INDIANA UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP

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OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 11.1%, 12.2% and 20.0%, respectively, of the 2018 assets, net assets, and revenues and 11.9%, 14.8%, and 18.5%, respectively, of the 2017 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.

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

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, 2018 and 2017, 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.

Emphasis of Matter

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

Other Matters

Management Discussion and Analysis

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the various schedules of Proportionate Share of Net Pension Liability, OPEB Liability, Proportionate Share of Net OPEB Liability, and Contributions on pages 71-74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 31, 2018

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

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 117,310,624	$ 107,808,991
Accounts Receivable:		
Governmental Grants and Contracts	1,641,998	1,638,451
Students, Net of Allowance for Doubtful Accounts of $7,740,763 in 2018 and $5,847,468 in 2017	10,992,360	10,588,567
Sales and Service	862,020	296,422
Other	594,486	646,169
Inventories	790,198	781,786
Prepaid Expenses, Suppliers	2,292,274	2,231,379
Loans Receivable	3,318,059	3,570,201
Investment Income Receivable	200,219	135,257
Due from Component Units	1,918,445	2,975,449
Other Current Assets	548,728	235,972
Total Current Assets	140,469,411	130,908,644
NONCURRENT ASSETS		
Restricted Cash and Cash Equivalents	25,000	25,000
Endowment Investments	7,068,661	6,582,579
Loans Receivable, Net	4,366,097	4,298,557
Capital Assets, Net	172,466,852	168,952,066
Total Noncurrent Assets	183,926,610	179,858,202
Total Assets	324,396,021	310,766,846
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	156,537	55,997
Defined Benefit Retirement Plans Deferred Outflows	19,399,536	31,775,499
Other Post Employment Benefit Plans Deferred Outflows	7,137,836	-
Total Deferred Outflows of Resources	26,693,909	31,831,496
Total Assets and Deferred Outflows of Resources	$ 351,089,930	$ 342,598,342

See accompanying *Notes to Financial Statements.*

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

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	$ 3,054,230	$ 5,949,089
Employees	15,580,910	15,264,603
Unearned Revenue:		
Students	3,167,813	3,040,291
Grants	46,478	210,644
Other	14,888	14,888
Accrued Interest Payable	90,426	86,778
Students' Deposits	354,600	515,767
Other Deposit Liabilities	173,384	135,975
Current Portion of Workers' Compensation Obligation	427,397	399,727
Current Portion of Compensated Absences Obligation	1,301,322	1,252,745
Current Portion of Capitalized Lease Obligations	51,229	36,698
Current Portion of Other Post Employment Benefits Obligation	7,110,688	-
Current Portion of Bonds Payable, Net	4,331,954	3,871,960
Current Portion of Due to System, Academic Facilities Renovation Bond Program (AFRP)	643,296	659,769
Due to Component Units	1,945,951	1,810,892
Other Current Liabilities	1,417,179	1,084,571
Total Current Liabilities	39,711,745	34,334,397
NONCURRENT LIABILITIES		
Workers' Compensation Obligation, Net of Current Portion	554,040	351,422
Compensated Absences Obligation, Net of Current Portion	16,228,539	15,400,176
Postretirement Benefits Obligation	278,067,382	157,469,944
Net Pension Liability	124,537,462	140,398,093
Capitalized Lease Obligations, Net of Current Portion	132,030	121,404
Bonds Payable, Net of Current Portion	52,625,539	51,288,019
Due to System, AFRP	1,458,396	2,112,175
Other Noncurrent Liabilities	6,565,572	7,246,235
Total Noncurrent Liabilities	480,168,960	374,387,468
Total Liabilities	519,880,705	408,721,865
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	58,131	71,513
Defined Benefit Retirement Plans Deferred Inflows	9,302,499	6,353,321
Other Post Employment Benefit Plans Deferred Inflows	24,330,780	-
Total Deferred Inflows of Resources	33,691,410	6,424,834
NET POSITION (DEFICIT)		
Net Invested in Capital Assets	114,054,891	112,110,733
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	2,992,067	2,965,117
Student Loans	1,288,258	1,324,648
Other	798,731	798,731
Expendable:		
Scholarships and Fellowships	841,728	766,496
Research	997	-
Capital Projects	13,222,769	2,152,931
Unrestricted	(335,681,626)	(192,667,013)
Total Net Position	(202,482,185)	(72,548,357)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 351,089,930	$ 342,598,342

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Tuition and Fees	$ 143,672,842	$ 145,411,989
Less: Scholarship Discounts and Allowances	32,059,907	31,440,237
Net Tuition and Fees	111,612,935	113,971,752
Governmental Grants and Contracts:		
Federal	7,286,332	7,185,703
State	15,031,712	15,475,179
Local	91,505	70,669
Nongovernmental Grants and Contracts	4,222,402	5,293,833
Sales and Services of Educational Departments	9,242,847	8,506,893
Auxiliary Enterprises	24,072,599	25,427,420
Other Revenues	1,297,148	1,496,921
Total Operating Revenues	172,857,480	177,428,370
OPERATING EXPENSES		
Instruction	100,213,898	111,088,766
Research	1,188,173	1,237,009
Public Service	7,963,316	7,395,409
Academic Support	21,966,740	24,946,409
Student Services	19,558,035	21,036,164
Institutional Support	29,248,210	29,727,496
Operations and Maintenance of Plant	18,868,856	19,086,564
Depreciation	10,923,011	10,709,024
Student Aid	10,263,293	10,823,990
Auxiliary Enterprises	25,408,214	24,723,135
Total Operating Expenses	245,601,746	260,773,966
OPERATING LOSS	(72,744,266)	(83,345,596)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	53,901,743	53,308,167
Commonwealth on behalf Contributions to PSERS	1,284,091	1,409,156
Pell Grants	17,308,214	17,530,498
Investment Income, Net	2,649,771	1,837,300
Unrealized Gain on Investments	144,350	593,906
Gifts for Other than Capital Purposes	1,659,838	1,451,700
Interest Expense on Capital Asset-Related Debt	(1,906,236)	(1,626,074)
Loss on Disposal of Assets	(45,713)	(458,539)
Other Nonoperating Revenue	276,873	294,855
Nonoperating Revenues, Net	75,272,931	74,340,969
INCOME (LOSS) BEFORE OTHER REVENUES	2,528,665	(9,004,627)
OTHER REVENUES		
State Appropriations, Capital	2,352,428	2,139,061
Capital Gifts and Grants	12,632,699	532,879
Total Other Revenues	14,985,127	2,671,940
INCREASE (DECREASE) IN NET POSITION	17,513,792	(6,332,687)
Net Position - Beginning of Year	(72,548,357)	(66,215,670)
Restatement for July 1, 2017 GASB 75 OPEB	(147,447,620)	-
Net Position - Beginning of Year, Restated	(219,995,977)	(66,215,670)
NET POSITION - END OF YEAR	$ (202,482,185)	$ (72,548,357)

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 111,410,074	$ 112,375,768
Grants and Contracts	26,464,238	27,983,807
Payments to Suppliers for Goods and Services	(59,389,303)	(56,678,012)
Payments to Employees	(169,759,435)	(172,820,456)
Loans Issued to Students	(1,115,863)	(1,094,466)
Loans Collected from Students	1,300,465	1,179,441
Student Aid	(10,263,293)	(10,823,990)
Auxiliary Enterprise Charges	23,838,022	24,877,417
Sales and Services of Educational Departments	8,677,249	9,011,302
Other Receipts	1,887,651	1,278,727
Net Cash Used by Operating Activities	(66,950,195)	(64,710,462)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	53,901,743	53,308,167
Gifts for Other Than Capital Purposes	1,659,838	1,451,610
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	118,791,277	118,505,897
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(119,025,916)	(118,533,547)
PELL Grant	17,308,214	17,530,498
Agency Transactions, Net	272,048	(95,002)
Other	276,873	294,855
Net Cash Provided by Noncapital Financing Activities	73,184,077	72,462,478
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt	13,098,972	18,980,855
Capital Appropriations	2,352,428	2,139,061
Capital Grants and Gifts Received	9,759,173	519,942
Purchases of Capital Assets	(10,149,877)	(21,702,775)
Principal Paid on Capital Debt and Leases	(11,509,181)	(9,017,026)
Interest Paid on Capital Debt and Leases	(2,526,841)	(1,817,411)
Net Cash Provided (Used) by Capital Financing Activities	1,024,674	(10,897,354)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	555,850	101,214
Interest on Investments	2,584,809	1,817,719
Purchase of Investments	(897,582)	(148,316)
Net Cash Provided by Investing Activities	2,243,077	1,770,617
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,501,633	(1,374,721)
Cash and Cash Equivalents - Beginning of Year	107,808,991	109,183,712
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 117,310,624	$ 107,808,991

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, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (72,744,266)	$ (83,345,596)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	10,923,011	10,709,024
Expenses Paid by Commonwealth or Donor	1,284,091	1,409,156
Effect of Changes in Operating Assets, Liabilities, and Deferred Inflows and Outflows:		
Receivables, Net	(972,938)	(1,567,707)
Inventories	(8,412)	76,217
Other Assets	735,036	(925,339)
Accounts Payable	(3,965,700)	(4,036,049)
Deferred Revenue	(51,531)	(146,234)
Students' Deposits	(161,167)	15,836
Compensated Absences	876,940	359,730
Loans to Students and Employees	184,602	84,975
Post Employment Benefits Liability (OPEB)	(19,739,494)	5,928,495
Defined Benefit Pensions	(15,860,631)	10,618,223
Other Liabilities	32,179	463,752
Deferred Outflows of Resources Related to Pensions	12,375,963	(6,706,925)
Deferred Outflows of Resources Related to Other Post Employment Benefits Liability	(7,137,836)	-
Deferred Inflows of Resources Related to Pensions	2,949,178	2,351,980
Deferred Inflows of Resources Related to Other Post Employment Benefits Liability	24,330,780	-
Net Cash Used by Operating Activities	$ (66,950,195)	$ (64,710,462)
NONCASH TRANSACTIONS		
Capital Assets Included in Payables	$ 1,387,148	$ 4,384,408
Capital Assets Acquired by New Capital Leases	$ 72,960	$ 158,102
Capital Assets Acquired by Like-Kind Exchanges	$ -	$ 2,752
Capital Assets Acquired by Gift	$ 2,873,526	$ 12,937
Commonwealth on behalf contributions to PSERS	$ 1,284,091	$ 1,409,156

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, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash and Cash Equivalents	$ 13,436,201	$ 10,911,973
Accounts Receivable	1,158,730	1,559,976
Contributions/Pledges Receivable	4,529,159	1,685,983
Prepaid Expenses	164,912	237,816
Due from University	1,949,151	1,812,936
Inventories	903,015	778,434
Investments	85,845,682	83,058,909
Capital Assets, Net	230,687,368	224,313,464
Funds Held by Component Unit	5,235,370	4,881,769
Note Receivable from Component Unit	19,704,247	14,876,800
Restricted Cash and Investments	35,250,884	33,802,484
Other Assets	2,226,888	1,796,649
Total Assets	$ 401,091,607	$ 379,717,193
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 5,085,371	$ 6,584,203
Annuity Liabilities	91,022	98,334
Due to University	1,918,445	2,849,377
Deposits Payable	293,550	317,468
Funds Held for Component Unit	5,235,370	4,881,769
Capital Leases	27,278,919	28,042,540
Note Payable to Component Unit	19,704,247	14,876,800
Long-Term Debt, Net	213,882,073	213,437,718
Interest Rate Swap Agreements	23,427,898	31,625,352
Other Liabilities	2,669,627	2,847,848
Total Liabilities	299,586,522	305,561,409
NET ASSETS		
Unrestricted	40,047,528	16,150,016
Temporarily Restricted	19,218,053	19,792,278
Permanently Restricted	42,239,504	38,213,490
Total Net Assets	101,505,085	74,155,784
Total Liabilities and Net Assets	$ 401,091,607	$ 379,717,193

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, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Additions:		
Sales and Service	$ 5,439,331	$ 6,008,202
Student Fees	8,452,689	7,654,253
Grants and Contracts	3,497,026	3,732,046
Rental Income	31,210,722	31,032,349
Investment Income	2,404,462	1,882,753
Unrealized Gain on Investments	1,550,754	1,831,622
Unrealized Gain on Interest Rate Swap Agreements	8,197,454	13,027,647
Other Revenues and Gains	11,464,558	25,668,081
Contributions	2,959,900	2,989,513
Net Assets Released Based on Satisfaction of Program Restrictions	12,845,924	5,086,899
Total Revenues and Other Additions	88,022,820	98,913,365
Expenses and Other Deductions:		
Program Services:		
Scholarships and Grants	4,382,016	5,184,838
Student Activities and Programs	4,829,802	5,198,689
University Stores	3,722,791	4,994,350
Housing	26,763,660	28,436,500
Other University Support	12,243,599	2,231,923
Other Programs	6,355,667	6,479,984
Management and General	2,628,879	2,322,943
Fundraising	2,632,403	2,820,696
Other Expenses and Losses	566,491	1,401,016
Total Expenses and Other Deductions	64,125,308	59,070,939
Increase in Unrestricted Net Assets	23,897,512	39,842,426
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	7,037,199	3,402,701
Investment Gain	2,498,111	2,198,936
Unrealized Gain on Investments	2,736,389	3,790,654
Net Assets Released Based on Satisfaction of Program Restrictions	(12,845,924)	(5,086,899)
Increase (Decrease) in Temporarily Restricted Net Assets	(574,225)	4,305,392
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	4,026,014	905,770
Increase in Permanently Restricted Net Assets	4,026,014	905,770
INCREASE IN NET ASSETS	27,349,301	45,053,588
Net Assets - Beginning of Year	74,155,784	29,102,196
NET ASSETS - END OF YEAR	$ 101,505,085	$ 74,155,784

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); the IUP Research Institute, Inc. (the Research Institute); the Indiana University of Pennsylvania Alumni Association, Inc. (the Alumni Association); and Residential Revival Indiana (RR Indiana), 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, 2018 and 2017.

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, 2018 and 2017.

The Foundation 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, 2018 and 2017.

The RR Indiana is a nonprofit entity which was incorporated to maintain and manage certain student housing facilities on the main campus of the University. During the years ended June 30, 2018 and 2017, RR Indiana purchased segments 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. The financial activity of the RR Indiana is presented as of and for the years ended June 30, 2018 and 2017.

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.

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

Reporting Entity (Continued)

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, 2018 and 2017.

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, 2018 and 2017.

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.

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.

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

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.

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.

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

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 20 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, 2018 and 2017.

Unearned Revenue

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

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

Compensated Absences

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

Pension Plans and Other Post Employment Benefit (OPEB) Plans

Eligible employees of the State System enroll in one of three available pension plans immediately upon employment. The State System also offers healthcare and tuition benefits to eligible employees upon employment, which vary depending upon the employee's labor group.

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.

- Deferred gain or loss on bond refunding, 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 and other postemployment benefit (OPEB) plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, the net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the University's proportion of expenses and liabilities of the pension and OPEB plans as a whole, differences between the University's pension and OPEB contributions and its proportionate share of contributions, and University pension and OPEB contributions subsequent to the respective pension or OPEB plan valuation measurement date.

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

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 2017 financial statements have been reclassified to conform to the 2018 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

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

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

New Accounting Standards (Continued)

Net Position - Beginning of Year, as Previously Stated	$ (72,548,357)
Restatement of July 1, 2017, GASB 75 OPEB Liability	(147,447,620)
Net Position - Beginning of Year, Restated	$(219,995,977)

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

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in a similar manner as capital leases, with assets and liabilities recorded at lease inception. The University has determined that although Statement No. 87 will change the way it accounts for its operating leases, the effect on 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.

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

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

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

NOTE 2 COMPONENT UNIT INFORMATION

The following represents combining condensed balance sheet information for the component units as of June 30, 2018:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
ASSETS							
Due from University	$ 113,346	$ -	$ 1,163,124	$ 561,517	$ 111,164	$ -	$ 1,949,151
Funds Held by Component Unit	-	-	-	-	-	5,235,370	5,235,370
Note Receivable From Component Unit	-	-	19,704,247	-	-	-	19,704,247
Investments	18,969	-	85,826,713	-	-	-	85,845,682
Capital Assets, Net	29,056,223	414,622	104,617,586	96,572,588	26,349	-	230,687,368
Other Assets	6,893,624	3,206	37,795,046	10,328,266	2,649,647	-	57,669,789
Total Assets	$ 36,082,162	$ 417,828	$ 249,106,716	$ 107,462,371	$ 2,787,160	$ 5,235,370	$ 401,091,607
LIABILITIES AND NET ASSETS							
LIABILITIES							
Due to University	$ 144,478	$ -	$ 887,314	$ 467,388	$ 437,157	$ -	$ 1,936,337
Funds Held for Component Unit	-	-	5,235,370	-	-	-	5,235,370
Note Payable to Component Unit	-	-	-	19,704,247	-	-	19,704,247
Capital Leases	27,278,919	-	-	-	-	-	27,278,919
Long-Term Debt, Net	-	-	131,558,076	82,323,997	-	-	213,882,073
Other Liabilities	2,732,092	-	26,189,856	1,103,049	1,124,579	400,000	31,549,576
Total Liabilities	30,155,489	-	163,870,616	103,598,681	1,561,736	400,000	299,586,522
Net Assets							
Unrestricted	5,926,673	417,828	23,778,543	3,863,690	1,225,424	4,835,370	40,047,528
Temporarily Restricted	-	-	19,218,053	-	-	-	19,218,053
Permanently Restricted	-	-	42,239,504	-	-	-	42,239,504
Total Net Assets	5,926,673	417,828	85,236,100	3,863,690	1,225,424	4,835,370	101,505,085
Total Liabilities and Net Assets	$ 36,082,162	$ 417,828	$ 249,106,716	$ 107,462,371	$ 2,787,160	$ 5,235,370	$ 401,091,607

NOTE 2 COMPONENT UNIT INFORMATION (CONTINUED)

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 revenues, expenses, and changes in net assets information for the component units for the year ended June 30, 2018:

	Cooperative	Student Union	Foundation	Residential Revival Indiana	Research Institute	Alumni Association	Total
Changes in Unrestricted Net Assets							
Revenues and Other Additions:							
Sales & Services	$ 4,026,330	$ -	$ -	$ -	$ 1,413,001	$ -	$ 5,439,331
Student Fees	8,452,689	-	-	-	-	-	8,452,689
Grants and Contracts	-	-	-	-	3,497,026	-	3,497,026
Rental Income	-	-	20,737,646	10,473,076	-	-	31,210,722
Investment Income	146,738	-	2,030,640	29,216	6,569	191,299	2,404,462
Unrealized Gain (Loss) on Investments	(3,244)	-	1,297,415	-	-	256,583	1,550,754
Unrealized Gain on Interest Rate Swap Agreements	-	-	8,197,454	-	-	-	8,197,454
Other Revenues and Gains	130,986	22,500	11,120,886	140,983	8,225	40,978	11,464,558
Contributions	-	-	2,957,700	-	-	2,200	2,959,900
Net Assets Released	-	-	12,845,924	-	-	-	12,845,924
Total Revenues and Other Additions	12,753,499	22,500	59,187,665	10,643,275	4,924,821	491,060	88,022,820
Expenses and Other Deductions:							
Program Services:							
Scholarships and Grants	250,000	-	4,132,016	-	-	-	4,382,016
Student Activities and Programs	4,829,802	-	-	-	-	-	4,829,802
University Stores	3,722,791	-	-	-	-	-	3,722,791
Housing	-	-	18,907,463	7,856,197	-	-	26,763,660
Other University Support	-	-	12,216,325	-	-	27,274	12,243,599
Other Programs	2,578,670	-	-	-	3,776,997	-	6,355,667
Management and General	348,847	38,994	867,162	217,477	1,096,214	60,185	2,628,879
Fundraising	-	-	2,632,403	-	-	-	2,632,403
Other Expense	-	-	566,491	-	-	-	566,491
Total Expenses and Losses	11,730,110	38,994	39,321,860	8,073,674	4,873,211	87,459	64,125,308
Increase (Decrease) in Unrestricted Net Assets	1,023,389	(16,494)	19,865,805	2,569,601	51,610	403,601	23,897,512
Changes in Temporarily Restricted Net Assets							
Contributions	-	-	7,037,199	-	-	-	7,037,199
Investment Gain	-	-	2,498,111	-	-	-	2,498,111
Unrealized Gain on Investments	-	-	2,736,389	-	-	-	2,736,389
Net Assets Released Based on Satisfaction of Program Restrictions	-	-	(12,845,924)	-	-	-	(12,845,924)
Decrease in Temporarily Restricted Net Assets	-	-	(574,225)	-	-	-	(574,225)
Changes in Permanently Restricted Net Assets							
Contributions	-	-	4,026,014	-	-	-	4,026,014
Increase in Permanently Restricted Net Assets	-	-	4,026,014	-	-	-	4,026,014
Increase (Decrease) in Net Assets	1,023,389	(16,494)	23,317,594	2,569,601	51,610	403,601	27,349,301
Net Assets - Beginning of Year	4,903,284	434,322	61,918,506	1,294,089	1,173,814	4,431,769	74,155,784
Net Assets - End of Year	$ 5,926,673	$ 417,828	$ 85,236,100	$ 3,863,690	$ 1,225,424	$ 4,835,370	$ 101,505,085

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 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 $115,885,272 and $106,457,012 at June 30, 2018 and 2017, respectively.

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

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.)

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

CMO Risk: CMOs 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. 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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

> *Level 1* – Investments whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market, such as stocks listed in the S&P 500 or NASDAQ. If an up-to-date price of the investment can be found on a major exchange, it is a Level 1 investment.
>
> *Level 2* – Investments whose values are based on their quoted prices in inactive markets or whose values are based on models, and the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability.
>
> *Level 3* – Investments that trade infrequently, and as a result do not have many reliable market prices. Valuations of Level 3 investments typically are based on management assumptions or expectations. For example, a private equity investment or complex derivative would likely be a Level 3 investment.

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

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.

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)
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 out perform 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.

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, 2018 and 2017, the University had the following investments which exceeded 5% of the Universities total investments:

June 30, 2018

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 4,269,417	60.40%
Common Fund	High Quality Bond Fund	2,799,244	39.60%
		$ 7,068,661	

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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	

At June 30, 2018 and 2017, the carrying amount of the University's demand and time deposits were $1,450,352 and $1,376,979, respectively, as compared to bank balances of $981,491 and $1,270,051, 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, 2018 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			$ 1,450,352
Investments:				
Fixed Income Mutual Funds	NAV			2,799,244
Equity/Balanced Mutual Funds	NAV			4,269,417
Total				$ 8,519,013

The carrying value (fair value) of the University's local deposits and investments on June 30, 2017 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			$ 1,376,979
Investments:				
Fixed Income Mutual Funds	NAV			2,294,980
Equity/Balanced Mutual Funds	NAV			4,287,599
Total				$ 7,959,558

Of all local investments noted above, the University has no exposure to foreign currency risk for either of the years ended June 30, 2018 or 2017, respectively.

NOTE 4 CAPITAL ASSETS

The classification of capital assets and related depreciation at June 30, 2018 is as follows:

	Estimated Lives (in Years)	Beginning Balance July 1, 2017	Additions	Retirements	Transfers	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated						
Land		$ 5,627,271	$ -	$ -	$ -	$ 5,627,271
Construction in Progress		24,520,692	1,590,885	-	(21,782,916)	4,328,661
Total Capital Assets Not Being Depreciated		30,147,963	1,590,885	-	(21,782,916)	9,955,932
Capital Assets Being Depreciated						
Buildings, including Improvements	40/20	240,440,746	6,592,967	(609,147)	20,172,233	266,596,799
Land Improvements	20	47,863,953	1,754,140	-	1,610,683	51,228,776
Furnishings and Equipment (including Cost of Capital Leases)	3-10	39,390,082	4,513,542	(284,648)	-	43,618,976
Library Books	10	10,756,052	31,976	(305,367)	-	10,482,661
Total Capital Assets Being Depreciated		338,450,833	12,892,625	(1,199,162)	21,782,916	371,927,212
Less: Accumulated Depreciation:						
Buildings, including Improvements		(122,216,203)	(7,648,775)	568,344	-	(129,296,634)
Land Improvements		(31,974,207)	(1,145,892)	-	-	(33,120,099)
Furnishings and Equipment		(35,416,073)	(1,939,321)	279,738	-	(37,075,656)
Library Books		(10,040,247)	(189,023)	305,367	-	(9,923,903)
Total Accumulated Depreciation		(199,646,730)	(10,923,011)	1,153,449	-	(209,416,292)
Total Capital Assets being Depreciated, Net		138,804,103	1,969,614	(45,713)	21,782,916	162,510,920
Capital Assets, Net		$ 168,952,066	$ 3,560,499	$ (45,713)	$ -	$ 172,466,852

NOTE 4 CAPITAL ASSETS (CONTINUED)

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 5 LEASES

The University has entered into long-term operating leases maturing through August 2023 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
2019	$ 342,852
2020	341,236
2021	241,413
2022	238,480
2023	238,480
Thereafter	39,747
Total Minimum Lease Payments	$ 1,442,208

Total rent expense for operating leases was $2,609,944 and $2,692,355 for the years ended June 30, 2018 and 2017, respectively.

The University has entered into capital lease agreements for the financing of equipment maturing through fiscal year 2023. The interest rates implicit to the lease agreements range from 0% to 9.12%. Changes in the capital lease obligations was as follows:

	2018	2017
Balance - July 1	$ 158,102	$ -
Increases	72,960	158,102
Repayments	(47,803)	-
Balance - June 30	183,259	158,102
Less Current Portion	(51,229)	(36,698)
Non-Current Portion	$ 132,030	$ 121,404

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

	2018	2017
Assets Held under Lease Agreement	$ 211,061	$ 138,101
Accumulated Depreciation	(42,073)	(6,905)
Total	$ 168,988	$ 131,196

Depreciation expense includes capital lease amortization of $35,168 and $6,905 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5 LEASES (CONTINUED)

Future annual minimum payments in the aggregate under the noncancelable capital leases are as follows:

Year Ending June 30,	Amount
2019	$ 57,528
2020	56,983
2021	46,038
2022	32,671
2023	4,901
Total Minimum Lease Payments	198,121
Less Amount Representing Interest on Capital Leases	14,862
Present Value of Net Minimum Capital Lease Payments	$ 183,259

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:

Year Ending June 30,	Amount
2019	$ 1,972,520
2020	2,789,757
2021	2,619,290
2022	2,613,641
2023	2,598,294
Thereafter	26,436,690
Total Minimum Lease Payments	39,030,192
Less Amount Representing Interest on Capital Leases	11,751,273
Present Value of Net Minimum Capital Lease Payments	$ 27,278,919

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 end June 30, 2018 is as follows:

	Weighted Average Interest Rate	Balance July 1, 2017	Bonds Issued	Bonds Redeemed	Balance June 30, 2018
Series AH Issued in July 2008 for Various Projects Final Maturity June 2028	4.68%	$ 7,417,498	$ -	$ (7,417,498)	$ -
Series AI Issued in August 2008 for Various Projects Final Maturity June 2025	4.27%	2,213,284	-	(331,028)	1,882,256
Series AL Issued in July 2010 for Various Projects Final Maturity June 2021	5.00%	537,786	-	(124,439)	413,347
Series AM Issued in July 2011 for Various Projects Final Maturity June 2031	4.66%	6,145,866	-	(320,156)	5,825,710
Series AO Issued in July 2013 for Various Projects Final Maturity June 2033	4.44%	15,870,000	-	(725,000)	15,145,000
Series AP Issued in May 2014 for Various Projects Final Maturity June 2024	4.60%	555,857	-	(70,761)	485,096
Series AQ issued in May 2015 for Various Projects Final Maturity 2025	4.65%	2,261,354	-	(394,810)	1,866,544
Series AS issued in June 2016 for Various Projects Final Maturity 2027	3.83%	816,977	-	(34,325)	782,652
Series AT issued in September 2016 for Various Projects Final Maturity 2036	3.43%	18,460,000	-	(785,000)	17,675,000
Series AU-1 Issued In September 2017 for Various Projects Final Maturity June 2037	3.51%	-	4,858,813	(144,250)	4,714,563
Series AU-2 Issued In September 2017 for Various Projects Final Maturity June 2028	3.51%	-	6,755,861	(443,859)	6,312,002
Total Bonds Payable		$ 54,278,622	$ 11,614,674	$ (10,791,126)	55,102,170
Plus: Unamortized Bond Premium					1,921,768
Less: Unamortized Bond Discount					(66,445)
Outstanding at End of Year					56,957,493
Less: Current Portion					4,331,954
Bonds Payable, Net of Current Portion					$ 52,625,539

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
Less: Current Portion					3,871,960
Bonds Payable, Net of Current Portion					$ 51,288,019

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		2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	Total
AI	Principal	$ 343,712	$ 357,052	$ 372,472	$ 386,172	$ 244,620	$ 178,228	$ -	$ -	$ 1,882,256
	Interest	79,924	66,176	51,447	35,617	18,722	9,595	-	-	261,481
	Total	423,636	423,228	423,919	421,789	263,342	187,823	-	-	2,143,737
AL	Principal	131,183	137,710	144,454	-	-	-	-	-	413,347
	Interest	20,668	14,108	7,222	-	-	-	-	-	41,998
	Total	151,851	151,818	151,676	-	-	-	-	-	455,345
AM	Principal	333,189	349,622	367,188	385,321	404,587	2,330,057	1,655,746	-	5,825,710
	Interest	272,058	255,398	237,917	219,558	200,292	695,274	159,578	-	2,040,075
	Total	605,247	605,020	605,105	604,879	604,879	3,025,331	1,815,324	-	7,865,785
AO	Principal	750,000	770,000	800,000	835,000	865,000	4,910,000	6,215,000	-	15,145,000
	Interest	690,475	667,975	637,175	605,175	571,775	2,282,955	986,850	-	6,442,380
	Total	1,440,475	1,437,975	1,437,175	1,440,175	1,436,775	7,192,955	7,201,850	-	21,587,380
AP	Principal	72,809	75,732	78,656	81,873	85,966	90,060	-	-	485,096
	Interest	21,983	19,070	16,041	12,895	8,802	4,503	-	-	83,294
	Total	94,792	94,802	94,697	94,768	94,768	94,563	-	-	568,390
AQ	Principal	414,467	436,426	184,000	192,762	202,619	436,270	-	-	1,866,544
	Interest	93,327	72,603	50,783	41,583	31,945	32,985	-	-	323,226
	Total	507,794	509,029	234,783	234,345	234,564	469,255	-	-	2,189,770
AS	Principal	76,173	77,583	78,994	80,874	84,872	384,156	-	-	782,652
	Interest	32,150	30,627	29,075	27,495	23,451	49,195	-	-	191,993
	Total	108,323	108,210	108,069	108,369	108,323	433,351	-	-	974,645
AT	Principal	795,000	810,000	825,000	845,000	860,000	4,620,000	5,315,000	3,605,000	17,675,000
	Interest	485,108	469,208	453,008	436,508	419,185	1,776,818	1,081,413	233,118	5,354,366
	Total	1,280,108	1,279,208	1,278,008	1,281,508	1,279,185	6,396,818	6,396,413	3,838,118	23,029,366
AU-1	Principal	198,438	208,188	219,688	229,625	242,688	1,398,814	1,520,626	696,496	4,714,563
	Interest	195,091	185,169	174,759	163,776	152,294	567,555	243,560	53,929	1,736,133
	Total	393,529	393,357	394,447	393,401	394,982	1,966,369	1,764,186	750,425	6,450,696
AU-2	Principal	838,119	965,091	1,015,518	1,063,918	1,119,562	1,309,794	-	-	6,312,002
	Interest	315,600	273,694	225,440	174,664	121,468	202,871	-	-	1,313,737
	Total	1,153,719	1,238,785	1,240,958	1,238,582	1,241,030	1,512,665	-	-	7,625,739
Total	Principal	3,953,090	4,187,404	4,085,970	4,100,545	4,109,914	15,657,379	14,706,372	4,301,496	55,102,170
	Interest	2,206,384	2,054,028	1,882,867	1,717,271	1,547,934	5,621,751	2,471,401	287,047	17,788,683
	Total	$ 6,159,474	$ 6,241,432	$ 5,968,837	$ 5,817,816	$ 5,657,848	$ 21,279,130	$ 17,177,773	$ 4,588,543	$ 72,890,853

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 ($13,298,828 and $17,539,964 was outstanding as of June 30, 2018 and 2017, 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, 2017	Additions	Retirements	Ending Balance June 30, 2018	Current Portion
PASSHE Bond - AFRP	$ 2,771,944	$ -	$ (670,252)	$ 2,101,692	$ 643,296

	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

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
2019	$ 48,105,000	$ 7,079,179	$ 55,184,179
2020	3,740,000	5,972,664	9,712,664
2021	43,710,000	5,775,923	49,485,923
2022	4,080,000	5,318,193	9,398,193
2023	4,260,000	5,143,052	9,403,052
Thereafter	114,360,000	51,498,269	165,858,269
Total	218,255,000	$ 80,787,280	$ 299,042,280
Plus Unamortized Bond Premium	-		
Less Unamortized Bond Issue Costs	(4,372,927)		
Total	$ 213,882,073		

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

Promissory Notes Between the Foundation and RR Indiana

During the year ended June 30, 2018, the RR Indiana entered into a promissory note to the Foundation totaling $5,180,092 to finance the purchase of Phase IV student housing facilities. 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 Phase IV Indenture as defined in the Subordinated Promissory Note Agreement dated September 28, 2017. The principal outstanding as of June 30, 2018 is $5,180,092.

Additionally, during the year ended June 30, 2017, the RR Indiana entered into a promissory note to the Foundation totaling $14,876,800 to finance the purchase of Phase I student housing facilities. 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 the Subordinated Promissory Note Agreement dated April 4, 2017. The principal outstanding as of June 30, 2018 and 2017 is $14,524,155 and $14,876,800, respectively.

Future minimum payments on the RR Indiana promissory notes payable to the Foundation are as follows:

Year Ending June 30,	Amount
2019	$ 66,666
2020	66,666
2021	66,666
2022	66,666
2023	66,666
Thereafter	19,370,917
	$ 19,704,247

NOTE 7 COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2018 and 2017 are as follows:

	2018	2017
Balance - July 1	$ 16,652,921	$ 16,293,191
Current Changes in Estimate	2,179,999	1,612,475
Payouts	(1,303,059)	(1,252,745)
Balance - June 30	$ 17,529,861	$ 16,652,921
Current	$ 1,301,322	$ 1,252,745
Noncurrent	16,228,539	15,400,176
Balance - June 30	$ 17,529,861	$ 16,652,921

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS

Other postemployment benefits (OPEB) are benefits, such as healthcare benefits, that are paid in the period after employment and that are provided separately from a pension plan. OPEB does not include termination benefits or termination payments for sick leave. (See Note 7.)

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

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

	System Plan		REHP		Premium Assistance		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net OPEB liabilities	$ 183,519,604	$ 157,469,944	$ 101,184,188	*	$ 474,278	*	$ 285,178,070	$ 157,469,944
Deferred outflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan	N/A	N/A	-	*	514	*	514	*
Contributions after the measurement date	4,637,129	*	2,473,559	*	26,634	*	7,137,322	*
Total deferred outflows of resources	$ 4,637,129	$ -	$ 2,473,559	$ -	$ 27,148	$ -	$ 7,137,836	$ -
Deferred inflows of resources:								
Net difference between projected and actual investment earnings on OPEB plan investments	N/A	N/A	84,508	*	-	*	84,508	*
Change in assumptions	14,999,636	*	9,219,259	*	22,107	*	24,241,002	*
Changes in proportion	N/A	N/A	-	*	5,270	*	5,270	*
Total deferred inflows of resources	$ 14,999,636	$ -	$ 9,303,767	$ -	$ 27,377	$ -	$ 24,330,780	$ -
OPEB expense	$ 7,379,356	$ 10,763,518	$ 4,697,249	$ 3,746,503	$ 39,046	$ 25,936	$ 12,115,651	$ 14,535,957
Contributions recognized by OPEB plans	N/A	N/A	$ 2,473,559	$ 3,746,503	$ 26,634	$ 25,936	$ 2,500,193	$ 3,772,439

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $4,637,129 for the System Plan, $2,473,559 for the REHP plan, and $26,634 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Year Ending June 30,	System Plan	REHP	Premium Assistance
2019	$ 2,999,927	$ 1,978,712	$ 4,756
2020	2,999,927	1,978,712	4,370
2021	2,999,927	1,978,712	4,370
2022	2,999,927	1,978,712	4,370
2023	2,999,928	1,389,741	4,499
Thereafter	-	(822)	4,498
Totals	$ 14,999,636	$ 9,303,767	$ 26,863

System Plan

Plan Description

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

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

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

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

Actuarial Assumptions and Other Inputs

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 151,951,332	$ 183,519,604	$ 224,721,547

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	$ 216,299,086	$ 183,519,604	$ 157,643,597

University OPEB Liability

The System Plan's total OPEB liability of $183,519,604 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

	Fiscal Year June 30, 2018
Changes in the System Plan Total OPEB Liability	
Total OPEB Liability – Beginning Balance	$ 200,733,192
Service Cost	8,448,749
Interest	6,851,343
Changes of Assumptions	(24,875,917)
Benefit Payments	(7,637,763)
Net Changes	(17,213,588)
Total OPEB Liability—Ending Balance	$ 183,519,604

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP

Plan Description

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

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

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs

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

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

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rates 6.0% decreasing to 3.9%	1% Increase (7.0% decreasing to 4.9%)
2018	$ 87,812,160	$ 101,184,188	$ 121,201,681

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

Sensitivity of the REHP Net OPEB Net OPEB Liability to Changes in the Discount Rate			
	1% Decrease 2.58%	Current Rate 3.58%	1% Increase 4.58%
2018	$ 118,555,014	$ 101,184,188	$ 89,662,876

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

REHP Fiduciary Net Position

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

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

Premium Assistance

Plan Description

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs

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

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

The following assumptions were used to determine the contribution rate:

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

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

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

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

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

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

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

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

	Healthcare Cost Trend Rates Between 4% and 7%	Healthcare Cost Trend Rates Between 5% and 8%	Healthcare Cost Trend Rates Betwee 6% and 9%
2018	$ 474,149	$ 474,278	$ 474,406

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

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

Sensitivity of the Premium Assistance Net OPEB
Net OPEB Liability to Changes in the Discount Rate

	1% Decrease 2.13%	Current Rate 3.13%	1% Increase 4.13%
2018	$ 539,057	$ 474,278	$ 420,424

Premium Assistance Fiduciary Net Position

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

NOTE 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).

The 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, 2018 and 2017.

NOTE 9 PENSION BENEFITS (CONTINUED)

	SERS		PSERS		ARP		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Pension Liabilities	$ 113,046,623	$ 127,625,700	$ 11,490,839	$ 12,772,393	$ -	$ -	$ 124,537,462	$ 140,398,093
Deferred Outflows of Resources								
Difference Between Expected and Actual Experience	$ 1,911,385	$ 1,842,253	$ 119,865	$ -	$ -	$ -	$ 2,031,250	$ 1,842,253
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	10,725,649	266,324	711,889	-	-	266,324	11,437,538
Changes in Assumptions	5,659,778	7,795,635	312,188	461,048	-	-	5,971,966	8,256,683
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	65,051	80,200	-	-	65,051	80,200
Changes in Proportion	2,702,631	1,983,432	205,813	362,202	-	-	2,908,444	2,345,634
Contributions After the Measurement Date	7,135,457	6,900,075	1,021,044	913,116	-	-	8,156,501	7,813,191
Total Deferred Outflows of Resources	$ 17,409,251	$ 29,247,044	$ 1,990,285	$ 2,528,455	$ -	$ -	$ 19,399,536	$ 31,775,499
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ 2,146,479	$ 2,855,491	$ 69,375	$ 106,439	$ -	$ -	$ 2,215,854	$ 2,961,930
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	4,494,673	-	-	-	-	-	4,494,673	-
Difference Between Employer Contributions and Proportionate Share of Contributions	652,879	592,188	-	-	-	-	652,879	592,188
Changes in Proportion	1,772,464	2,706,122	166,629	93,081	-	-	1,939,093	2,799,203
Total Deferred Inflows of Resources	$ 9,066,495	$ 6,153,801	$ 236,004	$ 199,520	-	-	$ 9,302,499	$ 6,353,321
Pension Expense	$ 12,658,227	$ 17,452,508	$ 1,578,827	$ 2,294,297	$ 5,420,547	$ 5,563,318	$ 19,657,601	$ 25,310,123
Contributions Recognized by Pension Plans	$ 12,486,818	$ 11,161,254	$ 1,021,044	$ 913,116	$ -	$ -	$ 13,507,862	$ 12,074,370

NOTE 9 PENSION BENEFITS (CONTINUED)

The University will recognize the $7,135,457 reported as 2018 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $1,021,044 reported as 2018 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Year Ending June 30,	SERS	PSERS
2019	$ 2,538,924	$ 255,827
2020	1,896,313	368,444
2021	(1,021,516)	167,152
2022	(2,286,074)	(58,186)
2023	79,652	-
Totals	$ 1,207,299	$ 733,237

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. 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.

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%.

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS

Benefits Provided (Continued)

The 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 on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due.

The University contributed at actuarially determined rates of between 23.80% and 34.44% of active members' annual covered payroll at June 30, 2018. The University's contributions to SERS for the years ended June 30, 2018, 2017, and 2016, were $12,486,818, $11,161,254, and $9,455,421, respectively, equal to the required contractual contribution.

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

Actuarial Methods and Assumptions

Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. The *18th Investigation of Actuarial Experience* study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates).

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS

Actuarial Methods and Assumptions (Continued)

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. The following methods and assumptions were used in the actuarial valuation for the December 31, 2017, measurement date.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments (COLAs).

The long-term expected real rate of return on pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2017 and 2016 are summarized below:

	December 31, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.00%	8.00%
Global Public Equity	43.00%	5.30%
Real Estate	12.00%	5.44%
Multi-strategy	12.00%	5.10%
Fixed Income	14.00%	1.63%
Cash	3.00%	-0.25%
	100.0%	

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

	December 31, 2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0%	8.00%
Global Public Equity	43.0%	5.30%
Real Assets	12.0%	5.44%
Hedge Funds	12.0%	4.75%
Fixed Income	14.0%	1.63%
Cash	3.0%	-0.25%
	100.0%	

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

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

The following presents the University's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25% as of December 31, 2017 and December 31, 2016, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2017 and 2016) or one percentage point higher (8.25% in 2017 and 2016) than the current rate:

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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	$ 143,491	$ 113,047	$ 86,967
2016	$ 157,943	$ 127,626	$ 101,664

NOTE 9 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Fiduciary Net Position

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

Proportionate Share

At June 30, 2018, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2017 was $113,046,623. 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.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2017 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2018/19 from the December 31, 2017 funding valuation to the expected funding payroll. For the allocation of the December 2016 amounts this methodology applies the most recently calculated contribution rates for fiscal year 2017/18 from the December 31, 2016 funding valuation to the expected funding payroll. At December 31, 2017, the measurement date, the State System's proportion was 4.906% an increase of 0.07% from its proportion calculated as of December 31, 2016, measurement date.

PSERS

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public University employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public University employees, part-time hourly public University employees who render at least 500 hours of service in the University year, and part-time per diem public University employees who render at least 80 days of service in the University year in any of the reporting entities in Pennsylvania. The Public University Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8533) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established and may be amended.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description (Continued)

The Code requires contributions by active members, the employer (State System), and the Commonwealth of Pennsylvania. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the Plan. A copy of the report may be obtained from the PSERS website at www.psers.state.pa.us.

Benefits Provided

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

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

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.

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Member Contributions

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2018 was 31.10% 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 State System, meaning that the amount that the State System actually contributed was 15.55% of covered payroll. The University's contributions to PSERS for the years ending June 30, 2018, 2017, and 2016 was $1,021,044, $913,116, and $845,311 respectively, equal to the required contractual contribution.

Actuarial Assumptions

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

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

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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

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

	June 30, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0%	5.1%
Fixed Income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute Return	10.0%	3.4%
Risk Parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real Estate	10.0%	3.6%
Alternative Investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	100.0%	

NOTE 9 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

	June 30, 2016	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	22.5%	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%	

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

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as of June 30, 2017 and June 30, 2016, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2017 and 2016) or one percentage point higher (8.25% in 2017 and 2016) than the current rate:

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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
2017	$ 14,144	$ 11,491	$ 9,251
2016	$ 15,624	$ 12,772	$ 10,376

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

	2018	2017
Total PSERS Net Pension Liability Associated with the University	$ 22,981,678	$ 25,544,786
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	(11,490,839)	(12,772,393)
University's Proportionate Share of the PSERS Net Pension Liability	$ 11,490,839	$ 12,772,393

At June 30, 2018 and 2017, PSERS measured the net pension liability as of June 30, 2017 and June 30, 2016, respectively. At June 30, 2018 and 2017, the total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2016, to June 30, 2017 and June 30, 2015, to June 30, 2016, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2017, the State System's proportion was .1811%, a decrease of .0022% from its proportion calculated as of June 30, 2016.

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 State System's contribution rate on June 30, 2018 and 2017 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2018 and 2017, were $5,421,977 and $5,563,000, respectively, from the University; and $2,917,017 and $2,975,000, 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 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 as determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $150,753 to the Reserve Fund for the year ended June 30, 2018, received a refund of $54,066 from the Reserve Fund for the year ended June 30, 2017, and contributed $35,994 to the Reserve Fund for the year ended June 30, 2016.

Changes in the University's claims liability amount for the fiscal years 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Balance - July 1	$ 751,149	$ 957,800	$ 981,806
Projected Retained Losses	417,529	393,369	411,244
Retirements and Changes in Estimates	(187,241)	(600,020)	(435,250)
Balance - June 30	$ 981,437	$ 751,149	$ 957,800

NOTE 11 COMMITMENTS AND 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.

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, 2018, 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.

Cheyney University Loan Forgiveness

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

NOTE 11 COMMITMENTS CONTINGENCIES (CONTINUED)

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

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2018 and 2017, were approximately $4,074,124 and $691,809, 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, 2018 and 2017 as follows:

	2018	2017
Designated Amounts for Educational and General Activities	$ 48,813,730	$ 52,057,584
Designated Amounts for Healthcare Reserve	721,528	772,229
Designated Amounts for Auxiliary Enterprises (Operations, Plant Activities, and Debt Retirement)	13,605,120	18,640,993
Designated Amounts for Plan Activities and Debt Retirement	35,519,296	24,960,961
Compensated Absences Deficit - Non-Auxiliary	(17,136,842)	(16,296,556)
Postretirement Benefit Deficit - Non-Auxiliary	(283,719,323)	(154,219,435)
Pension Benefit Deficit - Non-Auxiliary	(108,480,487)	(108,821,584)
Compensated Absences Deficit - Auxiliary	(393,019)	(356,365)
Postretirement Benefit Deficit - Auxiliary	(18,651,691)	(3,250,509)
Pension Benefit Deficit - Auxiliary	(5,959,938)	(6,154,331)
Total Unrestricted Net Position	$ (335,681,626)	$ (192,667,013)

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, 2018, the Foundation sold Phase IV of its student housing facilities to a related-party (the RR Indiana). The Foundation's ground lease for Phase IV was terminated upon the closing of the sale. A new ground lease between RR Indiana and the University became effective September 28, 2017.

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. The Foundation's lease related to the Phase I property terminated early on April 4, 2017, as the result of the sale of the property. 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.

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	
	2018	2017	2018	2017	2018	2017
Phase I	$ -	$ 22,408	$ -	$ 15,758	$ -	$ 105,202
Phase II	$ 43,741	$ 42,883	$ 44,232	$ 39,796	$ 225,630	$ 226,597

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.

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

Ground Lease Agreement – Phase III (Continued)

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	
	2018	2017	2018	2017	2018	2017
Phase III	$ 44,186	$ 43,320	$ 42,596	$ 44,503	$ 179,000	$ 167,659

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 September 27, 2051. Effective September 28, 2017 the University and Foundation amended and restated the Phase IV Ground Lease to identify RR Indiana as the successor to the interest of the Foundation. 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	
	2018	2017	2018	2017	2018	2017
Phase IV	$ 5,260	$ 20,626	$ 6,286	$ 24,334	$ 15,383	$ 79,991

Ground Lease Agreement – All Phases

Total ground lease base rent revenues from all Phases received from the Foundation for the years ended June 30, 2018 and 2017 were $93,187 and $129,237, respectively. Total additional rents from all Phases received from the Foundation for the years ended June 30, 2018 and 2017 were $93,114 and $124,391, respectively. Total room waivers from all Phases received from the Foundation for the years ended June 30, 2018 and 2017 were $420,013 and $579,449, respectively.

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

Ground Lease Agreement – All Phases (Continued)

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

Year Ending June 30,	Amount
2019	$ 89,686
2020	91,479
2021	93,308
2022	95,174
2023	97,078
2024-2028	515,301
2029-2033	568,928
2034-2038	628,135
2039-2043	693,501
2044-2048	765,676
2049-2051	245,712
Total	$ 3,883,978

Facilities Management Contract for Student Housing Facilities

The University 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 agreement regarding Phase I terminated on April 4, 2017, the agreement regarding Phase II continues through June 30, 2023, the agreement regarding Phase III continues through June 30, 2019, the agreement regarding Phase IV terminated on September 28, 2017, and the agreement regarding Fairman Centre continues through August 31, 2018. Automatic renewal terms exist associated with these agreements. Total management fees charged to the Foundation for the years ended June 30, 2018 and 2017 were $881,347 and $1,240,392, 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 at June 30, 2018 and 2017 was $1,148,323 and $1,269,371 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 June 30, 2018 and 2017 was $408,000 and $408,000, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2019	$ 68,000
Total	$ 68,000

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. There was no rent expense under this lease for the year ended June 30, 2018. Rent expense under the lease was $228,929 for the year ended June 30, 2017.

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 $746,081 and $731,404 for the years ending June 30, 2018 and 2017, respectively.

Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2019	$ 730,420
2020	745,029
2021	759,929
2022	775,128
2023	790,630
2024-2028	4,196,762
2029-2033	4,633,564
2034-2038	4,583,786
Total	$ 17,215,248

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 $11,648 and $11,401 for the years ending June 30, 2018 and 2017, respectively. Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2019	$ 12,277
2020	12,940
2021	13,639
2022	14,376
2023	15,152
2024-2028	88,951
2029-2033	115,704
2034-2038	133,827
Total	$ 406,866

NOTE 14 INTEREST RATE SWAP AGREEMENTS – FOUNDATION FOR IUP

As a strategy to maintain acceptable levels of exposure to the 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 Statements of Activities.

The Foundation has three 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 Agreements 2 and 3, and monthly for Agreement 4.

In accordance with FASB Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, included in the obligation under interest rate swap in the statement of financial position is the net cumulative unrealized loss on these derivative transactions in the amount of $23,427,898 and $31,625,352 at June 30, 2018 and 2017, respectively. Additionally, the change in the cumulative unrealized loss is included in the net gain (loss) on interest rate swap agreement in the accompanying statement of activities, and amounted to a gain of $8,197,454 and $13,027,646 for the years ended June 30, 2018 and 2017, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA

The University leases land to RR Indiana for the RR Indiana's student housing facilities under separate ground lease agreements for Phase I and Phase IV facilities. During the year ended June 30, 2018, the RR Indiana purchased the Foundation's (a related party) Phase IV student housing facilities. The Foundation's ground lease for Phase IV was amended and restated assigning RR Indiana as successor to the interest of the Foundation effective September 28, 2017.

During the year ended June 30, 2017, the RR Indiana purchased the Foundation's Phase I student housing facilities. 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

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, which began in fiscal year ending June 30, 2017. The RR Indiana provides room fee waivers for community assistants residing in the facility which the University recognizes as rental income.

Ground Lease Agreement – Phase I

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	
	2018	2017	2018	2017	2018	2017
Phase I	$ 30,475	$ 7,469	$ 29,165	$ 14,743	$ 106,191	$ -

Ground Lease Agreement – Phase IV

The University entered into an amended and restated ground lease agreement as of September 28, 2017, assigning RR Indiana as successor to the interest of the Foundation. The RR Indiana began paying annual base rent in the amount of $21,038 per lease year commencing with the lease year beginning July 1, 2017. This base rent increases by 2% each subsequent year through the lease expiration date of September 28, 2046. Additional rents equaling one-half of one percent of actual room rental charges are being paid, beginning in fiscal year ending June 30, 2018. The RR Indiana provides room fee waivers for community assistants residing in the facility which the University recognizes as rental income.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Ground Lease Agreement – Phase IV (Continued)

The RR Indiana paid base rent, addition 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	
	2018	2017	2018	2017	2018	2017
Phase IV	$ 15,779	$ -	$ 17,302	$ -	$ 83,067	$ -

Ground Lease Agreement – Phase I and IV

Total ground lease base rent revenues from Phase I and IV received from the RR Indiana for the years ended June 30, 2018 and 2017 were $46,254 and $7,469, respectively. Total additional rents from Phases I and IV received from the RR Indiana for the years ended June 30, 2018 and 2017 were $46,467 and $14,743, respectively. Total room waivers from Phases I and IV received from the RR Indiana for the year ended June 30, 2018 were $189,258. There were no room waivers received from RR Indiana for the year ended June 30, 2017.

Approximate minimum ground lease base rent for future years from Phases I and IV are:

Year Ending June 30,	Amount
2019	$ 52,545
2020	53,596
2021	54,668
2022	55,762
2023	56,877
2024-2028	301,909
2029-2033	333,328
2034-2038	368,016
2039-2043	406,324
2044-2047	260,388
Total	$ 1,943,413

Facilities Management Contract for Student Housing Facilities

The University entered into facilities management contracts with the RR Indiana to provide the RR Indiana with management services operating all of the RR Indiana's Student Housing Facilities. The facility management agreement regarding Phase I continues through April 4, 2022, and the agreement regarding Phase IV continues through September 28, 2022. Automatic renewal terms exist associated with these agreements. Total management fees charged to the RR Indiana for the years ended June 30, 2018 and 2017 were $421,814 and $71,235, 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 RR Indiana. The total amount due to the RR Indiana at June 30, 2018 and 2017 was $558,512 and $229,499 respectively.

NOTE 15 RELATED PARTY TRANSACTIONS – RESIDENTIAL REVIVAL INDIANA (CONTINUED)

Other Property Leases

The University leases office space from RR Indiana in the Phase I facility 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 $310,843 and $75,704 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments by fiscal year are estimated at:

Year Ending June 30,	Amount
2019	$ 271,677
2020	277,111
2021	282,653
2022	288,306
2023	294,072
2024-2028	1,560,971
2029-2033	1,723,438
2034-2038	1,902,815
2039-2043	2,100,862
2044-2046	1,252,620
Total	$ 9,954,525

NOTE 16 RELATED PARTY TRANSACTION – 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, 2018 and 2017, the Research Institute paid IUP $1,278,961 and $1,152,190, respectively, for contracted services. The Research Institute owed the University $437,157, as of June 30, 2018, and $463,989 as of June 30, 2017, 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, 2018 and 2017, total amounts paid by the University to the Research Institute were $1,213,007 and $1,318,362, respectively. The University owed the Research Institute $111,164 as of June 30, 2018, and $130,554 as of June 30, 2017, which are included in Due to Component Units.

NOTE 17 RATING ACTIONS

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

NOTE 18 SUBSEQUENT EVENTS

Subsequent to year-end, the Foundation elected to donate the Fairman Centre and all associated assets to IUP. The Fairman Centre donation was completed in August 2018. As of the date of the gift, the book value of the Fairman Centre totaled $3,975,283.

Crimson Hawks Hospitality, LLC, a subsidiary of the Foundation, purchased real property in Punxsutawney, Pennsylvania in August 2018 and immediately donated this property to IUP upon completion of the sale. The purchase price of the donated properties totaled $505,000.

In September 2018, PHEFA issued Series AV-1 tax-exempt revenue bonds in the amount of $102,345,000 and Series AV-2 taxable revenue bonds in the amount of $134,600,000. The net proceeds from the Series AV-1 revenue bonds were used to finance a capital project at West Chester University and to current refund Series AG and a significant portion of Series AI revenue bonds. The refunding was performed to reduce debt service by approximately $2,700,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $2,400,000. The net proceeds from the Series AV-2 revenue bonds were used to acquire student housing facility at Shippensburg University. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

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OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018 AND 2017
(UNAUDITED)

Schedule of Proportionate Share of SERS Net Pension Liability
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%
2017/18	4.9059%	$ 113,047	$ 41,189	275%	63.0%

SERS Schedule of Contributions
Determined as of University's June 30 Fiscal Year-End Dates
(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%
2017/18	$ 12,487	$ 12,487	$ -	$ 40,100	31.1%

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Schedule of Proportionate Share of PSERS Net Pension Liability
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	$ 25,544	$ 6,677	200%	50.1%
2017/18	0.1811%	$ 11,491	$ 11,491	$ 22,982	$ 6,197	200%	51.8%

PSERS Schedule of Contributions
Determined as of University's June 30 Fiscal Year-End Dates
(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%
2017/18	$ 1,021	$ 1,021	$ -	$ 6,567	15.6%

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

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability a % of Covered-Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2017/18	4.3740%	$ 101,185	$ 13,795	733.5%	1.4%

REHP Schedule of Contributions
Determined as of University's June 30 Fiscal Year-End Dates
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 2,474	$ 2,474	$ -	$ 16,855	14.7%

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

	PSERS Net OPEB Liability						
Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2017/18	0.1811%	$ 474	$ 474	$ 948	$ 6,200	7.65%	5.73%

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PSERS OPEB Schedule of Contributions
Determined as of University's June 30 Fiscal Year-End Dates
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2017/18	$ 27	$ 27	$ -	$ 6,567	0.41%

System Plan OPEB Liability
Determined as of the June 30 Measurement Dates

	Fiscal Year June 30, 2018
Changes in the System Plan Total OPEB Liability	
Total OPEB Liability – Beginning Balance	$ 200,733,192
Service Cost	8,448,749
Interest	6,851,343
Changes of Assumptions	(24,875,917)
Benefit Payments	(7,637,763)
Net Changes	(17,213,588)
Total OPEB Liability—Ending Balance	$ 183,519,604
Covered Employee Payroll	$ 74,442,050
OPEB Liability as a Percent of Covered Payroll	246.53%

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

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