INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2017 AND 2016

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Indiana University of Pennsylvania
of the State System of Higher Education
Indiana, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Indiana University of Pennsylvania (the University), a component unit of the State System of Higher Education, 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 an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which represent 11.9%, 14.8%, and 18.5%, respectively, of the 2017 assets, net assets, and revenues and 13.7%, 39.7%, and 33.1%, respectively, of the 2016 assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Indiana University of Pennsylvania as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows, where applicable, 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 Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 67 and Schedules of Proportionate Share of SERS/PSERS Net Pension Liability and Contributions on pages 68 and 69 be presented to supplement the financial statements. Such information, although not a part of the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 1, 2017

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

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 107,808,991	$ 109,183,712
Accounts Receivable:		
Governmental Grants and Contracts	1,638,451	1,547,962
Students, Net of Allowance for Doubtful Accounts of $5,847,468 in 2017 and $4,811,633 in 2016	10,588,567	8,606,940
Sales and Service	296,422	800,831
Other	646,169	447,502
Inventories	781,786	858,003
Prepaid Expenses, Suppliers	2,231,379	2,177,509
Loans Receivable	3,570,201	3,414,211
Investment Income Receivable	135,257	115,676
Due from Component Units	2,975,449	2,346,761
Other Current Assets	235,972	191,858
Total Current Assets	130,908,644	129,690,965
NONCURRENT ASSETS		
Restricted Cash and Cash Equivalents	25,000	25,000
Endowment Investments	6,582,579	5,941,571
Loans Receivable, Net	4,298,557	4,539,522
Capital Assets, Net	168,952,066	153,861,407
Total Noncurrent Assets	179,858,202	164,367,500
Total Assets	310,766,846	294,058,465
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	55,997	65,593
Defined Benefit Retirement Plans Deferred Outflows	31,775,499	25,068,574
Total Deferred Outflows of Resources	31,831,496	25,134,167
Total Assets and Deferred Outflows of Resources	$ 342,598,342	$ 319,192,632

See accompanying Notes to Financial Statements.

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	$ 5,949,089	$ 6,387,158
Employees	15,264,603	14,478,175
Unearned Revenue:		
Students	3,040,291	3,220,487
Grants	210,644	161,732
Other	14,888	15,039
Accrued Interest Payable	86,778	71,264
Students' Deposits	515,767	499,931
Other Deposit Liabilities	135,975	258,627
Current Portion of Workers' Compensation Obligation	399,727	414,962
Current Portion of Compensated Absences Obligation	1,252,745	1,441,558
Current Portion of Capitalized Lease Obligations	36,698	-
Current Portion of Loans Payable	-	5,014,769
Current Portion of Bonds Payable, Net	3,871,960	2,936,677
Current Portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	659,769	674,520
Due to Component Units	1,810,892	1,347,528
Other Current Liabilities	1,084,571	806,860
Total Current Liabilities	34,334,397	37,729,287
NONCURRENT LIABILITIES		
Workers' Compensation Obligation, Net of Current Portion	351,422	542,838
Compensated Absences Obligation, Net of Current Portion	15,400,176	14,851,633
Postretirement Benefits Obligation	157,469,944	151,541,449
Net Pension Liability	140,398,093	129,779,870
Capitalized Lease Obligations, Net of Current Portion	121,404	-
Bonds Payable, Net of Current Portion	51,288,019	36,773,248
Due to System, AFRP, Net of Current Portion	2,112,175	2,771,944
Other Noncurrent Liabilities	7,246,235	7,331,796
Total Noncurrent Liabilities	374,387,468	343,592,778
Total Liabilities	408,721,865	381,322,065
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	71,513	84,896
Defined Benefit Retirement Plans Deferred Inflows	6,353,321	4,001,341
Total Deferred Inflows of Resources	6,424,834	4,086,237
NET POSITION (DEFICIT)		
Net Invested in Capital Assets	112,110,733	104,148,775
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	2,965,117	2,932,223
Student Loans	1,324,648	1,337,917
Other	798,731	798,731
Expendable:		
Scholarships and Fellowships	766,496	678,634
Capital Projects	2,152,931	3,933,341
Unrestricted	(192,667,013)	(180,045,291)
Total Net Position	(72,548,357)	(66,215,670)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 342,598,342	$ 319,192,632

See accompanying Notes to Financial Statements.

INDIANA 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	$ 145,411,989	$ 143,714,316
Less: Scholarship Discounts and Allowances	31,440,237	32,310,565
Net Tuition and Fees	113,971,752	111,403,751
Governmental Grants and Contracts:		
Federal	7,185,703	7,215,095
State	15,475,179	15,791,418
Local	70,669	76,861
Nongovernmental Grants and Contracts	5,293,833	3,775,326
Sales and Services of Educational Departments	8,506,893	7,661,252
Auxiliary Enterprises	25,427,420	27,710,625
Other Revenues	1,496,921	163,709
Total Operating Revenues	177,428,370	173,798,037
OPERATING EXPENSES		
Instruction	111,088,766	111,829,113
Research	1,237,009	1,163,699
Public Service	7,395,409	6,520,585
Academic Support	24,946,409	23,566,655
Student Services	21,036,164	20,327,127
Institutional Support	29,727,496	30,919,939
Operations and Maintenance of Plant	19,086,564	20,657,680
Depreciation	10,709,024	10,866,399
Student Aid	10,823,990	11,982,139
Auxiliary Enterprises	24,723,135	24,549,363
Total Operating Expenses	260,773,966	262,382,699
OPERATING LOSS	(83,345,596)	(88,584,662)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	53,308,167	54,355,710
Commonwealth on-behalf Contributions to PSERS	1,409,156	1,174,777
Pell Grants	17,530,498	19,222,568
Investment Income, Net of Investment Expense	1,837,300	1,482,084
Unrealized Gain (Loss) on Investments	593,906	(101,550)
Gifts for Other than Capital Purposes	1,451,700	1,913,183
Interest Expense on Capital Asset-Related Debt	(1,626,074)	(727,999)
Loss on Disposal of Assets	(458,539)	(14)
Other Nonoperating Revenue	294,855	315,868
Nonoperating Revenues, Net	74,340,969	77,634,627
LOSS BEFORE OTHER REVENUES	(9,004,627)	(10,950,035)
OTHER REVENUES		
State Appropriations, Capital	2,139,061	2,020,470
Capital Gifts and Grants	532,879	443,662
Total Other Revenues	2,671,940	2,464,132
DECREASE IN NET POSITION	(6,332,687)	(8,485,903)
Net Position - Beginning of Year	(66,215,670)	(57,729,767)
NET POSITION - END OF YEAR	$ (72,548,357)	$ (66,215,670)

See accompanying Notes to Financial Statements.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 112,375,768	$ 111,659,373
Grants and Contracts	27,983,807	26,603,468
Payments to Suppliers for Goods and Services	(56,678,012)	(56,135,621)
Payments to Employees	(172,820,456)	(172,161,766)
Loans Issued to Students	(1,094,466)	(1,459,239)
Loans Collected from Students	1,179,441	1,444,942
Student Aid	(10,823,990)	(11,982,139)
Auxiliary Enterprise Charges	24,877,417	27,500,639
Sales and Services of Educational Departments	9,011,302	7,359,010
Other Receipts	1,278,727	756,226
Net Cash Used by Operating Activities	(64,710,462)	(66,415,107)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	53,308,167	54,355,710
Gifts for Other Than Capital Purposes	1,451,610	1,913,162
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	118,505,897	125,379,907
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(118,533,547)	(125,369,236)
PELL Grant	17,530,498	19,222,568
Agency Transactions, Net	(95,002)	5,991
Other	294,855	315,868
Net Cash Provided by Noncapital Financing Activities	72,462,478	75,823,970
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	18,980,855	5,953,384
Capital Appropriations	2,139,061	2,020,470
Capital Grants and Gifts Received	519,942	393,077
Purchases of Capital Assets	(21,702,775)	(8,924,333)
Principal Paid on Capital Debt and Leases	(9,017,026)	(4,739,351)
Interest Paid on Capital Debt and Leases	(1,817,411)	(969,771)
Loss on Early Retirement of Debt	-	(19,528)
Net Cash Used by Capital Financing Activities	(10,897,354)	(6,286,052)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	101,214	58,213
Interest on Investments	1,817,719	1,461,646
Purchase of Investments	(148,316)	(138,965)
Net Cash Provided by Investing Activities	1,770,617	1,380,894
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,374,721)	4,503,705
Cash and Cash Equivalents - Beginning of Year	109,183,712	104,680,007
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 107,808,991	$ 109,183,712

See accompanying Notes to Financial Statements.

INDIANA 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	$ (83,345,596)	$ (88,584,662)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	10,709,024	10,866,399
Expenses Paid by Commonwealth or Donor	1,409,156	1,174,777
Effect of Changes in Operating Assets and Liabilities:		
Receivables, Net	(1,567,707)	292,807
Inventories	76,217	96,459
Other Assets	(925,339)	127,853
Accounts Payable	(4,036,049)	(2,746,450)
Deferred Revenue	(146,234)	(458,207)
Students' Deposits	15,836	(213,240)
Compensated Absences	359,730	432,283
Loans to Students and Employees	84,975	(14,297)
Postretirement Benefits Liability (OPEB)	5,928,495	6,983,082
Defined Benefit Pensions	10,618,223	19,754,423
Other Liabilities	463,752	39,428
Deferred Outflows of Resources Related to Pensions	(6,706,925)	(16,204,827)
Deferred Inflows of Resources Related to Pensions	2,351,980	2,039,065
Net Cash Used by Operating Activities	$ (64,710,462)	$ (66,415,107)
NONCASH TRANSACTIONS		
Capital Assets Included in Payables	$ 4,384,408	$ 4,220,234
Capital Assets Acquired by New Capital Leases	$ 158,102	$ -
Capital Assets Acquired by Like-Kind Exchanges	$ 2,752	$ -
Capital Assets Acquired by Gift	$ 12,937	$ 50,585
Commonwealth On-Behalf Contributions to PSERS	$ 1,409,156	$ 1,174,777

See accompanying Notes to Financial Statements.

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

	2017	2016
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 10,911,973	$ 9,232,001
Accounts Receivable	1,559,976	1,023,038
Contributions/Pledges Receivable	1,685,983	758,169
Prepaid Expenses	237,816	65,487
Due from University	1,812,936	1,341,008
Inventories	778,434	845,064
Investments	83,058,909	73,480,718
Capital Assets, Net	224,313,464	207,456,760
Funds Held By Component Unit	4,881,769	4,420,545
Note Receivable from Component Unit	14,876,800	-
Restricted Cash and Investments	33,961,882	39,392,778
Other Assets	1,637,251	1,589,648
Total Assets	$ 379,717,193	$ 339,605,216
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 6,584,203	$ 8,528,172
Annuity Liabilities	98,334	102,366
Due to University	2,849,377	2,337,811
Deposits Payable	317,468	452,922
Funds Held for Component Unit	4,881,769	4,420,545
Capital Leases	28,042,540	28,387,934
Note Payable to Component Unit	14,876,800	-
Long-Term Debt, Net	213,437,718	219,297,363
Interest Rate Swap Agreements	31,625,352	44,652,997
Other Liabilities	2,847,848	2,322,910
Total Liabilities	305,561,409	310,503,020
NET ASSETS		
Unrestricted	16,150,016	(23,692,410)
Temporarily Restricted	19,792,278	15,486,886
Permanently Restricted	38,213,490	37,307,720
Total Net Assets	74,155,784	29,102,196
Total Liabilities and Net Assets	$ 379,717,193	$ 339,605,216

See accompanying Notes to Financial Statements.

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

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Additions:		
Sales and Service	$ 6,008,202	$ 6,805,401
Student Fees	7,654,253	8,015,320
Grants and Contracts	3,732,046	3,462,100
Rental Income	31,032,349	30,174,736
Investment Income	1,882,753	225,322
Unrealized Gain (Loss) on Investments	1,831,622	(203,746)
Unrealized Gain (Loss) on Interest Rate Swap Agreements	13,027,647	(13,246,930)
Other Revenues and Gains	25,668,081	3,073,465
Contributions	2,989,513	2,588,674
Net Assets Released Based on Satisfaction of Program Restrictions	5,086,899	4,865,781
Total Revenues and Other Additions	98,913,365	45,760,123
Expenses and Other Deductions:		
Program Services:		
Scholarships and Grants	5,184,838	3,934,402
Student Activities and Programs	5,198,689	7,620,850
University Stores	4,994,350	5,610,372
Housing	28,436,500	28,258,074
Other University Support	2,231,923	2,402,354
Other Programs	6,479,984	5,892,394
Management and General	2,322,943	2,757,460
Fundraising	2,820,696	2,424,590
Other expenses and losses	1,401,016	-
Total Expenses and Other Deductions	59,070,939	58,900,496
Increase (Decrease) in Unrestricted Net Assets	39,842,426	(13,140,373)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,402,701	4,651,783
Investment Gain (Loss)	2,198,936	(122,607)
Unrealized Gain (Loss) on Investments	3,790,654	(1,827,708)
Net Assets Released Based on Satisfaction of Program Restrictions	(5,086,899)	(4,865,781)
Increase (Decrease) in Temporarily Restricted Net Assets	4,305,392	(2,164,313)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	905,770	728,061
Increase in Permanently Restricted Net Assets	905,770	728,061
INCREASE (DECREASE) IN NET ASSETS	45,053,588	(14,576,625)
Net Assets - Beginning of Year	29,102,196	43,678,821
NET ASSETS - END OF YEAR	$ 74,155,784	$ 29,102,196

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Indiana University of Pennsylvania of the State System of Higher Education (the University), a public four-year doctoral intensive institution located in Indiana, Pennsylvania, was founded in 1875. The University is one of fourteen universities of Pennsylvania's State System of Higher Education (the State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

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 the Governmental Accounting Standards Board (GASB). The economic resources measurement focus reports all inflows, outflows, and balances that effect an entitity's net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Reporting Entity

The University functions as a business-type activity, as defined by GASB.

The University has determined that the Student Cooperative Association, Inc. (the Cooperative); the College Student Union Association, Inc. (the Student Union); the Foundation for Indiana University of Pennsylvania, Inc. (the Foundation); Residential Revival Indiana, Inc. (the RR Indiana); the IUP Research Institute, Inc. (the Research Institute) and the Indiana University of Pennsylvania Alumni Association, Inc. (the Alumni Association) 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.

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

Reporting Entity (Continued)

The Cooperative includes Student Funds, the Co-op Store, and Central Treasury. Student Funds administers activity fees assessed and collected by the University. The Co-op Store sells college textbooks, clothing, and supplies, and Central Treasury acts as a banking agent for campus organizations. Because the economic resources received and held by the Cooperative are for the direct benefit of the University and the influence of the University over the Cooperative, the Cooperative is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The fiscal activity of the Cooperative is presented as of and for the years ended June 30, 2017 and 2016.

The Student Union is a nonprofit entity that is affiliated with the Cooperative. Its assets include the various buildings and the main furnishings and fixtures. Because the economic resources received and held by the Student Union are for the direct benefit of the University and the influence of the University over the Student Union, the Student Union is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Student Union is presented as of and for the years ended June 30, 2017 and 2016.

The Foundation is a nonprofit entity which acts as a repository for gifts given for the benefit of the University. Resources held by the Foundation are used solely for supplement of the capital, public services, financial aid, and educational programs of the University and administratively operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources and income thereon is restricted for the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Foundation is presented as of and for the years ended June 30, 2017 and 2016.

The RR Indiana is a nonprofit entity which was incorporated with the intent to maintain and manage certain student housing facilities on the main campus of the University. During the year ended June 30, 2017, RR Indiana purchased a segment of student housing from the Foundation. Because the economic resources received and held by the RR Indiana are for the direct benefit of the University and the influence of the University over the RR Indiana, it is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. RR Indiana had no fiscal activity as of and for the year ended June 30, 2016. The fiscal activity of the RR Indiana is presented as of and for the year ended June 30, 2017.

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

Reporting Entity (Continued)

The Research Institute engages in, fosters, and supports research related to fields of study at the University and provides development and administrative services for such research. The Research Institute also disseminates information related to research to the academic community and public and offers programs and services related to the procurement of funding for conducting research and development projects. Because these restricted resources held by the Research Institute can only be used by, or for the benefit of, the University, the Research Institute is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Research Institute is presented as of and for the years ended June 30, 2017 and 2016.

The Alumni Association is a nonprofit entity that serves alumni of the University as an independent association governed by a volunteer board of directors. The Alumni Association is dedicated to connecting alumni, students, and friends of the University to create and enrich relationships to advance IUP. Because the resources received and held by the Alumni Association are for the direct benefit of the University and the influence of the University over the Alumni Association, the Alumni Association is considered a discretely presented component unit of the University and is included within the University's financial reporting entity. The financial activity of the Alumni Association is presented as of and for the years ended June 30, 2017 and 2016.

Complete financial statements for the Cooperative, Student Union, Foundation, RR Indiana, Research Institute, and Alumni Association may be obtained at the University's Administrative Office.

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, student fees, student financial aid, auxiliary activity, corporate partnerships, and revenue from cogeneration sales. 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 sale of investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest income, capital grants, gains on the sale of investments, 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.

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

Scholarship Discounts and Allowances and Waivers

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

Net Position

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

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

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

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

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

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

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 Receivable 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.

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

Accounts Receivable and Loans Receivable (Continued)

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

Inventories

Inventories consist mainly of supplies and are 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 on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Buildings and improvements are depreciated over the useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong useful life.

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

Impairment of Capital Assets

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

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

Unearned Revenue

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

Compensated Absences

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

Pension Plans

Employees of the University are required to 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.

Income Taxes

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

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for deferred outflows of resources and deferred inflows of resources.

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

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

The University is required to report the following as deferred outflows of resources or deferred inflows of resources.

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

- Deferred gain or loss on bond refundings, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

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

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, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation. These reclassifications have no effect on previously reported net position or changes therein.

Derivative Instruments – Component Unit

The Foundation uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts are reported at fair value. The unrealized gain or loss on the interest rate swap agreements is included as a change in net assets in the period of change. The Foundation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable rate debt to fixed rate debt.

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 adoption of these standards on its financial statements, as discussed below.

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

New Accounting Standards (Continued)

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 health care liability 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 $153,291,476, 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 $157,469,944. 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 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, the amount 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 provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016. The University has determined that Statement No. 81 does not apply and has no effect in its financial statements.

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

New Accounting Standards (Continued)

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

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

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

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

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

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

NOTE 2 COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2017:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	$ 170,877	$ -	$ 1,282,004	$ 229,501	$ 130,554	$ -	$ 1,812,936
Funds Held by Component Unit	-	-	-	-	-	4,881,769	4,881,769
Note Receivable From Component Unit	-	-	14,876,800	-	-	-	14,876,800
Investments	189,290	-	82,869,619	-	-	-	83,058,909
Capital Assets, Net	30,378,305	431,542	136,918,946	56,553,074	31,597	-	224,313,464
Other Assets	6,459,169	2,780	38,140,382	3,546,734	2,624,250	-	50,773,315
Total Assets	$ 37,197,641	$ 434,322	$ 274,087,751	$ 60,329,309	$ 2,786,401	$ 4,881,769	$ 379,717,193
LIABILITIES AND NET ASSETS							
LIABILITIES							
Due to University	$ 104,797	$ -	$ 2,021,827	$ 285,764	$ 436,989	$ -	$ 2,849,377
Funds Held for Component Unit	-	-	4,881,769	-	-	-	4,881,769
Note Payable to Component Unit	-	-	-	14,876,800	-	-	14,876,800
Capital Leases	28,042,540	-	-	-	-	-	28,042,540
Long-Term Debt, Net	-	-	170,013,861	43,423,857	-	-	213,437,718
Other Liabilities	4,147,020	-	35,251,788	448,799	1,175,598	450,000	41,473,205
Total Liabilities	32,294,357	-	212,169,245	59,035,220	1,612,587	450,000	305,561,409
NET ASSETS							
Unrestricted	4,903,284	434,322	3,912,738	1,294,089	1,173,814	4,431,769	16,150,016
Temporarily Restricted	-	-	19,792,278	-	-	-	19,792,278
Permanently Restricted	-	-	38,213,490	-	-	-	38,213,490
Total Net Assets	4,903,284	434,322	61,918,506	1,294,089	1,173,814	4,431,769	74,155,784
Total Liabilities and Net Assets	$ 37,197,641	$ 434,322	$ 274,087,751	$ 60,329,309	$ 2,786,401	$ 4,881,769	$ 379,717,193

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed balance sheet information for the component units as of June 30, 2016:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	$ 18,923	$ -	$ 1,155,949	$ -	$ 166,136	$ -	$ 1,341,008
Funds Held By Component Unit	-	-	-	-	-	4,420,545	4,420,545
Investments	195,920	-	73,284,798	-	-	-	73,480,718
Capital Assets, Net	31,017,020	448,462	175,975,067	-	16,211	-	207,456,760
Other Assets	7,969,656	2,539	42,652,101	-	2,281,889	-	52,906,185
Total Assets	$ 39,201,519	$ 451,001	$ 293,067,915	$ -	$ 2,464,236	$ 4,420,545	$ 339,605,216
LIABILITIES AND NET ASSETS							
LIABILITIES							
Due to University	$ 14,567	$ -	$ 2,024,717	$ -	$ 298,527	$ -	$ 2,337,811
Funds Held For Component Unit	-	-	4,420,545	-	-	-	4,420,545
Capital Leases	28,387,934	-	-	-	-	-	28,387,934
Long-Term Debt, Net	-	-	219,297,363	-	-	-	219,297,363
Other Liabilities	5,204,458	-	49,784,776	-	1,070,133	-	56,059,367
Total Liabilities	33,606,959	-	275,527,401	-	1,368,660	-	310,503,020
NET ASSETS							
Unrestricted	5,594,560	451,001	(35,254,092)	-	1,095,576	4,420,545	(23,692,410)
Temporarily Restricted	-	-	15,486,886	-	-	-	15,486,886
Permanently Restricted	-	-	37,307,720	-	-	-	37,307,720
Total Net Assets	5,594,560	451,001	17,540,514	-	1,095,576	4,420,545	29,102,196
Total Liabilities and Net Assets	$ 39,201,519	$ 451,001	$ 293,067,915	$ -	$ 2,464,236	$ 4,420,545	$ 339,605,216

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2017:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
Changes in Unrestricted Net Assets							
Revenues and Other Additions:							
Sales & Services	$ 4,732,894	$ -	$ -	$ -	$ 1,275,308	$ -	$ 6,008,202
Student Fees	7,654,253	-	-	-	-	-	7,654,253
Grants and Contracts	-	-	-	-	3,732,046	-	3,732,046
Rental Income	-	-	29,799,959	1,232,390	-	-	31,032,349
Investment Income	123,601	-	1,552,007	993	4,850	201,302	1,882,753
Unrealized Gain (Loss) on Investments	(9,269)	-	1,488,234	-	-	352,657	1,831,622
Unrealized Gain on Interest Rate Swap Agreements	-	-	13,027,647	-	-	-	13,027,647
Other Revenues and Gains	189,791	23,831	23,994,601	1,412,653	6,072	41,133	25,668,081
Contributions	-	-	2,988,913	-	-	600	2,989,513
Net Assets Released	-	-	5,086,899	-	-	-	5,086,899
Total Revenues and Other Additions	12,691,270	23,831	77,938,260	2,646,036	5,018,276	595,692	98,913,365
Expenses and Other Deductions:							
Program Services:							
Scholarships and Grants	250,000	-	4,434,838	-	-	500,000	5,184,838
Student Activities and Programs	5,198,689	-	-	-	-	-	5,198,689
University Stores	4,994,350	-	-	-	-	-	4,994,350
Housing	-	-	27,109,961	1,326,539	-	-	28,436,500
Other University Support	-	-	2,207,838	-	-	24,085	2,231,923
Other Programs	2,621,815	-	-	-	3,858,169	-	6,479,984
Management and General	317,692	40,510	797,081	25,408	1,081,869	60,383	2,322,943
Fundraising	-	-	2,820,696	-	-	-	2,820,696
Other Expenses	-	-	1,401,016	-	-	-	1,401,016
Total Expenses and Losses	13,382,546	40,510	38,771,430	1,351,947	4,940,038	584,468	59,070,939
Increase (Decrease) in Unrestricted Net Assets	(691,276)	(16,679)	39,166,830	1,294,089	78,238	11,224	39,842,426
Changes in Temporarily Restricted Net Assets							
Contributions	-	-	3,402,701	-	-	-	3,402,701
Investment Gain	-	-	2,198,936	-	-	-	2,198,936
Unrealized Gain on Investments	-	-	3,790,654	-	-	-	3,790,654
Net Assets Released Based on Satisfaction of Program Restrictions	-	-	(5,086,899)	-	-	-	(5,086,899)
Increase in Temporarily Restricted Net Assets	-	-	4,305,392	-	-	-	4,305,392
Changes in Permanently Restricted Net Assets							
Contributions	-	-	905,770	-	-	-	905,770
Increase in Permanently Restricted Net Assets	-	-	905,770	-	-	-	905,770
Increase (Decrease) in Net Assets	(691,276)	(16,679)	44,377,992	1,294,089	78,238	11,224	45,053,588
Net Assets - Beginning of Year	5,594,560	451,001	17,540,514	-	1,095,576	4,420,545	29,102,196
Net Assets - End of Year	$ 4,903,284	$ 434,322	$ 61,918,506	$ 1,294,089	$ 1,173,814	$ 4,431,769	$ 74,155,784

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2016:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
Changes in Unrestricted Net Assets							
Revenues and Other Additions:							
Sales & Services	$ 5,567,378	$ -	$ -	$ -	$ 1,238,023	$ -	$ 6,805,401
Student Fees	8,015,320	-	-	-	-	-	8,015,320
Grants and Contracts	-	-	-	-	3,462,100	-	3,462,100
Rental Income	-	-	30,174,736	-	-	-	30,174,736
Investment Income (Loss)	126,454	-	282,401	-	4,677	(188,210)	225,322
Unrealized Loss on Investments	-	-	(203,746)	-	-	-	(203,746)
Unrealized Loss on Interest Rate Swap Agreements	-	-	(13,246,930)	-	-	-	(13,246,930)
Other Revenues and Gains	1,319,411	18,550	1,576,142	-	80,059	79,303	3,073,465
Contributions	-	-	2,587,924	-	-	750	2,588,674
Net Assets Released	-	-	4,864,863	-	918	-	4,865,781
Total Revenues and Other Additions	15,028,563	18,550	26,035,390	-	4,785,777	(108,157)	45,760,123
Expenses and Other Deductions:							
Program Services:							
Scholarships and Grants	250,000	-	3,684,402	-	-	-	3,934,402
Student Activities and Programs	7,620,850	-	-	-	-	-	7,620,850
University Stores	5,610,372	-	-	-	-	-	5,610,372
Housing	-	-	28,258,074	-	-	-	28,258,074
Other University Support	-	-	2,344,715	-	-	57,639	2,402,354
Other Programs	2,339,478	-	-	-	3,552,916	-	5,892,394
Management and General	574,720	35,504	945,165	-	1,148,900	53,171	2,757,460
Fundraising	-	-	2,424,590	-	-	-	2,424,590
Other Expense	-	-	-	-	-	-	-
Total Expenses and Losses	16,395,420	35,504	37,656,946	-	4,701,816	110,810	58,900,496
Increase (Decrease) in Unrestricted Net Assets	(1,366,857)	(16,954)	(11,621,556)	-	83,961	(218,967)	(13,140,373)
Changes in Temporarily Restricted Net Assets							
Contributions	-	-	4,651,783	-	-	-	4,651,783
Investment Loss	-	-	(122,607)	-	-	-	(122,607)
Unrealized Loss on Investments	-	-	(1,827,708)	-	-	-	(1,827,708)
Net Assets Released Based on Satisfaction of Program Restrictions	-	-	(4,864,863)	-	(918)	-	(4,865,781)
Decrease in Temporarily Restricted Net Assets	-	-	(2,163,395)	-	(918)	-	(2,164,313)
Changes in Permanently Restricted Net Assets							
Contributions	-	-	728,061	-	-	-	728,061
Increase in Permanently Restricted Net Assets	-	-	728,061	-	-	-	728,061
Increase (Decrease) in Net Assets	(1,366,857)	(16,954)	(13,056,890)	-	83,043	(218,967)	(14,576,625)
Net Assets - Beginning of Year	6,961,417	467,955	30,597,404	-	1,012,533	4,639,512	43,678,821
Net Assets - End of Year	$ 5,594,560	$ 451,001	$ 17,540,514	$ -	$ 1,095,576	$ 4,420,545	$ 29,102,196

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System which maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $106,457,012 and $107,363,810 at June 30, 2017 and 2016, respectively.

Board of Governors' Policy 1986-02-A: Investment, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the board or university trustees may be invested in the investments described above as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, universities use local financial institutions for activities such as deposits of cash. In addition, universities 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. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Safety of principal and liquidity are the top priorities for the investment of the State System's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed; this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities.

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

Investment Categories	Qualifications/Moody's Ratings Requirements
United States Government Securities	Together with repurchase agreements, must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the U.S. 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 the U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

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

Moody's Rating: The State System and the University use 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Moody's Rating (Continued): 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 indicated medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the rating with numerical modifiers 1, 2, and 3, with 1 indicating a higher ranking and 3 indicating a lower ranking within the category. For short-term obligations, a rating of P-1 indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of P-2 indicates that issuers have a strong ability to repay short-term debt obligations.

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

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

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

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

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.

Commonfund investments, held locally by some of the universities, are valued based upon the unit values (NAV) of the funds held by the University at year-end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the universities have invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice. Both the Multi-Strategy Equity Fund and the High Quality Bond Fund, held by the University, are restricted to withdrawals on the last day of business of the month.

Multi-Strategy Equity Fund: The investment objective of the fund is to offer an investment program that will provide, in a single fund, all of the strategy and manager diversification that an endowment would normally require for its equity allocation. The fund seeks to add value over long periods of time, above the return of the U.S. equity market as measured by the S&P 500 index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.

High Quality Bond Fund: The investment objective of the fund is to offer a program devoted to investing in high quality, investment – grade – only, fixed income securities. The fund seeks to outperform its benchmark, the Barclays Aggregate Bond Index, over a full market cycle.

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk: Custodial Credit Risk is the risk that in the event of failure, the University would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Management believes they are not exposed to this credit risk.

Concentration of Credit Risk: The University does not have a formal investment policy for concentration of credit risk. At June 30, 2017 and 2016, the University had the following investments which exceeded 5% of the Universities total investments:

June 30, 2017

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 4,287,599	65.14%
Common Fund	High Quality Bond Fund	2,294,980	34.86%
		$ 6,582,579	

June 30, 2016

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 3,675,243	61.86%
Common Fund	High Quality Bond Fund	2,266,328	38.14%
		$ 5,941,571	

At June 30, 2017 and 2016, the carrying amount of the University's demand and time deposits were $1,376,979 and $1,844,902, respectively, as compared to bank balances of $1,270,051 and $1,462,225, respectively. The difference is caused primarily by items in-transit and outstanding checks. All bank balances were 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, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

The carrying value (fair value) of the University's local deposits and investments on June 30, 2017 is presented below:

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits	N/A			$ 1,376,979
Investments:				
Fixed Income Mutual Funds	NAV			2,294,980
Equity/Balanced Mutual Funds	NAV			4,287,599
Total				$ 7,959,558

Of the local investments noted above, there was no exposure to foreign currency risk.

The carrying value (fair value) of the University's local deposits and investments on June 30, 2016 is presented below:

	Fair Value Hierarchy Level	Moody's Rating (if Applicable)	Modified Duration (if Applicable)	Fair Value
Deposits:				
Demand and Time Deposits	N/A			$ 1,844,902
Investments:				
Fixed Income Mutual Funds	NAV			2,266,328
Equity/Balanced Mutual Funds	NAV			3,675,243
Total				$ 7,786,473

Of the local investments noted above, the University has no exposure to foreign currency risk.

NOTE 4 CAPITAL ASSETS

The classification of capital assets and related depreciation at June 30, 2017 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2016	Additions	Retirements	Transfers	Ending Balance June 30, 2017
Capital Assets Not Being Depreciated						
Land		$ 5,627,271	$ -	$ -	$ -	$ 5,627,271
Construction in Progress		8,269,896	19,052,887	-	(2,802,091)	24,520,692
Total Capital Assets Not Being Depreciated		13,897,167	19,052,887	-	(2,802,091)	30,147,963
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	238,178,205	4,456,725	(3,898,961)	1,704,777	240,440,746
Land Improvements	20	45,709,510	1,057,129	-	1,097,314	47,863,953
Furnishings and Equipment (including Cost of Capital Leases)	3-10	38,127,064	1,540,255	(277,237)	-	39,390,082
Library Books	10	10,681,132	153,979	(79,059)	-	10,756,052
Total Capital Assets Being Depreciated		332,695,911	7,208,088	(4,255,257)	2,802,091	338,450,833
Less: Accumulated Depreciation:						
Buildings, including Improvements		(117,760,631)	(7,896,832)	3,441,260	-	(122,216,203)
Land Improvements		(30,968,693)	(1,005,514)	-	-	(31,974,207)
Furnishings and Equipment		(34,120,421)	(1,569,298)	273,646	-	(35,416,073)
Library Books		(9,881,926)	(237,380)	79,059	-	(10,040,247)
Total Accumulated Depreciation		(192,731,671)	(10,709,024)	3,793,965	-	(199,646,730)
Total Capital Assets being Depreciated, Net		139,964,240	(3,500,936)	(461,292)	2,802,091	138,804,103
Capital Assets, Net		$ 153,861,407	$ 15,551,951	$ (461,292)	$ -	$ 168,952,066

NOTE 4 CAPITAL ASSETS (CONTINUED)

The classification of capital assets and related depreciation at June 30, 2016 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2015	Additions	Retirements	Transfers	Ending Balance June 30, 2016
Capital Assets Not Being Depreciated						
Land		$ 5,627,271	$ -	$ -	$ -	$ 5,627,271
Construction in Progress		15,475,203	6,319,083	-	(13,524,390)	8,269,896
Total Capital Assets Not Being Depreciated		21,102,474	6,319,083	-	(13,524,390)	13,897,167
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	222,042,604	4,868,494	-	11,267,107	238,178,205
Land Improvements	20	42,977,168	475,059	-	2,257,283	45,709,510
Furnishings and Equipment (including Cost of Capital Leases)	3-10	36,716,084	1,471,771	(60,791)	-	38,127,064
Library Books	10	10,777,818	60,745	(157,431)	-	10,681,132
Total Capital Assets Being Depreciated		312,513,674	6,876,069	(218,222)	13,524,390	332,695,911
Less: Accumulated Depreciation:						
Buildings, including Improvements		(109,884,875)	(7,875,756)	-	-	(117,760,631)
Land Improvements		(30,078,928)	(889,765)	-	-	(30,968,693)
Furnishings and Equipment		(32,368,008)	(1,813,190)	60,777	-	(34,120,421)
Library Books		(9,751,669)	(287,688)	157,431	-	(9,881,926)
Total Accumulated Depreciation		(182,083,480)	(10,866,399)	218,208	-	(192,731,671)
Total Capital Assets being Depreciated, Net		130,430,194	(3,990,330)	(14)	13,524,390	139,964,240
Capital Assets, Net		$ 151,532,668	$ 2,328,753	$ (14)	$ -	$ 153,861,407

NOTE 5 LEASES

The University has entered into long-term operating leases for the use of facilities and equipment. Future annual minimum payments in the aggregate, under noncancelable operating leases are as follows:

Year Ending June 30,	Amount
2018	$ 366,631
2019	331,044
2020	329,428
2021	236,493
2022	238,480
Thereafter	278,227
Total Minimum Lease Payments	$ 1,780,303

Total rent expense for operating leases was $2,692,355 and $2,395,015 for the years ended June 30, 2017 and 2016, respectively.

The University has entered into capital lease agreements for the financing of equipment. The interest rate implicit to the lease agreement is 3.89%. Changes in the capital lease obligation was as follows:

	2017
Balance - July 1, 2016	$ -
Increases	158,102
Repayments	-
Balance - June 30, 2017	158,102
Less: Current Portion	(36,698)
Non-Current Portion	$ 121,404

The University's assets held under capital leases are recorded on the balance sheet and consist of the following:

	2017
Assets Held under Lease Agreement	$ 138,101
Accumulated Depreciation	(6,905)
Total	$ 131,196

There is $6,905 of capital lease amortization included in depreciation expense pertaining to these assets for the year ended June 30, 2017.

NOTE 5 LEASES (CONTINUED)

Future annual minimum payments in the aggregate under the noncancelable capital lease is as follows:

Year Ending June 30,	Amount
2018	$ 43,560
2019	34,848
2020	34,848
2021	34,848
2022	26,125
Thereafter	-
Total Minimum Lease Payments	174,229
Less Amount Representing Interest on Capital Leases	16,127
Present Value of Net Minimum Capital Lease Payments	$ 158,102

The component units have entered into capital lease agreements for the financing of buildings, building improvements, and equipment. Future annual minimum payments in the aggregate under noncancelable capital leases are as follows:

Component Unit Capital Leases

Year Ending June 30,	Amount
2018	$ 2,717,598
2019	1,960,060
2020	2,777,298
2021	2,617,491
2022	2,611,841
Thereafter	29,071,450
Total Minimum Lease Payments	41,755,738
Less Amount Representing Interest on Capital Leases	13,713,198
Present Value of Net Minimum Capital Lease Payments	$ 28,042,540

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT

Bonds payable consist of tax-exempt revenue bond series 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 under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's board of governors has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation.

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

Activity for the various bond series for the year ended June 30, 2017 is as follows:

	Weighted Average Interest Rate	Balance July 1, 2016	Bonds Issued	Bonds Redeemed	Balance June 30, 2017
Series AH Issued in July 2008 for Various Projects Final Maturity June 2028	4.65%	$ 8,280,418	$ -	$ (862,920)	$ 7,417,498
Series AI Issued in August 2008 for Various Projects Final Maturity June 2025	4.24%	2,531,629	-	(318,345)	2,213,284
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	657,222	-	(119,436)	537,786
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.62%	6,450,723	-	(304,857)	6,145,866
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.39%	16,580,000	-	(710,000)	15,870,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.55%	624,279	-	(68,422)	555,857
Series AQ issued in May 2015 for Various Projects Final Maturity 2025	4.68%	2,605,111	-	(343,757)	2,261,354
Series AS issued in June 2016 for Various Projects Final Maturity 2027	3.75%	816,977	-	-	816,977
Series AT issued in September 2016 for Various Projects Final Maturity 2036	3.41%	-	19,060,000	(600,000)	18,460,000
Total Bonds Payable		$ 38,546,359	$ 19,060,000	$ (3,327,737)	54,278,622
Plus: Unamortized Bond Premium					954,626
Less: Unamortized Bond Discount					(73,269)
Outstanding at End of Year					$ 55,159,979

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

Activity for the various bond series for the year ended June 30, 2016 is as follows:

	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF Issued in July 2007 for Various Projects Final Maturity July 2027	5.00%	$ 959,918	$ -	$ (959,918)	$ -
Series AH Issued in July 2008 for Various Projects Final Maturity June 2028	4.66%	9,102,453	-	(822,035)	8,280,418
Series AI Issued in August 2008 for Various Projects Final Maturity June 2025	4.21%	2,837,291	-	(305,662)	2,531,629
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	1,038,331	-	(381,109)	657,222
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.64%	6,740,847	-	(290,124)	6,450,723
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.32%	17,280,000	-	(700,000)	16,580,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.51%	717,502	-	(93,223)	624,279
Series AQ issued in May 2015 for Various Projects Final Maturity 2020	4.70%	2,740,730	-	(135,619)	2,605,111
Series AS issued in June 2016 for Various Projects Final Maturity 2027	3.72%	-	816,977	-	816,977
Total Bonds Payable		$ 41,417,072	$ 816,977	$ (3,687,690)	38,546,359
Plus: Unamortized Bond Premium					1,163,566
Outstanding at End of Year					$ 39,709,925

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

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

Series		2018	2019	2020	2021	2022	2023--2027	2028-2032	2033-2037	Total
AH	Principal	$ 906,186	$ 951,830	$ 997,826	$ 1,038,712	$ 1,079,598	$ 2,153,312	$ 290,034	$ -	$ 7,417,498
	Interest	336,098	290,789	243,197	203,284	161,736	299,325	12,689	-	1,547,118
	Total	1,242,284	1,242,619	1,241,023	1,241,996	1,241,334	299,325	302,723		8,964,616
AI	Principal	331,028	343,712	357,052	372,472	386,172	422,848	-	-	2,213,284
	Interest	93,165	79,924	66,176	51,447	35,617	28,316	-	-	354,645
	Total	424,193	423,636	423,228	423,919	421,789	451,164	-	-	2,567,929
AL	Principal	124,439	131,183	137,710	144,454	-	-	-	-	537,786
	Interest	26,889	20,667	14,108	7,223	-	-	-	-	68,887
	Total	151,328	151,850	151,818	151,677	-	-	-	-	606,673
AM	Principal	320,156	333,189	349,622	367,188	385,321	2,230,327	2,160,063	-	6,145,866
	Interest	284,864	272,058	255,398	237,917	219,558	794,870	260,274	-	2,324,939
	Total	605,020	605,247	605,020	605,105	604,879	3,025,197	2,420,337	-	8,470,805
AO	Principal	725,000	750,000	770,000	800,000	835,000	4,705,000	5,915,000	1,370,000	15,870,000
	Interest	712,225	690,475	667,975	637,175	605,175	2,485,140	1,285,200	71,240	7,154,605
	Total	1,437,225	1,440,475	1,437,975	1,437,175	1,440,175	7,190,140	7,200,200	1,441,240	23,024,605
AP	Principal	70,761	72,808	75,732	78,656	81,873	176,027	-	-	555,857
	Interest	24,106	21,983	19,070	16,041	12,895	13,304	-	-	107,399
	Total	94,867	94,791	94,802	94,697	94,768	189,331	-	-	663,256
AQ	Principal	394,810	414,466	436,425	184,000	192,762	638,891	-	-	2,261,354
	Interest	113,068	93,327	72,604	50,783	41,583	64,930	-	-	436,295
	Total	507,878	507,793	509,029	234,783	234,345	703,821	-	-	2,697,649
AS	Principal	34,325	76,173	77,583	78,994	80,875	469,027	-	-	816,977
	Interest	32,837	32,150	30,627	29,075	27,495	72,646	-	-	224,830
	Total	67,162	108,323	108,210	108,069	108,370	541,673	-	-	1,041,807
AT	Principal	785,000	795,000	810,000	825,000	845,000	4,505,000	5,160,000	4,735,000	18,460,000
	Interest	494,135	485,108	469,208	453,008	436,508	1,889,055	1,237,687	383,793	5,848,502
	Total	1,279,135	1,280,108	1,279,208	1,278,008	1,281,508	6,394,055	6,397,687	5,118,793	24,308,502
Total	Principal	3,691,705	3,868,361	4,011,950	3,889,476	3,886,601	15,300,432	13,525,097	6,105,000	54,278,622
	Interest	2,117,387	1,986,481	1,838,363	1,685,953	1,540,567	5,647,586	2,795,850	455,033	18,067,220
	Total	$ 5,809,092	$ 5,854,842	$ 5,850,313	$ 5,575,429	$ 5,427,168	$ 20,948,018	$ 16,320,947	$ 6,560,033	$ 72,345,841

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (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. In the past, the State System issued bonds to provide a pool for funding for AFRP ($17,539,964 and $21,918,513 was outstanding as of June 30, 2017 and 2016, respectively). 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 owed by the University to the AFRP pool of funding were as follows:

	Beginning Balance July 1, 2016	Additions	Retirements	Ending Balance June 30, 2017	Current Portion
PASSHE Bond - AFRP	$ 3,446,464	$ -	$ (674,520)	$ 2,771,944	$ 659,769

	Beginning Balance July 1, 2015	Additions	Retirements	Ending Balance June 30, 2016	Current Portion
PASSHE Bond - AFRP	$ 4,421,925	$ -	$ (975,461)	$ 3,446,464	$ 674,520

The University is informed by the State System each year of their amortization for the next year. Amortization beyond the current portion is not available.

The component units have entered into long-term debt agreements for the financing of buildings and building improvements. Future minimum payments by year and in the aggregate are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 4,416,632	$ 7,954,024	$ 12,370,656
2019	48,935,000	7,797,496	56,732,496
2020	4,595,000	6,927,632	11,522,632
2021	4,790,000	6,744,275	11,534,275
2022	4,995,000	6,548,608	11,543,608
Thereafter	149,880,000	68,509,689	218,389,689
Total	217,611,632	$ 104,481,724	$ 322,093,356
Plus Unamortized Bond Premium	36,505		
Less Unamortized Bond Issue Costs	(4,210,419)		
Total	$ 213,437,718		

NOTE 6 BONDS PAYABLE AND LONG-TERM DEBT (CONTINUED)

In addition to the long-term debt disclosed above, during the year ended June 30, 2017, the RR Indiana entered into a promissory note payable to the Foundation totaling $14,876,800. The note bears interest at a rate of 3% per annum, and is payable in the greater of annual installments of $33,333 plus interest or the Net Distribution on the 2017 Indenture as defined in a Subordinated Promissory Note Agreement dated April 4, 2017. Future minimum payments by year and in the aggregate are as follows:

Year Ending June 30,	
2018	$ 33,333
2019	33,333
2020	33,333
2021	33,333
2022	33,333
Thereafter	14,710,135
	$ 14,876,800

NOTE 7 COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2017 and 2016 are as follows:

	2017	2016
Balance - July 1	$ 16,293,191	$ 15,860,908
Current Changes in Estimate	1,612,475	1,662,628
Payouts	(1,252,745)	(1,230,345)
Balance - June 30	$ 16,652,921	$ 16,293,191
Current	$ 1,252,745	$ 1,441,558
Noncurrent	15,400,176	14,851,633
Balance - June 30	$ 16,652,921	$ 16,293,191

NOTE 8 POSTRETIREMENT BENEFITS

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefit plans, referred to 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 College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a single-employer defined benefits healthcare plan administered by the State System (the System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits and tuition waivers at any of the 14 State System Universities. Act 188 empowers the board to establish and amend benefits provisions. The System Plan has no plan assets 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 for the fiscal years ending 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.

NOTE 8 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

Following are the contribution rates of plan members as of June 30, 2017:

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay the same dollar amount they paid as active employees on the day of retirement. When these annuitants become eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and the current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.
- Eligible annuitants who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA, OPEIU, and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

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

Annual OPEB Cost and Net OPEB Obligation

The University’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over thirty years. The following shows the components of the University’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University’s net OPEB obligation for the years ended June 30:

NOTE 8 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2017	2016
Annual Required Contribution	$ 13,256,567	$ 13,850,974
Interest on Net OPEB Obligation	5,872,604	5,641,827
Adjustment to Annual Required Contribution	(8,365,653)	(7,415,143)
Annual OPEB Cost (Expense)	10,763,518	12,077,658
Contributions Made	(4,835,023)	(5,094,576)
Increase in Net OPEB Obligation	5,928,495	6,983,082
Net OPEB Obligation - Beginning of Year	151,541,449	144,558,367
Net OPEB Obligation - End of Year	$ 157,469,944	$ 151,541,449

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:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 10,763,518	44.9%	$ 157,469,944
June 30, 2016	12,077,658	42.2%	151,541,449
June 30, 2015	12,156,538	41.2%	144,558,367

Funded Status and Funding Progress

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

Actuarial Accrued Liability (AAL)	$ 153,291,476
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 153,291,476
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$ 77,957,811
UAAL as a Percentage of Covered Payroll	196.6%

NOTE 8 POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress (Continued)

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 actuarially 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. The actuarial assumptions included a 4.25% investment rate of return, which is an expected rate to be earned on the State System’s operating portfolio and an annual healthcare cost trend rate of 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease 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 8 POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2016/17, the State System contributed $362 for each current active employee per biweekly pay period. The State System made contributions of $31,875,000, $37,026,000, and $30,765,000 for the fiscal years ending June 30, 2017, 2016, and 2015, respectively, which equaled 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 9 PENSION BENEFITS

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

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

	SERS		PSERS		ARP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net Pension Liabilities	$ 127,625,700	$ 117,928,682	$ 12,772,393	$ 11,851,188	$ -	$ -	$ 140,398,093	$ 129,779,870
Deferred Outflows of Resources								
Difference Between Expected and Actual Experience	$ 1,842,253	$ 2,387,830	$ -	$ -	$ -	$ -	$ 1,842,253	$ 2,387,830
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	10,725,649	12,007,337	711,889	-	-	-	11,437,538	12,007,337
Changes in Assumptions	7,795,635	3,503,626	461,048	-	-	-	8,256,683	3,503,626
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	80,200	82,821	-	-	80,200	82,821
Changes in Proportion	1,983,432	-	362,202	524,454	-	-	2,345,634	524,454
Contributions After the Measurement Date	6,900,075	5,717,195	913,116	845,311	-	-	7,813,191	6,562,506
Total Deferred Outflows of Resources	$ 29,247,044	$ 23,615,988	$ 2,528,455	$ 1,452,586	$ -	$ -	$ 31,775,499	$ 25,068,574
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ 2,855,491	$ -	$ 106,439	$ 48,899	$ -	$ -	$ 2,961,930	$ 48,899
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	-	23,933	-	-	-	23,933
Difference Between Employer Contributions and Proportionate Share of Contributions	592,188	328,267	-	-	-	-	592,188	328,267
Changes in Proportion	2,706,122	3,600,242	93,081	-	-	-	2,799,203	3,600,242
Total Deferred Inflows of Resources	$ 6,153,801	$ 3,928,509	$ 199,520	$ 72,832	$ -	$ -	$ 6,353,321	$ 4,001,341
Pension Expense	$ 17,452,508	$ 14,312,353	$ 2,294,297	$ 2,751,817	$ 5,563,318	$ 5,497,796	$ 25,310,123	$ 22,561,966
Contributions Recognized by Pension Plans	$ 11,161,254	$ 9,455,421	$ 913,116	$ 845,311	$ -	$ -	$ 12,074,370	$ 10,300,732

NOTE 9 PENSION BENEFITS (CONTINUED)

The University will recognize the $6,900,075 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $913,116 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2018	$ 5,064,258	$ 346,953
June 30, 2019	5,064,258	346,953
June 30, 2020	4,414,438	472,199
June 30, 2021	1,467,164	249,714
June 30, 2022	183,050	-
	$ 16,193,168	$ 1,415,819

SERS

Plan Description

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

Benefits Provided

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

NOTE 9 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 University contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The University's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were $11,161,254, $9,455,421, and $7,862,708, respectively, equal to the required contractual contribution.

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

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions

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

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

Some of the methods and assumptions mentioned above are based on the *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. Published in March 2016, it analyzed experience from 2011 through 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.

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2016 and 2015, are summarized below:

	2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	8.00%
Global Public Equity	43.0%	5.30%
Real Assets	12.0%	5.44%
Hedge Funds	12.0%	4.75%
Fixed Income	14.0%	1.63%
Cash	3.0%	(.25)%
Total	100.0%	

	2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Alternative Investments	15.0%	8.50%
Global Public Equity	40.0%	5.40%
Real Assets	17.0%	4.95%
Diversifying Assets	10.0%	5.00%
Fixed Income	15.0%	1.50%
Liquidity Reserve	3.0%	0.00%
Total	100.0%	

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

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

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

2016

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

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$ 157,943	$ 127,626	$ 101,664

The following presents the University's proportionate share of the SERS net pension liability at December 31, 2015 calculated using the discount rate of 7.50%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

2015

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

1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
$ 146,490	$ 117,929	$ 93,439

Fiduciary Net Position

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

NOTE 9 PENSION BENEFITS (CONTINUED)

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

At June 30, 2017, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2016, was $127,625,700. At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015, was $117,928,682.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2017/18 from the December 31, 2016, funding valuation, to the expected funding payroll. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2016/17 from the December 31, 2015, funding valuation, to the expected funding payroll. At the December 31, 2016 measurement date, the State System's proportion was 4.837%, an increase of .12% from its proportion calculated as of December 31, 2015, measurement date.

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (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 may be obtained 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.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

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

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

Member Contributions

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2017 was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 14.50% of covered payroll. The University's contributions to PSERS for the years ending June 30, 2017, 2016, and 2015 were $913,116, $845,311, and $773,574, respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

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

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

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

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

	2015	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	22.5%	4.8%
Private Markets (Equity)	15.00%	6.6%
Private Real Estate	12.0%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3.0%	1.4%
TIPS	12.00%	1.1%
High-Yield Bonds	6.0%	3.3%
Cash	3.00%	0.7%
Absolute Return	10.0%	4.9%
Risk Parity	10.0%	3.7%
Infrastructure/MLPs	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	(14.0%)	1.1%
	100.0%	

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The discount rates used to measure the total PSERS pension liability for the years ended June 30, 2016 and 2015 were 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. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

2016 Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$ 15,624	$ 12,772	$ 10,376

The following presents the University's proportionate share of the PSERS net pension liability at the June 30, 2015 measurement date calculated using the discount rate of 7.50%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

2015 Sensitivity of the University's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate (in thousands)		
1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
$ 14,608	$ 11,851	$ 9,534

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

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

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

	2017	2016
Total PSERS Net Pension Liability Associated with the University	$ 25,544,786	$ 23,702,376
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	12,772,393	11,851,188
University's Proportionate Share of the PSERS Net Pension Liability	$ 12,772,393	$ 11,851,188

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

NOTE 9 PENSION BENEFITS (CONTINUED)

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 University's contribution rate on June 30, 2017 and 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016 were $5,563,000 and $5,498,000, respectively, from the University; and $2,975,000 and $2,953,000, respectively, from active members. No liability is recognized for the ARP.

NOTE 10 WORKERS' COMPENSATION

The University participates in the State System's self-insured for workers' compensation plan. For claims occurring prior to July 1, 1995, the University must pay up to $100,000; for claims occurring on or after July 1, 1995, the University must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes an amount determined by an independent actuarial study. Based on updated actuarial studies, the University was given a refund of $54,066 from the Reserve Fund during the year ended June 30, 2017, and contributed $35,994 and $130,859 to the Reserve Fund during the years ended June 30, 2016 and 2015, respectively.

Changes in the workers' compensation claims liability in fiscal years 2017, 2016, and 2015 were as follows:

	2017	2016	2015
Balance - July 1	$ 957,800	$ 981,806	$ 1,011,064
Projected Retained Losses	393,369	411,244	419,413
Retirements and Changes in Estimates	(600,020)	(435,250)	(448,671)
Balance - June 30	$ 751,149	$ 957,800	$ 981,806

NOTE 11 CONTINGENCIES

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 assets, damage to or 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.

NOTE 11 CONTINGENCIES (CONTINUED)

The University participates in the State System's self-insured workers' compensation plan up to stated limits (see Note 10). 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 significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the University's insurance 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.

The University receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2017, the University estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2017 and 2016, were approximately $691,809 and $5,033,869, respectively.

NOTE 12 UNRESTRICTED NET POSITION

Unrestricted net position as defined by GASB Statement No 35 is not subject to externally imposed stipulations; however, unrestricted net position is subject to internal designations. Unrestricted net position has been internally designated at June 30, 2017 and 2016 as follows:

	2017	2016
Designated Amounts for Educational and General Activities	$ 52,057,584	$ 49,309,509
Designated Amounts for Healthcare Reserve	772,229	821,434
Designated Amounts for Auxiliary Enterprises (Operations, Plant Activities, and Debt Retirement)	18,640,993	24,685,139
Designated Amounts for Plant Activities and Debt Retirement	24,960,961	21,685,904
Compensated Absences Deficit - Non-Auxiliary	(16,296,556)	(15,896,136)
Postretirement Benefit Deficit - Non-Auxiliary	(154,219,435)	(148,403,937)
Pension Benefit Deficit - Non-Auxiliary	(108,821,584)	(103,225,006)
Compensated Absences Deficit - Auxiliary	(356,365)	(397,055)
Postretirement Benefit Deficit - Auxiliary	(3,250,509)	(3,137,512)
Pension Benefit Deficit - Auxiliary	(6,154,331)	(5,487,631)
Total Unrestricted Net Position	$ (192,667,013)	$ (180,045,291)

The State System does not require the University or its member universities to fund compensated absences, postretirement, or pension benefit net position deficits.

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP

Ground Lease Agreements

The University leases land to the Foundation for the Foundation's Student Housing Facilities under separate ground lease agreements for each phase of the Facilities construction. During the year ended June 30, 2017, the Foundation sold Phase I of its student housing facilities to a related-party (the RR Indiana). The Foundation's ground lease for Phase I was terminated upon the closing of the sale. A new ground lease between RR Indiana and the University became effective April 4, 2017.

Ground Lease Agreement – Phase I and II

The University entered into the Phase I ground lease agreement as of May 1, 2006 which was later amended to include Phase II as of May 1, 2007. The Foundation has paid annual base rents for Phase I in the amount of $25,000 beginning in fiscal year ended June 30, 2008, and for Phase II in the amount of $36,600 beginning in fiscal year ended June 30, 2009. The base rent for both Phase I and II increases by 2% in each subsequent year through the expiration date of the lease on June 30, 2049. Additional rents equaling one half of one percent of actual room rental charges began in the fiscal year ended June 30, 2008, for Phase I and the fiscal year ended June 30, 2009, for Phase II. The Foundation also provides room fee waivers for Community Assistants residing in the facilities which the University recognizes as rental income.

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 of:

	Base Rent		Additional Rent		Room Waivers	
	2017	2016	2017	2016	2017	2016
Phase I	$ 22,408	$ 29,291	$ 15,758	$ 29,083	$ 105,202	$ 111,074
Phase II	42,883	42,042	39,796	41,999	226,597	162,450

Ground Lease Agreement – Phase III

The University entered into the Phase III ground lease agreement as of May 1, 2008. The Foundation began paying an annual base rent in the amount of $37,713 during the fiscal year ended June 30, 2010. This base rent increases by 2% each subsequent year through the lease expiration date of June 30, 2050. Additional rents equaling one-half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2010. The Foundation also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as rental income.

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2017	2016	2017	2016	2017	2016
Phase III	$ 43,320	$ 42,471	$ 44,503	$ 41,942	$ 167,659	$ 202,170

Ground Lease Agreement – Phase IV

The University entered into the Phase IV ground lease agreement as of May 29, 2009. The Foundation began paying annual base rent in the amount of $18,315 during the fiscal year ended June 30, 2011. This base rent increases by 2% each subsequent year through the lease expiration date of June 1, 2051. Additional rents equaling one-half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2011. The Foundation also provides room fee waivers for Community Assistants residing in the facility which the University recognizes as rental Income.

The Foundation paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 in the amounts of:

	Base Rent		Additional Rent		Room Waivers	
	2017	2016	2017	2016	2017	2016
Phase IV	$ 20,626	$ 20,222	$ 24,334	$ 22,935	$ 79,991	$ 93,401

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Ground Lease Agreement – All Phases

Total ground lease revenues from all Phases received from the Foundation for the years ended June 30, 2017 and 2016 were $129,237 and $134,026, respectively. Total additional rents from all Phases received from the Foundation for the years ended June 30, 2017 and 2016 were $124,391 and $135,959, respectively. Total room waivers from all Phases received from the Foundation for the years ended June 30, 2017 and 2016 were $579,449 and $569,095, respectively.

Approximate minimum ground lease base rent for future years from all Phases are:

Year Ending June 30,	Amount
2018	$ 108,966
2019	111,146
2020	113,368
2021	115,635
2022	117,948
2023-2027	626,084
2028-2032	691,241
2033-2037	763,178
2038-2042	842,600
2043-2047	930,294
2048-2051	558,738
Total	$ 4,979,198

Facilities Management Contract for Student Housing Facilities

The University has entered into facilities management contracts with the Foundation to provide the Foundation with management services operating all Phases of the Foundation's Student Housing Facilities and the Foundation's Fairman Centre. The facility management agreements continue through June 30, 2017 for Phase I; June 30, 2018 for Phase II; June 30, 2019 for Phase III; June 30, 2020 for Phase IV; and June 30, 2017 for Fairman Centre. Automatic renewal terms exist associated with these agreements. Total management fees charged to the Foundation for the years ended June 30, 2017 and 2016 were $1,240,392 and $953,873, respectively, and are included in auxiliary revenues.

Under the terms of the management agreements the University collects rent, advance deposits, and other fees from the student renters then transfers the money to the Foundation. The total amount due to the Foundation for rent at June 30, 2017 and 2016 was $1,269,371 and $1,154,602, respectively.

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Other Property Leases

The University leases classroom space from the Foundation under a noncancelable operating lease entered into on September 1, 2008 and terminating on August 31, 2018. Total rent expense for these facilities for the years ending both June 30, 2017 and 2016 was $408,000. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2018	$ 408,000
2019	68,000
Total	$ 476,000

The University leased office space from the Foundation in the Phase I facility for various purposes under a noncancelable operating lease terminating on December 31, 2036, which was assigned to RR Indiana effective April 4, 2017. Total rent expense for this space was $228,929 and $296,080 for the years ended June 30, 2017 and 2016, respectively.

The University leases office space from the Foundation in the Phase II facility for the Student Health Center under a noncancelable operating lease terminating on December 31, 2037. Total rent expense for these facilities was $731,404 and $715,273 for the years ending June 30, 2017 and 2016, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2018	$ 716,098
2019	730,420
2020	745,029
2021	759,929
2022	775,128
2023-2027	4,114,472
2028-2032	4,542,710
2033-2037	5,015,519
2038-2042	532,042
Total	$ 17,931,347

NOTE 13 RELATED PARTY TRANSACTIONS – FOUNDATION FOR IUP (CONTINUED)

Other Property Leases (Continued)

The University leases office space from the Foundation in the Phase II facility for the Housing and Resident Life and Dining Management Offices under a noncancelable operating lease terminating on December 31, 2037. Total rent expense for these facilities was $11,401 and $10,482 for the years ending June 30, 2017 and 2016, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2018	$ 12,017
2019	12,666
2020	13,350
2021	14,071
2022	14,831
2023-2027	87,070
2028-2032	113,259
2033-2037	147,323
2038	34,405
Total	$ 448,992

NOTE 14 INTEREST RATE SWAP AGREEMENTS – FOUNDATION FOR IUP

As a strategy to maintain acceptable levels of exposure to risk of changes in future cash flows due to interest rate fluctuations, the Foundation participates in interest rate swap agreements to eliminate its exposure to variability in interest payments on its bonds payable. The interest rate swaps are marked to market currently with a gain or loss recognized in the statement of activities.

The Foundation has four interest rate swap agreements whereby the Foundation pays a fixed rate of interest in exchange for receiving payments based on a floating interest rate tied to LIBOR. The floating rate is reset on the first day of each January, April, July, and October for three agreements and monthly for a fourth agreement.

In accordance with FASB Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, included in the obligation under other liabilities in the condensed balance sheets is the net cumulative unrealized loss on these derivative transactions in the amount of $31,625,352 and $44,652,997 at June 30, 2017 and 2016, respectively. Additionally, the change in the cumulative loss is included in the unrealized gain (loss) on interest rate swap agreements in the accompanying statement of activities, and amounted to a gain of $13,027,647 for the year ended June 30, 2017 and a loss of $13,246,930 for the year ended 2016.

NOTE 15 RATING ACTIONS

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

NOTE 16 RELATED PARTY TRANSACTION – STATE SYSTEM OF HIGHER EDUCATION

On July 31, 2015, the University borrowed $5,000,000 from the System Investment Fund/University Loan Program. The note carries an annual interest rate of .61% which is $83.56 per day. The loan balance at June 30, 2016 was $5,000,000. The principal balance was repaid on July 31, 2016 from proceeds of the University's participation in PHEFA issued Series AT-2 revenue bonds. Interest of $32,673 was paid to the System from University funds on September 7, 2016.

NOTE 17 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA

Ground Lease Agreement – RR Indiana

The University entered into a ground lease agreement as of April 4, 2017 with RR Indiana. The RR Indiana began paying annual base rent in the amount of $29,877 per lease year commencing with the lease year beginning July 1, 2016. This base rent increases by 2% each subsequent year through the lease expiration date of April 4, 2046. Additional rents equaling one-half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2017. The RR Indiana will also provide room fee waivers for Community Assistants residing in the facility which the University will recognize as rental Income commencing in the fiscal year ending June 30, 2018.

The RR Indiana paid base rent, additional rent, and provided room waivers to the University during the fiscal years ending June 30 in the amounts of:

Base Rent		Additional Rent		Room Waivers	
2017	2016	2017	2016	2017	2016
$ 7,469	$ -	$ 14,743	$ -	$ -	$ -

NOTE 17 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Ground Lease Agreement – RR Indiana (Continued)

Approximate minimum ground lease base rent for future years from RR Indiana are:

Year Ending June 30,	Amount
2018	$ 30,475
2019	31,085
2020	31,707
2021	32,341
2022	32,988
2023-2027	175,104
2028-2032	193,325
2033-2037	213,443
2038-2042	235,661
2043-2047	193,422
Total	$ 1,169,551

Facilities Management Contract for Student Housing Facilities

The University has entered into a facilities management contract with the RR Indiana to provide the management services operating the RR Indiana's Student Housing Facilities. The facility management agreement was effective April 4, 2017, and continues through April 4, 2022. Automatic renewal terms exist associated with this agreements. Total management fees charged to the RR Indiana for the year ended June 30, 2017 were $71,235 and are included in auxiliary revenues.

Under the terms of the management agreement the University collects rent, advance deposits, and other fees from the student renters then transfers the money to the RR Indiana. The total amount due to the RR Indiana for rent at June 30, 2017, was $229,499.

NOTE 17 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Other Property Leases

The University leases office space from the RR Indiana for various purposes under a noncancelable operating lease transferred from the Foundation to RR Indiana effective April 4, 2017, which terminates on April 4, 2046. Total rent expense for this space was $75,704 for the year ended June 30, 2017. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2018	$ 266,350
2019	271,677
2020	277,111
2021	282,653
2022	288,306
2023-2027	1,530,364
2028-2032	1,689,645
2033-2037	1,865,505
2038-2042	2,059,668
2043-2046	1,689,596
Total	$ 10,220,875

NOTE 18 RELATED PARTY TRANSACTIONS – IUP RESEARCH INSTITUTE

The Research Institute contracts with the University to receive services in support of various research grant projects. These contracted services are in the normal course of business for both the Research Institute and the University. For the years ended June 30, 2017 and 2016, the Research Institute paid IUP $1,152,190 and $1,378,710, respectively, for contracted services. The Research Institute owed the University $436,989 as of June 30, 2017, and $298,527 as of June 30, 2016, which are included in Due from Component Units.

The University pays a fee to the Research Institute for promoting and developing research opportunities, managing research grants on behalf of the University, and providing the University with other services as needed. For the years ended June 30, 2017 and 2016, total amounts paid by the University to the Research Institute were $1,318,362 and $1,266,791, respectively. The University owed the Research Institute $130,554 as of June 30, 2017, and $166,136 as of June 30, 2016, which are included in Due to Component Units.

NOTE 19 SUBSEQUENT EVENTS

Series AU Bond Issuance and Series AH Bond Refund

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. The University participated in the issuance of the AU-1 revenue bonds receiving net proceeds in the amount of $5,300,000 to finance capital renovations and improvements.

In addition the University participated in the issuance of the AU-2 revenue bonds. The refunding was performed to reduce debt service by approximately $640,358 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $626,291. 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.

Cheyney University Loan Forgiveness

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

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

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

NOTE 19 SUBSEQUENT EVENTS (CONTINUED)

Component Unit Housing Facilities Sale from Foundation to RR Indiana

Subsequent to year-end, the Foundation entered into an agreement to sell the Phase IV Housing Facilities Project to Residential Revival Indiana. The sale successfully closed on September 28, 2017. The purchase price of the Phase IV housing facilities approximated the fair value of the project of $42,300,000 per an independent appraisal report dated April 26, 2016.

INDIANA 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
(UNAUDITED)

Schedule of Funding Progress for The System Plan (OPEB)
(dollars 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	$ -	$ 185,837	$ 185,837	0%	$ 74,933	248.0%
July 1, 2014	$ -	$ 166,782	$ 166,782	0%	$ 76,135	219.1%
July 1, 2015	$ -	$ 153,291	$ 153,291	0%	$ 77,958	196.6%

The information above relates to the University's share of the System Plan; i.e., it does not include any other State System Institution or the Chancellor's Office.

Schedule of Funding Progress for The REHP (OPEB)
(dollars in thousands)

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

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.

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

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

Fiscal Year	State System's Proportion	University's 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	4.9010%	$ 99,954	$ 40,768	245%	64.8%
2015/16	4.7210%	$ 117,929	$ 40,900	288%	58.9%
2016/17	4.8370%	$ 127,626	$ 41,208	310%	57.8%

SERS Schedule of Contributions
Determined as of the University June 30 Fiscal Year End
(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	$ 7,792	$ 7,792	$ -	$ 40,768	19.1%
2015/16	$ 9,455	$ 9,455	$ -	$ 40,185	23.5%
2016/17	$ 11,161	$ 11,161	$ -	$ 40,399	27.6%

INDIANA 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
(UNAUDITED)

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

	PSERS Net Pension Liability						
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%	$ 10,072	$ 10,072	$ 20,144	$ 3,247	310%	57.2%
2015/16	0.1852%	$ 11,851	$ 11,851	$ 23,702	$ 7,042	168%	54.4%
2016/17	0.1833%	$ 12,772	$ 12,772	$ 25,545	$ 6,677	200%	50.1%

PSERS Schedule of Contributions
Determined as of the University June 30 Fiscal Year End
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 774	$ 774	$ -	$ 3,247	23.8%
2015/16	$ 845	$ 845	$ -	$ 6,917	12.2%
2016/17	$ 913	$ 913	$ -	$ 6,313	14.5%

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