CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2020 AND 2019

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OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Clarion University of Pennsylvania
of the State System of Higher Education
Clarion, 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 Clarion University of Pennsylvania of the State System of Higher Education (the University), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, The Clarion Students' Association (the Association) and Clarion University Foundation (the Foundation), which represent 100% of the assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the discretely presented component units, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the various schedules of OPEB Liability, Proportionate Share of Net OPEB Liability and Contributions, and Proportionate Share of Net Pension Liability and Contributions on pages 61 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 23, 2020

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 14,493,328	$ 17,100,138
Accounts Receivable:		
Governmental Grants and Contracts	2,590,092	2,050,167
Students, Net of Allowance for Doubtful Accounts of $2,787,462 in 2020 and $2,804,634 in 2019	1,648,721	2,794,888
Other	1,109,544	932,470
Inventory	590,944	574,075
Prepaid Expenses	211,039	212,699
Loans Receivable, Net of Allowance for Doubtful Accounts of $14,839 in 2020 and $18,822 in 2019	145,522	250,458
Interest Income Receivable	-	44,775
Due from Component Units	1,362,620	1,635,130
Other Current Assets	131,157	217,875
Total Current Assets	22,282,967	25,812,675
NONCURRENT ASSETS		
Conversion Pay Receivable	1,742	1,742
Due From Component Units	286,042	-
Beneficial Interests	415,356	434,331
Loans Receivable	32,750	12,974
Capital Assets, Net	147,060,066	55,427,973
Total Noncurrent Assets	147,795,956	55,877,020
Total Assets	170,078,923	81,689,695
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources	13,136,303	19,358,913
Total Assets and Deferred Outflows of Resources	$ 183,215,226	$ 101,048,608

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2020	2019
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses:		
Supplies and Services	$ 1,579,928	$ 1,212,414
Employees	6,216,474	6,068,719
Other	657,841	617,324
Unearned Revenue	2,322,736	2,680,020
Accrued Interest Payable	6,480	7,271
Students' Deposits	149,040	123,814
Other Deposits	478,538	383,200
Current Portion of Workers' Compensation	88,821	184,577
Current Portion of Compensated Absences	1,282,893	74,496
Current Portion of Postemployment Benefits	3,123,100	3,425,566
Current Portion of Capital Lease Obligations	2,704,243	-
Current Portion of Bonds Payable, Net	796,201	783,834
Due to System, Academic Facilities Renovation Bond Program (AFRP)	120,979	268,153
Due to Component Units	112,621	509,708
Other Current Liabilities	418,406	399,873
Total Current Liabilities	20,058,301	16,738,969
NONCURRENT LIABILITIES		
Unearned Revenue	35,320	44,150
Workers' Compensation	-	229,413
Compensated Absences	6,857,426	7,042,734
Postemployment Benefits	90,066,815	102,630,053
Net Pension Liability	59,067,410	66,839,063
Capital Lease Obligations	89,826,694	-
Bonds Payable, Net	4,291,504	5,087,704
Due to System, AFRP	283,340	404,319
Other Noncurrent Liabilities	141,665	232,978
Total Noncurrent Liabilities	250,570,174	182,510,414
Total Liabilities	270,628,475	199,249,383
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	43,640,830	31,071,834
NET POSITION		
Net Investment in Capital Assets	49,116,097	48,977,836
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	415,356	434,331
Student Loans	23,712	33,858
Expendable:		
Scholarships and Fellowships	330,173	393,747
Capital Projects	2,445,273	2,666,194
Other	3,212,859	3,544,159
Unrestricted	(186,597,549)	(185,322,734)
Total Net Position	(131,054,079)	(129,272,609)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 183,215,226	$ 101,048,608

See accompanying Notes to Financial Statements.

CLARION 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, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Tuition and Fees, Net of Refunds	$ 47,337,447	$ 48,806,314
Less: Scholarship Discounts and Allowances	11,495,725	12,968,599
Net Tuition and Fees	35,841,722	35,837,715
Governmental Grants and Contracts:		
Federal	3,642,015	3,133,030
State	7,581,082	6,609,806
Nongovernmental Grants and Contracts	304,284	266,038
Sales and Services of Educational Departments	7,606,365	6,927,718
Auxiliary Enterprises, Net of Refunds of $3,320,621 in 2020 and Scholarship Discounts and Allowances of $633,032 in 2020 and $241,582 in 2019	8,408,407	9,949,999
Other Revenues	74,419	366,899
Total Operating Revenues	63,458,294	63,091,205
OPERATING EXPENSES		
Instruction	35,471,941	36,284,722
Research	23,566	74,075
Public Service	11,891,789	10,776,360
Academic Support	9,237,830	8,283,473
Student Services	11,731,463	13,024,311
Institutional Support	11,463,334	11,793,271
Operations and Maintenance of Plant	6,827,746	7,825,367
Depreciation	5,942,793	5,469,546
Student Aid	7,176,614	3,870,110
Auxiliary Enterprises	8,458,661	10,167,095
Total Operating Expenses	108,225,737	107,568,330
OPERATING LOSS	(44,767,443)	(44,477,125)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	26,512,315	25,939,282
COVID-19 Grants and Appropriations	4,880,505	-
Commonwealth On-Behalf Contributions to PSERS	412,989	319,850
Pell Grants	6,850,798	7,070,331
Investment Income, Net of Related Investment Expense of $4,612 in 2020 and $5,230 in 2019	480,261	693,634
Unrealized Increase (Decrease) in Fair Value	(18,975)	3,099
Gifts for Other than Capital Purposes	3,363,797	1,521,483
Interest Expense on Capital Asset-Related Debt	(1,012,883)	(217,146)
Gain on Disposal of Assets	3,850	-
Other Nonoperating Revenue	24,889	38,244
Nonoperating Revenues, Net	41,497,546	35,368,777
LOSS BEFORE OTHER REVENUES	(3,269,897)	(9,108,348)
OTHER REVENUES		
State Appropriations, Capital	997,613	1,040,843
Capital Gifts and Grants	490,814	373,307
Total Other Revenues	1,488,427	1,414,150
DECREASE IN NET POSITION	(1,781,470)	(7,694,198)
Net Position - Beginning of Year	(129,272,609)	(121,578,411)
NET POSITION - END OF YEAR	$ (131,054,079)	$ (129,272,609)

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees, Net	$ 36,623,577	$ 35,792,397
Grants and Contracts	10,703,175	9,486,821
Payments to Suppliers for Goods and Services	(24,327,442)	(24,623,792)
Payments to Employees	(70,916,519)	(70,362,791)
Loans Collected from Students	85,161	228,148
Student Aid	(7,288,404)	(3,944,840)
Auxiliary Enterprise Charges	8,715,152	9,941,345
Sales and Services of Educational Departments	7,606,365	6,927,718
Other Receipts	(457,857)	(717,751)
Net Cash Used by Operating Activities	(39,256,792)	(37,272,745)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	27,985,041	25,939,282
Gifts and Nonoperating Grants for Other than Capital Purposes	6,771,575	1,521,483
Plus, Stafford, and Other Loans Receipts (Non-Perkins)	41,474,024	41,366,932
Plus, Stafford, and Other Loans Disbursements (Non-Perkins)	(41,474,024)	(41,366,932)
PELL Grants	6,850,798	7,070,331
Agency Transactions, Net	95,337	328,815
Other	24,889	38,244
Net Cash Provided by Noncapital Financing Activities	41,727,640	34,898,155
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases	-	501,804
Capital Appropriations	997,612	1,040,843
Capital Gifts and Grants Received	490,814	373,307
Proceeds from Sales of Capital Assets	3,850	-
Purchases of Capital Assets	(3,773,950)	(1,582,795)
Principal Paid on Capital Debt and Leases	(2,277,034)	(1,650,353)
Interest Paid on Capital Debt and Leases	(1,043,987)	(253,446)
Net Cash Used by Capital Financing Activities	(5,602,695)	(1,570,640)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	525,037	684,219
DECREASE IN CASH AND CASH EQUIVALENTS	(2,606,810)	(3,261,011)
Cash and Cash Equivalents - Beginning of Year	17,100,138	20,361,149
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 14,493,328	$ 17,100,138

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (44,767,442)	$ (44,477,125)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	5,942,793	5,469,546
Expenses Paid by Commonwealth or Donor	412,989	319,850
Changes in Assets, Liabilities, Deferred Inflows and Outflows:		
Receivables, Net	606,242	17,298
Inventories	(16,869)	(33,832)
Other Assets	(102,227)	(715,732)
Accounts Payable	555,785	201,509
Unearned Revenue	(366,114)	(609,849)
Students' Deposits	25,226	(3,467)
Compensated Absences	1,023,089	(14,587)
Loans to Students and Employees	85,161	228,148
Postretirement Benefits Liability (OPEB)	(12,865,703)	(17,340,333)
Defined Benefit Pensions	(7,771,653)	11,011,963
Other Liabilities	(795,035)	(164,521)
Deferred Outflows of Resources Related to Pensions	6,372,648	(5,132,388)
Deferred Inflows of Resources Related to Pensions	(164,678)	(2,229,707)
Deferred Outflows of Resources Related to OPEB	4,464,591	(2,709,251)
Deferred Inflows of Resources Related to OPEB	8,104,405	18,909,733
Net Cash Used by Operating Activities	$ (39,256,792)	$ (37,272,745)
SUPPLEMENTAL DISCLOSURE OF NONCASH NONCAPITAL FINANCING ACTIVITIES		
Commonwealth On-Behalf Contributions to PSERS	$ 412,989	$ 319,850
Capital Assets Acquired by New Capital Leases	$ 93,800,937	$ -

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 4,143,985	$ 3,456,551
Accounts and Interest Receivable	127,924	94,982
Contributions and Pledges Receivable	340,748	393,362
Due from University	112,621	466,600
Inventories and Prepaid Expenses	140,440	212,342
Restricted Cash and Cash Equivalents	11,169,241	13,300,809
Long-Term Investments	41,941,170	43,199,195
Lease Receivable	92,530,937	-
Capital Assets, Net	12,534,048	95,323,942
Other Assets	215,331	215,331
Total Assets	$ 163,256,445	$ 156,663,114
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts and Interest Payable	$ 1,722,599	$ 1,741,258
Deferred Revenue	13,675	135,630
Annuity Liabilities	2,091,796	2,058,405
Due to University	1,648,662	1,635,130
Deposits Payable	484,623	446,878
Bonds and Notes Payable	95,755,155	98,813,182
Total Liabilities	101,716,510	104,830,483
NET ASSETS		
Without Donor Restrictions	24,471,296	14,683,081
With Donor Restrictions	37,068,639	37,149,550
Total Net Assets	61,539,935	51,832,631
Total Liabilities and Net Assets	$ 163,256,445	$ 156,663,114

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Contributions	$ 166,214	$ 173,228
Sales and Services	214,954	251,792
Student Fees	1,459,019	1,675,027
Grants and Contracts	250,000	250,000
Rental Income	2,798,435	3,525,123
Investment Return, Net	1,064,717	672,487
Other Revenues and Gains	10,496,287	193,014
Net Assets Released from Restrictions	2,997,950	3,812,171
Total Revenues and Other Additions	19,447,576	10,552,842
EXPENSES AND LOSSES		
Program Services:		
Scholarships and Grants	1,456,093	1,291,702
Student Activities and Programs	2,201,242	2,569,397
University Stores	260,979	265,908
Other Programs	3,892,213	3,917,683
Management and General	810,401	769,834
Fundraising	1,038,433	1,134,794
Total Expenses and Losses	9,659,361	9,949,318
Change in Net Assets without Donor Restrictions	9,788,215	603,524
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	2,712,942	1,277,606
Investment Return, Net	595,524	2,492,132
Other Revenues and Gains	412,379	307,260
Other Expenses and Losses	(803,806)	(557,463)
Net Assets Released from Donor Restrictions	(2,997,950)	(3,812,171)
Change in Net Assets with Donor Restrictions	(80,911)	(292,636)
INCREASE IN NET ASSETS	9,707,304	310,888
Net Assets - Beginning of Year	51,832,631	51,521,743
NET ASSETS - END OF YEAR	$ 61,539,935	$ 51,832,631

See accompanying Notes to Financial Statements.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED EXPENSES BY NATURE AND FUNCTION – COMPONENT UNITS
YEARS ENDED JUNE 30, 2020 AND 2019

2020	**Program Activities**					**Supporting Activities**			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
Salaries and Benefits	$ -	$ 180,183	$ 68,787	$ -	$ 248,970	$ 704,083	$ 747,185	$ 1,451,268	$ 1,700,238
Gifts and Grants	1,456,093	314,503	-	-	1,770,596	-	-	-	1,770,596
Supplies and Travel	-	400,453	5,541	-	405,994	6,957	39,283	46,240	452,234
Services and Professional Fees	-	-	3,000	-	3,000	44,751	-	44,751	47,751
Office and Occupancy	-	53,532	131,930	-	185,462	31,904	7,793	39,697	225,159
Depreciation	-	80,670	7,963	-	88,633	6,743	3,403	10,146	98,779
Interest	-	-	-	3,767,213	3,767,213	-	-	-	3,767,213
Other	-	1,171,901	43,758	125,000	1,340,659	15,963	240,769	256,732	1,597,391
Total Expenses	$1,456,093	$2,201,242	$260,979	$3,892,213	$ 7,810,527	$810,401	$1,038,433	$1,848,834	$9,659,361

2020	**Program Activities**					**Supporting Activities**			
Natural Expense	Scholarships and Grants	Student Activities and Programs	University Stores	Other Programs	Total Programs	Management and General	Fundraising	Total Supporting	Total Expenses
Salaries and Benefits	$ -	$ 177,598	$ 66,825	$ -	$ 244,423	$ 549,230	$ 752,381	$ 1,301,611	$ 1,546,034
Gifts and Grants	1,291,702	121,998	-	-	1,413,700	-	-	-	1,413,700
Supplies and Travel	-	276,793	4,234	-	281,027	11,996	60,427	72,423	353,450
Services and Professional Fees	-	-	3,327	-	3,327	138,389	-	138,389	141,716
Office and Occupancy	-	46,948	134,683	-	181,631	35,264	8,579	43,843	225,474
Depreciation	-	77,496	7,715	-	85,211	7,636	4,539	12,175	97,386
Interest	-	-	-	3,792,683	3,792,683	-	-	-	3,792,683
Other	-	1,868,564	49,124	125,000	2,042,688	27,319	308,868	336,187	2,378,875
Total Expenses	$ 1,291,702	$ 2,569,397	$ 265,908	$ 3,917,683	$ 8,044,690	$ 769,834	$ 1,134,794	$ 1,904,628	$ 9,949,318

See accompanying Notes to Financial Statements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Clarion University of Pennsylvania of the State System of Higher Education (the University), a public four-year institution located in Clarion, Pennsylvania, was founded in 1867. The University is one of 14 universities of Pennsylvania's State System of Higher Education (State System). The State System was created by the State System of Higher Education Act of November 12, 1982, P. L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the Commonwealth).

Reporting Entity

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

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

The Association is a legally separate, tax-exempt entity, which provides services and promotes and supports educational, cultural, and recreational activities for the students of the University. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from the Association of $582,696 and $732,033 during the fiscal years ended June 30, 2020 and 2019, respectively. The financial activity of the Association is presented as of and for the years ended June 30, 2020 and 2019.

The Foundation is a legally separate, tax-exempt entity, which acts primarily as a fundraising 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 are restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from the Foundation of $2,046,274 and $1,707,920 during the fiscal years ended June 30, 2020 and 2019, respectively. The financial activity of the Foundation is presented as of and for the years ended June 30, 2020 and 2019.

Complete financial statements for the Association and the Foundation may be obtained at the University's administrative office.

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

Operating Revenues and Expenses

Operating revenues of the University consist of tuition, all academic, instructional, and other student fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense, loss on the disposal of assets, and extraordinary expenses are recorded as operating expenses. Appropriations, gifts, interest, capital grants, 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.

Deferred Outflows and Deferred Inflows of Resources

The balance sheets report separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

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

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

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

Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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

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

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 the University maintain them in perpetuity.

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

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

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

Cash Equivalents

The University considers all demand and time deposits, money market funds and overnight repurchase agreements to be cash equivalents.

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

Accounts and Loans Receivable

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

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

Inventory

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

Capital Assets

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

Buildings, equipment, and furnishings acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation, calculated using the straight-line method. All assets with a purchase cost, or acquisition value if acquired by gift, in excess of $5,000 with an estimated useful life of two years or greater are capitalized. All library books are capitalized. Assets under capital leases we recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Amortization of assets under capital lease is included in deprecation. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

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, 2020 and 2019.

Unearned Revenue

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

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

Compensated Absences

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

Pension Plans and Other Post Employment Benefit (OPEB) Plans

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees’ Retirement System (SERS) and Public School Employees’ Retirement System (PSERS) and additions to/deductions from SERS and PSERS fiduciary net position have been determined on the same basis as they are reported by SERS and PSERS. 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.

For purposes of measuring the net Other Postemployment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System Plan, Retired Employees Health Program (REHP) and Premium Assistance Program (Premium Assistance) and additions to/deductions from the System Plan, REHP and Premium Assistance plans’ fiduciary net position have been determined on the same basis as they are reported by the System Plan, REHP and Premium Assistance plans. 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.

Scholarships and Waivers

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

Income Taxes

The University, as a member of the State System, which is a political subdivision of the Commonwealth, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the prior period presented have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on the previously reported net position or changes therein.

New Accounting Standards

In May 2020, GASB issued Statement No. 95, *Postponement of Effective Dates*, which is effective immediately. Statement 95 provides relief to governments and other stakeholders in light of the COVID-19 pandemic. It postpones the following standards, which are evaluated below, by one year from the original effective date: Statements 84, 89, 91 and 93. It postpones the effective date of Statement 87 by 18 months. Statement 94 and those issued after were not affected by Statement 95.

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

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 84 are effective for reporting periods beginning after December 15, 2019.

In June 2017, GASB issued Statement No. 87, *Leases.* Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in a similar manner as capital leases, with assets and liabilities recorded at lease inception. The University has determined that the effect on net position and results of operations will be immaterial. The provisions in statement No. 87 are effective for reporting periods beginning after June 15, 2021.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred and should no longer be capitalized as part of the cost of an asset. The University has determined that the effect of Statement No. 89 on its financial statements will vary from year to year, depending upon the amount of new debt incurred for capital assets. The provisions are effective for reporting periods beginning after December 15, 2020.

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

New Accounting Standards (Continued)

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. Statement No. 91 is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of Statement 91 are effective for reporting periods beginning after December 15, 2021.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates.* The objective of Statement No. 93 is to address accounting and financial reporting implications that result from the replacement of LIBOR. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 93 are effective for the fiscal year ending June 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The objective of Statement No 94 is to address issues related to situations in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset. In addition, it addresses an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating a nonfinancial asset. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 94 are effective for the fiscal years beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The objective of Statement No 96 is to provide the capitalization criteria for outlays other than subscription payments including implementation costs of a SBITA and the required note disclosures. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 96 are effective for the fiscal years beginning after June 15, 2022.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objective of Statement No. 97 is to address situations in which a primary government is financially accountable for its fiduciary component unit if there is no governing board over the unit and therefore the government takes up the role of the board. The University is evaluating the impact of the adoption of this standard on its financial statements. The provisions in Statement No. 97 are effective for the fiscal years beginning after June 15, 2021.

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed statement of financial position information for the component units as of June 30, 2020:

	Association	Foundation	Total
Due from University	$ 49,660	$ 62,961	$ 112,621
Capital Assets, Net	164,092	12,369,956	12,534,048
Investments	2,803,366	39,137,804	41,941,170
Other Assets	2,251,069	106,417,537	108,668,606
Total Assets	$ 5,268,187	$ 157,988,258	$ 163,256,445
Due to University	$ 80,102	$ 1,568,560	$ 1,648,662
Long-Term Debt	-	95,755,155	95,755,155
Other Liabilities	900,070	3,412,623	4,312,693
Total Liabilities	$ 980,172	$ 100,736,338	$ 101,716,510
Net Assets:			
Without Donor Restrictions	$ 4,011,924	$ 20,459,372	$ 24,471,296
With Donor Restriction	276,091	36,792,548	37,068,639
Total Net Assets	$ 4,288,015	$ 57,251,920	$ 61,539,935

The following represents combining condensed statement of financial position information for the component units as of June 30, 2019:

	Association	Foundation	Total
Due from University	$ 16,941	$ 449,659	$ 466,600
Capital Assets, Net	155,391	95,168,551	95,323,942
Investments	2,738,931	40,460,264	43,199,195
Other Assets	2,118,395	15,554,982	17,673,377
Total Assets	$ 5,029,658	$ 151,633,456	$ 156,663,114
Due to University	$ 187,138	$ 1,447,992	$ 1,635,130
Long-Term Debt	-	98,813,182	98,813,182
Other Liabilities	746,712	3,635,459	4,382,171
Total Liabilities	$ 933,850	$ 103,896,633	$ 104,830,483
Net Assets:			
With Donor Restriction	$ 3,840,142	$ 10,842,939	$ 14,683,081
Without Donor Restriction	255,666	36,893,884	37,149,550
Total Net Assets	$ 4,095,808	$ 47,736,823	$ 51,832,631

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2020:

	Association	Foundation	2020 Total
Changes in Net Assets without Donor Restrictions:			
Revenues and Gains:			
Contributions	$ -	$ 166,214	$ 166,214
Sales and Service	175,263	39,691	214,954
Student Fees	1,459,019	-	1,459,019
Grants and Contracts	-	250,000	250,000
Rental Income	-	2,798,435	2,798,435
Investment Return, Net	61,073	1,003,644	1,064,717
Other Revenues and Gains	-	10,496,287	10,496,287
Net Assets Released from Restriction	31,626	2,966,324	2,997,950
Total Revenues and Gains	1,726,981	17,720,595	19,447,576
Expenses and Losses:			
Program Services:			
Scholarships and Grants	-	1,456,093	1,456,093
Student Activities and Programs	1,273,923	927,319	2,201,242
University Stores	260,979	-	260,979
Other Programs	-	3,892,213	3,892,213
Management and General	20,297	790,104	810,401
Fundraising	-	1,038,433	1,038,433
Total Expenses and Losses	1,555,199	8,104,162	9,659,361
Changes in Net Assets without Donor Restrictions	171,782	9,616,433	9,788,215
Changes in Net Assets with Donor Restrictions:			
Contributions	-	2,712,942	2,712,942
Investment Return, Net	52,051	543,473	595,524
Other Revenues and Gains	-	412,379	412,379
Other Expenses and Losses	-	(803,806)	(803,806)
Net Assets Released from Restriction	(31,626)	(2,966,324)	(2,997,950)
Total Change in Net Assets with Donor Restrictions	20,425	(101,336)	(80,911)
CHANGE IN NET ASSETS	192,207	9,515,097	9,707,304
Net Assets - Beginning of Year	4,095,808	47,736,823	51,832,631
NET ASSETS - END OF YEAR	$ 4,288,015	$ 57,251,920	$ 61,539,935

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2019:

	Association	Foundation	2019 Total
Changes in Net Assets without Donor Restrictions:			
Revenues and Gains:			
Contributions	$ -	$ 173,228	$ 173,228
Sales and Service	198,791	53,001	251,792
Student Fees	1,675,027	-	1,675,027
Grants and Contracts	-	250,000	250,000
Rental Income	-	3,525,123	3,525,123
Investment Return, Net	127,417	545,070	672,487
Other Revenues and Gains	-	193,014	193,014
Net Assets Released from Restriction	40,274	3,771,897	3,812,171
Total Revenues and Gains	2,041,509	8,511,333	10,552,842
Expenses and Losses:			
Program Services:			
Scholarships and Grants	-	1,291,702	1,291,702
Student Activities and Programs	1,779,329	790,068	2,569,397
University Stores	265,908	-	265,908
Other Programs	-	3,917,683	3,917,683
Management and General	19,110	750,724	769,834
Fundraising	-	1,134,794	1,134,794
Total Expenses and Losses	2,064,347	7,884,971	9,949,318
Changes in Net Assets without Donor Restrictions	(22,838)	626,362	603,524
Changes in Net Assets with Donor Restrictions:			
Contributions	-	1,277,606	1,277,606
Investment Return, Net	30,183	2,461,949	2,492,132
Other Revenues and Gains	-	307,260	307,260
Other Expenses and Losses	-	(557,463)	(557,463)
Net Assets Released from Restriction	(40,274)	(3,771,897)	(3,812,171)
Total Change in Net Assets with Donor Restrictions	(10,091)	(282,545)	(292,636)
CHANGE IN NET ASSETS	(32,929)	343,817	310,888
Net Assets - Beginning of Year	4,128,737	47,393,006	51,521,743
NET ASSETS - END OF YEAR	$ 4,095,808	$ 47,736,823	$ 51,832,631

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

For the year ended June 30, 2020, the Foundation was not in compliance with its debt covenant requirements under the applicable mortgage loan documents for the Gregory Barnes Biotechnology Business Development Center. However, in July 2020, the property related to this debt was sold and the mortgage loan was repaid in full.

NOTE 3 DUE TO/FROM UNIVERSITY AND COMPONENT UNITS

The reconciliation of differences in the due to/from accounts as of June 30 is as follows:

	2020	2019
Component Units Due from University	$ 112,621	$ 466,600
Estimated Allowance Recorded by Foundation that was not Recorded by the University	-	71,385
Timing Difference	-	(28,277)
University Due to Component Units	$ 112,621	$ 509,708
Component Units Due to University	$ 1,648,662	$ 1,635,130
University Due from Component Units	$ 1,648,662	$ 1,635,130

NOTE 4 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, the 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 $13,211,793, and $15,976,494 at June 30, 2020 and 2019, respectively.

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Fair Value Hierarchy: GASB Statement No. 72, *Fair Value Measurement and Application*, requires that 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."

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

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

University Local Deposits and Investments: At June 30, 2020 and 2019, the carrying amounts of the University's demand and time deposits were $1,281,535 and $1,123,644, respectively, as compared to bank balances of $1,278,436 and $742,743, respectively. These differences are primary caused by items in transit and outstanding checks. All bank balances were covered by federal depository insurance or were collateralized by a pledge of United States Treasury obligations held by Federal Reserve banks in the name of the banking institutions, or uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2020 and 2019, none of the University's demand and time deposits are exposed to foreign currency risk.

NOTE 5 INVESTMENTS – COMPONENT UNITS

The fair value of investments held by the component units at June 30 is as follows:

	2020	2019
Certificates of Deposit and Money Market Funds	$ 105,762	$ 433,064
Mutual Funds - Equity and Exchange Traded Funds	41,622,669	39,274,985
Mutual Funds - Fixed Income	12,791	1,046,116
Equity Securities	199,948	2,445,030
Total	$ 41,941,170	$ 43,199,195

NOTE 6 CAPITAL ASSETS

Capital assets acquired or constructed by the University through the expenditure of University funds or the incurrence of debt consist of the following at June 30:

	2020					
	Life	Beginning Balance July 1, 2019	Additions	Retirements	Reclassifications	Ending Balance June 30, 2020
Land		$ 1,718,427	$ -	$ -	$ -	$ 1,718,427
Construction in Progress		5,043,285	1,752,608	-	(589,632)	6,206,261
Total Capital Assets Not Being Depreciated		6,761,712	1,752,608	-	(589,632)	7,924,688
Buildings, Including Improvements	40/20	104,824,397	94,883,757	-	589,632	200,297,786
Furnishings and Equipment	Varies	23,589,163	924,491	(21,205)	-	24,492,449
Library Books	10	8,003,864	14,030	(367,536)	-	7,650,358
Total Capital Assets Being Depreciated		136,417,424	95,822,278	(388,741)	589,632	232,440,593
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(51,453,384)	(3,578,840)	-	-	(55,032,224)
Land Improvements		(9,954,370)	(675,460)	-	-	(10,629,830)
Furnishings and Equipment		(18,547,136)	(1,613,837)	21,205	-	(20,139,768)
Library Books		(7,796,273)	(74,656)	367,536	-	(7,503,393)
Total Accumulated Depreciation		(87,751,163)	(5,942,793)	388,741	-	(93,305,215)
Total Capital Assets Being Depreciated, Net		48,666,261	89,879,485	-	589,632	139,135,378
Capital Assets, Net		$ 55,427,973	$ 91,632,093	$ -	$ -	$ 147,060,066

NOTE 6 CAPITAL ASSETS (CONTINUED)

		2019				
	Life	Beginning Balance July 1, 2018	Additions	Retirements	Reclassifications	Ending Balance June 30, 2019
Land		$ 1,718,427	$ -	$ -	$ -	$ 1,718,427
Construction in Progress		4,539,248	658,637	-	(154,600)	5,043,285
Total Capital Assets Not Being Depreciated		6,257,675	658,637	-	(154,600)	6,761,712
Buildings, Including Improvements	40/20	104,747,570	76,827	-	-	104,824,397
Furnishings and Equipment	Varies	22,630,564	827,676	(23,677)	154,600	23,589,163
Library Books	10	8,146,787	19,655	(162,578)	-	8,003,864
Total Capital Assets Being Depreciated		135,524,921	924,158	(186,255)	154,600	136,417,424
Less: Accumulated Depreciation:						
Buildings, Including Improvements		(48,258,495)	(3,194,889)	-	-	(51,453,384)
Land Improvements		(9,273,019)	(681,351)	-	-	(9,954,370)
Furnishings and Equipment		(17,076,432)	(1,494,381)	23,677	-	(18,547,136)
Library Books		(7,859,926)	(98,925)	162,578	-	(7,796,273)
Total Accumulated Depreciation		(82,467,872)	(5,469,546)	186,255	-	(87,751,163)
Total Capital Assets Being Depreciated, Net		53,057,049	(4,545,388)	-	154,600	48,666,261
Capital Assets, Net		$ 59,314,724	$ (3,886,751)	$ -	$ -	$ 55,427,973

NOTE 7 OPERATING LEASES

Total rent expense for operating leases for the years ended June 30, 2020 and 2019 was $1,322,805 and $1,508,144, respectively. Future minimum lease payments for operating leases total $20,571 for the year ending June 30, 2021.

NOTE 8 CAPITAL LEASES

During the year ended June 30, 2020, the PASSHE, on behalf of the University, entered into a Master Lease transaction (Master Lease) with the Foundation whereby the University leases Reinhard Villages and the Student Housing Project at Clarion University of PA On – Campus Residence Hall Suites – Phase I and Phase II, from the Foundation. The lease payment schedule related to the Master Lease correspond to the debt service requirements for the respective mortgages held by the Foundation. Under the terms of the agreements, the State System agrees to make monthly rent payments to the Foundation and pay operating expenses and insurance as defined in the agreement in exchange for the right to use, operate, and collect all payments from the applicable student housing facilities. The interest rates implicit to the different portions of the master lease agreement range from 2.88% to 5.00%.

NOTE 8 CAPITAL LEASES (CONTINUED)

Capital lease activity for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Balance at July 1	$ -	$ 133,074
Additions	93,800,937	-
Repayments	(1,270,000)	(133,074)
Balance at June 30	92,530,937	-
Less Current Portion	2,704,243	-
Noncurrent Portion	$ 89,826,694	$ -

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

	2020	2019
Assets Held Under Capital Lease Agreement	$ 93,800,937	$ -
Accumulated Depreciation	(572,398)	-
Total	$ 93,228,539	$ -

Depreciation expenses included capital lease amortization of $572,398 for the year ended June 30, 2020. There was no capital lease amortization included in depreciation expense for the year ended June 30, 2019.

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

Year Ending June 30,	Amount
2021	$ 6,254,700
2022	6,250,550
2023	6,257,150
2024	6,248,800
2025	6,249,050
Thereafter	112,281,757
Total Minimum Lease Payments	143,542,007
Less: Amount Representing Interest	51,011,070
Present Value of Net Minimum Lease Payments	92,530,937
Less: Current Portion	2,704,243
Long-Term Capital Lease Obligation	$ 89,826,694

NOTE 9 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 for the years ended June 30, 2020 and 2019 are as follows:

	2020				
	Weighted Average Interest Rate	Balance July 1, 2019	Bonds Issued	Bonds Redeemed	Balance June 30, 2020
Series AL issued in 2010	5.00 %	$ 280,963	$ -	$ (137,124)	$ 143,839
Series AS issued in 2016	4.13 %	1,477,991	-	(162,308)	1,315,683
Series AU issued in 2017	3.52 %	3,561,894	-	(364,883)	3,197,011
Series AV Issued in 2018	4.22 %	386,583	-	(74,565)	312,018
Total Bonds Payable		$ 5,707,431	$ -	$ (738,880)	4,968,551
Plus: Unamortized Bond Premium Costs, Net					119,154
Outstanding at End of Year					$ 5,087,705

	2019				
	Weighted Average Interest Rate	Balance July 1, 2018	Bonds Issued	Bonds Redeemed	Balance June 30, 2019
Series AI issued in 2008	4.36 %	$ 491,554	$ -	$ (491,554)	$ -
Series AL issued in 2010	5.00 %	411,588	-	(130,625)	280,963
Series AS issued in 2016	3.97 %	1,637,348	-	(159,357)	1,477,991
Series AU issued in 2017	3.51 %	3,922,826	-	(360,932)	3,561,894
Series AV Issued in 2018	4.22 %	-	464,769	(78,185)	386,584
Total Bonds Payable		$ 6,463,316	$ 464,769	$ (1,220,653)	5,707,432
Plus: Unamortized Bond Premium Costs, Net					164,106
Outstanding at End of Year					$ 5,871,538

NOTE 9 BONDS PAYABLE (CONTINUED)

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

Series		2021	2022	2023	2024	2025	2026-2028	Total
AL	Principal	$ 143,839	$ -	$ -	$ -	$ -	$ -	$ 143,839
	Interest	7,192	-	-	-	-	-	7,192
	Total	151,031	-	-	-	-	-	151,031
AS	Principal	165,260	169,194	177,556	186,409	195,754	421,510	1,315,683
	Interest	60,826	57,521	49,061	40,184	30,863	31,871	270,325
	Total	226,086	226,715	226,617	226,593	226,617	453,381	1,586,008
AU	Principal	371,470	378,056	384,642	392,546	401,767	1,268,530	3,197,011
	Interest	74,485	67,984	60,423	52,730	43,898	69,354	368,874
	Total	445,955	446,040	445,065	445,276	445,665	1,337,884	3,565,885
AV	Principal	78,909	233,109	-	-	-	-	312,018
	Interest	15,601	11,655	-	-	-	-	27,256
	Total	94,510	244,764	-	-	-	-	339,274
Total	Principal	759,478	780,359	562,198	578,955	597,521	1,690,040	4,968,551
	Interest	158,104	137,160	109,484	92,914	74,761	101,225	673,646
	Total	$ 917,582	$ 917,519	$ 671,682	$ 671,869	$ 672,282	$ 1,791,265	$ 5,642,199

In June 2020, Moody's Investors Service, Inc. maintained the State System's bond rating of Aa3 with an outlook of stable. In June 2020, Fitch Ratings affirmed the State System's rating of A+ with an outlook of stable.

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. The State System issued bonds to provide a pool for funding for AFRP; $5,548,427 and $9,228,259 was outstanding as of June 30, 2020 and 2019.

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 AFRP pool of funding were as follows:

	2020	2019
Balance at July 1	$ 672,472	$ 969,097
Repayments	(268,153)	(296,625)
Balance at June 30	$ 404,319	$ 672,472

Debt Refunding

In September 2018, approximately $465,000 of the net proceeds from the Series AV-1 tax-exempt revenue bonds were used to current refund Series AG and a portion of Series AI bonds, to reduce debt service by approximately $48,000, resulting in an economic gain (difference between the present values of the old and new debt service payments) of approximately $45,000.

NOTE 9 BONDS PAYABLE (CONTINUED)

Debt Refunding (Continued)

The accounting gain, or deferred gain on refunding, is reported as a deferred inflow of resources that will be amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

NOTE 10 COMPENSATED ABSENCES

Compensated absences activity for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Balance at July 1	$ 7,117,230	$ 7,131,817
Current Changes in Estimate	1,639,247	592,732
Payouts	(616,158)	(607,319)
Balance at June 30	$ 8,140,319	$ 7,117,230

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS

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

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

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Following is the total of the University's OPEB liabilities, deferred outflows and inflows of resources related to OPEB, and the OPEB expense for the fiscal years ended June 30, 2020 and 2019.

	SSHE Plan		REHP		PSERS		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Net OPEB Liabilities	$ 66,815,254	$ 68,909,674	$ 26,223,322	$ 37,020,787	$ 151,339	$ 125,158	$ 93,189,915	$ 106,055,619
Deferred Outflows of Resources:								
Net Difference between Actual and Expected Experience	$ -	$ -	$ -	$ -	$ 868	$ 785	$ 868	$ 785
Net Difference between Projected and Actual Investment Earnings on OPEB Plan Investments	N/A	N/A	-	-	264	196	264	196
Changes in Assumptions	-	-	838,979	-	4,980	1,962	843,959	1,962
Changes in Proportion	-	-	1,599,015	1,978,112	4,867	1,504	1,603,882	1,979,616
Contributions after the Measurement Date	1,954,003	1,939,666	1,169,097	1,485,900	8,934	8,206	3,132,034	3,433,772
Total Deferred Outflows of Resources	1,954,003	1,939,666	3,607,091	3,464,012	19,913	12,653	5,581,007	5,416,331
Deferred Inflows of Resources:								
Net Difference between Projected and Actual Experience	6,122,070	7,680,132	19,503,371	11,338,626	-	-	25,625,441	19,018,758
Net Difference between Projected and Actual Investment Earnings on OPEB Plan Investments	N/A	N/A	46,443	56,581	-	-	46,442	56,581
Changes in Assumptions	7,130,776	5,508,423	3,632,212	4,866,707	4,490	4,741	10,767,478	10,379,871
Changes in Proportion	N/A	N/A	1,120,347	-	1,019	1,112	1,121,366	1,112
Total Deferred Inflows of Resources	$ 13,252,846	$ 13,188,555	$ 24,302,373	$ 16,261,914	$ 5,509	$ 5,853	$ 37,560,727	$ 29,456,322
OPEB Expense	$ (90,463)	$ 1,283,647	$ (1,730,989)	$ (361,254)	$ 35,548	$ 11,573	$ (1,785,904)	$ 933,966
Contributions Recognized by OPEB Plans	N/A	N/A	$ 1,169,097	$ 1,485,900	$ 8,934	$ 8,206	$ 1,178,031	$ 1,494,106

The University will recognize the deferred outflows of resources resulting from contributions after the measurement date, totaling $1,954,003 for the System Plan, $1,169,097 for the REHP plan, and $8,934 for the PSERS OPEB plan, as reductions of the respective net OPEB liabilities in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

	Amortization		
Fiscal Year Ended	SSHE	REHP	PSERS
June 30, 2021	$ (3,475,397)	$ (5,496,924)	$ 641
June 30, 2022	(3,475,397)	(5,496,924)	641
June 30, 2023	(3,475,397)	(5,207,890)	604
June 30, 2024	(2,228,824)	(3,944,985)	566
June 30, 2025	(597,831)	(1,709,304)	1,924
Thereafter	-	(8,352)	1,094
Total	$ (13,252,846)	$ (21,864,379)	$ 5,470

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan

Plan Description

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

The System Plan provides eligible retirees and their eligible dependents with healthcare benefits, including hospital, medical/surgical, prescription drugs, and major medical coverage, as well as a Medicare supplement for individuals over age 65. Retirees receive varying coverages based on the benefits in effect when they retired, and benefits may continue for the retiree's lifetime. Spouse benefits cease upon the retiree's death, but the surviving spouse may continue coverage at full cost. Nonspouse dependents may be covered until age 19 or until age 25 if a certified full-time student.

SCUPA, SPFPA, OPEIU, and nonrepresented employees whose retirement date is on or after January 1, 2016, and APSCUF employees whose retirement date is on or after July 1, 2017, receive the same pre-Medicare benefits as active employees, with benefits changing as active employee benefits change. All other retirees continue to receive the same benefits to which they were entitled at retirement.

A total of 12,122 individuals are covered by the benefit terms, including 7,235 active employees that may be entitled to receive benefit payments upon retirement, 47 retired participants entitled to but not yet receiving benefits, and 4,840 retired participants receiving benefits. Effective January 16, 2016, the State System OPEB plan became closed to newly hired SCUPA, SPFPA, OPEIU, and nonrepresented employees, while newly hired APSCUF employees (faculty and coaches) continue to be eligible to participate in the plan.

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement or the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2020.

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

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Plan Description (Continued)

- Plan members, with the exception of nonfaculty coaches, who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Nonfaculty coaches who retired on or after July 1, 2005, pay 3.0% of their final annual gross salary at the time of retirement.

Actuarial Assumptions and Other Inputs

The System performs actuarial valuations every two years for the System Plan and utilizes a measurement date that is the first day of its current fiscal year-end. The actuarial valuation on which the total OPEB liability as of June 30, 2020 is based is dated July 1, 2018, which is rolled forward to the measurement date of July 1, 2019. The total OPEB liability was measured using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Healthcare cost trend rate of 6.0% in 2018 and 5.5% in 2019 through 2021, with rates gradually decreasing from 5.4% in 2022 to 3.8% in 2075 and later, based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Annual salary increase of 4%.
- 90% of employees eligible for a subsidy and 15% of employees not eligible for a subsidy are assumed to elect coverage. 75% of vested former members who have not yet reached age 65 are assumed to begin electing coverage at age 65.
- The per capita claims cost for medical and prescription drugs is based on the expected portion of the group's overall cost attributed to individuals in specified age and gender brackets.
- The cost due to the excise tax under the Patient Protection and Affordable Care Act beginning in 2022 is 40% of the projected premiums in excess of the annual limits, calculated using an inflation rate of 2%.
- The annual cost of living increase beginning in 2018 is assumed to be 2.2% per year.
- Retiree premium cost sharing is assumed to remain at 18% and increase at the same rate as the Health Care Cost Trend Rate.
- Mortality rates based on the PubG-2010 Mortality Table, including rates for contingent survivors, which incorporate rates based on a generational projection using Scale MP-2018 to reflect mortality improvement.
- The discount rate increased from 2.98% to 3.36%, based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2019.
- Participant data is based on census information as of July 1, 2018.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

- Experience assumptions for withdrawal and retirement, expected vs. actual, and election percentages were reviewed in 2019, and it was determined that the results were reasonable and did not warrant a further formal study.
- Costs have been loaded by 0.7% to account for tuition waiver benefits, which are offered to all eligible retirees, regardless of employee bargaining unit when active, and including those not represented when active, who meet years of service and/or age criteria.

The following presents the University's Share of the System Plan's net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5% decreasing to 2.8%) or one percentage point higher (6.5% decreasing to 4.8%) than the current healthcare cost trend rates (5.5% decreasing to 3.8%).

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

	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2020	$ 55,727,620	$ 66,815,254	$ 83,425,990

The following presents the University's share of the System Plan's net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.5% decreasing to 2.8%) or one percentage point higher (6.5% decreasing to 4.8%) than the healthcare cost trend rates used (5.5% decreasing to 3.8%).

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

	1% Decrease (4.5% decreasing to 2.8%)	Healthcare Cost Trend Rates (5.5% decreasing to 3.8%)	1% Increase (6.5% decreasing to 4.8%)
2019	$ 57,692,061	$ 68,909,674	$ 83,425,990

The following presents the University's share of the System Plan's net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.36%) or one percentage point higher (4.36%) than the current discount rate (3.36%).

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

	1% Decrease 2.36%	Current Rate 3.36%	1% Increase 4.36%
2020	$ 80,878,360	$ 66,815,254	$ 59,414,946

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

System Plan (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the System Plan's net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.98%) or one percentage point higher (3.98%) than the discount rate used (2.98%).

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

	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	$ 80,878,360	$ 68,909,674	$ 59,414,946

University OPEB Liability

The University's total OPEB liability as of June 30, 2020 of $66,815,254 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2018 that was rolled forward to July 1, 2019.

The University's total OPEB liability as of June 30, 2019 of $68,909,674 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2018.

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

Changes in the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019
Total OPEB Liability - Beginning Balance	$ 68,909,674	$ 77,909,566
Service Cost	1,866,707	2,260,605
Interest	2,073,712	2,468,005
Changes in Assumptions	(3,599,900)	(10,052,146)
Benefit Payments	(2,434,939)	(3,676,356)
Net Changes	(2,094,420)	(8,999,892)
Total OPEB Liability - Ending Balance	$ 66,815,254	$ 68,909,674
Covered Employee Payroll	$ 30,442,084	$ 30,551,659
OPEB Liability as a Percentage of Covered Payroll	219.48%	225.55%

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

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP

Plan Description

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

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

Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, and their salary at retirement. Following are the contribution rates of eligible plan members receiving benefits as of June 30, 2019.

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

Employer contribution requirements are established by the Commonwealth as provided by pertinent statutory authority. With the exception of certain employing agencies, employers contributed to the REHP Trust a retiree health assessment rate of $300 for each current REHP eligible active employee during the fiscal year ended June 30, 2019.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs

The State System records its REHP pension liability annually utilizing a measurement date one year prior to its fiscal year-end. The Commonwealth's State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the SERS Board in March 2016. The approved recommendations from that study were used to determine the assumptions in the REHP annual valuations, where applicable. The inflation assumption was selected by the SERS Board during an April 2017 meeting based on a review of actual plan experience and the prevalent economic outlook.

The total OPEB liability in the June 30, 2019 and 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial Cost Method is Entry Age Normal, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.
- Inflation of 2.60%.
- Healthcare cost trend rate of 6.0%, with rates gradually decreasing to 4.1% in 2075 and later, based on the SOA-Getzen trend rate model version 2019_b.
- Average career salary growth of 2.65% per year and an assumed 2.90% general salary increase.
- Projected benefits based on estimates of future years of service and projected health benefit costs.
- Mortality rates based on the RP-2000 Male and Female Combined Healthy Mortality Tables or the RP-2000 Male and Female Disabled Retiree Mortality Tables, as appropriate, adjusted to ensure sufficient margin improvement in certain age ranges.
- Participant data based on census information as of December 31, 2018, for the June 30, 2019 measurement date; and as of December 31, 2017 for the June 30, 2018, measurement date.

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

- Discount rate of 3.50% as of June 30, 2019, and 3.87% as of June 30, 2018.
- Since the REHP has insufficient assets to meet next year's projected benefit payments, the discount rate is based on the index rate for the 20-year tax-exempt general obligation municipal bond index with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The long-term expected rate of return on REHP plan investments is determined using a risk premium review. This review compares the current relationship between fixed income and equity and their relationship over long periods of time to come up with an expected rate of return. Other variables considered in the expected rates of return are a reversion to the mean for each asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized as follows at June 30, 2020 and 2019:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return 2020	2019
U.S. Equity	47.0	%	5.6%	6.6%
International Equity	20.0	%	5.8%	8.6%
Fixed Income	25.0	%	1.7%	3.0%
Real Estate	8.0	%	4.6%	6.9%
Cash	-	%	0.9%	1.0%
Total	100.0	%		

The Commonwealth calculated an allocated share of the REHP OPEB liability for each participating employer based upon their actual contributions made to the REHP. The State System's proportion of the collective net OPEB liability was 4.37% for the measurement date of June 30, 2019 and 4.57% for the measurement date of June 30, 2018.

The following presents the University's share of the REHP net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.0% decreasing to 3.1%) or one percentage point higher (7.0% decreasing to 5.1%) than the current healthcare cost trend rates (6.0% decreasing to 4.1%).

	Sensitivity of the REHP Net OPEB Liability to Changes in the Healthcare Cost Trend Rate		
	1% Decrease (5.0% decreasing to 3.1%)	Healthcare Cost Trend Rates (6.0% decreasing to 4.1%)	1% Increase (7.0% decreasing to 5.1%)
2020	$ 29,751,815	$ 26,223,322	$ 43,535,846

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

REHP (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the REHP net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.2% decreasing to 3.1%) or one percentage point higher (7.2% decreasing to 5.1%) than the healthcare cost trend rates used (6.2% decreasing to 4.1%).

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

	1% Decrease (5.2% decreasing to 4.1%)	Healthcare Cost Trend Rates (6.2% decreasing to 4.1%)	1% Increase (7.2% decreasing to 5.1%)
2019	$ 31,779,324	$ 37,020,787	$ 43,535,846

The following presents the University's share of the REHP net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate (3.50%).

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

	1% Decrease 2.50%	Current Rate 3.50%	1% Increase 4.50%
2020	$ 42,413,266	$ 26,223,322	$ 32,578,049

The following presents the University's share of the REHP net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rates (3.87%).

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

	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
2019	$ 42,413,266	$ 37,020,787	$ 32,578,049

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

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance

Plan Description

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

Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees. Plan members receiving benefits are not required to make contributions.

Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. The contribution policy is governed by applicable provisions of the Retirement Code. The contractually required employer contribution rate was 0.83% of covered payroll for the fiscal years ended June 30, 2019 and 2018. 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 0.415% of covered payroll.

Actuarial Assumptions and Other Inputs

The State System records its PSERS OPEB liability annually utilizing a measurement date one year prior to its fiscal year-end. The total OPEB liability as of June 30, 2019 measurement date, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2018, to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

- Valuation Date – June 30, 2018
- Actuarial cost method was entry-age normal, level percent of pay.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at $1,200 per year.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance

Actuarial Assumptions and Other Inputs (Continued)

- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Eligible retirees pre-age 65 are assumed to participate at 50%, while eligible retirees post-age 65 are assumed to participate at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017, determined the employer contribution rate for fiscal year 2018/19.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

- The discount rate used to measure the total OPEB liability was 2.79% at June 30, 2019, and 2.98% at June 30, 2018.
- Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date.
- The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 2.79%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2019 and 2018.

	2019		2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2 %	0.2%	5.9 %	0.3%
US Core Fixed Income	83.1 %	1.0%	92.8 %	1.2%
Non-US Developed Fund	3.7 %	0.0%	1.3 %	0.4%
Total	100.0 %		100.0 %	

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2020 is based was dated June 30, 2018, and was rolled forward to June 30, 2019. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1886% for the measurement date of June 30, 2019.

The actuarial valuation on which the total Premium Assistance OPEB liability at June 30, 2019 is based was dated June 30, 2017, rolled forward to June 30, 2018. An employer's proportion is calculated utilizing the employer's one-year reported covered payroll as a percentage of total one-year reported covered payroll. The State System's proportion of the collective net OPEB liability was 0.1836% for the measurement date of June 30, 2018.

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 6.50%) or one percentage point higher (between 6% and 8.50%) than the current healthcare cost trend rates (between 5% and 7.50%).

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

	1% Decrease (between 4% and 6.50%)	Healthcare Cost Trend Rates (between 5% and 7.50%)	1% Increase (between 6% and 8.50%)
2020	$ 172,430	$ 151,339	$ 151,376

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Premium Assistance (Continued)

Actuarial Assumptions and Other Inputs (Continued)

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (between 4% and 6.75%) or one percentage point higher (between 6% and 8.75%) than the current healthcare cost trend rates (between 5% and 7.75%).

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

	1% Decrease (between 4% and 6.75%)	Healthcare Cost Trend Rates (between 5% and 7.75%)	1% Increase (between 6% and 8.75%)
2019	$ 125,125	$ 125,158	$ 125,190

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2020, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.79%) or one percentage point higher (3.79%) than the current discount rate (2.79%).

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

	1% Decrease (between 4% and 6.50%)	Healthcare Cost Trend Rates (between 5% and 7.50%)	1% Increase (between 6% and 8.50%)
2020	$ 172,430	$ 151,339	$ 151,376

The following presents the University's share of the Premium Assistance net OPEB liability at June 30, 2019, as well as what the liability would be if it were calculated using a discount rate that is one percentage point lower (1.98%) or one percentage point higher (3.98%) than the discount rate used (2.98%).

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

	1% Decrease 1.98%	Current Rate 2.98%	1% Increase 3.98%
2019	$ 142,323	$ 125,158	$ 110,903

NOTE 12 PENSION BENEFITS

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

NOTE 12 PENSION BENEFITS (CONTINUED)

Following is the total of the University's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and the pension expense and expenditures for the fiscal year ended June 30, 2020 and June 30, 2019.

	SERS		PSERS		Total	
	2020	2019	2020	2019	2020	2019
Net Pension Liabilities	$ 55,699,869	$ 63,987,163	$ 3,367,541	$ 2,851,900	$ 59,067,410	$ 66,839,063
Deferred Outflows of Resources:						
Difference Between Expected and Actual Experience	$ 694,495	$ 960,227	$ 18,549	$ 22,942	$ 713,044	$ 983,169
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	-	6,225,574	-	13,978	-	6,239,552
Changes in Assumptions	2,146,388	1,704,775	32,175	53,163	2,178,563	1,757,938
Difference Between Employer Contributions and Proportionate Share of Contributions	-	-	9,781	11,259	9,781	11,259
Changes in Proportion	576,584	917,750	89,883	48,666	666,467	966,416
Contributions After the Measurement Date	3,551,102	3,563,730	357,345	326,888	3,908,447	3,890,618
Total Deferred Outflows of Resources	$ 6,968,569	$ 13,372,056	$ 507,733	$ 476,896	$ 7,476,302	$ 13,848,952
Deferred Inflows of Resources:						
Difference Between Expected and Actual Experience	$ 377,265	$ 693,365	$ 111,600	$ 44,136	$ 488,865	$ 737,501
Net Difference Between Projected and Actual Investment Earnings and Pension Plan Investments	3,972,451	-	9,656	-	3,982,107	-
Difference Between Employer Contributions and Proportionate Share of Contributions	291,244	341,795	-	-	291,244	341,795
Changes in Assumptions	1,296,323	506,091	21,564	30,125	1,317,887	536,216
Total Deferred Inflows of Resources	$ 5,937,283	$ 1,541,251	$ 142,820	$ 74,261	$ 6,080,103	$ 1,615,512
Contributions Recognized by Pension Plans	$ 6,268,920	$ 6,256,929	$ 357,345	$ 326,888	$ 6,626,265	$ 6,583,817
Pension Expense:						
SERS and PSERS	$ 8,781,145	$ 9,118,271	$ 1,315,657	$ 949,901	$ 10,096,802	$ 10,068,172
ARP					2,079,462	2,052,387
Total Pension Expense					$ 12,176,264	$ 12,120,559

The University will recognize the $3,551,102 reported as 2020 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $357,345 reported as 2020 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, 2021.

NOTE 12 PENSION BENEFITS (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Amortization	
Fiscal Year Ended	SERS	PSERS
June 30, 2021	$ (182,735)	$ 40,172
June 30, 2022	(777,585)	(29,749)
June 30, 2023	327,773	(9,715)
June 30, 2024	(1,909,519)	6,860
June 30, 2025	22,250	-
	$ (2,519,816)	$ 7,568

SERS

Plan Description

SERS is the administrator of a cost-sharing multiemployer defined benefit plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate.

Benefits Provided

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

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Benefits Provided (Continued)

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 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. Act 2017-5 preserved all benefits in place for members, but fundamentally changed retirement options for new hires beginning January 1, 2019; most employees who first become SERS members on or after January 1, 2019, must choose from one of two new defined benefit/defined contribution hybrid options or a straight 401(a) defined contribution option.

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

Contributions

The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. In fiscal year 2017/18, the Commonwealth paid the full actuarially required rate after being collared in previous years due to Act 120.

For the SERS defined benefit plan, the University's actuarially determined contribution rate for most active members was 36.04% of active members' annual covered payroll at June 30, 2020, with less common rates ranging between 24.92% and 28.84%, depending upon the defined benefit plan chosen by the employee. For the SERS defined benefit/defined contribution hybrid plan, the State System's actuarially determined contribution rate was either 16.93% or 17.18% of annual covered payroll, depending upon the hybrid plan chosen by the employee.

In addition, the University was required to contribute to the defined benefit plan 15.62% of the annual covered payroll of employees who selected the straight 401(a) defined contribution plan.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Contributions (Continued)

The University's contributions to SERS for the years ended June 30, 2020, 2019, and 2018, were $6,268,920, $6,256,929, and $5,941,757, respectively, equal to the required contractual contribution.

Contribution rates of most active members who participate in the SERS defined benefit plan was 6.25% of gross salary, with less common rates ranging between 5% and 9.3% of salary, depending upon when the member was hired and what class of membership was elected. Defined benefit contribution rates for active members who participate in the defined benefit/defined contribution hybrid plan was either 4.0% or 5.0% of gross salary, depending upon what class of membership was elected.

For the SERS defined contribution plan, the University contributed actuarially determined rates of between 2.0% and 3.5% of active members' annual covered payroll at June 30, 2020, depending on the plan chosen by the employee. The University recognized $12,287 in SERS defined contribution pension expense for the year ended June 30, 2020 and $343 for the year ended June 30, 2019, the first year of the plan's implementation. The vesting period for employer contributions to the defined contribution plan, both for members who participate in the straight 410(a) defined contribution plan and those who participate in one of the defined benefit/defined contribution hybrid plans, is three years. Once money is contributed to the plan, it cannot be removed from the plan, except for making distribution payments to participants. Forfeitures of unvested employer contributions and earnings are invested in the PA Treasury short-term investment fund. The funds are forfeited to the employee's most recent employer and used to offset future contributions to the plan and correct funding discrepancies. Forfeitures seized under the Pension Forfeiture Act are used for administrative expenses of the plan.

The contribution rate to the defined contribution plan for active members who participate in the SERS defined benefit/defined contribution hybrid plan was either 3.25% or 3.5% of gross salary (in addition to the required contributions to the defined benefit plan), depending upon what class of membership was elected. The contribution rate to the defined contribution plan for active members who participate in the straight 401(a) defined contribution plan was 7.5% of gross salary.

Actuarial Methods and Assumptions

Actuarial valuations are performed annually using a December 31 measurement date. Every five years, SERS is required to conduct an actuarial experience study to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The 18th Investigation of Actuarial Experience study for the period 2011–2015 was released in March 2016. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates).

Some assumption adjustments increased projected cost and some decreased it, but the overall result was a slight increase to the net pension liability. The SERS Board adopted the actuarial assumptions set forth in the *18th Investigation of Actuarial Experience* at its March 2016 meeting. In addition, SERS reviews its investment return assumption in light of economic conditions every year. At its June 2019 meeting, the SERS Board approved a reduction in the assumed investment rate of return from 7.25% to 7.125%. The next SERS review occurred in summer 2020 and will be used for its 2020 annual valuation.

The following methods and assumptions were used in the actuarial valuation for the December 31, 2019, measurement date.

- Entry age actuarial cost method.
- Investments amortized on a straight-line, closed-period basis over five years; assumption changes and noninvestment gains/losses amortized over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.125%, net of manager fees and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- No cost of living adjustments.

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 manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in SERS' target asset allocation as of December 31, 2019 and 2018, are summarized below.

	December 31, 2019 and 2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Equity	16.0 %	7.25 %
Global Public Equity	48.0	5.15 %
Real Assets	12.0	5.26 %
Multi-Strategy	10.0	4.44 %
Fixed Income	11.0	1.26 %
Cash	3.0	- %
Total	100.0 %	

The discount rate used to measure the total SERS pension liability was 7.125% for the year ended June 30, 2020 and 7.25% for the year ended June 30, 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and nonactive SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2020 calculated using the discount rate of 7.125%, 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 (6.125%) or one percentage point higher (8.125%) than the rate used for each period.

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

	1% Decrease 6.125%	Current Rate 7.125%	1% Increase 8.125%
June 30, 2020 Liability	$ 70,775,805	$ 55,699,869	$ 42,793,088

NOTE 12 PENSION BENEFITS (CONTINUED)

SERS (Continued)

Actuarial Methods and Assumptions (Continued)

The following presents the University's proportionate share of the SERS net pension liability at June 30, 2019 calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the rate used for each period.

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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
June 30, 2019 Liability	$ 78,571,014	$ 63,987,163	$ 51,489,603

Proportionate Share

At June 30, 2020, the amount recognized as the University's proportionate share of the SERS net pension liability, measure at December 31, 2019 was $55,699,869.

At June 30, 2019, the amount recognized as the University's proportionate share of the SERS net pension liability, measured at December 31, 2018, was $63,987,163.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the December 2019 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2020/21 from the December 31, 2019 funding valuation to the expected funding payroll.

For the allocation of the December 2018 amounts this methodology applies the most recently calculated contribution rates for fiscal year 2019/20 from the December 31, 2018 funding valuation to the expected funding payroll.

At December 31, 2019, the State System's proportion was 4.773% an increase of 0.124% from its proportion calculated as of December 31, 2018, measurement date.

PSERS

Plan Description

PSERS is a governmental cost-sharing multiemployer 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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Plan Description (Continued)

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. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (State System), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund.

On June 12, 2017, Commonwealth of Pennsylvania Act 5 of 2017 was signed into law. This legislation establishes a new hybrid defined benefit/defined contribution (DC) retirement benefit plan applicable to all school employees who become new members of PSERS on July 1, 2019 and thereafter. The three new plan design options under Act 5 include two hybrid plans consisting of defined benefit and defined contribution components and a stand-alone defined contribution plan. A stand-alone defined benefit plan is no longer available to new members after June 30, 2019.

PSERS issues a comprehensive annual financial report that may be obtained at www.psers.state.pa.us.

Benefits Provided

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

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

Employer Contributions

The University's contractually required contribution rate for PSERS for fiscal year ended June 30, 2019, was 29.91% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the University, meaning that the amount that the University actually contributed was 14.95% of covered payroll. The University's contribution to PSERS for the year ending June 30, 2020, June 30, 2019, and June 30, 2018, was $357,345, $326,888, and $254,964, respectively, equal to the required contractual contribution.

For the PSERS defined contribution plan, the University is required to contribute at actuarially determined average rate 0.09% of active members' annual covered payroll for the year ending June 30, 2020, depending upon the plan chosen by the employee.

Members were first eligible to choose the defined contribution plan on July 1, 2019. Therefore, the University contributions for the year ended June 30, 2020 were immaterial.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions

The University records its PSERS pension liability annually utilizing a measurement date one year prior to its fiscal year-end. The total PSERS pension liability as of June 30, 2019, was determined by rolling forward PSERS' total pension liability at June 30, 2018, to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement.

- Valuation date – June 30, 2018.
- Actuarial cost method is entry age normal, level percent of pay.
- Investment return of 7.25% with 2.75% inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

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, 2019 and 2018:

	2019	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0 %	5.6 %
Fixed Income	36.0	1.9 %
Commodities	8.0	2.7 %
Absolute Return	10.0	3.4 %
Risk Parity	10.0	4.1 %
Infrastructure/MLPS	8.0	5.5 %
Real Estate	10.0	4.1 %
Alternative Investments	15.0	7.4 %
Cash	3.0	0.3 %
Financing (LIBOR)	(20.0)	0.7 %
Total	100.0 %	

	2018	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0 %	5.2 %
Fixed Income	36.0	2.2 %
Commodities	8.0	3.2 %
Absolute Return	10.0	3.5 %
Risk Parity	10.0	3.9 %
Infrastructure/MLPS	8.0	5.2 %
Real Estate	10.0	4.2 %
Alternative Investments	15.0	6.7 %
Cash	3.0	0.4 %
Financing (LIBOR)	(20.0)	0.9 %
Total	100.0 %	

The discount rate used to measure the total PSERS pension liability was 7.25% at both June 30, 2019 and 2018. 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.

NOTE 12 PENSION BENEFITS (CONTINUED)

PSERS (Continued)

Actuarial Assumptions (Continued)

The following presents the University's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25% as of June 30, 2020 and June 30, 2019, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25% in 2020 and 2019) or one percentage point higher (8.25% in 2020 and 2019) than the current rate:

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

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
June 30, 2020 Liability	$ 4,194,656	$ 3,367,541	$ 2,667,179
June 30, 2019 Liability	$ 3,535,130	$ 2,851,900	$ 2,274,187

Proportionate Share

At June 30, 2020 the amount recognized as the University's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows:

	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019
Total PSERS Net Pension Liability Associated with the University	$ 6,735,082	$ 5,703,800
Commonwealth's Proportionate Share of the PSERS Net Pension Liability Associated with the University	3,367,541	2,851,900
University's Proportionate Share of the PSERS Net Pension Liability	$ 3,367,541	$ 2,851,900

At June 30, 2020 and 2019, PSERS measured the net pension liability as of June 30, 2019 and June 30, 2018, respectively. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll.

At June 30, 2019, the State System's proportion was 0.1886%, an increase of 0.0050% from its proportion calculated as of June 30, 2018.

At June 30, 2018, the State System's proportion was 0.1836%, an increase of 0.0025% from its proportion calculated as of June 30, 2017.

NOTE 12 PENSION BENEFITS (CONTINUED)

ARP

The ARP is a defined contribution pension 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, 2020 and 2019, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2020 and 2019, were $2,079,461 and $2,052,387, respectively, from the University; and $1,119,193 and $1,104,622, respectively, from active members. No liability is recognized for the ARP.

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured for workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims up to $100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all universities of the State System contribute in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed $28,398, $28,445 and $60,214 to the Reserve Fund during the years ended June 30, 2020, 2019, and 2018, respectively.

Changes in the University claims liability are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2020	$ 413,990	$ 91,683	$ (416,852)	$ 88,821
2019	$ 437,194	$ 122,686	$ (145,890)	$ 413,990
2018	$ 457,430	$ 90,052	$ (110,288)	$ 437,194

NOTE 14 DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2020 and 2019 follow:

	2020	2019
Deferred Outflows of Resources:		
Unamortized Loss on Refunding of Debt	$ 78,994	$ 93,630
OPEB Liability Related	5,581,007	5,416,331
Net Pension Liability Related	7,476,302	13,848,952
Total Deferred Outflows of Resources	$ 13,136,303	$ 19,358,913
Deferred Inflows of Resources:		
OPEB Liability Related	$ 37,560,727	$ 29,456,322
Net Pension Liability Related	6,080,103	1,615,512
Total Deferred Inflows of Resources	$ 43,640,830	$ 31,071,834

NOTE 15 BENEFICIAL INTERESTS

At June 30, 2020 and 2019, the fair value of beneficial interest totaled $415,356 and $434,331, respectively. The entire amounts represent gifts that donors placed in trust in perpetuity with third parties, with the University receiving a restricted revenue stream in accordance with the donors' wishes.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Contingencies

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

The University participates in the State System's self-insured workers' compensation plan up to stated limits (see Note 13). 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.

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

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

The University receives support from federal and Commonwealth grant programs, primarily for student financial assistance, including federal CARES funding in fiscal year 2019/20. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2020, 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 University expenditures for services, supplies, equipment and construction projects unexpended as of June 30, 2020 and 2019 were $2,576,439 and $5,754,152, respectively.

Labor Concentrations

Approximately 86% of PASSHE's employees are covered by nine collective bargaining agreements. Seven of the agreements were renegotiated during the past fiscal year; most of which are effective through fiscal year 2022/2023. The only exceptions are two minor unions: the agreement for police supervisors and security officers with the International Union, Security, Police, and Fire Professionals of America (SPFPA), which expired on August 31, 2020, and the Professional Doctor's Association (PDA). A tentative agreement was reached with SPFPA in September 2020. The terms of the prior contracts remain in effect until a successor agreement is achieved.

COVID-19 Pandemic

COVID-19 may impact various parts of the operations and financial results of the University and component units, including the method of educational delivery, athletics, housing, and food service. Management believes that the University and its component units are taking appropriate actions to mitigate the negative impact. The full impact of COVID-19 is unknown and cannot be reasonably estimated at June 30, 2020.

NOTE 17 GOING CONCERN CONSIDERATIONS

As shown in the accompanying financial statements, the University has suffered recurring net losses of $1.8 million, $7.7 million, and $3.0 million, respectively, during the years ended June 30, 2020, 2019, and 2018. The University also has a negative unrestricted net position of $186.6 million as of June 30, 2020.

NOTE 17 GOING CONCERN CONSIDERATIONS (CONTINUED)

The University's combined Educational & General (E&G) and Auxiliary cash and investments have significantly decreased over the last five years. Since June 30, 2015, Clarion's combined E&G and Auxiliary cash and investments have decreased by 40.0%, or $6.4 million, from $16.0 million at June 30, 2016, to $9.6 million at June 30, 2020. The Office of the Chancellor continues to work with Clarion University to closely monitor its cash flows.

Those factors, as well as steadily declining enrollment, the impact of the COVID pandemic, and the impact of the contract terms for faculty that could cause further financial erosion, create an uncertainty about the University's ability to continue as a going concern. Currently, the ability of the University to continue as a going concern is dependent on the successful implementation of management's plans to reverse or slow the trends of declining enrollment, negative cash flow, and annual deficits. The financial statements do not include any adjustments that might be necessary if the University is unable to continue as a going concern.

Management's Plans – The University continues to face enrollment challenges due to changing demographics, the economy, and increased competition as well as increased cost pressures. In an effort to stabilize enrollment and the University's financial condition the following initiatives are being undertaken:

- Per the University's Comprehensive Plan submitted to the State System, Clarion plans to significantly reduce certain personnel and operating expenditures, which are projected to provide the University with approximately $9,000,000 of savings in compensation, and $1,800,000 of savings in other operating expenses over the next two fiscal years.
- The University implemented an initiative to increase retention of first year students from 75% to 76% in 2020/21 with an additional one percent each future year for the next five years until 80% is reached. The 2020/21 retention rate of 77.2% exceeded the fiscal year goal and was the highest rate in 29 years.
- The University actively examines all open positions, delays hiring, and eliminates positions when feasible. Operating expenses are carefully reviewed annually for budget purposes and throughout the year to capture potential savings. The budget for travel and food has been significantly reduced for fiscal year 2021. Additionally, the amount of available departmental funding was reduced and further spend is not permitted without senior management approval.
- PASSHE is working on a significant System Redesign process, which is looking at all of the PASSHE universities to ensure student success, leverage University strengths, and transform the leadership structure. As part of this sustainability plan, PASSHE is performing a review of the potential for integrating the operations of California, Clarion, and Edinboro Universities, along with other universities. This combination would operate under a unified leadership team reporting through the chancellor to the PASSHE Board of Governors (Board), have a single faculty and staff, a single academic program array, a unified enrollment strategy, and a single budget—all while honoring the local identity of the original institutions. See Note 18 for further information regarding System Redesign.

NOTE 18 SUBSEQUENT EVENTS

Bond Issuance/Refunding

In July 2020, PHEFA issued Series AX tax-exempt revenue bonds in the amount of $141,000 on behalf of the University. The net proceeds from the Series AX revenue bonds were used to current refund various outstanding bonds. The refunding was performed to reduce debt service by approximately $4,100 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,900. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of the bonds.

System Redesign

On July 16, 2020, the PASSHE Board of Governors entered into the next phase of System Redesign and authorized the chancellor to review the financial impacts of integrating operations at selected System universities. A financial review is the first step towards integrating universities as outlined in Act 50, which requires a detailed, transparent, and broadly consultative review, planning and implementation process—one that will be undertaken over the next two years. As a result of this review, the System has identified two possible combinations for further exploration – Bloomsburg-Lock Haven-Mansfield and California-Clarion-Edinboro. If integrated, these combinations would operate under a unified leadership team reporting through the chancellor to the Board, have a single faculty and staff, a single academic program array, a unified enrollment strategy, and a single budget—all while honoring the local identity of the original institutions.

The process for integrating State System universities is defined in Act 50. It is transparent, consultative, analytical, and intended to seek solutions, not implement solutions that have been predetermined. The process is conducted in partnership with the General Assembly through quarterly check-ins with House and Senate Education and Appropriations Committees. It consists of four phases, progress between which requires affirmation by the Board. The phases, and the most expeditious path for their completion are outlined below.

- Phase 1 involves a review of the financial impacts of a potential integration, which is underway.
- Phase 2 involves the development of a detailed plan or plans to integrate selected institutions.
- Phase 3 involves a public comment period.
- Phase 4 involves implementing the plan.

Detailed information on the progress of System Redesign can be found at https://www.passhe.edu/SystemRedesign/ and detailed information on integration can be found at https://www.passhe.edu/systemredesign/pages/integrations.aspx.

CLARION UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2020 AND 2019
(UNAUDITED)

State System Plan OPEB Liability

Determined as of the June 30 measurement dates

Changes in the System Plan Total OPEB Liability	Fiscal Year Ending June 30, 2020	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018
Total OPEB Liability - Beginning Balance	$ 68,909,674	$ 77,909,566	$ 84,203,648
Service Cost	1,866,707	2,260,605	3,089,252
Interest	2,073,712	2,468,005	2,505,167
Changes in Assumptions	(3,599,900)	(10,052,146)	(9,095,782)
Benefit Payments	(2,434,939)	(3,676,356)	(2,792,719)
Net Changes	(2,094,420)	(8,999,892)	(6,294,082)
Total OPEB Liability - Ending Balance	$ 66,815,254	$ 68,909,674	$ 77,909,566
Covered Employee Payroll	$ 30,442,084	$ 30,442,084	$ 31,602,879
OPEB Liability as a Percent of Covered Payroll	219.48%	225.55%	246.53%

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

Schedule of Proportionate Share of REHP's Net OPEB Liability

Determined as of REHP's June 30 Measurement Dates

Fiscal Year	State System's Proportion	University's Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered-Employee Payroll	REHP's Fiduciary Net Position as a % of Total OPEB Liability
2019/2020	4.370%	$ 26,223,322	$ 6,733,552	389.4%	3.8%
2018/2019	4.483%	$ 37,020,787	$ 6,603,081	560.7%	2.2%
2017/2018	4.374%	$ 45,380,471	$ 6,186,830	733.5%	1.4%

REHP Schedule of Contributions

Determined as of the University's June 30 Fiscal Year End Dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by REHP	Contribution Deficiency (Excess)	Covered-Payroll	Contributions as a % of Covered-Employee Payroll
2019/2020	$ 1,169,097	$ 1,169,097	$ -	$ 8,578,694	13.63%
2018/2019	$ 1,485,900	$ 1,485,900	$ -	$ 8,452,999	17.58%
2017/2018	$ 1,205,937	$ 1,205,937	$ -	$ 8,191,410	14.72%

Schedule of Proportionate Share of PSERS Net OPEB Liability
Determined as of June 30, PSERS Measurement Date

Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered Employee Payroll	University's Proportionate Share of Net OPEB Liability as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total OPEB Liability
2019/2020	0.1886%	$ 151,339	$ 125,157	$ 302,678	$ 1,962,757	7.71%	5.56%
2018/2019	0.1836%	$ 125,157	$ 125,157	$ 250,314	$ 1,616,336	7.74%	5.56%
2017/2018	0.1811%	$ 105,915	$ 105,915	$ 211,830	$ 1,382,712	7.66%	5.73%

PSERS Schedule of Contributions
Determined as of the University's June 30 Fiscal Year End Dates

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Payroll	Contributions as a % of Employee Covered-Payroll
2019/20	$ 8,934	$ 8,934	$ -	$ 2,328,256	0.38%
2018/19	$ 8,206	$ 8,206	$ -	$ 2,185,927	0.38%
2017/18	$ 6,669	$ 6,669	$ -	$ 1,820,353	0.37%

CLARION 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, 2020 AND 2019
(UNAUDITED)

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

Fiscal Year	State System's Proportion	University's Proportionate Share of NPL	University's Covered-Employee Payroll	University's Proportionate Share of NPL as a % of Covered - Employee Payroll	SERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	4.9010%	$ 49,921	$ 20,361	245 %	64.8 %
2015/16	4.7210%	$ 56,525	$ 19,604	288 %	58.9 %
2016/17	4.8370%	$ 59,691	$ 19,273	310 %	57.8 %
2017/18	4.9059%	$ 53,269	$ 19,408	275 %	63.0 %
2018/19	4.8971%	$ 63,987	$ 19,977	320 %	56.4 %
2019/20	4.7732%	$ 55,699	$ 20,221	276 %	63.1 %

SERS Schedule of Contributions
Determined as of June 30,
(In Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered - Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	$ 3,748	$ 3,748	$ -	$ 20,361	18.4%
2015/16	$ 4,422	$ 4,422	$ -	$ 18,588	23.8%
2016/17	$ 5,259	$ 5,259	$ -	$ 18,819	27.9%
2017/18	$ 5,942	$ 5,942	$ -	$ 19,044	31.2%
2018/19	$ 6,256	$ 6,256	$ -	$ 20,219	31.0%
2019/20	$ 6,268	$ 6,268	$ -	$ 19,777	31.7%

CLARION 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, 2020 AND 2019
(UNAUDITED)

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

		PSERS Net Pension Liability					
Fiscal Year	State System's Proportion	University's Proportionate Share	Commonwealth's Proportionate Share	Total	University's Covered - Employee Payroll	University's Proportionate Share of NPL as a % of Covered - Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
2014/15	0.1785%	$ 1,149	$ 1,149	$ 2,298	$ 370	311%	57.2 %
2015/16	0.1852%	$ 2,044	$ 2,044	$ 4,088	$ 1,214	168%	54.4 %
2016/17	0.1833%	$ 2,191	$ 2,191	$ 4,381	$ 1,145	191%	50.1 %
2017/18	0.1811%	$ 2,559	$ 2,559	$ 5,117	$ 1,380	185%	51.8 %
2018/19	0.1836%	$ 2,852	$ 2,852	$ 5,704	$ 1,600	178%	54.0 %
2019/20	0.1836%	$ 3,367	$ 3,367	$ 6,735	$ 1,985	170%	55.7 %

PSERS Schedule of Contributions
Determined as of June 30,
(In Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered - Employee Payroll
2014/15	$ 133	$ 133	$ -	$ 370	36.0 %
2015/16	$ 145	$ 145	$ -	$ 1,261	11.5 %
2016/17	$ 203	$ 203	$ -	$ 1,554	13.1 %
2017/18	$ 255	$ 255	$ -	$ 1,820	14.0%
2018/19	$ 327	$ 327	$ -	$ 2,186	15.0 %
2019/20	$ 357	$ 357	$ -	$ 2,328	15.4 %