SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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

Council of Trustees
Shippensburg University of Pennsylvania
of the State System of Higher Education

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Shippensburg University Student Services, Inc. (Student Services) and Shippensburg University Foundation (the Foundation), the discretely presented component units of the University, which represent 100%, 100%, and 100%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit 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
Shippensburg University of Pennsylvania
of the State System of Higher Education

Opinions

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

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the schedules of funding progress for the system plan and REHP (OPEB) on page 57 and the schedules of proportionate share of SERS/PSERS net pension liability and SERS/PSERS schedules of contributions on page 58, 59, and 60 to 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
November 6, 2017

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 80,678,280	$ 79,814,666
Accounts Receivable:		
Governmental Grants and Contracts	1,246,430	1,144,768
Students, Net of Allowance for Doubtful Accounts of approximately $1,149,000, in 2017 and $888,000, in 2016	1,905,796	1,646,068
Other	1,043,707	675,460
Interest Income Receivable	165,460	121,849
Inventory	140,939	160,529
Prepaid Expenses and Other Current Assets	1,205,418	1,345,032
Loans Receivable	502,272	505,278
Due from Component Unit	5,647,750	5,589,152
Total Current Assets	92,536,052	91,002,802
NONCURRENT ASSETS		
Loans Receivable	2,394,429	2,321,739
Capital Assets, Net	93,772,033	98,572,127
Due from Component Unit	1,620,479	1,633,138
Other Assets	139,862	374,847
Total Noncurrent Assets	97,926,803	102,901,851
Total Assets	190,462,855	193,904,653
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	207,296	234,660
Deferred Outflows from Pension Activities	16,299,419	12,959,253
Total Deferred Outflows of Resources	16,506,715	13,193,913
Total Assets and Deferred Outflows of Resources	$ 206,969,570	$ 207,098,566

See accompanying Notes to Financial Statements.

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 10,114,927	$ 10,117,088
Unearned Revenue	3,391,570	3,633,593
Students' Deposits	660,906	858,163
Other Deposit Liabilities	411,363	321,574
Workers' Compensation	318,968	333,004
Compensated Absences	628,604	444,284
Bonds Payable	3,239,313	3,070,323
Due to System, Academic Facilities Renovation Bond Program (AFRP)	312,185	319,165
Due to Component Unit	420,295	401,261
Other Liabilities	196,757	146,605
Total Current Liabilities	19,694,888	19,645,060
NONCURRENT LIABILITIES		
Unearned Revenue	71,952	1,271,765
Workers' Compensation	327,845	382,510
Compensated Absences and Postretirement Benefit Obligations	86,152,707	83,080,904
Bonds Payable	39,033,380	42,272,694
Net Pension Liability	71,873,768	66,878,121
Capital Lease	18,200	-
Due to System, AFRP	999,424	1,311,608
Other Noncurrent Liabilities	2,717,295	2,866,988
Total Noncurrent Liabilities	201,194,571	198,064,590
Total Liabilities	220,889,459	217,709,650
DEFERRED INFLOWS OF RESOURCES		
Deferred Charge on Refunding	61,218	68,890
Deferred Inflows from Pension Activities	3,264,590	2,077,394
Total Deferred Inflows of Resources	3,325,808	2,146,284
NET POSITION		
Net Investment in Capital Assets	50,310,648	51,764,107
Restricted for:		
Expendable:		
Scholarships and Fellowships	124,000	-
Capital Projects	8,311,915	7,857,287
Nonexpendable:		
Student Loans	452,671	539,883
Unrestricted	(76,444,931)	(72,918,645)
Total Net Position	(17,245,697)	(12,757,368)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 206,969,570	$ 207,098,566

See accompanying Notes to Financial Statements.

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

	2017	2016
OPERATING REVENUES		
Tuition and Fees	$ 70,966,129	$ 65,605,365
Less: Scholarship Discounts and Allowances	15,571,672	14,355,510
Net Tuition and Fees	55,394,457	51,249,855
Auxiliary Enterprises	24,841,011	25,508,647
Less: Scholarship Discounts and Allowances	141,257	107,567
Net Auxiliary Enterprises	24,699,754	25,401,080
Governmental Grants and Contracts:		
Federal	2,395,157	2,186,110
State	10,074,690	9,590,357
Nongovernmental Grants and Contracts	2,004,950	1,688,903
Sales and Services of Educational Departments	2,079,087	2,243,067
Other Revenues	1,133,125	531,281
Total Operating Revenues	97,781,220	92,890,653
OPERATING EXPENSES		
Instruction	51,159,056	47,855,390
Research	528,923	700,441
Public Service	6,516,844	5,498,215
Academic Support	13,726,429	13,546,677
Student Services	13,301,441	12,770,163
Institutional Support	16,243,394	15,796,827
Operations and Maintenance of Plant	9,708,150	9,594,702
Depreciation	9,024,968	9,058,770
Student Aid	3,235,513	3,137,306
Auxiliary Enterprises	19,337,348	20,486,175
Total Operating Expenses	142,782,066	138,444,666
OPERATING LOSS	(45,000,846)	(45,554,013)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	29,662,989	28,348,140
Commonwealth On-Behalf Contributions to PSERS	680,282	549,109
Pell Grants	8,005,201	7,906,230
Investment Income, Net of Related Investment Expenses of $16,359 in 2017 and $16,685 in 2016	1,278,156	1,095,951
Interest Expense	(1,674,049)	(1,751,825)
Gain/(Loss) on Disposal of Capital Assets, Net	7,629	(4,799)
Other Nonoperating Revenue	114,062	97,952
Nonoperating Revenues, Net	38,074,270	36,240,758
LOSS BEFORE OTHER REVENUES	(6,926,576)	(9,313,255)
OTHER REVENUES		
State Appropriations, Capital	1,155,564	1,082,150
Capital Gifts and Grants	1,282,683	910,994
Total Other Revenues	2,438,247	1,993,144
CHANGES IN NET POSITION	(4,488,329)	(7,320,111)
Net Position - Beginning of Year	(12,757,368)	(5,437,257)
NET POSITION - END OF YEAR	$ (17,245,697)	$ (12,757,368)

See accompanying Notes to Financial Statements.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	$ 53,907,939	$ 51,052,445
Grants and Contracts	13,875,145	13,360,590
Payments to Suppliers for Goods and Services	(32,279,103)	(32,504,446)
Payments to Employees	(92,135,380)	(89,945,985)
Loans Issued to Students	(368,550)	(491,859)
Loans Collected from Students	298,866	328,992
Student Aid	(3,243,381)	(3,145,095)
Auxiliary Enterprise Charges	24,254,281	24,629,099
Sales and Services of Educational Departments	2,402,455	1,919,699
Other Payments	1,332,001	425,014
Net Cash Used by Operating Activities	(31,955,727)	(34,371,546)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, including Federal ARRA	29,662,989	28,348,140
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	8,005,201	7,906,230
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	60,695,870	59,442,250
Pell Grant	(60,695,870)	(59,442,250)
Agency Transactions, Net	89,789	17,128
Other	114,062	97,952
Net Cash Provided by Noncapital Financing Activities	37,872,041	36,369,450
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Debt	-	3,455,335
Capital Appropriations	1,155,564	1,082,150
Capital Gifts and Grants Received	830,959	432,584
Proceeds from Sale of Capital Assets	15,749	12,769
Purchases of Capital Assets	(3,237,596)	(3,490,942)
Principal Paid on Debt and Leases	(2,989,652)	(6,115,057)
Interest Paid on Debt and Leases	(2,062,269)	(2,251,232)
Net Cash Used by Capital Financing Activities	(6,287,245)	(6,874,393)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,234,545	1,078,795
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	863,614	(3,797,694)
Cash and Cash Equivalents - Beginning of Year	79,814,666	83,612,360
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 80,678,280	$ 79,814,666

See accompanying Notes to Financial Statements.

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

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (45,000,846)	$ (45,554,013)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	9,024,968	9,058,770
Expenses paid by Commonwealth or Donor	680,282	549,109
Changes in Assets and Liabilities:		
Receivables, Net	(38,022)	(461,235)
Inventories	19,590	(19,371)
Other Assets	(362,955)	58,098
Accounts Payable	(514,598)	(1,916,670)
Unearned Revenue	(1,441,837)	(299,885)
Students' Deposits	(197,256)	69,908
Compensated Absences	178,226	145,481
Loans to Students	(69,684)	(162,867)
Other Liabilities	5,766,405	4,161,129
Net Cash Used by Operating Activities	$ (31,955,727)	$ (34,371,546)
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL FINANCING ACTIVITIES		
Accounts Payable Incurred for Capital Assets	$ 518,072	$ 593,350
Donated Furniture and Equipment	$ 451,724	$ 478,410
Commonwealth on-behalf Contributions to PSERS	$ 680,282	$ 549,109
Capital Assets Acquired by Capital Leases	$ 25,602	$ -

See accompanying Notes to Financial Statements.

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

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 3,345,551	$ 2,327,203
Accounts Receivable	551,788	542,582
Pledges Receivable	1,140,013	1,467,424
Due from University	420,295	401,261
Other Current Assets	7,486,556	7,238,877
Total Current Assets	12,944,203	11,977,347
NONCURRENT ASSETS		
Capital Assets, Net	144,533,772	149,313,791
Investments	71,238,445	68,659,359
Total Noncurrent Assets	215,772,217	217,973,150
Total Assets	$ 228,716,420	$ 229,950,497
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 2,412,199	$ 1,450,000
Accounts Payable and Accrued Expenses	2,220,750	3,905,308
Other Deposit Liabilities	98,864	87,886
Annuity Liabilities	2,228,911	2,344,407
Due to University	7,268,229	7,222,290
Other Current Liabilities	269,205	436,997
Total Current Liabilities	14,498,158	15,446,888
LONG-TERM DEBT	168,369,680	170,232,661
Total Liabilities	182,867,838	185,679,549
NET ASSETS		
Unrestricted	(4,271,218)	(1,184,269)
Temporarily Restricted	11,220,875	10,928,754
Permanently Restricted	38,898,925	34,526,463
Total Net Assets	45,848,582	44,270,948
Total Liabilities and Net Assets	$ 228,716,420	$ 229,950,497

See accompanying Notes to Financial Statements.

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

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	$ 270,826	$ 798,701
Investment Income	150,016	258,724
Housing Fees	15,490,232	15,171,400
Rental Income	2,894,145	3,103,200
Sales and Services	1,284,543	1,508,880
Student Activity Fees	2,993,453	2,984,488
Hotel Operations	2,323,187	1,330,877
Other Revenues	3,456,341	3,208,828
Net Assets Reclassification	404,808	-
Net Position Released from Restrictions	4,817,052	4,989,205
Total Revenues and Other Additions	34,084,603	33,354,303
EXPENSES AND OTHER DEDUCTIONS		
Program Expenses	24,372,223	24,334,257
Supporting Services Expenses	8,143,359	7,551,909
Student Activities	3,875,721	3,393,457
University Store	279,917	281,032
Management and General	500,332	879,300
Total Expenses and Other Deductions	37,171,552	36,439,955
Changes in Unrestricted Net Assets	(3,086,949)	(3,085,652)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,463,976	2,138,926
Investment Income	2,668,622	2,223,107
Other Additions	1,381,383	1,613,479
Net Assets Reclassification	(404,808)	-
Net Position Released from Restrictions	(4,817,052)	(4,989,205)
Changes in Temporarily Restricted Net Assets	292,121	986,307
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,440,176	1,367,339
Investment Income	2,928,635	(3,399,353)
Other	3,651	(99,648)
Changes in Permanently Restricted Net Assets	4,372,462	(2,131,662)
CHANGES IN NET ASSETS	1,577,634	(4,231,007)
Net Assets - Beginning of Year	44,270,948	48,501,955
NET ASSETS - END OF YEAR	$ 45,848,582	$ 44,270,948

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Shippensburg University of Pennsylvania of the State System of Higher Education (the University), a public four year institution located in Shippensburg, Pennsylvania, was founded in 1871. The University is one of fourteen universities of the Pennsylvania State System of Higher Education (State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

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

Reporting Entity

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

The University has determined that Shippensburg University Student Services, Inc. (Student Services) and the Shippensburg University Foundation (the Foundation) should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related.

Student Services is an independent, legally separate, tax-exempt entity organized under Section 501(c) (3) of the Internal Revenue Code, and is primarily responsible for the operations of student government and the University Store. Although the University does not control the resources of Student Services, the activities of Student Services are solely for the benefit of the University and its students. Because these resources are held by Student Services and can only be used to benefit the University and its students, Student Services is considered a component unit of the University and is discretely presented in the University’s financial statements. The financial activity of Student Services is presented as of June 30, 2017 and 2016.

The Foundation is an independent, legally separate, tax-exempt entity organized under Section 501(c) (3) of the Internal Revenue Code, and acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to activities of the University by the donors. Since 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 financial activity of the Foundation is presented as of June 30, 2017 and 2016.

Complete financial statements for Student Services and the Foundation may be obtained at the administrative office of each entity.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

Operating Revenues and Expenses

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

Net Position

The University maintains the following net position classifications:

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 – 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 assets are available for expenditure, the decision as to which assets are used first is left to the discretion of the University.

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

Cash Equivalents and Investments

The University considers all demand and time deposits and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift. The University classifies investments as short-term when they are readily marketable and intended to be converted to cash within one year.

Accounts and Loans Receivable

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

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

Inventory

Inventory consists mainly of supplies and fuel and is stated at the lower of cost or market, with cost being determined principally on the weighted average method.

Capital Assets

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

Buildings, equipment and furnishings acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All assets with a purchase cost, or fair value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. 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 Fashion Arches and Museum at the University maintains a collection of works of art, literary works, historical treasures, and artifacts. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service and are not capitalized; purchases of collection items are recorded as expenses in the University's financial statements in the period in which the items are acquired.

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

Impairment of Capital Assets

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

Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

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

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

- Deferred gain or loss on bond defeasance, which results when the carrying value of a defeased bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the University's proportion of expenses and liabilities to the pension as a whole, differences between the University's pension contributions and its proportionate share of contributions, and the University's pension contributions subsequent to the pension valuation measurement date.

Unearned Revenue

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

Compensated Absences

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

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

Pension Plans

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

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of University and University Business Officers (NACUBO), the University allocates the cost of scholarships, waivers, and other student financial aid between Scholarship discounts and allowances (netted against tuition and fees) and Student aid expense. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

The University, as a member of the State System, 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 disclosure 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

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will require the University to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the University's accrued postretirement healthcare liability, as calculated by the actuaries, was $76,842,758, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $77,525,260.

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

New Accounting Standards (Continued)

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

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

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

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

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

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

New Accounting Standards (Continued)

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

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

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

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

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

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

	2017		
	Student Services	The Foundation	Total
Due from University	$ 341,369	$ 78,926	$ 420,295
Capital Assets, Net	109,059,497	35,474,275	144,533,772
Investments	26,284,953	44,953,492	71,238,445
Other Assets	4,719,714	7,804,194	12,523,908
Total Assets	$ 140,405,533	$ 88,310,887	$ 228,716,420
Due to University	$ 5,540,929	$ 1,727,300	$ 7,268,229
Long-Term Debt	136,791,618	33,990,261	170,781,879
Other Liabilities	2,075,112	2,742,618	4,817,730
Total Liabilities	$ 144,407,659	$ 38,460,179	$ 182,867,838
Net Assets (Deficit):			
Unrestricted	$ (4,002,126)	$ (269,092)	$ (4,271,218)
Temporarily Restricted	-	11,220,875	11,220,875
Permanently Restricted	-	38,898,925	38,898,925
Total Net Assets (Deficit)	$ (4,002,126)	$ 49,850,708	$ 45,848,582

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	2016		
	Student Services	The Foundation	Total
Due from University	$ 322,451	$ 78,810	$ 401,261
Capital Assets, Net	112,477,587	36,836,204	149,313,791
Investments	26,953,163	41,706,196	68,659,359
Other Assets	3,900,286	7,675,800	11,576,086
Total Assets	$ 143,653,487	$ 86,297,010	$ 229,950,497
Due to University	$ 5,466,390	$ 1,755,900	$ 7,222,290
Long-Term Debt	138,117,999	33,564,662	171,682,661
Other Liabilities	2,520,171	4,254,427	6,774,598
Total Liabilities	$ 146,104,560	$ 39,574,989	$ 185,679,549
Net Assets (Deficit):			
Unrestricted	$ (2,451,073)	$ 1,266,804	$ (1,184,269)
Temporarily Restricted	-	10,928,754	10,928,754
Permanently Restricted	-	34,526,463	34,526,463
Total Net Assets (Deficit)	$ (2,451,073)	$ 46,722,021	$ 44,270,948

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining condensed statements of activities information for the component units for the years ended June 30:

	2017		
	Student Services	The Foundation	Total
Changes in Unrestricted Net Assets:			
Revenues and Other Additions:			
Contributions	$ -	$ 270,826	$ 270,826
Investment Income	(97,329)	247,345	150,016
Housing Fees	15,490,232	-	15,490,232
Rental Income	-	2,894,145	2,894,145
Sales and Services	1,284,543	-	1,284,543
Student Activity Fees	2,993,453	-	2,993,453
Hotel Operations	-	2,323,187	2,323,187
Other Revenues	376,116	3,080,225	3,456,341
Net Assets Reclassification	-	404,808	404,808
Net Assets Released from Restrictions	-	4,817,052	4,817,052
Total Revenues and Other Additions	20,047,015	14,037,588	34,084,603
Expenses and Other Deductions:			
Program Expenses	-	7,430,125	7,430,125
Supporting Services	-	8,143,359	8,143,359
Student Activities	3,875,721	-	3,875,721
University Housing	16,942,098	-	16,942,098
University Store	279,917	-	279,917
Management and General	500,332	-	500,332
Total Expense and Other Deductions	21,598,068	15,573,484	37,171,552
Decrease in Unrestricted Net Assets	(1,551,053)	(1,535,896)	(3,086,949)
Changes in Temporarily Restricted Net Assets:			
Contributions	-	1,463,976	1,463,976
Net Assets Reclassification	-	(404,808)	(404,808)
Investment Income	-	2,668,622	2,668,622
Other Additions	-	1,381,383	1,381,383
Net Assets Released from Restrictions	-	(4,817,052)	(4,817,052)
Increase in Temporarily Restricted Net Assets	-	292,121	292,121
Changes in Permanently Restricted Net Assets:			
Contributions	-	1,440,176	1,440,176
Investment Income	-	2,928,635	2,928,635
Other	-	3,651	3,651
Increase in Permanently Restricted Net Assets	-	4,372,462	4,372,462
CHANGES IN NET ASSETS	(1,551,053)	3,128,687	1,577,634
Net Assets - Beginning of Year	(2,451,073)	46,722,021	44,270,948
NET ASSETS - END OF YEAR	$ (4,002,126)	$ 49,850,708	$ 45,848,582

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

	2016		
	Student Services	The Foundation	Total
Changes in Unrestricted Net Assets:			
Revenues and Other Additions:			
Contributions	$ -	$ 798,701	$ 798,701
Investment Income	33,050	225,674	258,724
Housing Fees	15,171,400	-	15,171,400
Rental Income	-	3,103,200	3,103,200
Sales and Services	1,508,880	-	1,508,880
Student Activity Fees	2,984,488	-	2,984,488
Hotel Operations	-	1,330,877	1,330,877
Other Revenues	383,254	2,825,574	3,208,828
Net Assets Released from Restrictions	-	4,989,205	4,989,205
Total Revenues and Other Additions	20,081,072	13,273,231	33,354,303
Expenses and Other Deductions:			
Program Expenses	-	7,406,246	7,406,246
Supporting Services	-	7,551,909	7,551,909
Student Activities	3,393,457	-	3,393,457
University Housing	16,928,011	-	16,928,011
University Store	281,032	-	281,032
Management and General	879,300	-	879,300
Total Expense and Other Deductions	21,481,800	14,958,155	36,439,955
Decrease in Unrestricted Net Assets	(1,400,728)	(1,684,924)	(3,085,652)
Changes in Temporarily Restricted Net Assets:			
Contributions	-	2,138,926	2,138,926
Investment Income	-	2,223,107	2,223,107
Other Additions	-	1,613,479	1,613,479
Net Assets Released from Restrictions	-	(4,989,205)	(4,989,205)
Increase in Temporarily Restricted Net Assets	-	986,307	986,307
Changes in Permanently Restricted Net Assets:			
Contributions	-	1,367,339	1,367,339
Investment Income	-	(3,399,353)	(3,399,353)
Other	-	(99,648)	(99,648)
Decrease in Permanently Restricted Net Assets	-	(2,131,662)	(2,131,662)
CHANGES IN NET ASSETS	(1,400,728)	(2,830,279)	(4,231,007)
Net Assets - Beginning of Year	(1,050,345)	49,552,300	48,501,955
NET ASSETS - END OF YEAR	$ (2,451,073)	$ 46,722,021	$ 44,270,948

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 Universities 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 University's account as interest income. The University's portion of pooled funds totals $79,857,965 and $76,208,513 at June 30, 2017 and 2016, respectively.

Board *Policy 1986-02-A, Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable 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 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 and 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 Policy 1986-02-A, Investment, for a complete list of and more details on permissible investments and associated qualifications.)

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments, i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An *Aaa* rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with *Aa* indicate high quality obligations subject to very low credit risk; ratings that begin with *A* indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with *Baa* indicate medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers *1*, *2*, and *3*, with *1* indicating a higher ranking and *3* indicating a lower ranking within the category. For short-term obligations, a rating of *P-1* indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of P-2 indicates that issuers have a strong ability to repay short-term debt obligations.

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

Fair Value Hierarchy: GASB Statement No. 72, Fair Value Measurement and Application, requires that assets and liabilities 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at www.passhe.edu. The University had no local investments recorded at fair value as of June 30, 2017 and 2016.

University Local Deposits and Investments: As of June 30, 2017 and 2016, the carrying amount of the University's demand and time deposits were $816,215 and $761,969, respectively, as compared to bank balances of $587,861 and $1,049,972, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2017 and 2016, $500,000, was covered by federal government depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $87,861 and $299,972, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2017 and 2016, none of the University's demand and time deposits were exposed to foreign currency risk. The University also held $4,100 of petty cash as of June 30, 2017 and 2016.

NOTE 4 INVESTMENTS - COMPONENT UNITS

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

	2017	2016
Money Market Funds	$ 6,971,399	$ 18,191,523
Mutual Funds	21,527,556	20,511,954
Stocks and insurance contracts	19,596,243	16,785,396
Student Loans	792,429	758,886
Bonds	869,577	854,812
Real Estate	318,561	318,561
U.S. Treasury Bonds	19,303,442	9,295,708
Certificates of Deposit	1,637,663	1,842,312
Government-Sponsored Entity Bonds	221,575	100,207
Total	$ 71,238,445	$ 68,659,359

NOTE 5 CAPITAL ASSETS

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

	Estimated Lives in Years	Beginning Balance July 1, 2016	Additions	Retirements	Reclassifications	Ending Balance June 30, 2017
Capital Assets Not Being Depreciation:						
Land		$ 197,129	$ -	$ -	$ -	$ 197,129
Construction in Progress		2,744,723	836,336	(7,584)	(2,255,131)	1,318,344
Total Capital Assets Not Depreciated		2,941,852	836,336	(7,584)	(2,255,131)	1,515,473
Capital Assets Being Depreciated:						
Buildings, Including Improvements	20-40	167,939,461	2,282,604	-	2,255,131	172,477,196
Furnishings and Equipment, Including Capital Leases	3-10	32,894,830	1,086,431	(941,420)	-	33,039,841
Library Books	10	4,190,378	27,623	(2,531)	-	4,215,470
Total Capital Assets Being Depreciated		205,024,669	3,396,658	(943,951)	2,255,131	209,732,507
Less Accumulated Depreciation:						
Buildings, Including Improvements		(78,598,793)	(6,982,889)	-	-	(85,581,682)
Furnishings and Equipment, Including Capital Leases		(26,824,004)	(1,987,062)	940,884	-	(27,870,182)
Library Books		(3,971,597)	(55,017)	2,531	-	(4,024,083)
Total Accumulated Depreciation		(109,394,394)	(9,024,968)	943,415	-	(117,475,947)
Total Capital Assets Being Depreciated, Net		95,630,275	(5,628,310)	(536)	2,255,131	92,256,560
Capital Assets, Net		$ 98,572,127	$ (4,791,974)	$ (8,120)	$ -	$ 93,772,033

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Estimated Lives in Years	Beginning Balance July 1, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
Capital Assets Not Being Depreciation:						
Land		$ 197,129	$ -	$ -	$ -	$ 197,129
Construction in Progress		3,596,677	1,462,449	-	(2,314,403)	2,744,723
Total Capital Assets Not Depreciated		3,793,806	1,462,449	-	(2,314,403)	2,941,852
Capital Assets Being Depreciated:						
Buildings, Including Improvements	20-40	164,349,366	1,438,759	(163,067)	2,314,403	167,939,461
Furnishings and Equipment, Including Capital Leases	3-10	31,874,441	1,626,936	(606,547)	-	32,894,830
Library Books	10	4,160,148	34,558	(4,328)	-	4,190,378
Total Capital Assets Being Depreciated		200,383,955	3,100,253	(773,942)	2,314,403	205,024,669
Less Accumulated Depreciation:						
Buildings, Including Improvements		(71,766,163)	(6,981,254)	148,624	-	(78,598,793)
Furnishings and Equipment, Including Capital Leases		(25,416,039)	(2,011,387)	603,422	-	(26,824,004)
Library Books		(3,909,796)	(66,129)	4,328	-	(3,971,597)
Total Accumulated Depreciation		(101,091,998)	(9,058,770)	756,374	-	(109,394,394)
Total Capital Assets Being Depreciated, Net		99,291,957	(5,958,517)	(17,568)	2,314,403	95,630,275
Capital Assets, Net		$ 103,085,763	$ (4,496,068)	$ (17,568)	$ -	$ 98,572,127

NOTE 6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2017	2016
Employees	$ 8,152,402	$ 7,926,367
Suppliers and Services	248,479	727,429
Interest	77,203	82,838
Other	1,636,843	1,380,454
Total	$ 10,114,927	$ 10,117,088

NOTE 7 LEASES

The University has entered into operating lease agreements for certain office space and equipment. Lease expense was $1,765,345 for 2017 and $2,114,300 for 2016. Future minimum payments by year and in the aggregate, with initial or remaining terms of one year or more were as follows:

Year Ending June 30,	Amount
2018	$ 1,051,047
2019	714,397
2020	687,396
2021	356,530
2022	367,226
Thereafter	18,913,142
Total Minimum Lease Payments	$ 22,089,738

NOTE 8 BONDS AND NOTES PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on behalf of the University under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2017 and 2016 were as follows:

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

	2017				
	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AG Issued in 2007 to refund Series O and Series Q	4.81%	$ 449,801	$ -	$ 269,888	$ 179,913
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.66%	10,686,656	-	686,048	10,000,608
Series AJ Issued in 2009 for Various Capital Projects	4.88%	4,811,392	-	272,779	4,538,613
Series AK Issued in 2009 to Refund Series S	4.00%	177,824	-	41,926	135,898
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	8,911,653	-	534,118	8,377,535
Series AM Issued in 2011 for CUB Student Union	4.64%	9,099,865	-	430,054	8,669,811
Series AP Issued in 2014 to Refund Series Z and Series AA	4.51%	343,723	-	37,672	306,051
Series AQ issued in 2015 to refund Series AC and AE	4.70%	5,146,117	-	395,564	4,750,553
Series AS issued in 2016 to refund Series AF	3.72%	2,960,957	-	-	2,960,957
Total Bonds Payable		$ 42,587,988	$ -	$ 2,668,049	39,919,939
Plus: Unamortized Bond Premium Costs					2,352,754
Outstanding at End of Year					$ 42,272,693

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

	2016				
	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF Issued in 2007 for the Recreation Building and Reisner Dining Hall	5.00%	$ 3,479,018	$ -	$ 3,479,018	$ -
Series AG Issued in 2007 to refund Series O and Series Q	4.81%	706,002	-	256,201	449,801
Series AH Issued in 2008 for the Recreation Building and Reisner Dining Hall	4.66%	11,339,706	-	653,050	10,686,656
Series AJ Issued in 2009 for Various Capital Projects	4.88%	5,071,687	-	260,295	4,811,392
Series AK Issued in 2009 to Refund Series S	4.00%	218,087	-	40,263	177,824
Series AL Issued in 2010 for Various Capital Projects and to Refund Series T	5.00%	9,419,908	-	508,255	8,911,653
Series AM Issued in 2011 for CUB Student Union	4.64%	9,509,135	-	409,270	9,099,865
Series AP Issued in 2014 to Refund Series Z and Series AA	4.51%	380,752	-	37,029	343,723
Series AQ issued in 2015 to refund Series AC and AE	4.70%	5,158,057	-	11,940	5,146,117
Series AS issued in 2016 to refund Series AF	3.72%	-	2,960,957	-	2,960,957
Total Bonds Payable		$ 45,282,352	$ 2,960,957	$ 5,655,321	42,587,988
Plus: Unamortized Bond Premium Costs					2,755,029
Outstanding at End of Year					$ 45,343,017

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

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

Series		2018	2019	2020	2021	2022	2023-2027	2028-2031	Total
AG	Principal	$ 179,913	$ -	$ -	$ -	$ -	$ -	$ -	$ 179,913
	Interest	9,445	-	-	-	-	-	-	9,445
	Total	189,358	-	-	-	-	-	-	189,358
AH	Principal	720,418	756,164	793,284	826,281	859,277	4,913,689	1,131,495	10,000,608
	Interest	461,138	425,117	387,309	355,577	322,526	-	-	1,951,667
	Total	1,181,556	1,181,281	1,180,593	1,181,858	1,181,803	4,913,689	1,131,495	11,952,275
AJ	Principal	286,511	300,868	315,849	332,078	348,308	2,013,694	941,305	4,538,613
	Interest	217,178	202,853	187,809	172,017	155,413	-	-	935,270
	Total	503,689	503,721	503,658	504,095	503,721	2,013,694	941,305	5,473,883
AK	Principal	43,444	45,396	47,058	-	-	-	-	135,898
	Interest	5,436	3,698	1,882	-	-	-	-	11,016
	Total	48,880	49,094	48,940	-	-	-	-	146,914
AL	Principal	560,250	589,068	617,685	648,653	540,719	3,136,813	2,284,347	8,377,535
	Interest	418,877	390,864	361,411	330,527	298,094	-	-	1,799,773
	Total	979,127	979,932	979,096	979,180	838,813	3,136,813	2,284,347	10,177,308
AM	Principal	451,636	470,021	493,202	517,982	543,562	3,146,264	3,047,144	8,669,811
	Interest	401,850	383,785	360,284	335,623	309,724	-	-	1,791,266
	Total	853,486	853,806	853,486	853,605	853,286	3,146,264	3,047,144	10,461,077
AP	Principal	38,961	40,088	41,698	43,308	45,079	96,917	-	306,051
	Interest	13,272	12,104	10,500	8,832	7,100	-	-	51,808
	Total	52,233	52,192	52,198	52,140	52,179	96,917	-	357,859
AQ	Principal	457,042	479,839	503,943	529,810	555,648	2,224,271	-	4,750,553
	Interest	237,528	214,676	190,684	165,486	138,996	-	-	947,370
	Total	694,570	694,515	694,627	695,296	694,644	2,224,271	-	5,697,923
AS	Principal	124,403	276,072	281,184	286,297	293,113	1,699,888	-	2,960,957
	Interest	119,009	116,521	111,000	105,376	99,650	-	-	551,556
	Total	243,412	392,593	392,184	391,673	392,763	1,699,888	-	3,512,513
Total	Principal	2,862,578	2,957,516	3,093,903	3,184,409	3,185,706	17,231,536	7,404,291	39,919,939
	Interest	1,883,733	1,749,618	1,610,879	1,473,438	1,331,503	-	-	8,049,171
	Total	$ 4,746,311	$ 4,707,134	$ 4,704,782	$ 4,657,847	$ 4,517,209	$ 17,231,536	$ 7,404,291	$ 47,969,110

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program will provide $100,000,000 in funding over the next several years. The State System will issue bonds to provide a pool for funding for AFRP ($17,539,964 and $21,918,513 was outstanding as of June 30, 2017 and 2016). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. Changes in the balance under the AFRP pool of funding were as follows:

	2017	2016
Balance at July 1	$ 1,630,773	$ 2,090,509
Repayments	(319,164)	(459,736)
Balance at June 30	$ 1,311,609	$ 1,630,773

Bonds Payable - Component Unit

Student Services has constructed privatized student-housing facilities (Facilities) on the campus of Shippensburg University of Pennsylvania. The Facilities have been completed in two phases (Phase 1 and Phase 2). Funding for the Facilities has been provided by the net proceeds of revenue bonds issued by the Pennsylvania Higher Educational Facilities Authority (Authority). The facilities have been constructed on land leased from the University. Construction of phase one was completed in January 2013 and phase two was completed in August 2014.

The Authority has issued its Series 2011 Bonds in the amount of $69,760,000 pursuant to a Trust Indenture dated July 1, 2011 between the Authority and Manufacturers and Traders Trust Company (Trustee) to provide funding for the initial phase of the project. The Authority has loaned the proceeds of the Series 2011 Bonds to Student Services pursuant to a Loan Agreement also dated July 1, 2011. Student Services is obligated under the terms of the Loan Agreement to make payments in an amount that will be sufficient to fund the repayment of principal and interest on the Series 2011 bonds. The obligations under the Loan Agreement are collateralized by Student Services granting to the Trustee a first-priority mortgage lien on the project facilities, a first-priority security interest in the revenues and personal property and an assignment of contract documents.

The Authority has issued its Series 2012, Bonds in the amount of $65,025,000 pursuant to a Trust Indenture dated December 1, 2012, between the Authority and Manufacturers and Traders Trust Company (Trustee) to provide funding for the second phase of the project (Phase II Property). The Authority has loaned the proceeds of the Series 2012 Bonds to the Student Services pursuant to a Loan Agreement also dated December 1, 2012. Student Services is obligated under the terms of the Loan Agreement to make payments in an amount that will be sufficient to fund the repayment of principal and interest on the Series 2012 Bonds. The obligations under the Loan Agreement are collateralized by the first-priority mortgage lien on the project facilities, a first-priority security interest in the revenues and personal property and an assignment of contract documents dated as of July 1 2011, as amended by a first amendment to mortgage and security dates as of December 1, 2012.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable - Component Unit (Continued)

Under the terms of the Loan Agreement dated July 1, 2011, and First Supplemental Loan Agreement, interest payments are due on each March 25 and September 25 equivalent to the amount of interest due on the Bonds on the succeeding interest payment dates (April 1 and October 1). Principal payments are due on September 25 each year, commencing on September 25, 2014, in an amount equal to the principal amount of the Bonds maturing on the next October 1. However, the Bonds are subject to redemption as set forth in the Trust Indenture. While the Bonds remain outstanding, Student Services will pay the reasonable compensation and expenses of the Trustee. Student Services has also paid a closing fee of $5,000 to the Authority with respect to the Bonds on the date of issue and will pay an annual fee of $5,000 commencing on October 1, 2012 and on each October 1, thereafter, to and including October 1, 2044 (the date that all of the 2012 Bonds shall have become due and payable) or until the Bonds are no longer outstanding. The Loan Agreement requires Student Services to maintain a debt-service-coverage ratio of at least 1.20.

Under the terms of the Ground Lease Agreement (Lease Agreement), Student Services has leased the premises on which the student-housing project has been constructed. The term of the lease commenced on July 1, 2011 and will expire on June 30, 2053, such date being at least ten (10) years beyond the final maturity date of the Bonds or on such date on which all leasehold mortgages are satisfied. The lease is a net lease and requires Student Services to pay all costs required to be paid in connection with the ownership, occupancy, use or leasing of the premises.

Rent payments provided for in the Lease Agreement include a base rent of $15,000 per year commencing with the lease year beginning on July 1, 2012, and payable on June 25th of each lease year. For the lease year commencing on July 1, 2013, and on every July 1 thereafter, the base rent will increase by 3% of the base rent in effect for the immediately – preceding lease year. In addition to the base rent, commencing on July 1, 2012, a percentage rent equal to 25% of the net available cash flow, as defined in the Lease Agreement, is payable on or before 15 days following the delivery of Student Services' audited financial statements. The Lease Agreement also provides for a one-time, nonrecurring initial rental payment of $86,320 to reimburse the University for various costs incurred in connection with the lease. Beginning with the lease-year commencing on July 1, 2012, Student Services will also pay to the University a fee of .5% of the actual rental fees collected.

Rent payments for the Phase II Property provided for in the Lease Agreement include a base rent of $18,500 per year commencing with the lease year beginning on July 1, 2014, and payable on June 25th of each lease year. For the lease year commencing on July 1, 2015, and on every July 1 thereafter, the base rent will increase by 3.00% of the base rent in effect for the immediately-preceding lease year. In addition to the base rent, commencing on July 1, 2014, a percentage rent equal to 25% of the net available cash flow, as defined in the Lease Agreement, is payable on or before 15 days following the delivery of Student Services' audited financial statements. The Lease Agreement also provides for a one-time, nonrecurring initial rental payment of $38,500 to reimburse the University for various costs incurred in connection with the lease. Beginning with the lease year commencing on July 1, 2014, Student Services will also pay to the Lessor a fee of .5% of the actual rental fees collected.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Bonds Payable - Component Unit (Continued)

Under the terms of a Facility Management Agreement (Management Agreement), the University (Manager) will provide management services for the project. Duties of the Manager include the daily management and operation of the project including, but not limited to, collecting of rents, maintenance, marketing, and security services. The Management Agreement commences on January 1, 2013, and continues through June 30, 2018, subject to automatic renewals for not more than seven (7) successive five-year periods. Under the terms of the Management Agreement, Student Services will pay to the Manager all direct operating expenses of the project, and allocable portion of the Manager's indirect expenses for the performance of the duties there under, and any vendor-service contracts.

Long-term debt of Student Services consisted of the following at June 30:

	2017	2016
Authority Revenue Bonds, Series of 2011, maturing annually to 2043, in annual principal payments ranging from $100,000 to $47,950,000, with fixed interest rates ranging from 2.88% to 6.25%	$ 68,955,000	$ 69,315,000
Less: Unamortized Discount	(89,752)	(94,690)
Long-Term Debt	68,865,248	69,220,310
Authority Revenue Bonds, Series of 2012, maturing annually to 2044, in annual principal payments ranging from $1,090,000 to $32,655,000, with fixed interest rates ranging from 4.0% to 5.0%	63,390,000	64,480,000
Plus: Unamortized Premium	4,181,550	4,417,689
Long-Term Debt, Net of Discount	67,571,550	68,897,689
Total	$ 136,436,798	$ 138,117,999

The aggregate future principal payments on long-term debt as of June 30, 2017 are as follows:

Year Ending June 30,	Amount
2018	$ 1,585,000
2019	1,595,000
2020	2,105,000
2021	2,135,000
2022	2,345,000
Thereafter	122,580,000
Total	$ 132,345,000

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Notes Payable - Component Unit

The Foundation has issued a $16,900,000 tax exempt financing through Cumberland County Industrial Development Authority Revenue Note, Series A of 2013. This note is secured by mortgages on various properties owned by the Foundation. Beginning January 30, 2014 and continuing monthly through, May 30, 2020, interest-only payments are due on the unpaid principal. Beginning June 30, 2020, payments of principal and accrued interest will be due monthly through the maturity date due December 30, 2033. The interest rate through December 20, 2013 will be a fixed rate per annum of 3.37%, after which a fluctuating interest rate per annum equal to 65% of the sum of LIBOR rate plus 190 basis points or a fixed rate of interest per annum as quoted by the Bank will be paid.

The Foundation has issued a $5,600,000 tax exempt financing through Cumberland County Industrial Development Authority Revenue Note, Series B of 2013. This note is secured by mortgages on various properties owned by the Foundation. Beginning January 30, 2014 and continuing monthly through the maturity date of June 30, 2020, payments of principal plus accrued interest at a fixed rate of 3.37% per annum will be due.

The Foundation has issued a $1,360,000 note payable to Orrstown Bank, secured by first mortgage on 480 Baltimore Road; to mature January 2040 with a variable interest rate of Wall Street Prime with a floor of 5.00%, which was the rate at June 30, 2017 and 2016.

The Foundation has issued a $490,000 unsecured note payable to the McClelland's, Myers's and McHugh's, due upon the use or sale of the Baltimore Road property with a variable interest rate of 80% Wall Street Prime with a floor of 3.00% and ceiling of 6.00%. This loan was paid off in fiscal year 2016, the variable interest rate at June 30, 2015 was 3.25%.

In fiscal year 2015, the Foundation entered into a note payable with CNB Bank to finance construction of a 110 room Courtyard by Marriott hotel, parking lot, and other related improvements for $11,369,400. Beginning August 1, 2014 and continuing monthly through July 1, 2016, payments of interest only on the unpaid principal balance were due. Beginning August 1, 2016 and continuing monthly through July 1, 2021, payment of outstanding principal and interest are due based on a 25 year amortization schedule. The interest rate will be variable at the one-month LIBOR plus 2.75% through June 30, 2016, after it will be fixed at 4.5% through maturity.

In fiscal year 2016, The Foundation had a $3,000,000 unsecured revolving line of credit with F&M Trust; to expire December 2018. The line has a variable interest rate of 30-day LIBOR plus 225 basis points with a ceiling of 5.75% and a floor of 4.00%, which was the rate at June 30, 2017 and 2016.

NOTE 8 BONDS AND NOTES PAYABLE (CONTINUED)

Notes Payable - Component Unit (Continued)

The Foundation has issued two note payables to Ally Financial, secured by liens on vehicles, that both mature June 2022. The interest rate is fixed at 3.89%.

Long-term debt of the Foundation consisted of the following at June 30:

	2017	2016
Cumberland County Industrial Development Authority Revenue Note, Series A of 2013	$ 16,892,000	$ 16,892,000
Cumberland County Industrial Development Authority Revenue Note, Series B of 2013	2,672,658	3,611,393
Notes Payable to Orrstown Bank	1,185,138	1,212,869
CNB Bank	11,145,558	11,396,400
F&M Line of Credit	182,800	452,000
Note Payable to Ally Financial	34,742	-
Note Payable to Ally Financial	23,144	-
Total	32,136,040	33,564,662
Less: Debt Issuance Costs	(203,158)	(242,819)
	$ 31,932,882	$ 33,321,843

The aggregate future principal payments on long-term debt of the Foundation as of June 30, 2017 are as follows:

Year Ending June 30,	Amount
2018	$ 1,206,883
2019	1,247,718
2020	1,405,670
2021	1,399,174
2022	1,401,400
Thereafter	25,475,195
Total	$ 32,136,040

NOTE 9 UNEARNED REVENUE

Notes Payable - Component Unit (Continued)

Unearned revenue consisted of the following at June 30:

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 1,694,521	$ 71,952	$ 1,969,714	$ 1,271,765
Grants	310,799	-	808,789	-
Other	1,386,250	-	855,090	-
Total	$ 3,391,570	$ 71,952	$ 3,633,593	$ 1,271,765

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFIT OBLIGATIONS

Compensated absences and postretirement benefit obligations consisted of the following at June 30:

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 628,604	$ 8,627,446	$ 444,284	$ 8,633,540
Postretirement Benefit Obligations	-	77,525,261	-	74,447,364
Total	$ 628,604	$ 86,152,707	$ 444,284	$ 83,080,904

Changes in compensated absences are as follows:

	2017	2016
Balance at July 1	$ 9,077,824	$ 8,932,343
Current Changes in Estimate	1,034,560	685,693
Payouts	(856,334)	(540,212)
Balance at June 30	$ 9,256,050	$ 9,077,824

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Postretirement Benefits

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

System Plan

Plan Description

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

Funding Policy

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

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired July 1, 2005, or after pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to January 1, 2008, and who are under age 65 pay the same dollar amount they paid as active employees on the day of retirement. When annuitants become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rates changes annually and future adjustments will apply if contributions increase for active employees.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- Other eligible annuitants who retire after July 1, 2008, pay 18% of the plan premium in effect when they retired. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were $5,558,000 and $4,866,000, or approximately 10.8% and 10.4%, of the total premiums for the fiscal years ended June 30, 2017 and 2016, respectively.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following shows the components of the University's annual OPEB cost for the year and the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

	2017	2016
Annual Required Contribution	$ 6,774,441	$ 7,089,961
Interest on Net OPEB Obligation	2,898,733	2,774,243
Adjustment to Annual Required Contribution	(4,129,308)	(3,646,234)
Annual OPEB Cost (Expense)	5,543,866	6,217,970
Contributions Made	(2,465,969)	(2,613,212)
Increase in Net OPEB Obligation	3,077,897	3,604,758
Net OPEB Obligation, Beginning of Year	74,447,364	70,842,606
Net OPEB Obligation, End of Year	$ 77,525,261	$ 74,447,364

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

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 5,543,866	44.5%	$ 77,525,261
June 30, 2016	6,217,970	42.0%	74,447,364
June 30, 2015	6,260,283	42.6%	70,842,606

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2016, most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 76,842,759
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 76,842,759
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$ 41,149,125
UAAL as a Percentage of Covered Payroll	186.7%

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

Actuarial Methods and Assumptions

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

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

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth’s Office of Administration and the Governor’s Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member’s enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In 2016/17, the State System contributed $382 for each current active employee per biweekly pay period. The State System made contributions of $31,875,000, $37,026,000, and $30,765,000 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

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

NOTE 11 PENSION BENEFITS (CONTINUED)

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

2017

	SERS	PSERS	ARP	Total
Net Pension Liabilities	$ 65,707,788	$ 6,165,980	N/A	$ 71,873,768
Deferred Outflows of Resources	14,997,424	1,301,995	N/A	16,299,419
Deferred Inflows of Resources	3,168,270	96,320	N/A	3,264,590
Pension Expense	8,497,372	1,282,359	3,192,348	12,972,079
Contributions Made (pay-as-you-go)	5,734,144	522,628	3,192,348	9,449,120
Contributions Recognized by Pension Plans	5,734,145	522,627	N/A	6,256,772

2016

	SERS	PSERS	ARP	Total
Net Pension Liabilities	$ 61,338,691	$ 5,539,430	N/A	$ 66,878,121
Deferred Outflows of Resources	12,266,635	692,618	N/A	12,959,253
Deferred Inflows of Resources	2,043,351	34,043	N/A	2,077,394
Pension Expense	6,350,091	1,059,455	3,049,381	10,458,927
Contributions Made (pay-as-you-go)	4,868,101	408,080	3,049,381	8,325,562
Contributions Recognized by Pension Plans	2,088,962	408,080	N/A	2,497,042

Contributions are due to and recognized by SERS based on the pay date. Contributions are due to and recognized by PSERS on the accrual basis; i.e., when the benefit is earned by the employee.

SERS

Plan Description

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

Benefits Provided

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

NOTE 11 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 State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for fiscal year 2015/16 was 4.5% and will no longer apply effective July 1, 2017.

The State System contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were $5,734,144, $4,868,101, and $4,089,660, respectively, equal to the required contractual contribution.

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2016 and 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60% and 2.75%.
- Investment return of 7.25% and 7.50%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.6%, with a range of 3.70% to 8.90%, including inflation for fiscal year 2016.Salary increases based on an effective average of 5.7%, with a range of 3.85% to 9.05%, including inflation for fiscal year 2015.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

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

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2016 and 2015, are summarized below.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Assumptions (Continued)

December 31, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	16%	8.00%
Global Public Equity	43%	5.30%
Real Assets	12%	5.44%
Diversifying Assets	12%	4.75%
Fixed Income	14%	1.63%
Liquidity Reserve	3%	25.00%
	100.00%	

December 31, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	15%	8.50%
Global Public Equity	40%	5.40%
Real Assets	17%	4.95%
Diversifying Assets	10%	5.00%
Fixed Income	15%	1.50%
Liquidity Reserve	3%	0.00%
	100.00%	

The discount rate used to measure the total SERS pension liability was 7.25% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current and nonactive SERS members. Therefore, the long-term expected rate of return on SERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability calculated using the current discount rate as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Assumptions (Continued)

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

	2017	
1% Decrease	**Current Rate**	**1% Increase**
6.25%	**7.25%**	**8.25%**
$81,316,444	$65,707,788	$52,341,223
	2016	
1% Decrease	**Current Rate**	**1% Increase**
6.50%	**7.50%**	**8.50%**
$76,194,216	$61,338,691	$48,600,904

Fiduciary Net Position

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

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

At June 30, 2017 and 2016, the amount recognized as the University's proportionate share of the SERS net pension liability was $65,707,788 and $61,338,691, respectively. SERS measured the net pension liability as of December 31, 2016 and 2015.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2016 amounts, this methodology applies the contribution rates for fiscal year 2017/18 from the December 31, 2016, funding valuation to the expected funding payroll. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for Commonwealth fiscal year 2016/17 from the December 31, 2015, funding valuation to the expected funding payroll.

At December 31, 2016 and 2015, the State System's proportion was 4.837% and 4.721%, an increase of .116% from its proportion calculates as of the December 31, 2015, measurement date.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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

For the years ended June 30, 2017 and 2016, the University recognized SERS pension expense of $8,497,372 and $6,350,091, respectively. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the SERS pension were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 948,480	$ 1,470,142
Net Difference between Projected and Actual Investment Earnings	5,522,075	-
Changes of Assumptions	4,013,564	-
Changes in Proportions	1,021,165	1,393,241
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	304,887
Contributions After the Measurement Date	3,492,140	-
	$ 14,997,424	$ 3,168,270

At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the SERS pension were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 1,241,991	$ -
Net Difference between Projected and Actual Investment Earnings	6,245,422	-
Changes of Assumptions	1,822,354	-
Changes in Proportions	-	1,872,608
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	170,743
Contributions After the Measurement Date	2,956,868	-
	$ 12,266,635	$ 2,043,351

The University will recognize the $3,492,140 and $2,956,868 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the SERS net pension liability in the years ending June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2017 will be recognized in SERS pension expense as follows:

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

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

Year Ending June 30,	Amortization
2018	$ 2,607,321
2019	2,607,321
2020	2,272,763
2021	755,366
2022	94,243
Total	$ 8,337,014

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–9102) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended. The Code requires contributions by active members, the employer (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.

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.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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.

Employer Contributions

The University’s contractually required contribution rate for PSERS for fiscal years ended June 30, 2017 and 2016, was 29.2% and 25% of covered payroll ,respectively, 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 10.25% of covered payroll. The University’s contribution to PSERS for the years ending June 30, 2017 and 2016 was $522,628 and $408,080.

Actuarial Assumptions

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

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

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

June 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.50%	5.00%
Fixed Income	28.50%	6.50%
Commodities	8.00%	4.70%
Absolute Return	10.00%	2.00%
Risk Parity	10.00%	1.40%
Infrastructure/MLPS	5.00%	1.20%
Real Estate	12.00%	1.70%
Alternative Investments	15.00%	0.90%
Cash	3.00%	4.80%
Financing (LIBOR)	-14.00%	1.10%
	100.00%	

June 30, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	22.00%	5.00%
Private Markets (Equity)	15.00%	6.50%
Private Real Estate	12.00%	4.70%
Global Fixed Income	7.50%	2.00%
U.S. Long Treasuries	3.00%	1.40%
TIPS	12.00%	1.20%
High-yield Bonds	6.00%	1.70%
Cash	3.00%	0.90%
Absolute Return	10.00%	4.80%
Risk Parity	10.00%	3.90%
MLPs/Infrastructure	5.00%	5.30%
Commodities	8.00%	3.30%
Financing (LIBOR)	-14.00%	1.10%
	100.00%	

The discount rate used to measure the total PSERS pension liability was 7.25% and 7.50%, respectively. 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.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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 State System's proportionate share of the PSERS net pension liability calculated using the discount rate, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

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

	2017	
1% Decrease 6.25%	**Current Rate 7.25%**	**1% Increase 8.25%**
$7,542,631	$6,165,980	$5,009,121
	2016	
1% Decrease 6.50%	**Current Rate 7.50%**	**1% Increase 8.50%**
$6,827,889	$5,539,430	$4,456,472

Fiduciary Net Position

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

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

The amount recognized as the State System's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	2017	**2016**
Total PSERS Net Pension Liability associated with the University	$ 12,331,960	$ 11,078,860
Commonwealth's Proportionate Share of the PSERS Net Pension Liability associated with the University	6,165,980	5,539,430
University's Proportionate Share of the PSERS Net Pension Liability	$ 6,165,980	$ 5,539,430

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

PSERS measured the net pension liability as of June 30, 2016. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2015, to June 30, 2016. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2016 and 2015, the State System's proportion was .1833% and .1852%, respectively, a decrease of .0019% from its proportion calculated as of June 30, 2015.

For the years ended June 30, 2017 and 2016, the University recognized PSERS' pension expense of $1,282,339 and $1,059,455, respectively. At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 343,671	$ 51,384
Changes of Assumptions	222,575	-
Changes in Proportions	174,856	44,936
Difference Between Employer Contributions and Proportionate Share of Total Contributions	38,266	-
Contributions After the Measurement Date	522,627	-
	$ 1,301,995	$ 96,320

At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the PSERS pension are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Investment Earnings	$ -	$ 22,856
Net Difference between Projected and Actual Investment Earnings	-	11,187
Changes in Proportions	245,138	-
Difference Between Employer Contributions and Proportionate Share of Total Contributions	39,399	-
Contributions After the Measurement Date	408,081	-
	$ 692,618	$ 34,043

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

The University will recognize the $522,627 and $408,081 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PSERS net pension liability in the years ending June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as PSERS pension expense as follows:

Year Ending June 30,	Amortization
2018	$ 167,362
2019	167,361
2020	227,772
2021	120,553
Total	$ 683,048

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2016 and 2015 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016 were approximately $3,192,000 and $3,049,000, respectively, from the University and $1,683,000 and $1,642,000, respectively, from active members.

NOTE 12 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 all universities of the State System contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $120,627 and $134,638 to the Reserve Fund during the years ended June 30, 2017 and 2016, respectively.

NOTE 12 WORKERS' COMPENSATION (CONTINUED)

Changes in the University's claims liability were as follows:

	2017	2016
Balance at July 1	$ 715,514	$ 866,902
Current Year Claims and Changes in Estimates	250,183	95,054
Payments	(318,884)	(246,442)
Balance at June 30	$ 646,813	$ 715,514

NOTE 13 RELATED PARTY TRANSACTIONS

The University has operating lease agreements with the Foundation and Student Services for space related to University operations. Rent expense for the years ended June 30, 2017 and 2016 were $1,809,079 and $1,935,669. Future minimum payments by year are as follows:

Year Ending June 30,	Amount
2018	$ 954,801
2019	681,896
2020	671,145
2021	356,529
2022	367,226
Thereafter	18,913,142
Total	$ 21,944,739

In July 2004, the University entered into a Cooperation and Commitment Agreement with the Foundation whereby the Foundation committed to provide matching funds to be used by the University in the construction of the Luhrs Performing Arts Center. The total amount committed, which includes principal and interest on funds borrowed by the University for the Project was $10,850,106, the balance of which is to be paid as follows:

Less than One Year	$ 60,000
In One to Five Years	1,800,312
Total	1,860,312
Present Value of Future Cash Flows	(182,734)
Total	$ 1,677,578

NOTE 14 COMMITMENTS AND CONTINGENCIES

Authorized University expenditures for construction projects unexpended as of June 30, 2017 and 2016 were approximately $4,579,000 and $3,830,000, respectively.

The nature of the education industry is such that, from time to time, the universities of the State System are 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 12). 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.

Additionally, the University has not reduced significantly any of its insurance coverage from the prior year. Settled claims have not exceeded significantly the University's commercial coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will be immaterial.

NOTE 15 SUBSEQUENT EVENTS

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

NOTE 15 SUBSEQUENT EVENTS (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. [State System] 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 [State System] 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, Pennsylvania, 19319.

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. The University participated in the issuance of the AU-2 revenue bonds. The refunding was performed to reduce debt service by approximately $916,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $902,000. 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.

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

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ -	$ 102,864	$ 102,864	0%	$ 40,775	252.3%
July 1, 2014	$ -	$ 82,419	$ 82,419	0%	$ 42,556	193.7%
July 1, 2016	$ -	$ 76,842	$ 76,842	0%	$ 41,149	186.7%

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

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$ 82,060	$ 13,234,040	$ 13,151,980	0.62%	$ 4,264,000	308%
July 1, 2014	$ 144,744	$ 16,134,419	$ 15,989,675	0.90%	$ 4,289,000	373%
July 1, 2016	$ 313,226	$ 16,546,732	$ 16,233,506	1.89%	$ 4,485,000	362%

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

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
SERS NET PENSION LIABILITY AND CONTRIBUTONS
YEARS ENDED JUNE 30, 2017 AND 2016

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

Fiscal Year	State System's Proportion	University's Proportion 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	4.90100%	$ 53,083	$ 21,651	245%	64.8%
2015/16	4.72080%	$ 61,338	$ 21,273	288%	58.9%
2016/17	4.83700%	$ 65,707	$ 21,215	310%	57.8%

SERS Schedule of Contributions
(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	$ 4,058	$ 4,058	$ -	$ 21,651	18.7%
2015/16	$ 4,868	$ 4,868	$ -	$ 21,273	22.9%
2016/17	$ 5,734	$ 5,734	$ -	$ 21,215	27.0%

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
YEARS ENDED JUNE 30, 2017 AND 2016

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

Fiscal Year	State System's Proportion	University's Proportion Share	Commonwealth's Proportion Share	Total	University's Covered Employee Payroll	University's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.1785%	$ 4,924	$ 4,924	$ 9,848	$ 1,587	310%	57.2%
2015/16	0.1852%	$ 5,539	$ 5,539	$ 11,078	$ 3,291	200%	54.4%
2016/17	0.1833%	$ 6,166	$ 6,166	$ 12,332	$ 3,223	191%	50.1%

SHIPPENSBURG UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PSERS CONTRIBUTIONS
YEARS ENDED JUNE 30, 2017 AND 2016

PSERS Schedule of Contributions
(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	$ 361	$ 361	$ -	$ 1,587	22.7%
2015/16	$ 408	$ 408	$ -	$ 3,291	12.4%
2016/17	$ 522	$ 522	$ -	$ 3,223	16.2%

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