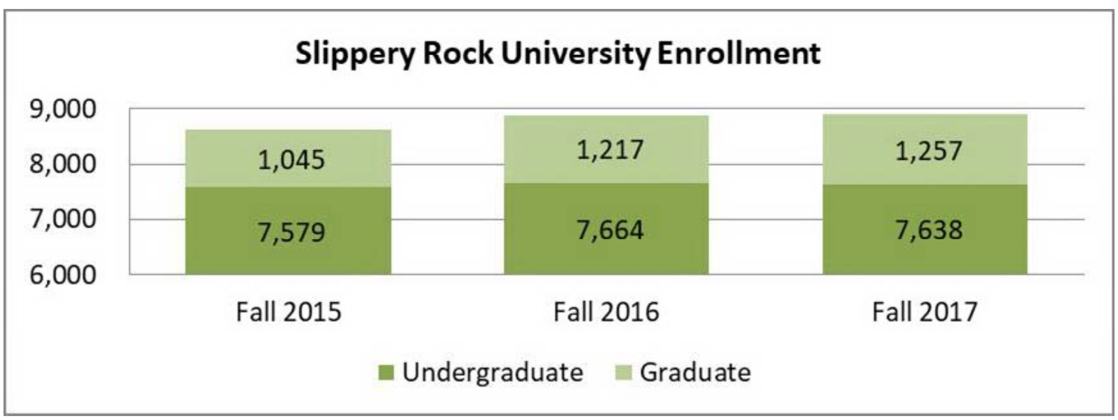
Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis for the financial activities of Slippery Rock University of Pennsylvania (the University) for the years ended June 30, 2018 and 2017. The University's financial performance is discussed and analyzed within 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 (the 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 8,895 students enrolled for Fall 2017, the University had 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, 2018, as compared to the years ended June 30, 2017 and 2016. Note that due to rounding, certain increases or decreases may vary slightly from audited financials.

Financial Highlights

- Enrollment for Fall 2017 included 7,638 undergraduate and 1,257 graduate students, for a total of 8,895 students. Fall 2017 total enrollment was comprised of 7,904 resident students, 891 nonresident students, and 100 international students. The chart below summarizes a three-year trend of undergraduate and graduate enrollment.



- The State System's Board (the Board) approved an annual full-time tuition rate increase of 3.5% for undergraduate resident students in fiscal year 2018, or 1.0% higher than the prior fiscal year 2017 increase of 2.5%.

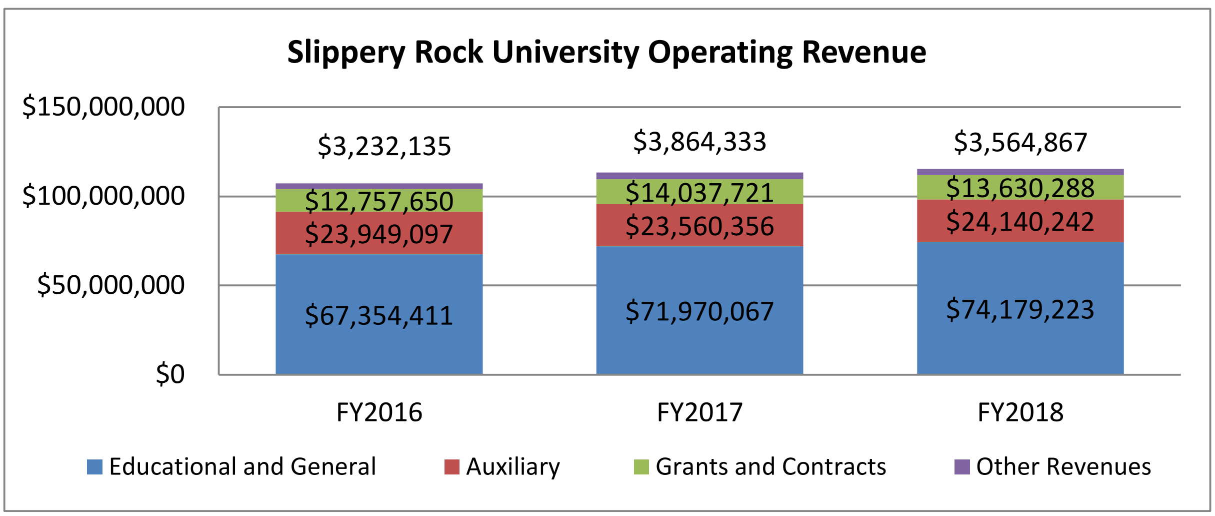
- The total Commonwealth appropriation to the State System for operations in fiscal year 2018 was $453.1 million, a 2.0% increase from the $444.2 million appropriation of fiscal year 2017. The University's share of the base appropriation, through the appropriation formula, increased by $1.3 million from $31.7 million to $33.0 million. This represents a 4.2% increase from fiscal year 2017.

- In fiscal year 2018, the University received $4.1 million in performance funding, which was $0.2 million higher than the prior fiscal year 2017, in which the University received $3.9 million.

- Capital appropriations, which include appropriations for furnishings and equipment for Commonwealth Key 93 funded construction, was $1.4 million, or $0.2M higher than the prior fiscal year 2017 appropriation of $1.2 million.

- Educational and General Fund tuition and fee revenue, net of discounts and allowances, was $74.2 million for fiscal year 2018. Auxiliary revenue, net of discounts and allowances, was $24.1 million fiscal year 2018.

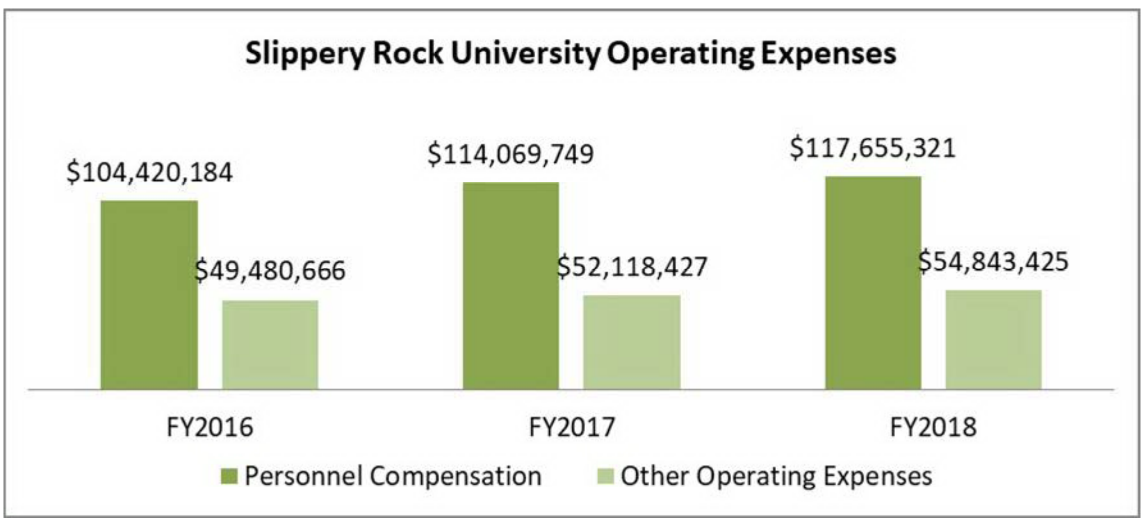
  The chart below summarizes a trend of total University operating revenue, including Educational and General fund tuition and fees, Auxiliary fees and sales, government and nongovernment grants and contracts, and other miscellaneous operating revenue.



- Educational and General Fund personnel expenditures, including salary, incremental benefits and employer paid fixed rate benefits, were $101.1 million and $2.9 million or 3.0% higher in fiscal year 2018 as compared to fiscal year 2017. During this time, all employee groups experienced collective bargaining or merit increases.

- Educational and General Fund expenditures, including services, supplies, utilities, capital and other nonpersonnel expenditures were $25.3 million fiscal year 2018 and $4.0 million or 18.8% higher than fiscal year 2017, with one-time investments in fiscal year 2018 for technology for computer labs and classroom networking, academic equipment for new programs and other general equipment expenditures for facilities. Utilities were $0.3 million or 9.9% lower in fiscal year 2018 as compared to fiscal year 2017, with the University's ESCO program implemented in fiscal year 2018. As the project reaches full implementation, the utility rate changes are estimated to generate savings that will offset the cost of borrowing.

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



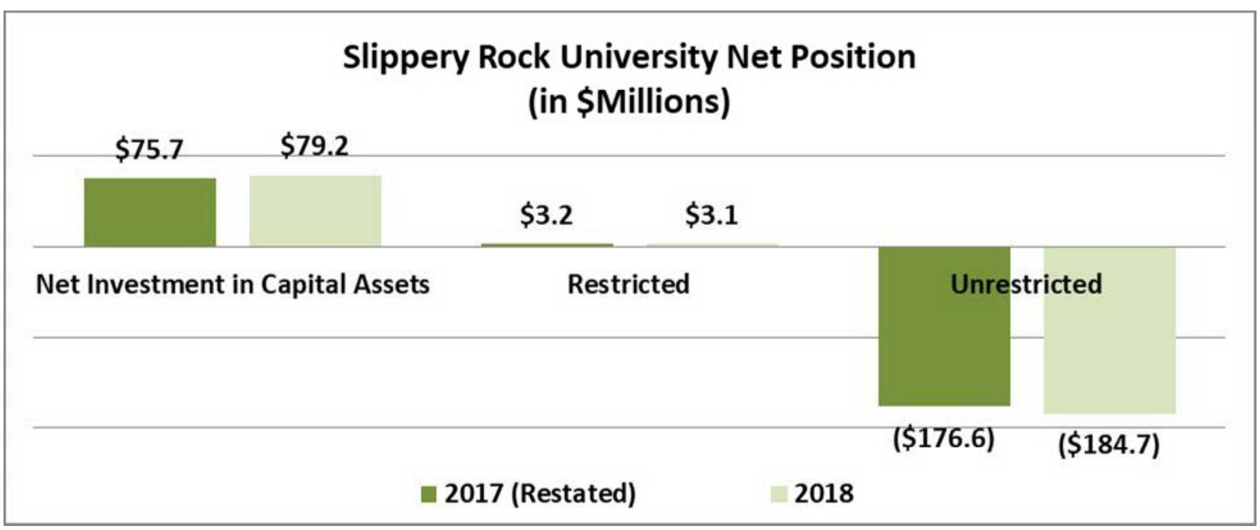
- Approval was received in fiscal year 2017 for bridge financing of $13.5 million for three new projects, including ESCO, renovation of Bailey Library and a safety management laboratory. Since then, bond financing has been obtained and debt service began in fiscal year 2018.

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 workers' 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 2018 decreased by $4.8 million to ($102.5) million, from fiscal year 2017 restated net position of ($97.7) million. The net position at the end of fiscal year 2017 was restated with GASB 75 requirements to include $91.5 million for Other Postemployment Benefits (OPEB) liability.

The following chart shows net position, in millions, net investment in capital assets, restricted and unrestricted funds, for fiscal years ending June 30, 2018, and 2017.



The following page shows a summary of the balance sheet for fiscal years 2018, 2017, and 2016, ending June 30.

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

Fiscal Year	**2018**	**2017**	**2016**
ASSETS			
Cash & Cash Equivalents	$101.2	$103.9	$86.2
Other Current Assets	$8.3	$7.3	$6.3
Total Current Assets	$109.5	$111.2	$92.5
Capital Assets, net	$138.0	$120.7	$120.7
Other Noncurrent Assets	$4.6	$4.4	$4.3
Total Non current Assets	$142.6	$125.1	$125.0
TOTAL ASSETS	$252.1	$236.4	$217.5
Total Deferred Outflows of Resources	$15.9	$17.5	$12.9
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$268.0	$253.8	$230.4
LIABILITIES			
Accounts Payable & Accrued Expenses	$15.9	$13.9	$13.9
Deferred Revenue	$5.9	$5.9	$5.7
Other Current Liabilities	$10.7	$18.1	$12.3
Total Current Liabilities	$32.5	$37.9	$31.9
Workers Compensation, Compensated Absences & Postretirement Benefits	$253.3	$174.0	$160.5
Bonds Payable	$54.7	$35.6	$29.6
Other Noncurrent Liabilities	$9.5	$9.0	$8.7
Total Noncurrent Liabilities	$317.5	$218.6	$198.8
TOTAL LIABILITIES	$350.1	$256.6	$230.7
Total Deferred Inflows of Resources	$20.4	$3.5	$2.1
NET POSITION			
Invested in Capital Assets, net of Related Debt	$79.2	$75.7	$77.0
Restricted	$3.1	$3.2	$3.1
Unrestricted	($184.7)	($85.1)	($82.4)
Total Net Position	($102.5)	($6.2)	($2.3)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$268.0	$253.8	$230.4

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 or 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 *compensated absences* increased by $0.4 million to $9.2 million at June 30, 2018. 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.

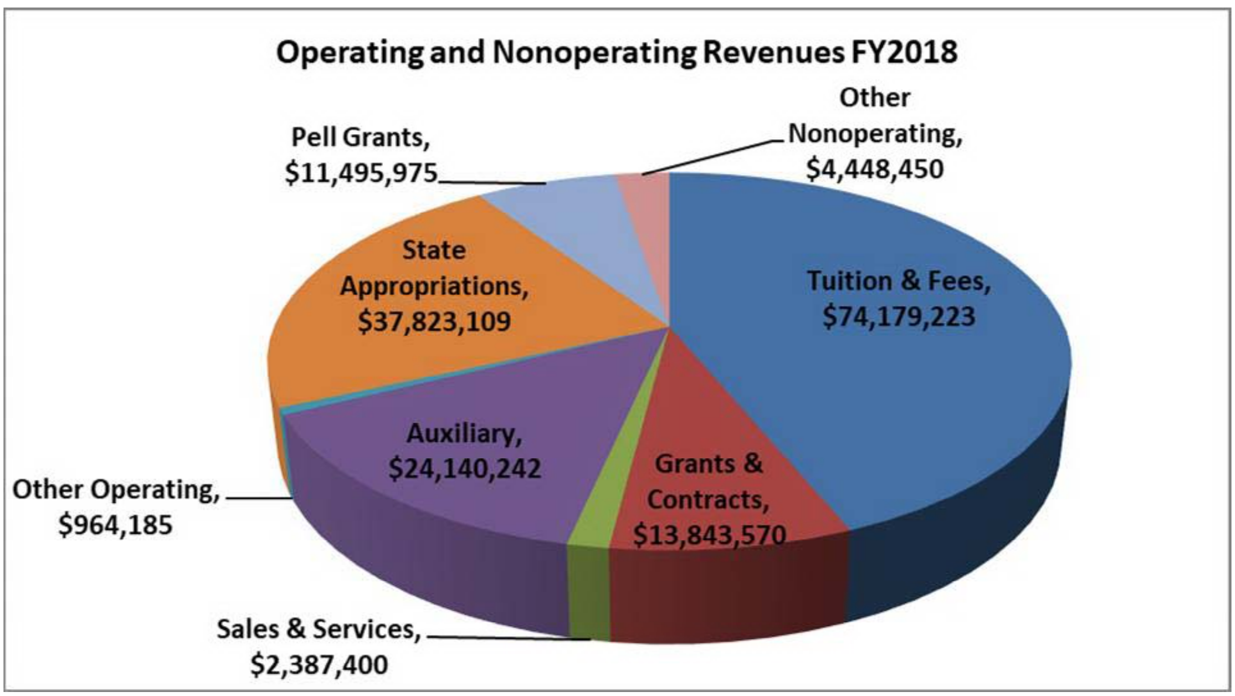
- The liability for OPEB *postretirement benefits* for employees who participate in the State System of Higher Education (SSHE) health care plan increased by $20.9 million to $109.1 million at June 30, 2018. Additionally, the liability of postretirement benefit obligations for the Retired Employee Healthcare (REHP) plan and the Public School Employee's Retirement (PSERS) plan are newly created for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75. The total postretirement benefit liability for fiscal year 2018 is comprised of $109.1 million for the State System of Higher Education (SSHE) plan, $66.3 million for the Retired Employee Healthcare (REHP) plan and $0.3 million for the Public School Employee's Retirement (PSERS) plan. Because the liability is realized gradually over time, and because of its size, the University funds it only as it becomes due.

- The *net pension liability* decreased by $4.3 million to $72.7 million at June 30, 2018. This liability for pension obligations is due to the implementation of GASB Statement No. 68. The combined pension liability for fiscal year 2018 is comprised of $64.9 million for the State Employee Retirement System (SERS) and $7.8 million for 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 or loss on the disposal or acquisition of assets, for fiscal years ended June 30, 2018, 2017 and 2016.



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

Fiscal Year	2018	Increase/(Decrease)		2017	Increase/(Decrease)		2016
Operating Revenues							
Tuition & Fees	$74.2	$2.2	3.1%	$72.0	$4.6	6.9%	$67.4
Grants & Contracts	$13.8	($0.3)	-2.5%	$14.2	$1.4	11.2%	$12.8
Sales & Services	$2.4	($0.3)	-10.3%	$2.7	$0.0	0.2%	$2.7
Auxiliary	$24.1	$0.6	2.5%	$23.6	($0.4)	-1.6%	$23.9
Other Operating	$1.0	($0.1)	-8.0%	$1.0	$0.5	84.7%	$0.6
Total Operating Revenues	**$115.5**	**$2.1**	**1.8%**	**$113.4**	**$6.1**	**5.7%**	**$107.3**
Nonoperating Revenues							
State Appropriations	$37.8	$1.5	4.0%	$36.4	$1.5	4.4%	$34.8
Pell Grants	$11.5	$1.3	12.8%	$10.2	$0.2	1.8%	$10.0
Other Nonoperating	$4.4	$0.6	16.4%	$3.8	$0.9	32.7%	$2.9
Total Nonoperating Revenues	**$53.8**	**$3.4**	**6.7%**	**$50.4**	**$2.6**	**5.6%**	**$47.7**
Total Revenue	**$169.3**	**$5.5**	**3.3%**	**$163.8**	**$8.8**	**5.7%**	**$155.0**

Tuition and fees operating revenue increased $2.2 million, or 3.1% from fiscal year 2017, related to a 3.5% tuition and applicable fee rate increase, coupled with enrollment growth. Operating revenue for Auxiliary funds increased $0.6 million or 2.5% with slight increases from enrollment growth and food services commissions.

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 2017. Pell grants increased $1.3 million and other nonoperating revenue, including contributions from the Commonwealth for PSERS, investment income and capital gifts and grants, increased $0.6 million from fiscal year 2017. Other nonoperating revenue has continued to increase, as investment income has continued to grow. Contributions from the commonwealth for PSERS did not increase fiscal year 2018, as opposed to prior year increases of $0.2 million in fiscal year 2017 and $0.1 million in fiscal year 2016.

The following tables show the University's total percentages of operating expenditures by function and source for fiscal year 2018.

Slippery Rock University
Expenses by Function
(in $Millions)

Fiscal Year 2018

Source of Expense	**Salaries & Wages**	**Benefits**	**Student Aid**	**Utilities**	**Supplies & Other Services**	**Depreciation**	**Total**	
Functional Category								
Research	$0.1				$0.1		$0.2	0.1%
Public Service	$0.6	$0.5			$0.6		$1.7	1.0%
Student Aid			$7.1				$7.1	4.1%
Depreciation						$9.2	$9.2	5.4%
Academic Support	$5.7	$3.6			$5.3		$14.5	8.4%
Student Services	$8.4	$5.3			$2.9		$16.5	9.6%
Oper. & Maint. of Plant	$5.6	$5.9		$2.6	$3.7		$17.8	10.3%
Auxiliary Enterprises	$2.9	$1.5	$0.1	$1.0	$14.2		$19.6	11.4%
Institutional Support	$8.8	$7.9			$5.2		$21.9	12.7%
Instruction	$40.4	$20.7			$2.8		$63.8	37.0%
Total Expenses FY2018	**$72.3**	**$45.3**	**$7.2**	**$3.5**	**$34.9**	**$9.2**	**$172.5**	**100.0%**
	41.9%	**26.3%**	**4.2%**	**2.0%**	**20.2%**	**5.4%**	**100.0%**	
Total Expenses FY2017	$70.0	$44.1	$7.2	$3.9	$32.0	$9.0	$166.2	
Increase/(Decrease)	$2.3	$1.3	($0.0)	($0.4)	$2.8	$0.3	$6.3	
	3.3%	2.9%	-0.2%	-9.1%	8.8%	3.0%	3.8%	

Total operating expenditures were $172.5 million in fiscal year 2018, an increase of $6.3 million or 3.8% from fiscal year 2017 operating expenditures of $166.2 million. The greatest percentages of operating expenses are dedicated to instruction. In fiscal year 2018, $63.8 million or 37.0% of total operating expenses were instructional expenses. Instructional expenses increased $0.8 million or 1.4% from fiscal year 2017.

Operating expenditures include personnel and other nonpersonnel operating expenses. In fiscal year 2018, $72.3 million or 41.9% of the University's total operating expenses were related to salary and wages. Salary and wages increased $2.3 million or 3.3% from fiscal year 2017. Total benefits, including healthcare costs, health and welfare, and postretirement were $45.3 million in fiscal year 2018, or 26.3% of total operating expenses. This represents an increase of $1.2 million, or 2.7% from the prior fiscal year 2017 benefits expense of $44.1 million.

- *Employer share of employee health care costs*, including the hospitalization, health and welfare fund, was $10.0 million in fiscal year 2018 and stable from fiscal year 2017.

- *Employer share of postretirement health care* was $4.6 million, a decrease of $0.8 million, or 14.2% compared to fiscal year 2017, related to the lower rate for AFSCME annuitant hospitalization beginning in January 2018.

- *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 $1.1 million from fiscal year 2017 to a total of $7.5 million in fiscal year 2018 and the PSERS plan was stable from fiscal year 2017 at $0.6 million.

- *Employer contributions to the Alternative Retirement Plan* (ARP), a defined contribution plan, were stable to fiscal year 2017, at $3.5 million. 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 $54.8 million in fiscal year 2018, an increase of $2.7 million, or 5.2% from fiscal year 2017. Supplies in this category were $2.0 million higher than the prior fiscal year 2017 related to technology equipment and networking for classrooms, academic equipment for new programs and other equipment for facilities.

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

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018 AND 2017

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

Revenues	**FY2018**	**FY2017**	**FY2016**
Operating Revenues:			
Tuition and fees			
less discounts and allowances			
Net tuition and fees	$ 74,179,223	$ 71,970,067	$ 67,354,411
Governmental grants and contracts:			
Federal	1,179,296	1,157,855	1,087,795
State	8,020,107	8,135,190	7,283,452
Local	4,430,885	4,744,676	4,386,403
Nongovernmental grants and contracts	213,282		
Sales and services	2,387,400	2,661,616	2,655,989
Auxiliary enterprises, net of discounts of	24,140,242	23,560,356	23,949,097
Other revenues, net	964,185	1,202,717	576,146
Total Operating Revenues	**115,514,620**	**113,432,477**	**107,293,293**
Expenses			
Personnel Compensation:			
Salaries & Wages	72,299,408	69,994,992	66,128,497
Benefits	45,355,913	44,074,757	38,291,687
Total Personnel Compensation	**117,655,321**	**114,069,749**	**104,420,184**
Other Operating Expenses:			
Other Services & Supplies	38,381,715	35,912,994	35,111,770
Depreciation	9,235,241	8,965,285	7,581,311
Student Aid Expense	7,226,469	7,240,148	6,787,585
Total Other Operating Expenses	**54,843,425**	**52,118,427**	**49,480,666**
Total Operating Expenses	**172,498,746**	**166,188,176**	**153,900,850**
Net Operating Revenues (Expenses)	**(56,984,126)**	**(52,755,699)**	**(46,607,557)**
Nonoperating Revenues (Expenses)			
State appropriations, general and restricted	37,823,109	36,357,561	34,831,641
Commonwealth on-behalf contributions to PSERS	869,861	890,986	681,671
Pell grants	11,495,975	10,190,502	10,008,800
Investment income, net of related investment expense	1,975,930	1,239,189	916,359
Interest expense on capital asset-related debt	(1,598,397)	(1,474,978)	(1,316,831)
Gain (loss) on disposal of assets	-	(7,303)	(2,054)
Other nonoperating revenue	1,602,659	1,692,460	1,283,482
Net Nonoperating Revenues (Expenses)	**52,169,137**	**48,888,417**	**46,403,068**
Income (Loss) before other revenues, expenses, gains, or losses	**(4,814,989)**	**(3,867,282)**	**(204,489)**
Net Position			
Net position-beginning of year	(6,189,713)	(2,322,431)	(2,117,942)
Restatement for July 1, 2017, GASB 75 OPEB liability			
Net position-beginning of year, restated	(97,673,426)		
Net position-end of year	**(102,488,415)**	**(6,189,713)**	**(2,322,431)**

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 2018 as $101.2 million, a decrease of $2.7 million from fiscal year 2017. Decreases in cash flows from capital financing activities are related to the fiscal year 2017 unused portion of bridge note financing by the System, before bonds were issued for the Bailey Library and Safety Labs.

Slippery Rock University

Statement of Cash Flows Summary

	FY2018	FY2017	FY2016
Cash Flows from Operating Activities	($35,187,813)	($33,639,811)	($28,680,923)
Cash Flows from Noncapital Financing Activities	$49,443,138	$46,653,891	$44,911,082
Cash Flows from Capital Financing Activities	($18,843,503)	$3,524,274	($9,474,277)
Cash Flows from Investing Activities	$1,877,953	$1,180,508	$888,816
Net Increase (Decrease) in cash	($2,710,225)	$17,718,862	$7,644,698
Cash--beginning of year	$103,920,981	$86,202,119	$78,557,421
Cash--end of year	$101,210,756	$103,920,981	$86,202,119

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 2019 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 $468.1 million to PASSHE for fiscal year 2019. This is an increase of $15.0 million, or 3.3% from last year's appropriation to PASSHE of $453.1 million. It is estimated that the University's share of the appropriation, including performance funding, will increase to $38.9 million in fiscal year 2019. This compares to $37.8 million in fiscal year 2018 and represents a 2.9% 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.

Tuition & Fees – For fiscal year 2019, the State System's Board approved tuition rate and student technology fee increases of 2.99%. In conjunction with the tuition and technology fee, the mandatory academic enhancement student fee, set by the University, will increase 2.99% in fiscal year 2019. Tuition and fee rates are currently unknown for years beyond 2019.

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 2019 is showing to be strong as well, with census day enrollment for Fall 2018 headcount of 8,824. Overall, SRU saw an enrollment decline of less than 1% (.80) from the Fall 2017 high-water mark of 8,895 students. That tally established the University's all-time enrollment record.

Compensation Costs – Fiscal year 2019 will include a full year of collective bargaining unit agreements for all employee groups, as well as the continued impact of a calendar year 2018 merit program for nonrepresented employees. While fiscal year 2019 compensation and benefit costs are relatively stable as compared to the prior fiscal year, fiscal year 2020 could see impacts from collective bargaining results, especially as the faculty union's contract expires June 2019.

Pension Costs and Healthcare – The pension cost of employer retirement contributions have increased year-over-year and have recently seen a leveling out, or a lower rate of increase. The employer contribution rate for the University's most common pension plan, SERS, is increasing 14.98% in fiscal year 2018 and is expected to increase at a slower rate of 0.55% in fiscal year 2019. Currently, fiscal year 2020 and beyond assumes that these rates may stay level or decrease in the future. Beginning January 1, 2016, the State System implemented higher levels of employee healthcare cost-sharing for certain categories of employees. Healthcare rates are expected to decrease slightly again, in fiscal year 2019, however the assumption of increased employer rates remains likely in years beyond 2019.

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 or 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. The University is currently completing a comprehensive analysis of its physical campus and renewal needs through the University's master plan, which began in fiscal year 2018.

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 2018, 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 was one of only two universities that increased its 2018 rating 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, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 101,210,756	$ 103,920,981
Accounts Receivable:		
Governmental Grants and Contracts	597,029	1,356,911
Students, Net of Allowance for Doubtful Accounts of $4,507,433 in 2018 and $3,655,388 in 2017	2,914,600	2,215,635
Other	1,029,147	626,070
Due from Component Unit	1,290,347	1,300,645
Inventories	525,962	526,001
Prepaid Expenses and Other Assets	588,530	349,714
Current Portion of Conversion Pay Receivable	5,066	5,263
Current Portion of Loans Receivable	1,047,662	756,610
Current Portion of Bond Discount	4,564	-
Investment Income Receivable	282,188	184,211
Total Current Assets	109,495,851	111,242,041
NONCURRENT ASSETS		
Conversion Pay Receivable	-	1,026
Loans Receivable, Net	4,607,967	4,404,523
Bond Discount	21,139	-
Capital Assets, Net	137,993,513	120,727,112
Total Noncurrent Assets	142,622,619	125,132,661
Total Assets	252,118,470	236,374,702
DEFERRED OUTFLOWS OF RESOURCES	15,902,328	17,472,807
Total Assets and Deferred Outflows of Resources	$ 268,020,798	$ 253,847,509

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, 2018 AND 2017

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 16,036,243	$ 13,995,113
Unearned Revenue	5,948,403	5,913,605
Students' Deposits	486,863	384,028
Other Current Liabilities	529,250	30,465
Workers' Compensation	367,539	338,216
Compensated Absences	193,786	359,543
Postretirement Benefits	4,575,508	-
Bond Premium (Unamortized)	587,646	356,349
Notes Payable	-	13,540,000
Bonds Payable	3,421,439	2,600,464
Capital Lease Obligations	34,028	27,570
Due to Component Units	-	21,202
Due to System, Academic Facilities Renovation Bond Program (AFRP)	357,589	366,746
Total Current Liabilities	32,538,294	37,933,301
NONCURRENT LIABILITIES		
Workers' Compensation	455,790	329,478
Compensated Absences	9,011,164	8,459,879
Postretirement Benefit Obligations	171,151,334	88,217,157
Net Pension Liability	72,727,568	76,984,735
Bond Premium (Unamortized)	3,940,641	2,314,719
Bonds Payable	54,702,207	35,587,489
Capital Lease Obligations	46,445	59,485
Unearned Revenue	407,167	728,882
Due to System, AFRP	810,679	1,174,095
Other Noncurrent Liabilities	4,290,231	4,768,956
Total Noncurrent Liabilities	317,543,226	218,624,875
Total Liabilities	350,081,520	256,558,176
DEFERRED INFLOWS OF RESOURCES	20,427,693	3,479,046
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	79,183,595	75,708,472
Restricted:		
Nonexpendable:		
Student Loans	775,633	766,848
Expendable:		
Scholarships and Fellowships	-	89,462
Capital Projects	2,279,424	2,261,939
Other	14,390	63,786
Unrestricted	(184,741,457)	(85,080,220)
Total Net Position (Deficit)	(102,488,415)	(6,189,713)
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	$ 268,020,798	$ 253,847,509

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Tuition and Fees	$ 96,628,309	$ 92,634,468
Less: Scholarship Discounts and Allowances	(22,449,086)	(20,664,401)
Net Tuition and Fees	74,179,223	71,970,067
Governmental Grants and Contracts:		
Federal	1,179,296	1,157,855
State	8,020,107	8,135,190
Local	4,430,885	4,744,676
Sales and Services of Educational Departments	2,387,400	2,661,616
Nongovernmental Grants and Contracts	213,282	154,438
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of $341,593 in 2018 and $322,185 in 2017	24,140,242	23,560,356
Other Revenues	964,185	1,048,279
Total Operating Revenues	115,514,620	113,432,477
OPERATING EXPENSES		
Instruction	63,820,411	62,965,180
Research	218,752	167,847
Public Service	1,720,962	1,888,279
Academic Support	14,544,592	13,065,454
Student Services	16,545,185	15,427,773
Institutional Support	21,891,667	20,479,261
Operations and Maintenance of Plant	17,830,518	16,955,011
Depreciation	9,235,241	8,965,285
Student Aid	7,114,004	7,125,700
Auxiliary Enterprises	19,577,414	19,148,386
Total Operating Expenses	172,498,746	166,188,176
OPERATING LOSS	(56,984,126)	(52,755,699)

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, 2018 AND 2017

	2018	2017
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	$ 37,823,109	$ 36,357,561
Commonwealth On-Behalf Contributions to PSERS	869,861	890,986
Pell Grants	11,495,975	10,190,502
Investment Income, Net of Related Investment Expense of $19,138 in 2018 and $16,861 in 2017	1,975,930	1,239,189
Interest Expense on Capital Asset-Related Debt	(1,598,397)	(1,474,978)
Loss on Disposal of Assets	-	(7,303)
Other Nonoperating Revenue	123,419	104,862
Nonoperating Revenues, Net	50,689,897	47,300,819
LOSS BEFORE OTHER REVENUES	(6,294,229)	(5,454,880)
OTHER REVENUES		
State Appropriations, Capital	1,408,354	1,246,837
Other Gifts and Grants	70,886	340,761
Total Other Revenues	1,479,240	1,587,598
DECREASE IN NET POSITION (DEFICIT)	(4,814,989)	(3,867,282)
Net Position (Deficit) - Beginning of Year	(6,189,713)	(2,322,431)
Restatement for July 1, 2017, OPEB Liabilities and Related Expenses	(91,483,713)	-
Net Position (Deficit) - Beginning of Year, Restated	(97,673,426)	(2,322,431)
NET POSITION (DEFICIT) - END OF YEAR	$ (102,488,415)	$ (6,189,713)

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 73,608,276	$ 72,340,129
Grants and Contracts	14,757,800	13,587,312
Payments to Suppliers for Goods and Services	(38,274,187)	(37,510,769)
Payments to Employees	(105,737,950)	(102,324,612)
Loans Issued to Students	(1,044,397)	(753,345)
Loans Collected from Students	549,901	511,525
Student Aid	(7,226,469)	(7,240,148)
Auxiliary Enterprise Charges	23,673,794	23,334,831
Sales and Services of Educational Departments	2,387,400	2,661,616
Other Operating Receipts	2,118,019	1,753,650
Net Cash Used by Operating Activities	(35,187,813)	(33,639,811)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	37,823,109	36,357,561
Gifts and Nonoperating Grants for Other than Capital Purposes	11,495,975	10,190,502
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	82,462,648	78,959,586
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(82,462,648)	(78,959,586)
Agency Transactions	635	966
Other	123,419	104,862
Net Cash Provided by Noncapital Financing Activities	49,443,138	46,653,891
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	31,706,636	24,019,231
Capital Appropriations	1,408,354	1,246,837
Capital Grants and Gifts Received	70,886	340,761
Purchases of Capital Assets	(26,474,829)	(8,950,536)
Principal Paid on Debt and Leases	(23,193,181)	(11,289,373)
Interest Paid on Debt and Leases	(2,361,369)	(1,842,646)
Net Cash Provided (Used) by Capital Financing Activities	(18,843,503)	3,524,274
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	1,877,953	1,180,508
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,710,225)	17,718,862
Cash and Cash Equivalents - Beginning of Year	103,920,981	86,202,119
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 101,210,756	$ 103,920,981

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, 2018 AND 2017

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	$ (56,984,126)	$ (52,755,699)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	9,235,241	8,965,285
Expenses Paid by Commonwealth or Donor	869,861	890,986
Changes in Assets and Liabilities:		
Receivables	60,917	(395,330)
Inventory	39	(2,042)
Other Assets	(630,372)	(430,685)
Accounts Payable	2,011,489	27,366
Unearned Revenue	(286,917)	(81,358)
Students' Deposit	102,835	16,378
Compensated Absences	385,528	303,912
Loans to Students and Employees	(494,496)	(241,820)
Postretirement Benefits Liability (OPEB)	(3,974,028)	2,982,430
Defined Benefit Pensions	(4,257,167)	10,137,731
Other Liabilities	153,858	95,689
Deferred Outflows of Resources Related to Pension	6,259,776	(4,561,404)
Deferred Outflows of Resources Related to OPEB	(4,592,681)	-
Deferred Inflows of Resources Related to Pension	1,919,664	1,408,750
Deferred Inflows of Resources Related to OPEB	15,032,766	-
Net Cash Used by Operating Activities	$ (35,187,813)	$ (33,639,811)
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND CAPITAL FINANCING ACTIVITIES		
Capital Assets Acquired by New Capital Leases	$ 26,813	$ 31,555
Commonwealth On-Behalf Contributions to PSERS	$ 869,861	$ 890,986

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, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 19,336,041	$ 18,060,309
Investments	31,292,466	28,900,178
Accounts Receivable, Other	357,641	615,680
Pledges Receivable	992,751	969,200
Prepaid Expenses	19,301	20,998
Inventories	676,564	681,142
Total Current Assets	52,674,764	49,247,507
NONCURRENT ASSETS		
Capital Assets, Net	107,019,519	106,774,598
Other Assets	13,886,748	11,929,939
Total Noncurrent Assets	120,906,267	118,704,537
Total Assets	$ 173,581,031	$ 167,952,044
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 4,603,350	$ 101,371
Due to University	1,290,347	1,300,645
Annuity Liabilities	460,321	522,558
Other Liabilities	766,473	779,204
Total Current Liabilities	7,120,491	2,703,778
NONCURRENT LIABILITIES		
Notes Payable	109,871,888	113,317,569
Total Liabilities	116,992,379	116,021,347
NET ASSETS		
Unrestricted	25,683,710	23,292,381
Temporarily Restricted	12,692,706	11,308,964
Permanently Restricted	18,212,236	17,329,352
Total Net Assets	56,588,652	51,930,697
Total Liabilities and Net Assets	$ 173,581,031	$ 167,952,044

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, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 572,667	$ 1,226,883
Investment Income	242,435	36,865
Rental Income	14,666,840	14,663,633
Sales and Service	4,443,346	4,175,494
Student Activity Fees	2,510,283	2,436,874
Other Revenues	2,866,404	2,158,464
Net Assets Released from Restriction	2,200,346	2,789,160
Total Revenues and Other Additions	27,502,321	27,487,373
EXPENSES AND OTHER DEDUCTIONS		
Program Services:		
Scholarships and Grants	2,087,895	1,887,503
Student Activities	3,782,828	3,785,351
University Store	2,612,560	2,747,770
Housing	13,804,945	14,563,557
Other University Support	1,071,783	974,744
Management and General	949,910	897,744
Fundraising	771,299	704,901
Actuarial Losses on Annuities Payable	29,772	57,553
Total Expenses and Other Deductions	25,110,992	25,619,123
Change in Unrestricted Net Assets	2,391,329	1,868,250
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,411,727	1,343,763
Investment Income	2,418,374	3,299,584
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,446,359)	(2,886,452)
Change in Temporarily Restricted Net Assets	1,383,742	1,756,895
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	882,884	699,025
INCREASE IN NET ASSETS	4,657,955	4,324,170
Net Assets - Beginning of Year	51,930,697	47,606,527
NET ASSETS - END OF YEAR	$ 56,588,652	$ 51,930,697

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 14 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, 2018 and 2017.

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 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 $144,983 and $59,781 during the years ended June 30, 2018 and 2017, respectively. The financial activity of the Foundation is presented as of June 30, 2018 and 2017.

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

Reporting Entity (Continued)

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 $863,002 and $932,029 during the years ended June 30, 2018 and 2017, respectively. SRUF has a payable to the University for expenses associated with the student housing project of $1,290,347 and $1,300,645 as of June 30, 2018 and 2017, respectively. The financial activity of SRUF is presented as of June 30, 2018 and 2017.

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, 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.

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.

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

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, 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.

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.

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

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.

Impairment of Capital Assets

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

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.

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

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 and other postemployment benefit (OPEB) plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension 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.

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.

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

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.

New Accounting Standards

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

	2017
Net Position - Beginning of Year, as Previously Reported	$ (6,189,713)
July 1, 2017, Balance of the OPEB Liabilities and and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(91,483,713)
Net Position - Beginning of Year, Restated	$ (97,673,426)

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	Association	Foundation	Housing	Total
Capital Assets, Net	$ 4,454,634	$ 2,934,361	$ 99,630,524	$ 107,019,519
Other Assets	14,132,246	34,004,963	18,424,303	66,561,512
Total Assets	$ 18,586,880	$ 36,939,324	$ 118,054,827	$ 173,581,031
Due to University	$ -	$ -	$ 1,290,347	$ 1,290,347
Long-Term Debt	-	-	109,871,888	109,871,888
Other Liabilities	655,760	553,229	4,621,155	5,830,144
Total Liabilities	$ 655,760	$ 553,229	$ 115,783,390	$ 116,992,379
Net Assets:				
Unrestricted	$ 17,931,120	$ 5,481,153	$ 2,271,437	$ 25,683,710
Temporarily Restricted	-	12,692,706	-	12,692,706
Permanently Restricted	-	18,212,236	-	18,212,236
Total Net Assets	$ 17,931,120	$ 36,386,095	$ 2,271,437	$ 56,588,652

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

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

	Association	Foundation	Housing	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	$ 630	$ 572,037	$ -	$ 572,667
Investment Income	70,086	-	172,349	242,435
Rental Income	-	108,627	14,558,213	14,666,840
Sales and Service	3,744,200	699,146	-	4,443,346
Student Activity Fees	2,510,283	-	-	2,510,283
Other Revenues	893,261	1,973,143		2,866,404
Net Assets Released from Restriction	-	2,200,346	-	2,200,346
Total Revenues and Other Additions	7,218,460	5,553,299	14,730,562	27,502,321
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	-	2,087,895	-	2,087,895
Student Activities	3,782,828	-	-	3,782,828
University Stores	2,612,560	-	-	2,612,560
Housing	-	-	13,804,945	13,804,945
Other University Support	-	1,071,783	-	1,071,783
Management and General	285,590	664,320		949,910
Fundraising	-	771,299	-	771,299
Actuarial Losses on Annuities Payable	-	29,772	-	29,772
Total Expenses and Other Deductions	6,680,978	4,625,069	13,804,945	25,110,992
Increase (Decrease) in Unrestricted Net Assets	537,482	928,230	925,617	2,391,329
Changes in Temporarily Restricted Net Assets				
Contributions	-	1,411,727	-	1,411,727
Investment Income	-	2,418,374	-	2,418,374
Net Assets Released from Restrictions	-	(2,446,359)	-	(2,446,359)
Increase in Temporarily Restricted Net Assets	-	1,383,742	-	1,383,742
Changes in Permanently Restricted Net Assets	-	882,884	-	882,884
CHANGES IN NET ASSETS	537,482	3,194,856	925,617	4,657,955
Net Assets - Beginning	17,393,638	33,191,239	1,345,820	51,930,697
NET ASSETS - ENDING	$ 17,931,120	$ 36,386,095	$ 2,271,437	$ 56,588,652

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 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 $99,361,932 and $102,552,603 at June 30, 2018 and 2017, 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, 2018 and 2017.

On June 30, 2018 and 2017, the carrying amount of the University's demand and time deposits were $1,848,824 and $1,368,378, respectively, as compared to bank balances of $1,670,492 and $1,265,574, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2018 and 2017, $250,000 was covered by federal government depository insurance; and $1,308,848 and $1,015,574, 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, 2018 and 2017, 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:

	2018	2017
Equity Securities - Level 1	$ 13,563,155	$ 12,271,882
Equity Securities - Level 2	11,283,752	10,619,569
Fixed Income - Level 1	1,765,705	2,022,784
Fixed Income - Level 2	4,491,454	3,797,543
Real Estate - Level 3	188,400	188,400
Total	$ 31,292,466	$ 28,900,178

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:

		2018				
	Life	Beginning Balance July 01, 2017	Additions	Retirements	Reclassifications	Ending Balance June 30, 2018
Land		$ 11,701	$ -	$ -	$ -	$ 11,701
Construction in Progress		2,430,664	19,237,208		(891,158)	20,776,714
Total Capital Assets not being Depreciated		2,442,365	19,237,208	-	(891,158)	20,788,415
Buildings, including Improvements	40	170,207,146	5,633,528	-	755,483	176,596,157
Improvements Other than Buildings	20	14,324,868	-	-	-	14,324,868
Furnishings and Equipment, Including Capital Leases	Varies	24,888,175	1,542,993	(674,028)	135,675	25,892,815
Library Books	10	6,614,310	87,913	(769)	-	6,701,454
Total Capital Assets being Depreciated		216,034,499	7,264,434	(674,797)	891,158	223,515,294
Less: Accumulated Depreciation:						
Buildings, including Improvements		(63,736,784)	(6,157,280)	-	-	(69,894,064)
Improvements Other than Buildings		(9,350,208)	(580,697)	-	-	(9,930,905)
Furnishings and Equipment, Including Capital Leases		(18,546,126)	(2,386,239)	674,028	-	(20,258,337)
Library Books		(6,116,634)	(111,025)	769	-	(6,226,890)
Total Accumulated Depreciation		(97,749,752)	(9,235,241)	674,797	-	(106,310,196)
Total Capital Assets being Depreciated, Net		118,284,747	(1,970,807)	-	891,158	117,205,098
Capital Assets, Net		$ 120,727,112	$ 17,266,401	$ -	$ -	$ 137,993,513

NOTE 5 CAPITAL ASSETS, NET (CONTINUED)

	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 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 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 $425,156 and $528,148 for the years ended June 30, 2018 and 2017, respectively. Future lease payments for operating leases are as follows:

Year Ending June 30,	Amount
2019	$ 244,596
2020	73,333
Total	$ 317,929

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2018	2017
Employees	$ 9,289,714	$ 9,172,920
Supplies and Services	2,971,104	2,624,799
Other	3,670,981	2,122,591
Interest	104,444	74,803
Total	$ 16,036,243	$ 13,995,113

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	2018	2017
Grants	$ 358,331	$ 203,983
Students	5,365,389	5,496,789
Auxiliary	620,135	930,000
Other	11,715	11,715
Total	$ 6,355,570	$ 6,642,487

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, 2018 and 2017 was $620,135 and $930,000, 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, 2018 and 2017 are as follows:

	2018				
	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AH issues in July 2008	4.68 %	6,320,918	-	(6,320,918)	-
Series AI issued in August 2008	4.27 %	238,314	-	(25,773)	212,541
Series AJ issued in July 2009	4.86 %	7,982,375	-	(522,647)	7,459,728
Series AL issued in July 2010	5.00 %	10,277,814	-	(580,493)	9,697,321
Series AM issued in July 2011	4.66 %	3,825,573	-	(199,314)	3,626,259
Series AQ issued in July 2015	4.32 %	951,087	-	(99,439)	851,648
Series AT issued in September 2016	4.12 %	8,591,872	-	(574,437)	8,017,435
Series AU issued in September 2017	3.51 %	-	29,182,906	(924,192)	28,258,714
Total Bonds Payable		$ 38,187,953	$ 29,182,906	$ (9,247,213)	$ 58,123,646

	2017				
	Weighted Average Interest Rate	Balance July 1, 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

NOTE 9 BONDS PAYABLE (CONTINUED)

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. and an A+ rating from Fitch Ratings, a downgrade from last year's AA- rating. In August 2018, both Moody's and Fitch revised their outlooks for the ratings from *negative to stable.*

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 ($13,298,828 and $17,539,964 was outstanding as of June 30, 2018 and 2017, 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, 2018 and 2017, the balance owed by the University to the State System's AFRP pool of funding was $1,168,268 and $1,540,841, 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		2019	2020	2021	2022	2023	2024-2028	2029-2033	2033-2038	Total
AI	Principal	$ 26,832	$ 27,892	$ 28,951	$ 30,363	$ 31,422	$ 67,081	$ -	$ -	$ 212,541
	Interest	9,176	8,103	6,952	5,722	4,393	4,560	-	-	38,906
	Total	36,008	35,995	35,903	36,085	35,815	71,641	-	-	251,447
AJ	Principal	548,916	576,240	605,673	635,106	666,983	3,613,570	813,240	-	7,459,728
	Interest	356,507	329,061	300,249	269,965	238,210	697,375	38,629	-	2,229,996
	Total	905,423	905,301	905,922	905,071	905,193	4,310,945	851,869	-	9,689,724
AL	Principal	609,938	639,384	671,633	705,285	740,339	4,296,210	2,034,532	-	9,697,321
	Interest	484,866	454,369	422,400	388,818	353,554	1,173,956	153,817	-	3,431,780
	Total	1,094,804	1,093,753	1,094,033	1,094,103	1,093,893	5,470,166	2,188,349	-	13,129,101
AM	Principal	207,427	217,658	228,594	239,882	251,876	1,450,581	1,030,241	-	3,626,259
	Interest	169,370	158,999	148,116	136,686	124,692	432,843	99,346	-	1,270,052
	Total	376,797	376,657	376,710	376,568	376,568	1,883,424	1,129,587	-	4,896,311
AQ	Principal	104,480	109,750	115,478	120,977	127,163	273,800	-	-	851,648
	Interest	42,582	37,358	31,871	26,097	20,048	20,701	-	-	178,657
	Total	147,062	147,108	147,349	147,074	147,211	294,501	-	-	1,030,305
AT	Principal	602,833	632,880	666,277	284,673	301,418	1,741,529	2,217,100	1,570,725	8,017,435
	Interest	375,653	345,511	313,867	280,554	266,320	1,090,465	614,358	127,400	3,414,128
	Total	978,486	978,391	980,144	565,227	567,738	2,831,994	2,831,458	1,698,125	11,431,563
AU	Principal	1,321,012	1,461,041	1,547,234	1,629,210	1,721,330	8,121,012	7,114,375	5,343,500	28,258,714
	Interest	1,110,285	1,052,269	987,340	917,656	843,409	3,120,872	1,486,955	416,865	9,935,651
	Total	2,431,297	2,513,310	2,534,574	2,546,866	2,564,739	11,241,884	8,601,330	5,760,365	38,194,365
Total	Principal	3,421,438	3,664,845	3,863,840	3,645,496	3,840,531	19,563,783	13,209,488	6,914,225	58,123,646
	Interest	2,548,439	2,385,670	2,210,795	2,025,498	1,850,626	6,540,772	2,393,105	544,265	20,499,170
	Total	$ 5,969,877	$ 6,050,515	$ 6,074,635	$ 5,670,994	$ 5,691,157	$ 26,104,555	$ 15,602,593	$ 7,458,490	$ 78,622,816

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, 2018 and 2017 as follows:

	2018	2017
Current Maturities of Capital Lease Obligations	$ 37,616	$ 29,836
Long-Term Maturities of Capital Lease Obligations	46,123	60,944
Amounts Representing Interest	(3,266)	(3,725)
Total	$ 80,473	$ 87,055

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, 2018:

Year Ending June 30,	Amount
2019	$ 37,616
2020	31,780
2021	13,240
2022	1,103
Total Minimum Lease Payments	83,739
Amounts Representing Interest	(3,266)
Present Value of Net Minimum Lease Payments	$ 80,473

NOTE 11 COMPENSATED ABSENCES

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

	2018		2017	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 193,786	$ 9,011,164	$ 359,543	$ 8,459,879

Changes in the compensated absences liability were as follows:

	2018	2017
Balance - July 1	$ 8,819,422	$ 8,515,510
Current Change in Estimate	1,276,075	1,172,266
Payouts	(890,547)	(868,354)
Balance - June 30	$ 9,204,950	$ 8,819,422

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB)

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

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

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

	System Plan		REHP		Premium Assistance		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	$109,058,027	$114,471,256	$66,347,120	*	$321,695	*	$175,726,842	$114,471,256
Deferred outflows of								
Net difference between projected and actual investment earnings on OPEB plan investments	$ -	N/A	–	*	$ 349	*	$ 349	*
Contributions after the measurement date	2,894,902	*	1,680,606	*	16,824	*	4,592,332	*
Total deferred outflows of resources	2,894,902	-	1,680,606	*	17,173	-	4,592,681	-
Deferred inflows of								
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	55,413	*	–	*	55,413	*
Changes in	8,913,656	*	6,045,127	*	14,996	*	14,973,779	*
Changes in proportion	N/A	N/A	–	*	3,574	*	3,574	*
Total deferred inflows of resources	$ 8,913,656	–	$ 6,100,540	–	$ 18,570	–	$ 15,032,766	–
OPEB expense	$ 4,385,243	$ 5,855,682	$ 3,080,016	$2,456,606	$ 26,484	$17,592	$ 7,491,743	$ 8,329,880
Contributions recognized by OPEB plans	N/A	N/A	$ 1,680,606	$2,456,606	$ 16,824	$17,592	$ 1,697,430	$ 2,474,198

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $2,894,902 for the System Plan, $1,680,606 for the REHP plan, and $16,824 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Fiscal Year Ended	System Plan	REHP	Premium Assistance
June 30, 2019	$1,782,731	$1,297,454	$3,227
June 30, 2020	$1,782,731	$1,297,454	2,964
June 30, 2021	$1,782,731	$1,297,454	2,964
June 30, 2022	$1,782,731	$1,297,454	2,964
June 30, 2023	$1,782,732	911,263	3,051
Thereafter		(539)	3,051

System Plan

Plan Description

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

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2018.

- Plan members who retired prior to July 1, 2005, are not required to make contributions.
- Plan members, with the exception of nonfaculty coaches, who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65, pay the same dollar amount they paid as active employees on the day of retirement. When these plan members become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually and future adjustments will apply if contributions increase for active employees.
- Plan members, with the exception of nonfaculty coaches, who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 2.75% of their final annual gross salary at the time of retirement.

Actuarial Assumptions and Other Inputs

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Inflation of 2.2%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.5% in 2018 through 2023, with rates gradually decreasing from 5.4% in 2024 to 3.9% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model. The healthcare cost trend rate was updated based on the Society of Actuaries Getzen Model.
- Annual salary increase of 4%, updated from 3%.
- 90% of employees are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2020 is 40% of the projected premiums in excess of the annual limits.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the RP-2014 Total Mortality Tables, which incorporate rates based on a generational projection using Scale MP-2017 to reflect mortality improvement, updated from Scale MP-2016.
- The discount rate increased from 2.49% to 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index.
- Participant data is based on census information as of July 1, 2016.
- Experience was last reviewed in 2012 for withdrawal and retirement. Experience for election percentages were reviewed in 2017. Neither of these reviews were published in a formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all retirees, regardless of employee bargaining unit when active and including those not represented when active, who meet years of service and/or age criteria.

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 90,298,323	$ 109,058,027	$ 133,542,619

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

Sensitivity of the System Plan's Proportionate Share of the University's Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	$ 128,537,503	$ 109,058,027	$ 93,680,998

OPEB Liability

The System Plan's total OPEB liability of $109,058,027 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

Changes in the System Plan Total OPEB Liability

	Fiscal Year Ending June 30, 2018
Balance at July 1, 2016	$ 114,471,256
Service Cost	2,656,913
Interest	2,154,571
Changes in Assumptions	(7,822,833)
Benefit Payments	(2,401,880)
Net Changes	(5,413,229)
Balance at July 1, 2017	$ 109,058,027

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP

Plan Description

The Retired Employees Health Program (REHP) is a single-employer defined benefit OPEB plan that includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement. The REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF), which acts as a third-party administrator under an agreement with the Commonwealth. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and the Secretary of Administration. The REHP does not have a governing board. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity, but is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The CAFR is an audited financial statement and is available at www.budget.pa.us.

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

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

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Plan Description (Continued)

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

Actuarial Assumptions and Other Inputs

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

- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0% in 2017 and 5.9% in 2018, with rates gradually decreasing to 3.9% in 2075 and later, based on the SOA-Getzen trend rate model version 2016_a.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2016.
- Projected benefits based on estimates of future years of service and projected health benefit costs.

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	47.0%	7.5%
International Equity	20.0%	8.5%
Fixed Income	25.0%	3.0%
Real Estate	8.0%	3.0%
Cash	0.0%	1.0%
Total	100.00%	

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 57,578,995	$ 66,347,120	$ 79,472,718

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

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	$ 77,737,281	$ 66,347,120	$ 58,792,522

Fiduciary Net Position

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

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance

Plan Description

The Health Insurance Premium Assistance Program (Premium Assistance) is a governmental cost sharing, multiple-employer OPEB plan administered by the administrative staff of PSERS. The members eligible to participate in the program include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The control and management of PSERS, including the investment of its assets, is vested in the Board of Trustees (PSERS Board). The Commonwealth's General Assembly has the authority to amend the benefit terms of PSERS by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

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

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

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

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

- Actuarial cost method was entry age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year and assume a trend rate of between 5% and 8%.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

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

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

- The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017, and 2.71% at June 30, 2016.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

- Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
Total	100.00%	

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

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

	Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	Healthcare Cost Trend Rates Between 4% and 7%	Healthcare Cost Trend Rates Between 5% and 8%	Healthcare Cost Trend Rates Between 6% and 9%
2018	$ 321,608	$ 321,695	$ 321,783

NOTE 12 OTHER POSTRETIREMENT BENEFITS (OPEB) (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

	Sensitivity of the Premium Assistance Net OPEB Net OPEB Liability to Changes in the Discount Rate		
	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	$ 365,634	$ 321,695	$ 285,167

Fiduciary Net Position

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

NOTE 13 PENSION BENEFITS

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

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

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NOTE 13 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Pension Liabilities	$ 64,943,670	$ 68,908,965	$ 7,783,898	$ 8,075,770	$ -	$ -	$ 72,727,568	$ 76,984,735
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,098,064	$ 994,688	$ 81,196	$ -	$ -	$ -	$ 1,179,260	$ 994,688
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	5,791,101	180,408	450,116	-	-	180,408	6,241,217
Changes in Assumptions	3,251,461	4,209,099	211,509	291,513	-	-	3,462,970	4,500,612
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	44,033	48,223	-	-	44,033	48,223
Changes in Proportion	1,552,623	1,070,915	139,418	229,014	-	-	1,692,041	1,299,929
Contributions after the Measurement Date	4,006,602	3,765,282	643,406	618,545	-	-	4,650,008	4,383,827
Total Deferred Outflows of Resources	$ 9,908,750	$ 15,831,085	$ 1,299,970	$ 1,637,411	$ -	$ -	$ 11,208,720	$ 17,468,496
Deferred Inflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,233,122	$ 1,541,766	$ 46,995	$ 67,300	$ -	$ -	$ 1,280,117	$ 1,609,066
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	2,582,125	-	-	-	-	-	2,582,125	-
Difference Between Employer Contributions and Proportionate Share of Contributions	375,070	319,740	-	-	-	-	375,070	319,740
Changes in Proportion	1,018,255	1,461,117	112,874	58,854	-	-	1,131,129	1,519,971
Total Deferred Inflows of Resources	$ 5,208,572	$ 3,322,623	$ 159,869	$ 126,154	$ -	$ -	$ 5,368,441	$ 3,448,777
Pension Expense	$ 11,353,711	$ 12,863,744	$ 1,592,551	$ 2,042,845	$ 3,515,725	$ 3,473,174	$ 16,461,987	$ 18,379,763
Contributions Recognized by Pension Plans	$ 7,510,722	$ 6,411,981	$ 643,406	$ 618,545	N/A	N/A	$ 8,154,128	$ 7,030,526

NOTE 13 PENSION BENEFITS (CONTINUED)

The University will recognize the $4,006,602 reported as 2018 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $643,406 reported as 2018 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ending June 30, 2019. 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, 2019	$ 1,458,576	$ 173,240
June 30, 2020	1,089,405	249,540
June 30, 2021	(586,846)	113,296
June 30, 2022	(1,313,317)	(39,381)
June 30, 2023	45,758	-

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.

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.

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 13 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.

The University contributed at actuarially determined rates of between 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016 were $7,511,000, $6,412,000, and $5,105,000, 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 13 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011–2015 was released in March 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 it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2017, measurement date.

- 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.
- No cost of living adjustments (COLAs).

NOTE 13 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and 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 allocation, are summarized below:

	December 31, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0 %	8.00%
Global Public Equity	43.0	5.30%
Real Assets	12.0	5.44%
Multi-Strategy	12.0	5.10%
Fixed Income	14.0	1.63%
Cash	3.0	(0.25)%
Total	100.0 %	

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

At its April 2017 meeting, the SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add Multi-strategy as a new asset class. Targets will be updated to reflect the new assumed investment rate of return and asset classes in the *2018-19 Investment Plan*.

NOTE 13 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The discount rate used to measure the total SERS pension liability was 7.25% as of December 31, 2017 and December 31, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% as of December 31, 2017 and December 31, 2016, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2017 and 2016) or one percentage point higher (8.25% in 2017 and 2016) 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%
2018	$ 82,433,771	$ 64,943,670	$ 49,961,372
	6.25%	7.25%	8.25%
2017	$ 85,278,049	$ 68,908,965	$ 54,891,203

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 accounting principles generally accepted in the United States of America as prescribed by GASB. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

NOTE 13 PENSION BENEFITS (CONTINUED)

Proportionate Share

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017 was $64,943,670. 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.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/2019, from the December 31, 2017 funding valuation, to the expected funding payroll. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018, from the December 31, 2016 funding valuation, to the expected funding payroll. At the December 31, 2017, measurement date, the State System's proportion was 4.906%, a decrease of 0.07% from its proportion calculated as of the December 31, 2016, measurement date.

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public University employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public University employees, part-time hourly public University employees who render at least 500 hours of service in the University year, and part-time per diem public University employees who render at least 80 days of service in the University year in any of the reporting entities in Pennsylvania. The Public University 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. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval.

The Code requires contributions by active members, the employer (State System), and the Commonwealth 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.

NOTE 13 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided

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

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

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

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

Member Contributions

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

NOTE 13 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2018, was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 15.86% of covered payroll. The University's contribution to PSERS for the years ended June 30, 2018, June 30, 2017 and June 30, 2016 was $643,406, $618,545, and $534,476, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation, and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

NOTE 13 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017 and 2016:

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

	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	100.0 %	

NOTE 13 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The discount rate used to measure the total PSERS pension liability was 7.25% as of June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as of June 30, 2018 and June 30, 2017, 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 2018 and 2017) or one percentage point higher (8.25% in 2018 and 2017) 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%
2018	$ 9,581,359	$ 7,783,897	$ 6,266,402
	6.25%	7.25%	8.25%
2017	$ 9,878,812	$ 8,075,770	$ 6,560,596

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 13 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Proportionate Share

At June 30, 2018 and 2017, the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	2018	2017
Total PSERS Net Pension Liability Associated with the University	$ 15,567,796	$ 16,151,540
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	7,783,898	8,075,770
University's Proportionate Share of the PSERS Net Pension Liability	$ 7,783,898	$ 8,075,770

PSERS measured the 2018 and 2017 net pension liabilities as of June 30, 2017, and June 30, 2016, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2017, the State System's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2016.

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, 2018 and 2017 was 9.2% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017 were approximately $3,515,725 and $3,473,000, respectively, from the University and $1,889,469 and $1,865,000, respectively, from active members. No liability is recognized for the ARP.

NOTE 14 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 contributed $130,077 and received a refund of $39,135 from the Reserve Fund for the years ended June 30, 2018 and 2017, 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
2018	$ 667,694	$ -	$ 155,635	$ 823,329
2017	696,361	-	(28,667)	667,694

NOTE 15 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 $3,050,821 at June 30, 2018 and $2,893,018 at June 30, 2017.

NOTE 15 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 that 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, 2018 and 2017, the Foundation held $18,212,236 and $17,329,352 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 2018 and 2017 fiscal years, the Foundation provided the following support to the University:

	2018	2017
Scholarships	$ 2,087,895	$ 1,887,503
Support of University Programs	1,071,783	974,744

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 $394,306 and $126,618 in 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017, the University paid the Foundation $996,000 and $964,803, 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, 2018 and 2017, the Association received $2,510,283 and $2,436,874, respectively, in student activity fees from the University.

NOTE 16 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 14). 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, 2018 and 2017 were $11,713,837 and $6,289,827, respectively.

Cheyney University Loan Forgiveness

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

NOTE 16 CONTINGENCIES (CONTINUED)

Cheyney University has been borrowing the funds under a line-of-credit arrangement from the State System's pooled investment account since fiscal year 2013/14. The loans have been shown only at the consolidated State System financial statements level, as a reduction of the pooled investment account, since the expectation has been that Cheyney would repay the loans and the individual universities would not be affected. 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 17 RATINGS ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc., as well as an A+ rating from Fitch Ratings, a downgrade from last year's AA- rating. In August 2018, both Moody's and Fitch revised their outlooks for the ratings from *negative* to *stable*.

NOTE 18 SUBSEQUENT EVENTS

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of $102,345,000 and Series AV-2 taxable revenue bonds in the amount of $134,600,000. The net proceeds from the Series AV-1 revenue bonds were used to finance a capital project at West Chester University and to current refund Series AG and a significant portion of Series AI revenue bonds. The refunding was performed to reduce debt service by approximately $2,700,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2,400,000. The net proceeds from the Series AV-2 revenue bonds were used to acquire student housing facility at Shippensburg University. 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
JUNE 30, 2018 AND 2017
(UNAUDITED)

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

Fiscal Year	State 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%
2017/18	4.9059%	64,944	23,663	274.5%	63.0%

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%
2017/18	7,511	7,511	-	23,998	31.30%

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018 AND 2017
(UNAUDITED)

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

Fiscal Year	PSERS Net Pension Liability: State Systems Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Net Fiduciary as a % of 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%
2017/18	0.1811%	7,784	7,784	15,568	4,056	200%	51.8%

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%
2017/18	643	643	-	4,056	15.9%

SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2018 AND 2017
(UNAUDITED)

University System Plan OPEB Liability
Determined as of the June 30 measurement dates

Changes in the System Plan Total OPEB Liability		Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	$	114,471,256
Service Cost		2,656,913
Interest		2,154,571
Changes in Assumptions		(7,822,833)
Benefit Payments		(2,401,880)
Net Changes		(5,413,229)
Total OPEB Liability - Ending Balance	$	109,058,027
Covered Employee Payroll	$	44,237,798
OPEB Liability as a Percent of Covered Payroll		246.53%

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

Schedule of Proportionate Share of REHP Net OPEB Liability
Determined as of June 30, REHP's Measurement Date
(in Thousands)

Fiscal Year	State System's Proportion	University's Proportion Share	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.374%	$ 66,347	$ 9,045	734%	1.4%

REHP Schedule of Contributions
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 1,681	$ 1,681	$ -	$ 11,487	14.6%

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2018 AND 2017
(UNAUDITED)

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

	PSERS Net OPEB Liability					University's Proportionate Share of Net OPEB Liability as a % of Covered-Employee Payroll	PERS Fiduciary Net Position as a % of Total OPEB Liability
Fiscal Year	State Systems Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered-Employee Payroll		
2017/18	0.1811%	$ 322	$ 322	$ 644	$ 4,205	7.7%	5.7%

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%
2017/18	643	643	-	4,056	15.9%