MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

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

Council of Trustees
Millersville University of Pennsylvania
of the State System of Higher Education
Millersville, 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 Millersville University of Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100%, 100%, and 100%, respectively, of the 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 reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

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

Opinion

In our opinion, based on our audits and the reports of 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 Millersville University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress for the System Plan and REHP (OPEB) on page 53, Schedules of Proportionate Share of SERS/PSERS Net Pension Liability and Contributions on pages 54 and 55, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 21, 2016

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 77,749,688	$ 67,352,875
Accounts Receivable:		
Governmental Grants and Contracts	822,005	440,664
Students, Net of Allowance for Doubtful Accounts of $723,851 in 2016 and $662,585 in 2015	2,238,276	1,650,449
Other, Net of Allowance for Doubtful Accounts of $28,404 in 2016 and $19,668 in 2015	610,908	699,293
Interest Income Receivable	53,416	36,944
Inventory	103,502	104,121
Prepaid Expenses	487,259	646,364
Loans Receivable, Net of Allowance for Doubtful Accounts of $331 in 2016 and $969 in 2015	215,455	232,565
Due from Component Units	2,536,813	970,353
Other Assets	48,458	48,981
Total Current Assets	84,865,780	72,182,609
NONCURRENT ASSETS		
Investments	8,259,358	3,554,503
Loans Receivable, Net	1,118,615	1,246,705
Capital Assets, Net	132,575,266	134,009,803
Total Noncurrent Assets	141,953,239	138,811,011
Total Assets	226,819,019	210,993,620
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	334,714	349,430
Deferred Outflows from SERS Contributions	14,136,584	4,723,869
Deferred Outflows from PSERS Contributions	846,842	630,387
Total Deferred Outflows of Resources	15,318,140	5,703,686
Total Assets and Deferred Outflows of Resources	$ 242,137,159	$ 216,697,306

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2016 AND 2015

LIABILITIES, NET POSITION AND DEFERRED INFLOWS OF RESOURCES	2016	2015
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 11,960,906	$ 10,627,467
Unearned Revenue	1,621,855	1,381,400
Students' Deposits	693,617	797,720
Workers' Compensation, Current	486,834	514,374
Compensated Absences, Current	707,883	842,631
Capital Lease Obligations, Current	86,095	144,825
Current Portion of Bonds Payable, Net	4,134,940	3,232,785
Due to System, Academic Facilities Renovation Bond Program (AFRP)	359,235	316,814
Due to Component Units	760,656	689,095
Other Deposit Liabilities	266,863	260,744
Total Current Liabilities	21,078,884	18,807,855
NONCURRENT LIABILITIES		
Workers' Compensation	557,188	571,709
Compensated Absences, Net of Current Portion	7,941,534	8,043,776
Post Retirement Benefits Liability	82,453,683	78,537,545
Net Pension Liability	77,224,088	65,946,816
Capital Lease Obligations	20,747	106,842
Bonds Payable, Net	57,187,389	51,463,174
Due to System, AFRP	1,476,279	2,037,556
Other Noncurrent Liabilities	5,922,874	6,004,952
Total Noncurrent Liabilities	232,783,782	212,712,370
Total Liabilities	253,862,666	231,520,225
DEFERRED INFLOWS OF RESOURCES		
Unamortized Gain on Refunding of Debt	127,404	141,696
Deferred Inflows from SERS Contributions	2,338,640	742,241
Deferred Inflows from PSERS Contributions	43,149	444,938
Total Deferred Inflows of Resources	2,509,193	1,328,875
Total Liabilities and Deferred Inflows of Resources	256,371,859	232,849,100
NET POSITION		
Net Investment in Capital Assets	65,303,236	72,558,780
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	1,203,939	1,272,444
Other	401,342	476,931
Expendable:		
Scholarships and Fellowships	6,328,883	1,956,728
Research	23,059	(28,431)
Capital Projects	2,284,805	2,015,302
Other	5,781,211	2,809,537
Unrestricted (Deficit)	(95,561,175)	(97,213,085)
Total Net Position	(14,234,700)	(16,151,794)
Total Liabilities, Net Position and Deferred Inflows of Resources	$ 242,137,159	$ 216,697,306

See accompanying Notes to Financial Statements.

MILLERSVILLE 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, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Tuition and Fees	$ 80,531,601	$ 77,029,589
Less: Scholarship Discounts and Allowances	(15,113,560)	(15,394,701)
Net Tuition and Fees	65,418,041	61,634,888
Governmental Grants and Contracts:		
Federal	4,601,294	3,360,271
State	7,452,707	7,237,151
Local	-	6,200
Nongovernmental Grants and Contracts	317,017	123,099
Sales and Services of Educational Departments	2,820,095	3,191,605
Auxiliary Enterprises	28,508,844	29,995,974
Other Revenues	964,062	938,489
Total Operating Revenues	110,082,060	106,487,677
OPERATING EXPENSES		
Instruction	53,918,538	53,711,646
Research	684,369	700,495
Public Service	3,410,948	3,122,846
Academic Support	14,129,310	13,445,843
Student Services	16,951,292	17,714,570
Institutional Support	17,828,318	17,508,018
Operations and Maintenance of Plant	9,557,670	10,627,656
Depreciation	9,675,032	11,070,370
Student Aid	5,567,961	5,873,403
Auxiliary Enterprises	24,882,659	25,280,492
Total Operating Expenses	156,606,097	159,055,339
NET OPERATING LOSS	(46,524,037)	(52,567,662)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	32,145,404	30,180,311
Commonwealth on behalf contributions to PSERS	695,992	580,683
Pell Grant	9,623,364	10,261,630
Investment Income, Net of Related Investment Expense of $14,338 in 2016 and $15,352 in 2015	1,208,099	892,872
Unrealized Gain on Investments	130,098	(53,384)
Gifts for Other than Capital Purposes	8,066,960	2,592,705
Interest Expense	(2,002,067)	(2,360,588)
Loss on Disposal of Assets	(4,076,197)	(5,626,910)
Other Nonoperating Revenue	144,620	153,274
Nonoperating Revenues, Net	45,936,273	36,620,593
LOSS BEFORE OTHER REVENUES	(587,764)	(15,947,069)
OTHER REVENUES		
State Appropriations, Capital	1,128,785	1,009,892
Capital Gifts and Grants	1,376,073	423,287
Total Other Revenues	2,504,858	1,433,179
INCREASE (DECREASE) IN NET POSITION	1,917,094	(14,513,890)
Net Position - Beginning of Year	(16,151,794)	60,982,289
Restatement for July 1, 2014, Capitalized Interest	-	(3,066,608)
Restatement for July 1, 2014, Pension Liability and Related Expense	-	(59,553,585)
Net Position - Beginning of Year, Restated	(16,151,794)	(1,637,904)
NET POSITION - END OF YEAR	$ (14,234,700)	$ (16,151,794)

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 65,193,968	$ 62,101,378
Grants and Contracts	11,413,545	11,867,334
Payments to Suppliers for Goods and Services	(34,565,247)	(38,187,784)
Payments to Employees	(99,732,275)	(99,256,159)
Loans Issued to Students	(108,000)	(243,551)
Loans Collected from Students	246,885	215,548
Student Aid	(5,567,961)	(5,873,403)
Auxiliary Enterprise Charges	28,469,650	29,948,418
Sales and Services of Educational Departments	2,599,344	3,177,282
Other Receipts (Payments)	1,084,766	1,085,476
Net Cash Used by Operating Activities	(30,965,325)	(35,165,461)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, including Federal ARRA	32,145,404	30,180,311
Gifts for Other than Capital Purposes	3,627,992	2,612,705
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	62,943,355	60,823,344
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(62,935,296)	(60,820,140)
Pell Grant	9,623,364	10,261,630
Agency Transactions	6,119	86,712
Other	144,619	153,274
Net Cash Provided by Noncapital Financing Activities	45,555,557	43,297,836
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	11,771,123	11,274,554
Capital Appropriations	1,128,785	1,009,892
Capital Gifts and Grants Received	1,376,073	423,287
Proceeds from Sale of Capital Assets	5,980	10,512
Purchases of Capital Assets	(11,728,107)	(5,735,819)
Principal Paid on Debt and Leases	(5,203,414)	(14,346,660)
Interest Paid on Debt and Leases	(2,600,728)	(3,235,695)
Net Cash Used by Capital Financing Activities	(5,250,288)	(10,599,929)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,191,627	882,980
Purchase of investments	(134,758)	-
Net cash provided by Investing Activities	1,056,869	882,980
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,396,813	(1,584,574)
Cash and Cash Equivalents - Beginning of Year	67,352,875	68,937,449
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 77,749,688	$ 67,352,875

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (46,524,037)	$ (52,567,662)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	9,675,032	11,070,370
Expenses paid by Commonwealth or Donor	695,992	580,683
Effect of Changes in Operating Assets and Liabilities:		
Receivables, Net	(1,764,882)	1,171,659
Inventory	619	658
Prepaid Expenses	160,087	(583,874)
Other Assets	(1,258,815)	(527,250)
Accounts Payable and Accrued Expenses	1,286,716	(2,035,789)
Unearned Revenue	317,936	(46,397)
Students' Deposits	(104,102)	591,561
Workers' Compensation	(42,061)	323,080
Compensated Absences	(236,990)	141,775
Loans Receivable	138,885	(28,003)
Postretirement Benefit Obligations	3,916,138	4,014,936
Pension Liability	2,842,712	2,226,154
Other Current and Noncurrent Liabilities	(68,555)	502,638
Net Cash Used by Operating Activities	$ (30,965,325)	$ (35,165,461)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES		
Capital Assets Acquired through Capital Leases	$ -	$ 3,556
Accounts Payable Incurred for Capital Assets	$ 19,601	$ 18,143
Donated Capital Assets	$ 574,965	$ 244,539
Commonwealth on Behalf Contributions to PSERS	$ 695,992	$ 580,653

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET ASSETS – COMPONENT UNITS
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 30,336,030	$ 66,915,029
Investments	27,119,636	28,074,061
Accounts Receivable	564,420	454,000
Pledges Receivable	363,693	833,418
Due from University	760,656	689,095
Net Capital Assets	155,222,404	116,506,668
Other Assets	4,164,178	4,193,269
Total Assets	$ 218,531,017	$ 217,665,540
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 3,303,724	$ 2,047,639
Annuity Liabilities	271,789	227,086
Due to University	2,536,813	970,353
Funds Held for Other Independent Organizations	160,620	210,463
Interest Rate Swap Agreements	581,566	-
Bonds Payable	147,884,336	148,181,846
Notes Payable	25,598,002	23,725,950
Other Liabilities	6,706,551	7,606,250
Total Liabilities	187,043,401	182,969,587
NET ASSETS		
Unrestricted	5,027,845	6,774,885
Temporarily Restricted	4,213,161	6,102,539
Permanently Restricted	22,246,610	21,818,529
Total Net Assets	31,487,616	34,695,953
Total Liabilities and Net Assets	$ 218,531,017	$ 217,665,540

See accompanying Notes to Financial Statements.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Other Additions:		
Contributions	$ 314,415	$ 264,075
Sales and Services	2,643,532	4,083,550
Investment Income	126,864	28,926
Rental Income	16,340,487	11,618,366
Net Assets Released from Restrictions	1,051,535	991,486
Other Revenues and Gains	352,850	606,071
Total Revenues and Other Additions	20,829,683	17,592,474
Expenses and Other Deductions:		
Program Services:		
Scholarships and Grants	764,838	788,419
University Stores	3,055,682	3,286,937
Housing	13,956,872	7,698,780
Management and General	3,532,613	3,469,697
Fundraising	578,052	223,694
Other Expenses and Losses	688,666	817
Total Expenses and Other Deductions	22,576,723	15,468,344
Increase (Decrease) in Unrestricted Net Assets	(1,747,040)	2,124,130
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	95,096	104,733
Investment Income	433,837	448,964
Net Realized and Unrealized Gain (Loss) on Investments	(1,366,776)	(247,822)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(1,051,535)	(991,486)
Decrease in Temporarily Restricted Net Assets	(1,889,378)	(685,611)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	428,081	666,722
Investment Income	-	125,828
Increase in Permanently Restricted Net Assets	428,081	792,550
INCREASE (DECREASE) IN NET ASSETS	(3,208,337)	2,231,069
Net Assets - Beginning of Year	34,695,953	33,556,873
Prior Period Adjustment	-	(1,091,989)
NET ASSETS - END OF YEAR	$ 31,487,616	$ 34,695,953

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Millersville University of Pennsylvania of the State System of Higher Education (the University), a public four year institution located in Millersville, Pennsylvania, was founded in 1855. 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).

Reporting Entity

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

The University has determined the Millersville University Foundation (the Foundation); Student Services, Inc.; and Student Lodging, Inc. should be included in the University's financial statements as discretely presented component units. A component unit is a legally separate organization for which the primary institution is financially accountable or closely related. The financial activity of these component units are presented as of June 30, 2016 and 2015.

In fiscal year 2013/14, as a result of the University's relationship with Student Services, Inc. who are constructing new dormitories for the benefit of Millersville students, the University determined that Student Services, Inc. met the criteria of being a discretely presented component unit. In addition, because of the integral relationship between Student Services, Inc. and Student Lodging, Inc., the University also determined that Student Lodging met the criteria of being a discretely presented component unit. Therefore, both organizations are included in the accompanying component unit financial statements.

The Foundation is a tax-exempt entity that acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, is restricted to the activities of the University by the donors.

During the years ended June 30, 2016 and 2015, the Foundation distributed $901,364 and $941,338, respectfully, to the University for both restricted and unrestricted purposes.

Student Services, Inc. is a tax-exempt entity that provides services not readily available through the University to students. Because the economic resources received and held by Student Services are for the direct benefit of the University and the influence of the University over Student Services, Student Services is considered a component unit of the University and is included within the University's financial reporting entity.

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

Reporting Entity (Continued)

During the years ended June 30, 2016 and 2015, respectively, the University received rental income in the amounts of $48,935 and $56,739. In addition, the University received $3,116,128 and $948,187 during the years ended June 30, 2016 and 2015, respectively, for management costs associated with student housing facilities owned by the Corporation. The total amount due to the University at June 30, 2016 was $1,456,691. No amounts were due to the University at June 30, 2015. Student Services, Inc. made contributions to the University of $1,022,601 and $184,618 during the years ended June 30, 2016 and 2015, respectively.

Student Services, Inc. also performs various administrative services for University student organizations. The total amounts due to the University related to student organizations at June 30, 2016 and 2015 were $1,080,122 and $970,353, respectively.

Student Lodging, Inc. is a tax-exempt entity that was formed for the purpose of purchasing an apartment complex and other property to provide housing for students of the University. Because the economic resources received and held by Student Lodging are for the direct benefit of the University and the influence of the University over Student Lodging, Student Lodging is considered a component unit of the University and is included within the University's financial reporting entity.

On May 29, 2012, the University entered into several leases with Student Lodging, Inc. for the use of certain buildings and office. In addition, on December 11, 2012, the University entered into and agreement with Student Lodging, Inc. for the use of Shenks Hall and Reighard Hall. The University collects rent and reimburses Student Lodging, Inc. for expenses on a quarterly basis. The University also remits a portion of total profits to Student Lodging, Inc. During the fiscal years ended June 30, 2016 and 2015, rental payments amounted to $2,026,422 and $1,962,101, respectively. During the years ended June 30, 2016 and 2015 the University received contributions from Student Lodging, Inc. of $135,929 and $100,658, respectively. Amounts due to Student Lodging, Inc. included rents payable at June 30, 2016 and 2015 in the amounts of $760,656 and $689,095.

Complete financial statements for the Millersville University Foundation; Student Services, Inc.; and Student Lodging, Inc. may be obtained at the University's Accounting Office.

Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The Foundation; Student Services, Inc.; and Student Lodging, Inc. are private nonprofit organizations, reported in accordance with Financial Accounting Standards (FASB) requirements, including FASB Codification Section 958-205, *Presentation of Financial Statements*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial reporting entity for these differences.

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, all academic, instructional and other 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 investments, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, investment income, capital grants, gains on 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.

Scholarships and Waivers

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

Net Position

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

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

Restricted – Nonexpendable: The portion of net position subject to externally imposed conditions requiring that it be maintained by the University in perpetuity.

Restricted – Expendable: The portion of 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.

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

Net Position (Continued)

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

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

Cash Equivalents and Investments

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

Accounts and Loans Receivable

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

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

Inventory

Inventory consists mainly of supplies and is stated at the lower of average cost or market.

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.

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

Capital Assets (Continued)

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

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

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2016 or 2015.

Unearned Revenue

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

Compensated Absences

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

Pension Plans

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

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

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on the previously reported net position or changes therein.

New Accounting Standards

The University has implemented GASB Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. In accordance with Statement No. 72, the University has classified its investments as Level 1, Level 2, or Level 3, to indicate the degree of certainty around the assets' underlying values (note 2).

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

New Accounting Standards (Continued)

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. These statements establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. These statements will require the University to record its postretirement health care liability in its entirety: in its most recent actuarial valuation dated July 1, 2014, the University's accrued postretirement health care liability, as calculated by the actuaries, was $92,790,968 but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2016, was $82,453,683. The University expects that the amount recorded on the balance sheet as a postretirement health care liability will increase when Statement No. 75 is implemented, but the amount cannot be calculated until a new actuarial valuation is performed under the new standards. Furthermore, Statement No. 75 will require that the University record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the University does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the University will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, the amount is expected to have a material negative effect on the University's balance sheet. The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016; the provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In December 2015, GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. Statement No. 78 excludes certain pensions from the provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The University has determined that Statement No. 78 does not apply to its pension plans and has no effect on its financial statements.

In December 2015, GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants. Statement No. 79 applies to arrangements that commingle the moneys of more than one legally separate entity and invest on the participants' behalf in an investment portfolio. The University has determined that Statement No. 79 does not apply to its investments and has no effect on its financial statements.

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

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

New Accounting Standards (Continued)

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

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

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for d*eferred 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 refundings, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

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

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION

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

	2016			
	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	$ 579,762	$ 28,133,302	$ 1,622,966	$ 30,336,030
Capital Assets, Net	-	124,195,287	31,027,117	155,222,404
Investments	27,119,636	-	-	27,119,636
Other Assets	558,570	3,770,086	1,524,291	5,852,947
Total Assets	$ 28,257,968	$ 156,098,675	$ 34,174,374	$ 218,531,017
Liabilities				
Accounts Payable	$ 25,541	$ 2,200,567	$ 1,077,616	$ 3,303,724
Long-Term Debt	-	147,884,336	25,598,002	173,482,338
Due to University	-	2,536,813	-	2,536,813
Funds held for Other Independent Organizations	-	160,620	-	160,620
Other Liabilities	1,553,741	4,364,649	1,641,516	7,559,906
Total Liabilities	1,579,282	157,146,985	28,317,134	187,043,401
Net Assets				
Unrestricted	218,915	(1,048,310)	5,857,240	5,027,845
Temporarily Restricted	4,213,161	-	-	4,213,161
Permanently Restricted	22,246,610	-	-	22,246,610
Total Net Assets	26,678,686	(1,048,310)	5,857,240	31,487,616
Total	$ 28,257,968	$ 156,098,675	$ 34,174,374	$ 218,531,017

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed statement of net assets information for the component units as of June 30, 2015:

	2015			
	Foundation	Student Services	Student Lodging	Total
Assets				
Cash and Cash Equivalents	$ 594,478	$ 64,861,452	$ 1,459,099	$ 66,915,029
Capital Assets, Net	-	87,166,614	29,340,054	116,506,668
Investments	28,074,061	-	-	28,074,061
Other Assets	1,034,143	3,944,151	1,191,488	6,169,782
Total Assets	$ 29,702,682	$ 155,972,217	$ 31,990,641	$ 217,665,540
Liabilities				
Accounts Payable	$ 15,333	$ 796,777	$ 1,235,529	$ 2,047,639
Long-Term Debt	-	148,181,846	23,725,950	171,907,796
Due to University	10,000	960,353	-	970,353
Funds held for Other				-
Independent Organizations	-	210,463	-	210,463
Other Liabilities	1,439,775	5,279,315	1,114,246	7,833,336
Total Liabilities	1,465,108	155,428,754	26,075,725	182,969,587
Net Assets				
Unrestricted	316,506	543,463	5,914,916	6,774,885
Temporarily Restricted	6,102,539	-	-	6,102,539
Permanently Restricted	21,818,529	-	-	21,818,529
Total Net Assets	28,237,574	543,463	5,914,916	34,695,953
Total	$ 29,702,682	$ 155,972,217	$ 31,990,641	$ 217,665,540

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

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

	Foundation	Student Services	Student Lodging	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	$ 314,415	$ -	$ -	$ 314,415
Sales and Services	-	2,643,532		2,643,532
Investment Income	125,991	-	873	126,864
Rental Income	-	10,153,439	6,187,048	16,340,487
Net Assets Released from Restrictions	1,051,535	-		1,051,535
Other Revenues and Gains	4,745	348,105		352,850
Total Revenues and Other Additions	1,496,686	13,145,076	6,187,921	20,829,683
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	764,838	-		764,838
University Stores	-	3,055,682		3,055,682
Housing	-	10,420,469	3,536,403	13,956,872
Management and General	251,387	1,260,698	2,020,528	3,532,613
Fundraising	578,052	-	-	578,052
Other Expenses and Losses	-	-	688,666	688,666
Total Expenses and Other Deductions	1,594,277	14,736,849	6,245,597	22,576,723
Change in Unrestricted Net Assets	(97,591)	(1,591,773)	(57,676)	(1,747,040)
Changes in Temporarily Restricted Net Assets				
Contributions	95,096	-	-	95,096
Investment Income	433,837	-	-	433,837
Net Realized and Unrealized Gain on Investments	(1,366,776)	-	-	(1,366,776)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(1,051,535)	-	-	(1,051,535)
Change in Temporarily Restricted Net Assets	(1,889,378)	-	-	(1,889,378)
Changes in Permanently Restricted Net Assets				
Contributions	428,081	-	-	428,081
Change in Permanently Restricted Net Assets	428,081	-	-	428,081
CHANGE IN NET ASSETS	(1,558,888)	(1,591,773)	(57,676)	(3,208,337)
Net Assets - Beginning of Year	28,237,574	543,463	5,914,916	34,695,953
NET ASSETS - END OF YEAR	$ 26,678,686	$ (1,048,310)	$ 5,857,240	$ 31,487,616

NOTE 2 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

The following represents combining condensed statement of activities for the component units for year ended June 30, 2015:

	Foundation	Student Services	Student Lodging	Total
Changes in Unrestricted Net Assets				
Revenues and Other Additions:				
Contributions	$ 264,075	$ -	$ -	$ 264,075
Sales and Services	-	4,083,550	-	4,083,550
Investment Income	27,993	-	933	28,926
Rental Income	-	5,496,585	6,121,781	11,618,366
Net Assets Released from Restrictions	991,486	-	-	991,486
Other Revenues and Gains	-	597,319	8,752	606,071
Total Revenues and Other Additions	1,283,554	10,177,454	6,131,466	17,592,474
Expenses and Other Deductions:				
Program Services:				
Scholarships and Grants	788,419	-	-	788,419
University Stores	-	3,286,937	-	3,286,937
Housing	-	4,217,710	3,481,070	7,698,780
Management and General	210,485	1,144,114	2,115,098	3,469,697
Fundraising	223,694	-	-	223,694
Other Expenses and Losses	-	-	817	817
Total Expenses and Other Deductions	1,222,598	8,648,761	5,596,985	15,468,344
Change in Unrestricted Net Assets	60,956	1,528,693	534,481	2,124,130
Changes in Temporarily Restricted Net Assets				
Contributions	104,733	-	-	104,733
Investment Income	448,964	-	-	448,964
Net Realized and Unrealized Gain on Investments	(247,822)	-	-	(247,822)
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(991,486)	-	-	(991,486)
Change in Temporarily Restricted Net Assets	(685,611)	-	-	(685,611)
Changes in Permanently Restricted Net Assets				
Contributions	666,722	-	-	666,722
Investment Income	125,828	-	-	125,828
Change in Permanently Restricted Net Assets	792,550	-	-	792,550
CHANGE IN NET ASSETS	167,895	1,528,693	534,481	2,231,069
Net Assets - Beginning of Year	29,161,668	(985,230)	5,380,435	33,556,873
Prior Period Adjustment	(1,091,989)			(1,091,989)
NET ASSETS - END OF YEAR	$ 28,237,574	$ 543,463	$ 5,914,916	$ 34,695,953

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of $1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals $77,734,273 and $67,337,960 at June 30, 2016 and 2015, respectively.

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

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently and in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

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

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Commonfund investments, held locally by some of the universities, are valued based upon the unit values (NAV) of the funds held by the universities 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 Multi-Strategy Bond Fund, held by the University, are restricted to withdrawals on the last day of business of the month.

Detailed information regarding the fair value of the State System pooled deposits and investment portfolio is available in the financial statements of the State System, which can be found at www.passhe.edu.

The University receives income from perpetual trusts held by a third party. Under the terms of the trusts, the University has the irrevocable right to receive a portion of the income earned on the trust assets in perpetuity. Income from these trusts is restricted for scholarships and capital and is included in interest income in the statement of revenues, expenses and changes in net assets.

The fair value of cash, cash equivalents and investments at June 30, 2016 and 2015 is as follows:

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

	Fair Value Hierarchy	2016	2015
Primary Institution			
Cash and Cash Equivalents:			
Noncategorized Cash:			
Cash on Hand	N/A	$ 15,415	$ 14,915
Deposits in PASSHE Pooled Fund	N/A	77,734,273	67,337,960
Total Cash and Cash Equivalents		$ 77,749,688	$ 67,352,875
Long-Term Investments-Primary Institution			
Noncategorized Long-Term Investments:			
Common Fund			
Multi-Strategy Equity Fund	NAV	$ 966,393	$ 1,005,268
Multi-Strategy Bond Fund	NAV	330,718	326,630
Cash Equivalent	3	99,050	98,029
Excess VPAC Project Gifts Invested with Foundation	3	436,538	487,228
Scholarship Funds Invested with Foundation	3	117,367	-
Beneficial Interest in Perpetual Trusts:	3	6,309,292	1,637,348
Total Long-Term Investments		$ 8,259,358	$ 3,554,503
Foundation			
Certificates of Deposit	1	$ 297,225	$ 226,771
Common Stocks	1	1,334,420	1,607,028
Preferred Stocks	1	30,290	27,440
Corporate Bonds	1	106,669	155,817
Municipal Bonds	1	76,219	76,808
Mortgage-Backed Securities	1	-	24,090
Collective Trust Fund	2	1,414,344	1,444,037
Mutual Funds	1	23,603,372	24,382,070
Private Equity Funds	3	257,097	130,000
Total Investments		$ 27,119,636	$ 28,074,061

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

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, 2016, the University had the following investments which exceeded 5% of the University's total investments:

Issuer	Type of Investment	Amount	Percentage of Total Long-Term Investments
Common Fund	Multi-Strategy Equity Fund	$ 966,393	11.70%
Common Fund	Multi-Strategy Bond Fund	330,718	4.00%

NOTE 4 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2016:

	Life	Beginning Balance July 1, 2015	Additions	Retirements	Reclassifications	Ending Balance June 30, 2016
Land		$ 594,260	$ -	$ -	$ -	$ 594,260
Construction in Progress		7,902,517	9,541,871	(3)	(1,206,151)	16,238,234
Total Capital Assets Not being Depreciated		8,496,777	9,541,871	(3)	(1,206,151)	16,832,494
Buildings, including Improvements	10-40	160,237,515	864,351	(8,765,943)	1,243,021	153,578,944
Improvements, Other than Buildings	20	24,116,342	853	(1,359,332)	(36,870)	22,720,993
Furnishings and Equipment, including Capital Leases	3-10	42,627,181	1,908,654	(3,053,032)	-	41,482,803
Library Books	10	4,006,108	6,944	(57,540)	-	3,955,512
Total Capital Assets being Depreciated		230,987,146	2,780,802	(13,235,847)	1,206,151	221,738,252
Less: Accumulated Depreciation:						
Buildings, including Improvements		(56,169,051)	(6,457,927)	4,802,456	-	(57,824,522)
Land Improvements		(10,799,358)	(1,027,217)	1,348,869	-	(10,477,706)
Furnishings and Equipment including Capital Leases		(34,903,246)	(2,088,292)	2,944,807	-	(34,046,731)
Library Books		(3,602,465)	(101,596)	57,540	-	(3,646,521)
Total Accumulated Depreciation		(105,474,120)	(9,675,032)	9,153,672	-	(105,995,480)
Total Capital Assets being Depreciated, Net		125,513,026	(6,894,230)	(4,082,175)	1,206,151	115,742,772
Capital Assets, Net		$ 134,009,803	$ 2,647,641	$ (4,082,178)	$ -	$ 132,575,266

At June 30, 2016, the University capitalized interest in the amount of $361,009.

NOTE 4 CAPITAL ASSETS (CONTINUED)

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following as of June 30, 2015:

	Life	Restated Beginning Balance July 1, 2014	Additions	Retirements	Reclassifications	Ending Balance June 30, 2015
Land		$ 594,260	$ -	$ -	$ -	$ 594,260
Construction in Progress		9,674,497	1,921,042	(6)	(3,693,016)	7,902,517
Total Capital Assets Not being Depreciated		10,268,757	1,921,042	(6)	(3,693,016)	8,496,777
Buildings, including Improvements	10-40	169,800,610	1,438,537	(11,702,836)	701,204	160,237,515
Improvements, Other than Buildings	20	20,382,610	1,719,210	(535,514)	2,550,036	24,116,342
Furnishings and Equipment, including Capital Leases	3-10	46,670,822	909,134	(5,394,551)	441,776	42,627,181
Library Books	10	4,042,149	14,134	(50,175)	-	4,006,108
Total Capital Assets being Depreciated		240,896,191	4,081,015	(17,683,076)	3,693,016	230,987,146
Less: Accumulated Depreciation:						
Buildings, including Improvements		(55,312,870)	(7,157,890)	6,301,709	-	(56,169,051)
Land Improvements		(10,134,160)	(1,060,039)	394,841	-	(10,799,358)
Furnishings and Equipment including Capital Leases		(37,470,937)	(2,731,245)	5,298,936	-	(34,903,246)
Library Books		(3,531,444)	(121,196)	50,175	-	(3,602,465)
Total Accumulated Depreciation		(106,449,411)	(11,070,370)	12,045,661	-	(105,474,120)
Total Capital Assets being Depreciated, Net		134,446,780	(6,989,355)	(5,637,415)	3,693,016	125,513,026
Capital Assets, Net		$ 144,715,537	$ (5,068,313)	$ (5,637,421)	$ -	$ 134,009,803

At June 30, 2015, the University capitalized interest in the amount of $12,768.

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2016 and 2015:

	2016	2015
Employees	$ 8,092,042	$ 7,496,868
Supplies and Services	3,758,558	3,026,228
Interest	110,306	104,371
Total	$ 11,960,906	$ 10,627,467

NOTE 6 CAPITAL LEASES

The University has entered into lease agreements for the financing of printing equipment which have been accounted for as capital leases. Changes in capital lease obligations were as follows:

	2016	2015
Balance - July 1	$ 251,667	$ 467,716
Increases	-	3,556
Repayments	(144,825)	(219,605)
Balance - June 30	$ 106,842	$ 251,667

At June 30, 2016 and 2015, capital assets include equipment under capital lease of $873,223 and $1,243,679, respectively, which is reported net of accumulated depreciation of $573,845 and $674,191, respectively.

Future minimum payments are as follows:

Year Ending June 30,	Amount
2017	$ 86,892
2018	20,812
Total	107,704
Less: Amounts Representing Interest on Capital Leases	(862)
Present Value of Net Minimum Lease Payments	106,842
Less: Current Portion	
Long-Term Capital Lease Obligations	$ 106,842

NOTE 7 BONDS PAYABLE

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

	Weighted Average Interest Rate	Balance July 1, 2015	Bonds Issued	Bonds Redeemed	Balance June 30, 2016
Series AF Used for Infrastructure	5.00 %	1,644,590	-	(1,644,590)	-
Series AG Used for Refunding of Series Q	4.81 %	413,871	-	(131,070)	282,801
Series AI Used for Installation of Sprinklers	4.21 %	1,303,147	-	(127,013)	1,176,134
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure	4.88 %	9,332,919	-	(526,787)	8,806,132
Series AK Used for Refunding of Series S	4.00 %	705,598	-	(130,268)	575,330
Series AL Used for Sprinklers and Union/Recreation Center	5.00 %	9,257,837	-	(461,430)	8,796,407
Series AM Used for Visual and Performing Arts Center	4.64 %	15,587,790	-	(688,395)	14,899,395
Series AP Used for Residence Hall Refunded AA	4.51 %	2,850,177	-	(277,184)	2,572,993
Series AQ Used for Refunding of Residence, Buildings, Infrastructure	4.70 %	9,711,646	-	(237,680)	9,473,966
Series AR Used for Dining Hall Renovations	4.01 %	-	9,855,634	(315,317)	9,540,317
Series AS Used for Infrastructure Refunded AF	3.72 %	-	1,399,691	-	1,399,691
Total Bonds Payable		$ 50,807,575	$ 11,255,325	$ (4,539,734)	57,523,166
Plus: Unamortized Bond Premium					3,799,163
Outstanding at June 30, 2016					$ 61,322,329

NOTE 7 BONDS PAYABLE (CONTINUED)

Bonds outstanding as of June 30, 2015 were as follows:

	Weighted Average Interest Rate	Balance July 1, 2014	Bonds Issued	Bonds Redeemed	Balance June 30, 2015
Series AC Used for Renovation of Residence Halls	4.87 %	$ 4,299,212	$ -	$ (4,299,212)	$ -
Series AE Used for McComsey Hall Renovation, Renovations of Other Residence Halls and Infrastructure	4.95 %	7,205,702	-	(7,205,702)	-
Series AF Used for Infrastructure	5.00 %	1,742,873	-	(98,283)	1,644,590
Series AG Used for Refunding of Series Q	4.85 %	539,130	-	(125,259)	413,871
Series AI Used for Installation of Sprinklers	4.19 %	1,426,114	-	(122,967)	1,303,147
Series AJ Used for SMC Recreation Center, Guaranteed Energy Savings Agreement ("GESA") Project, Education Building Renovations and Infrastructure	4.88 %	9,834,426	-	(501,507)	9,332,919
Series AK Used for Refunding of Series S	4.00 %	832,124	-	(126,526)	705,598
Series AL Used for Sprinklers and Union/Recreation Center	5.00 %	9,697,124	-	(439,287)	9,257,837
Series AM Used for Visual and Performing Arts Center	4.65 %	16,230,245	-	(642,455)	15,587,790
Series AP Used for Residence Hall Refunded AA	4.34 %	3,109,284	-	(259,107)	2,850,177
Series AQ Used for Refunding of Residence, Buildings, Infrastructure	4.71 %	-	9,711,646	-	9,711,646
Total Bonds Payable		$ 54,916,234	$ 9,711,646	$ (13,820,305)	50,807,575
Plus: Unamortized Bond Premium					3,888,384
Outstanding at June 30, 2015					$ 54,695,959

NOTE 7 BONDS PAYABLE (CONTINUED)

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

Series		2017	2018	2019	2020	2021	2022-2026	2027-2031	2032-2036	Total
AG	Principal	138,172	144,629	-	-	-	-	-	-	282,801
	Interest	14,502	7,593	-	-	-	-	-	-	22,095
	Total	152,674	152,222	-	-	-	-	-	-	304,896
AI	Principal	132,376	137,740	143,103	148,980	155,242	458,693	-	-	1,176,134
	Interest	49,501	44,206	38,696	32,972	26,827	41,014	-	-	233,216
	Total	181,877	181,946	181,799	181,952	182,069	499,707	-	-	1,409,350
AJ	Principal	552,065	580,401	609,736	640,070	672,402	3,540,944	2,210,514	-	8,806,132
	Interest	424,700	397,097	368,077	337,590	305,587	1,001,880	209,529	-	3,044,460
	Total	976,765	977,498	977,813	977,660	977,989	4,542,824	2,420,043	-	11,850,592
AK	Principal	135,647	140,558	146,873	152,252	-	-	-	-	575,330
	Interest	23,013	17,587	11,965	6,090	-	-	-	-	58,655
	Total	158,660	158,145	158,838	158,342	-	-	-	-	633,985
AL	Principal	484,860	509,026	535,028	560,939	589,147	3,065,322	3,052,085	-	8,796,407
	Interest	439,820	415,577	390,126	363,375	335,328	1,237,711	390,804	-	3,572,741
	Total	924,680	924,603	925,154	924,314	924,475	4,303,033	3,442,889	-	12,369,148
AM	Principal	731,497	780,680	825,540	881,884	940,391	5,693,995	5,045,408	-	14,899,395
	Interest	694,587	658,012	626,785	585,508	541,414	1,936,099	725,537	-	5,767,942
	Total	1,426,084	1,438,692	1,452,325	1,467,392	1,481,805	7,630,094	5,770,945	-	20,667,337
AP	Principal	282,005	291,646	300,082	312,134	324,185	1,062,941	-	-	2,572,993
	Interest	107,813	99,352	90,603	78,600	66,114	107,981	-	-	550,463
	Total	389,818	390,998	390,685	390,734	390,299	1,170,922	-	-	3,123,456
AQ	Principal	729,452	838,960	880,783	925,022	972,474	5,127,275	-	-	9,473,966
	Interest	473,698	437,226	395,278	351,239	304,987	745,508	-	-	2,707,936
	Total	1,203,150	1,276,186	1,276,061	1,276,261	1,277,461	5,872,783	-	-	12,181,902
AR	Principal	378,697	389,261	403,345	413,908	427,993	2,375,880	2,713,908	2,437,325	9,540,317
	Interest	405,048	393,077	380,577	367,372	353,640	1,536,334	1,192,170	691,541	5,319,759
	Total	783,745	782,338	783,922	781,280	781,633	3,912,214	3,906,078	3,128,866	14,860,076
AS	Principal	-	58,807	130,504	132,920	135,337	765,299	176,824	-	1,399,691
	Interest	57,508	56,258	55,081	52,471	49,813	162,727	8,841	-	442,699
	Total	57,508	115,065	185,585	185,391	185,150	928,026	185,665	-	1,842,390
Total	Principal	3,564,771	3,871,708	3,974,994	4,168,109	4,217,171	22,090,349	13,198,739	2,437,325	57,523,166
	Interest	2,690,190	2,525,985	2,357,188	2,175,217	1,983,710	6,769,254	2,526,881	691,541	21,719,966
	Total	$ 6,254,961	$ 6,397,693	$ 6,332,182	$ 6,343,326	$ 6,200,881	$ 28,859,603	$ 15,725,620	$ 3,128,866	$ 79,243,132

NOTE 7 BONDS PAYABLE (CONTINUED)

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. In the past, the State System issued bonds to provide a pool for funding for AFRP ($21,918,513 and $29,552,782 was outstanding as of June 30, 2016 and 2015, 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:

	2016	2015
Balance - July 1	$ 2,354,370	$ 2,661,120
Repayments	(518,856)	(306,750)
Balance - June 30	$ 1,835,514	$ 2,354,370

NOTE 8 DEBT REFUNDING

In June 2016, the net proceeds from the Series AS revenue bonds were used to purchase U.S. Government Securities that were deposited irrevocably in trust with an escrow agent to advance refund the Series AF revenue bonds. Although it resulted in an accounting loss of $34,136, the refunding was performed to reduce University debt service by approximately $199,004 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $192,846. The accounting loss, or deferred loss on refunding, is reported as a deferred outflow of resources. As of June 30, 2016, $49,800,000 of Series AF revenue bonds remained outstanding, and the fair market of the escrow account was $51,934,000. The funds in escrow will be used to pay the December 15, 2016, interest payment and the June 15, 2017, principal and interest payment of Series AF. Neither the funds in escrow nor the outstanding balance of Series AF is reflected on the balance sheet.

NOTE 9 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30, 2016 and 2015:

	2016		2015	
	Current	Noncurrent	Current	Noncurrent
Student Tuition and Fees	$ 1,480,813	$ 85,540	$ 1,129,631	$ -
Grants	141,042	-	251,769	-
Total	$ 1,621,855	$ 85,540	$ 1,381,400	$ -

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

Compensated absences and postretirement benefits consisted of the following at June 30, 2016 and 2015:

	2016		2015	
	Current	Noncurrent	Current	Noncurrent
Compensated Absences	$ 707,883	$ 7,941,534	$ 842,631	$ 8,043,776
Postretirement Benefit Obligations	-	82,453,683	-	78,537,545
Total	$ 707,883	$ 90,395,217	$ 842,631	$ 86,581,321

Compensated absences activity consisted of the following during 2016 and 2015:

	2016	2015
Balance - July 1	$ 8,886,407	$ 8,744,632
Current Changes in Estimate	495,943	953,541
Payouts	(732,933)	(811,766)
Balance - June 30	$ 8,649,417	$ 8,886,407

Postretirement Benefits

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

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF); the State College and University Professional Association (SCUPA); Security Police and Fire Professionals of America (SPFPA); Office and Professional Employees International Union (OPEIU); and nonrepresented employees participate in a single-employer defined benefits healthcare plan administered by the State System (System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no assets and no financial report is prepared.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. The State System paid premiums of $40,060,000 and $36,869,000 for the fiscal years ended June 30, 2016 and 2015, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2016:

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

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

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

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

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

Total contributions made by plan members were $4,866,000 and $4,272,000, or approximately 10.8% and 10.4% of the total premiums for the fiscal years ended June 30, 2016 and 2015, respectively.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over thirty years.

The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation for June 30:

	2016	2015
Annual Required Contribution	$ 7,665,590	$ 7,665,590
Interest on Net OPEB Obligation	3,071,927	2,937,687
Amortization of Net OPEB Obligation	(4,037,484)	(3,861,047)
Annual OPEB Cost	6,700,033	6,742,230
Contributions Made	(2,783,895)	(2,727,294)
Increase in Net OPEB Obligation	3,916,138	4,014,936
Net OPEB Obligation - Beginning of Year	78,537,545	74,522,609
Net OPEB Obligation - End of Year	$ 82,453,683	$ 78,537,545

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 6,700,033	41.6 %	$ 82,453,683
June 30, 2015	6,742,230	40.5 %	78,537,545
June 30, 2014	8,071,000	33.6 %	74,522,609

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funded Status and Funding Progress

The funded status of the University's portion of the System Plan as of July 1, 2014, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	$ 92,790,968
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 92,790,968
Funded Ratio (Actuarial Value of Plan Assets/AAL)	- %
Covered Payroll (Active Plan Members)	$ 40,854,593
UAAL as a Percentage of Covered Payroll	227.1%

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

Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit method was used with a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio. The healthcare cost trend rate used was 6.5% in 2014, 6.0% in 2015, and 5.5% in 2016 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2014 was 21 years.

NOTE 10 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Retired Employees Health Program

Plan Description

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

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005 are not required to make contributions. Plan members who enrolled after July 1, 2005 contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2015/16, the State System contributed $418 for each current active State System employee per biweekly pay period. Total contributions made by the State System were $37,026,000, $30,765,000, and $28,584,000 for the fiscal years ended June 30, 2016, and 2015, and 2014 respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 11 PENSION BENEFITS

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

Following is the total of the University's pension liabilities, deferred outflows and deferred inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2016 and 2015:

	SERS		PSERS		ARP		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Net Pension Liabilities	$ 70,202,898	$ 59,723,321	$ 7,021,190	$ 6,223,495	$ -	$ -	$ 77,224,088	$ 65,946,816
Deferred Outflows of Resources:								
Difference Between Expected and Actual Experience	$ 1,421,474	$ 324,220	$ -	$ -	$ -	$ -	$ 1,421,474	$ 324,220
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	7,147,963	1,725,601	-	-	-	-	7,147,963	1,725,601
Changes in Assumptions	2,085,707	-	-	-	-	-	2,085,707	-
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	49,880	25,983	-	-	49,880	25,983
Changes in Proportion	-	-	310,711	148,166	-	-	310,711	148,166
Contributions After the Measurement Date	3,481,440	2,674,048	486,251	456,238	-	-	3,967,691	3,130,286
Total Deferred Outflows of Resources	$ 14,136,584	$ 4,723,869	$ 846,842	$ 630,387	$ -	$ -	$ 14,983,426	$ 5,354,256
Deferred Inflows of Resources								
Difference Between Expected and Actual Experience	$ -	$ -	$ 28,970	$ -	$ -	$ -	$ 28,970	$ -
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	-	14,179	444,938	-	-	14,179	444,938
Difference Between Employer Contributions and Proportionate Share of Contributions	195,417	178,990	-	-	-	-	195,417	178,990
Changes in Proportion	2,143,223	563,251	-	-	-	-	2,143,223	563,251
Total Deferred Inflows of Resources	$ 2,338,640	$ 742,241	$ 43,149	$ 444,938	$ -	$ -	$ 2,381,789	$ 1,187,179
Pension Expense	$ 8,312,847	$ 6,776,116	$ 1,361,694	$ 643,342	$ 3,136,066	$ 3,196,385	$ 12,810,607	$ 10,615,843
Contributions Recognized by Pension Plans	$ 5,649,586	$ 4,691,117	$ 486,254	$ 458,302	N/A	N/A	$ 6,135,840	$ 5,149,419

NOTE 11 PENSION BENEFITS (CONTINUED)

The University will recognize the $3,481,440 reported as 2016 SERS deferred outlfows of resources resulting from pension contributions after the measurement date, and the $486,251 reported as 2016 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows.

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2017	2,155,486	$ 59,576
June 30, 2018	2,155,486	59,576
June 30, 2019	2,155,476	59,576
June 30, 2020	1,778,426	138,714
June 30, 2021	71,630	-
	$ 8,316,504	$ 317,442

SERS

Plan Description

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

Benefits Provided

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

Employees who were hired prior to January 1, 2011 and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The new vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2014/15 was 4.5% and will remain at that rate until no longer needed.

The University contributed at actuarially determined rates of between 17.18% and 24.86% of active members' annual covered payroll at June 30, 2016. The University's contributions to SERS for the years ended June 30, 2016 and 2015 and 2014 were $5,649,586, $4,680,667, and $3,572,148, 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 from 5% and 9.3% of salary, depending upon when the member was hired and what class of membership was elected.

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions

The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2015 and 2014, using the following actuarial assumptions applied to all periods included in the measurement.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.75%.
- Investment return of 7.50%, net of expenses and including inflation.
- Salary increases based on an effective average of 5.70%, with a range of 3.85% to 9.05%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

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

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

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Assumptions (Continued)

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

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

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

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

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	$ 87,205	$ 70,203	$ 55,624
2014	76,444	59,723	45,346

NOTE 11 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Fiduciary Net Position

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

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

At June 30, 2016, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2015 was $70,202,898. At June 30, 2015, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2014, was $59,723,321.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2016/17, from the December 31, 2015 funding valuation, to the expected funding payroll. For the allocation of the 2014 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2015/16, from the December 31, 2014, funding valuation, to the expected funding payroll. At the December 31, 2015, measurement date, the State System's proportion was 4.721%, a decrease of .018% from its proportion calculated as of December 31, 2014, measurement date.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS

Plan Description

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

Benefits Provided

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

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

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Benefits Provided (Continued)

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

Member Contributions

Active members who joined PSERS prior to July 22, 1983, contribute 5.25% (Class T-C members) or 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 7.5% (Class T-D). For these hires and for members who elected Class T-D, the 7.5% contribution rate began with service rendered on or after January 1, 2002. Members who joined PSERS after June 30, 2011 contribute at the rate of 7.5% (Class T-E) or 10.3% (Class T-F) of their qualifying compensation. Class T-E and Class T-F members are subject to a "shared risk" provision in Act 120 that could cause the rate in future years to fluctuate between 7.5% and 9.5% for Class T-E and 10.3% and 12.3% for Class T-F.

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2016 was 25.0% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 12.5% of covered payroll. The University's contribution to PSERS for the years ending June 30, 2016 and 2015, and 2014 was $486,254, $456,238, and 347,103 respectively, equal to the required contractual contribution.

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions

The total PSERS pension liability as of June 30, 2015 was determined by rolling forward PSERS' total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, 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 3%.
- Investment return of 7.50%, including inflation.
- Salary increases based on an effective average of 5.5%, which reflects an allowance for inflation, real wage growth of 1.0%, and merit or seniority increases of 1.50%.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its March 11, 2011 meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

NOTE 11 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	22.5%	4.8%
Private Markets (Equity)	15.0%	6.6%
Private Real Estate	12.0%	4.5%
Global Fixed Income	7.5%	2.4%
U.S. Long Treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High-Yield Bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute Return	10.0%	4.9%
Risk Parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	(14.0%)	1.1%
Total	100.0%	

The discount rate used to measure the total PSERS pension liability was 7.50%. 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 7.50%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

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

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
2015	$ 8,654	$ 7,021	$ 5,649
2014	7,763	6,223	4,909

NOTE 11 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

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

(in thousands)	2016	2015
Total PSERS Net Pension Liability Associated with the State System	$ 14,042,380	$ 14,042,380
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the State System	7,021,190	7,021,190
University's Proportionate Share of the PSERS Net Pension Liability	$ 7,021,190	$ 7,021,190

PSERS measured the net pension liability as of June 30, 2015. 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, 2014 to June 30, 2015. 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, 2015, the State System's proportion was .1852%, an increase of .0067% from its proportion calculated as of June 30, 2014.

NOTE 11 PENSION BENEFITS (CONTINUED)

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The University's contribution rate on June 30, 2016 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2016 and 2015 were $3,136,000 and $3,196,000, respectively, from the University and $1,701,338 and $1,722,452, respectively, from active members. No liability is recognized for the ARP.

NOTE 12 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to $100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund) to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed approximately $56,000, $161,000 and $178,000 to the Reserve Fund for the years ended June 30, 2016 and 2015, and 2014, respectively.

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

	2016	2015	2014
Balance - July 1	$ 1,086,083	$ 763,003	$ 965,963
Current Year Claims and Changes in Estimate	447,803	1,010,569	614,788
Payments	(489,864)	(687,489)	(817,748)
Balance - June 30	$ 1,044,022	$ 1,086,083	$ 763,003

NOTE 13 RELATED PARTY TRANSACTIONS

The University has a separately incorporated affiliated organization, the General Alumni Association. Since this affiliated organization operates under an independent governing board and management, the financial activities of this organization is not included in the accompanying financial statements. Based upon audited financial statements at June 30, 2016, the organization had net assets of $1,033,626, revenues of $165,015, and expenditures of $175,137.

NOTE 14 CONTINGENCIES

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

The University is self-insured for workers' compensation up to stated limits (see Note 12). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. 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. Entitlements to 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, 2016, the University estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2016 and 2015 were approximately $8,474,839 and $13,380,000, respectively.

NOTE 15 RATING ACTIONS

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In August 2016, Moody's revised the outlook rating from negative to stable. Fitch Rating reaffirmed the State System's rating of AA- with an outlook of stable.

NOTE 16 SUBSEQUENT EVENTS

On October 19, 2016, after more than a year of contract negotiations with the State System, the Association of Pennsylvania State College and University Faculties (APSCUF), which represents all faculty and coaches, called a strike. Up until the strike APSCUF had been working under the terms of a contract that expired June 30, 2015. The short- or long-term financial impact of the strike on the University and its students cannot be estimated but could be severely detrimental. As of the date of these financial statements, negotiations between the State System and APSCUF are continuing.

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2016 AND 2015

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$ -	$ 97,695	$ 97,695	- %	$ 39,384	248 %
July 1, 2013	-	101,349	101,349	- %	40,566	250 %
July 1, 2014	-	92,791	92,791	- %	40,855	227 %

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2012	$ 71,630	$ 12,843,700	$ 12,772,070	0.56%	$ 4,130,000	309%
July 1, 2013	82,060	13,234,040	13,151,980	0.62%	4,264,000	308%
January 1, 2015	144,744	16,134,419	15,989,675	0.90%	4,289,000	373%

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
SERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2016 AND 2015
(UNAUDITED)

Schedule of Proportionate Share of SERS Net Pension Liability (NPL)
Determined as of SERS December 31 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	4.901%	$ 59,723	$ 24,359	245%	64.8%
2015/16	4.721%	$ 70,203	$ 24,348	288%	58.9%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS in FY 2015/16	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 4,691	$ 4,691	$ -	$ 24,359	19.3%
2015/16	$ 5,650	$ 5,650	$ -	$ 23,863	23.7%

MILLERSVILLE UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2016 AND 2015
(UNAUDITED)

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)
Determined as of PSERS June 30 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%	$ 6,223	$ 6,223	$ 12,446	$ 2,006	310%	57.2%
2015/16	0.1852%	$ 7,021	$ 7,021	$ 14,042	$ 4,172	200%	54.4%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2015/16	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 458	$ 458	$ -	$ 4,172	11.0%
2015/16	486	486	-	3,929	12.4%